



Annual Report & Accounts  
for the Year Ended 31 December 2005



“With the work of the last ten years behind us we look forward with renewed confidence and ambition... to expand the company across the whole value chain of our integrated structure.”

## Report of the Chairman and Chief Executive

The achievements of 2005 saw Sibir realise its potential and allowed us to begin our tenth calendar year of dedicated business in Russia with a balance sheet about to be transformed in strength, large stakes in world class assets, rapidly increasing production, a significant product supply position both wholesale and retail in one of the world's fastest growing markets, and a shareholder profile which is ideally suited to doing business in the independent, proud and energetic Russia which has emerged over the past decade.

With the work of the last ten years behind us we look forward with renewed confidence and ambition to optimise earnings from our existing portfolio of assets and, building on our achievements and experience to date, expand the company across the whole value chain of our integrated structure.

Upstream we enjoyed great operational success in 2005 at both Salym and Magma, but more of this later. In addition to operational accomplishments there were four important events during the year.

First, we increased our stake in the Salym fields to 50% when we acquired the remaining 9% of the fields for less than 70 cents per barrel of oil in the ground. The Salym fields were listed amongst the top 100 energy projects worldwide in 2005 by a leading investment bank and therefore this increase in our stake at such a price enhanced shareholder value materially.

Second, two of the three Salym licences were extended by 20 years providing security of tenure in respect of our rights under the Salym licences thus ensuring production stability for the future. The third licence was not eligible for extension but we expect that to change over the next 18 months.

Third, the oil reserve at our 95% subsidiary Magma increased by some 36 million barrels to 87 million barrels according to Russian classification thereby increasing materially the value of this asset.

Fourth, Sibir announced a proposed placing of over £300 million of new shares in your company at a premium to the market the proceeds from which, when paid, would render the company debt free and fully funded in respect of budgeted capital expenditures. The proposed placing was unanimously approved by shareholders at an extraordinary general meeting and all placing proceeds were paid in full in 2006. In addition to the funding benefits derived from the issue of shares, the issue also allowed us to broaden and strengthen our Russian shareholder profile which, as we have frequently reported to you, is one of the main elements of our strategy for successfully conducting business in Russia. Following the placing we now have two enlightened Russian shareholders who have material stakes in and exposure to the success of Sibir namely Chalva Tchigirinski and Igor Kesaev. Short biographies of both of them appear later in the report.

### Salym Fields

Operationally the most important event of 2005 was the commissioning of the huge first phase of the West Salym infrastructure, notably the Central Processing Facility (CPF) and bringing industrial production on stream at West Salym. A few weeks later in January, 2006 that success was followed by the transportation of West Salym oil for the first time through the newly commissioned Central Transfer Facility (CTF) into the Transneft national pipeline system. This ensured the building of an allocation quota in the national pipeline system and provided access to international and domestic markets.

There were many successes throughout 2005 which enabled these achievements. The drilling programme had been very successfully pursued with 71 wells already drilled by the end of 2005. Drilling times had been improved and our drilling teams were setting West Siberian records – only to beat these themselves in 2006! In total 62 wells were drilled in 2005 at Salym amounting to over 171 linear kilometres drilled.



Above: Salym Crude Processing Facility

Additionally four drilling pads were completed, 200 kilometres of power cables strung and over 200 kilometres of pipelines were built (the picture of the main pipeline linking Salym to the Transneft system adorned our cover page of the December 2004 and June 2005 reports and appears again in this report).

It is important to record that these accomplishments entailed a huge operational effort involving a predominantly Russian but nevertheless materially multi national workforce of over 3,500 employees and contractors and the co-operation of the local authorities. The local knowledge of our Russian colleagues and contractors of how to work in extreme and hostile weather conditions was indispensable.

The support and encouragement from the Governor of the Khanty Mansiysk Autonomous Region, his administration and the Regional and Federal authorities was also fundamental in making these achievements possible.

At the end of 2005 we had contributed to the Joint Venture with Shell in the form of share subscription, share premium and loans (predominantly the latter) of over \$400 million. As we go to print this figure had increased to \$510 million and according to the latest estimates we have a further \$21.5 million to be contributed before Salym becomes self funding. We expect repayment of the loans to start in the second half of 2007.

All of these endeavours were dedicated to producing industrial volumes of oil at Salym which is exactly what began to happen in December, 2005 and continued to happen with far greater impact in 2006. The overall production rate at Salym on the 31 December, 2005 was

“As we go to print, production at Salym has exceeded 51,500 bopd...”

10,592 barrels of oil per day (bopd). Since then we have seen excellent reservoir performance ahead of forecast and a steady build up of production. As we go to print, production at Salym has exceeded 51,500 bopd (25,750 bopd Sibir share) and that from fewer wells than forecast. When combined with production from Magma, this brings the company's daily production to over 32,000 bopd, an increase of 400% on the equivalent figure a year ago. On the basis of reservoir performance to date we are confident this trend will continue and we expect to announce record production achievements regularly from now until the end of the year and for some time thereafter.

### Magma Fields

In 2005 our subsidiary Magma contributed to the success of Sibir in three ways. First, following the drilling of 15 new wells, production increased on 2004 by 41% reaching an average of approximately 6,700 bopd. Second, we recorded an increase in reserves according to Russian classification of approximately 36 million barrels. Third, Sibir conducts its business with Moscow Oil and Gas Company (MOGC) through a tolling arrangement with the Moscow Refinery which is controlled by MOGC. This contributed £29.5 million to the gross profit of Magma in 2005. Similar results are being enjoyed in 2006.

### Moscow Oil and Gas Company

As we go to print we are pleased to report that a legal ruling by the Supreme Arbitrage Court of the Russian Federation has in effect affirmed that MOGC is the controlling shareholder in Moscow Refinery. It is with renewed



Above: MOGC's Moscow Refinery

confidence therefore that we look to the development of MOGC and its interests in Moscow Refinery with its 10 million tonnes of capacity, a number of storage terminals and over 130 gasoline stations.

In respect of MOGC's interest in the refinery, most of the crude oil refined was purchased on the open market. As production increases at Salym we will meet more and more of our crude requirement from our own sources. We are pleased to report that as our relationship with Shell matures and we engage in greater collaboration on a number of fronts Shell is supplying a part of their share of the Salym production through Magma to Moscow Refinery.

Our expectation that Gazprom would become a shareholder in the Moscow Refinery as a result of their acquisition of Sibneft has materialised. This has resulted in an improved approach to business at the refinery as evidenced by and the approval in principle by the Board of the Moscow Refinery of the upgrading and modernisation of the refinery, something which Sibneft under its previous management had inhibited. This upgrade is a three year project (there will be no shut down) and will greatly enhance the profitability of the refinery.

MOGC has also embarked upon a modernisation programme for the best of its 73 gasoline stations in the City of Moscow. Those modernised in 2005 have shown significantly improved results. This and the remarkable performance of the BP retail network have encouraged us to proceed with the modernisation programme.

All of these developments, particularly the financial benefits of refining referred to above, have encouraged your Board



Above: Service attendant at new MOGC station in Moscow

to pursue its plan to acquire a large stake in MOGC and we expect to make an announcement to this effect in the very near future.

### Sibneft Yugra

When we last reported to you we suggested that the acquisition of Sibneft by Gazprom would improve the chances of a result to our claims for restitution of our and MOGC's combined stake of 50% in Sibneft Yugra of which we had both been defrauded by the previous management of Sibneft. While this process is a slow one, we remain confident that the Gazprom development is a positive one. It has taken time for Gazprom to understand in detail the issues underlying the Sibneft portfolio of assets. In many ways Gazprom is also the victim of the activities of previous Sibneft management. Talks have begun with Gazprom and we expect the process to be slow and exacting. Gazprom however is an instrument of the State and as such will want to ensure that its reputation, especially as its profile in the international business community grows, is not sullied by the actions of the former management of Sibneft.

While the refusal of the BVI courts to grant jurisdiction over Sibneft and other defendants inhibited any further action there, the exercise was worthwhile as it forced Sibneft and its officers to produce under oath statements providing an account of their actions. Their versions of events as narrated in these statements are patently concocted and will facilitate our efforts to demonstrate to Gazprom the fraudulent nature of the activities of the former Sibneft management. We are resolute that this matter will be resolved favourably for Sibir.

“Sibir’s gross profit after depletion more than doubled in 2005 to £47.9 million”



Above: Laying the 88km export pipeline at Salym

### Financial Performance

This year’s group operating profit of £29.9 million represents a 450% improvement from last year after adjustment for a non-recurring item, a marked improvement in our financial performance.

When considering our financial performance it should be borne in mind that in accordance with accounting principles we are required to report our interest in Salym as a share of the joint venture results and not by consolidating the gross numbers. Sibir’s gross profit after depletion more than doubled in 2005 to £47.9 million due to the production increases at Magma and excellent downstream trading results. Increases on the 2004 comparative numbers in production costs were due mainly to increases in Mineral Extraction Taxes and costs associated with increased production. Administration costs increased from £14.9 million in 2004 to £17.9 million largely due to the legal expenses of pursuing restitution of our interest in Sibneft Yugra and defending the bogus and unsuccessful minority claim brought against the company which costs proved irrecoverable as the complaining shareholders turned out to be men of straw.

As the major build up of activity in preparation for industrial production continued at Salym we incurred operating losses in this venture during 2005 amounting to £21.0 million. Net interest charges also increased to £19.7 million during the year largely incurred in connection with the financing of the loans made by us to the Salym joint venture. After Russian taxes on the profits of our Russian operating subsidiaries and accounting for minority interests our net loss is £21.9 million for the year.

These results, coupled with the ramping up of our production, signal the end of the era of losses for Sibir. In 2006 we will earn substantial profits from our share of the Salym project, our net interest payable will be transformed into a net interest receivable and we should see healthy profits from our interest in MOGC. These factors will transform our financial performance and enable us to fulfil our intentions to pay dividends to shareholders in respect of 2006.

### Outstanding Transaction

We have not yet completed the shareholder approved acquisition of the 25% plus one share of the BP branded retail network in Moscow and Moscow Region. We had hoped to complete by the end of 2005, but that proved not possible for reasons outside our control. Thankfully those reasons are behind us now and we are confident that the transaction will be completed before we report to you in September. The forecasts of the network’s performance upon which we based this acquisition have been far exceeded by the results. Had we completed the transaction as planned in 2005 such is the network’s performance that we would have accounted for a 25% share of the joint venture’s profits net of all costs and tax of over \$10 million. We are therefore very happy with the terms of the original deal. The performance of this network is remarkably good by any standards and this only underlines the potential of the MOGC network which we are about to redevelop.



Above: Getting the job done at Salym



### Advisors

We were very pleased in October of 2005 to appoint JPMorgan Cazenove as the Sibir Broker. It is a sign of the maturity and credibility of your company that such a reputable firm wishes to act for us. This means that we are now better researched independently and we expect that more and more analysts will now follow the company and publish research. London based Strand Partners Ltd who have served us loyally and well over the last ten years continue to act as our Nominated Advisors.

### Looking Forward

In 1999 when we set down our strategy for the development of Salym we believed that the era of cheap oil was going to end soon and we are now of the view that the era of cheap oil is over. Based on this belief a robust plan for replacing reserves has been formulated. We have a dedicated acquisition team which is working in collaboration with Shell in our core area in West Siberia and in other areas independently. Their brief is to source opportunities from exploration and appraisal to development including the assessment of heavy oil resources in Russia. We now believe that we may have to look outside our core area but most probably no further afield than the countries of the former Soviet Union. Our expectation is that after sourcing an acquisition opportunity we will jointly develop in partnership with larger companies.

As already mentioned we intend to acquire a large stake in MOGC where our ability to procure supply for the Moscow Refinery on an apolitical, long term and transparent basis makes us an ideal partner for the City of Moscow. Also

through MOGC we plan the redevelopment of the MOGC retail network. Our expectation initially is to redevelop upwards of 75 retail outlets in Moscow and Moscow Region.

### Conclusion

Our world class assets and current reserves of over half a billion barrels will sustain profitability for many years to come and our integrated structure will enable Sibir to reap profits across the full value chain from reservoir to gasoline pump. Our shareholder profile and reputation as a good corporate citizen enable us to do business successfully in the new Russia. From this base we move confidently into a new era of expansion.

In the ten years to date we have enjoyed the loyal support of a staff many of which have been with us for the whole of that period. On your behalf we would like to record sincere and warm appreciation for their hard work and loyalty throughout their time with us.

**“These factors will transform our financial performance and enable us to fulfill our intentions to pay dividends to shareholders in respect of 2006”**

“2005 production (at Magma) reached a record high of 2,452,422 barrels (6,719 bopd), an increase of 41%...”

## Operations Review

### OA0 Magma Oil Company

Magma Oil Company (95% Sibir owned) operates the Yuzhnoe Oilfield 60 kilometre southwest of Nizhnevartovsk in Western Siberia.

#### Yuzhnoe Oilfield

2005 production reached a record high of 2,452,422 barrels (6,719 bopd), an increase of 41% relative to 2004. Crude sales totalled 1,584,409 barrels of which export comprised 932,291 barrels and domestic 652,118 barrels. The remaining production of 868,013 barrels, plus a small drawdown on inventory together with an additional 58,240 barrels of purchased crude oil was transferred to the Moscow Refinery for processing.

The recommencement of development drilling in 2004 continued in 2005 with 15 more wells drilled on pads 1 and 2 in the north east and northern part of the main structure. Magma’s drilling cost per metre is amongst the lowest in West Siberia – \$230 per metre. The drilling program has allowed for corrections of the geological model and, combined with hydraulic fracturing treatments, added significantly to production output. Hydraulic fracturing has proven to be especially effective in increasing production rates in the tight sections of the reservoir.

In Q4 over \$8 million of processing facilities were completed and commissioned. These new facilities, comprising oil and water separation units, water injection facilities and a new operations base, increased throughput capacity at the field and allowed Magma to handle its increased production while bringing the company into compliance with more stringent requirements for the quality of crude oil fed into the Transneft national pipeline system.



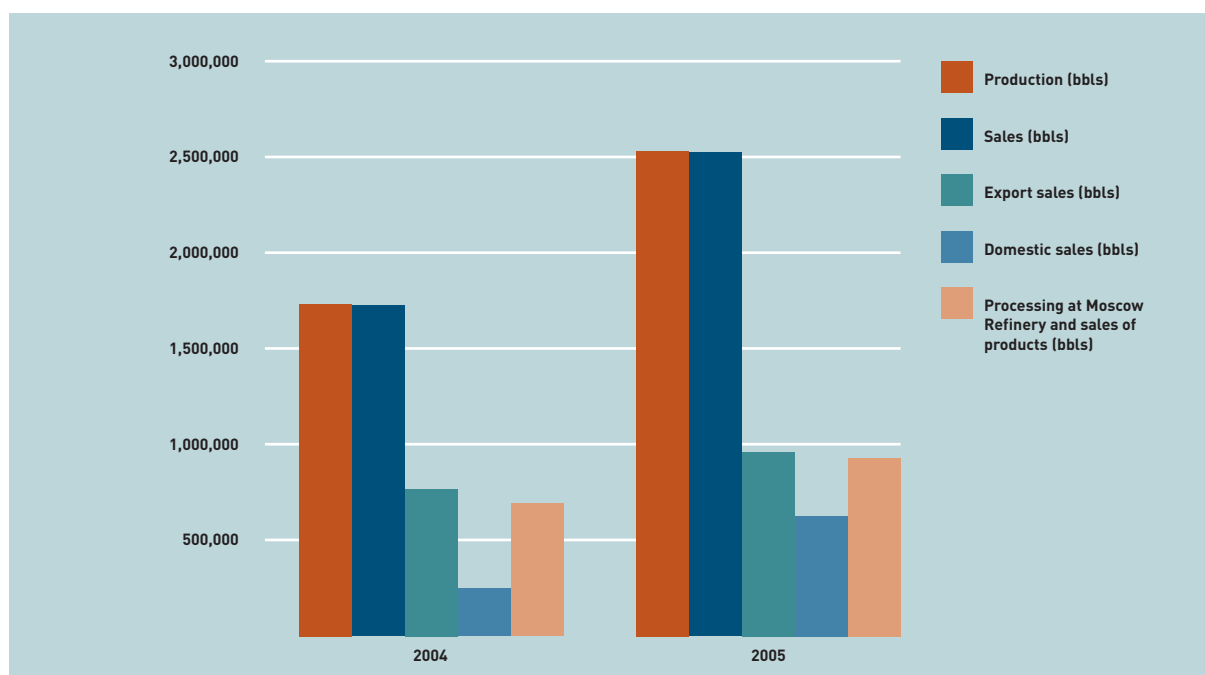
Above: Well head at the Yuzhnoe Oil Field (Magma)

### Magma Reserves

A feasibility study on oil recovery from the Yuzhnoye oilfield had resulted in an increase of 36 million barrels of reserves as evaluated in accordance with the Russian classification system. The feasibility study was carried out by Magma in accordance with its obligations under the conditions of the Yuzhnoye licence, together with VNIINEft, a leading Russian petroleum institute. The work involved appraisal of 3 new wells, 489 kilometres of 2D seismic, and geological and hydrodynamic modelling of the reservoir. The study was presented to the Russian Ministry of Natural Resources which approved the estimated remaining reserves in the Yuzhnoye oilfield of 87 million barrels compared to the previous Russian reserves figure of 51 million barrels, an increase of 69%.

### Magma 2006 Preview

To comply with license obligations and environmental protection conditions in respect of gas utilisation Magma completed a feasibility study which recommended the sale of associated gas combined with internal use of gas for heating and crude processing in the field. With a gas to oil ratio of approximately 500 standard cubic feet (scf) per barrel and increasing market demand for gas, these planned gas sales are expected to reach 1.2 billion scf annually making a significant contribution to future revenues. The ground survey and design project for the construction of a 25 kilometre gas pipeline to the trunk line tie in point will be completed in 2006 at an estimated cost of approximately \$6 million.



Above: Magma Production and Sales 2005 vs 2004

## Salym Petroleum Development N.V.

Salym Petroleum Development (SPD) is Sibir's 50/50 joint venture between its 100% subsidiary OAO Evikhon (Evikhon) and Shell Salym Development B.V. (SSD), a member of Royal Dutch Shell Group. SPD operates the Salym Group of fields (West Salym, Vadelyp and Upper Salym) in Russia's richest oil province, the Khanty-Mansiysk Okrug in West Siberia.

### Salym Fields

2005 production from the Salym group of fields totalled 1,507,150 barrels (869,201 barrels from West Salym and 637,949 barrels from Upper Salym). With the completion of key infrastructure projects and the launch of commercial production in November, SPD production reached 10,592 bopd by year end and generated \$29.0 million in gross revenues.

2005 was a landmark year for the Salym project as SPD completed the bulk of infrastructure construction and launched commercial production in December in compliance with Russian license requirements. Major infrastructure projects completed in 2005 represented over \$259 million in capital expenditure on the following assets:

- Phase One of the CPF on West Salym (60,000 bopd capacity) was built and commissioned and 70% of Phase Two (additional 60,000 bopd) was completed in the course of the first ten months of the year.
- The 89 kilometre export pipeline (530mm diameter) with related power lines and ball valves, was laid and commissioned, connecting the CPF to a tie in point at the Transneft pipeline.

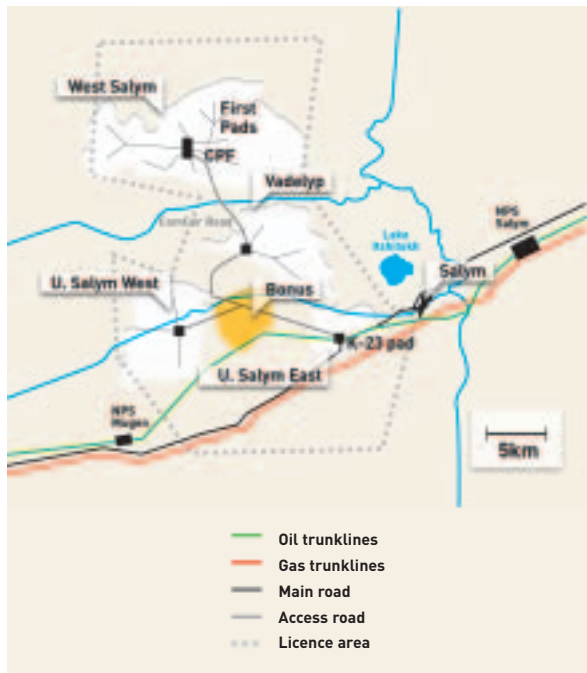
- Phase One of the CTF was built and commissioned on 7 January 2006 allowing production from Salym to flow into the Transneft pipeline system for the first time.
- The ComCor Road connecting the Federal highway system to the CPF was completed and commissioned.
- An Operations Base Camp with accommodation facilities for 180 persons on West Salym and a Base Camp for 80 persons on Upper Salym were completed and fully in use during the second half of the year.

Of the \$259 million of capital expenditure \$204 million was for facilities, export and infield pipelines, power lines and pads and \$55 million was for drilling.

Drilling performance at the Salym fields improved dramatically in 2005, resulting in a record drilling time of 8.4 days for one well. The SPD drilling team is currently ranked as one of the most efficient in the Shell system worldwide.

Two Russian rigs were mobilised in 2004 and two more rigs were brought on site during Q1, 2005 bringing the total number of working rigs to four. Over the course of the year 60 wells totalling 171,288 metres were drilled and 51 wells were completed.

Appraisal activities in 2005 continued apace as the 634 kilometres of 2D seismic profiles acquired in 2004 on Upper Salym and Vadelyp were processed and interpreted. Testing of an exploration well on the Upper Salym "Bonus" structure was completed proving its commercial reserves.



Above: Salym fields site map

### West Salym

With over 70% of total Salym reserves, West Salym was the focus of the 2005 drilling program. The three rigs operating at West Salym drilled 43 wells and 34 were completed. In 2005 SPD modified its well engineering strategy to include more long-reach wells with step-outs of up to 2,500 metres versus the West Siberian standard of 1,500 metres. Highly deviated wells of 80 degrees through the pay zone were also introduced to get more high producers. A number of high producers with flow rates in excess of 1,500 bopd were put on stream early 2006 and one such well produced as much as 2,300 bopd.

### Upper Salym

In addition to testing the "Bonus" exploration well in Upper Salym, SPD completed 17 new wells. Prior to completion of the trunk pipeline from Upper Salym to the CPF in West Salym, SPD built a Temporary Processing Facility on Pad 23 in Upper Salym to allow for crude to be processed and trucked to the Transneft pipeline system. With the completion of the trunk pipeline in 2006, crude from Upper Salym and Vadelyp will flow directly to the CPF in West Salym.

During 2005 SPD continued to study the fields and their upside potential. New 2D seismic was acquired and clear opportunities for further exploration were confirmed on the number of structures. Also oil saturation was confirmed in the overlying reservoir (AS9).



Above: Well head at Salym

### Vadelyp

SPD's Supervisory Board approved a \$250 million development plan for Vadelyp in December 2004. In accordance with this plan Vadelyp North will be developed first and production is expected to commence in late 2006. As we go to print, we are pleased to report that the first Vadelyp well has been spudded. The Vadelyp South structure will be further explored and developed as second phase in 2007. Vadelyp will ultimately be developed from 6 pads with total of 95 wells (56 producers and 39 injectors).

### Salym Reserves

In accordance with the estimates produced by the operator, SPD, the proved, expected and scope for recovery reserves totalled 926 million barrels of which 463 million barrels are attributable to Sibir for an increase of 11% versus the equivalent reserves figure for 2004.

The equivalent reserve number approved in accordance with the Russian classification is 1,112 million barrels of which 556 million barrels are attributable to Sibir.

The difference between these numbers lies principally in the exclusion from the Shell numbers of the lower reservoirs.

### Salym 2006 Preview

SPD conducted a feasibility study to evaluate how best to utilise associated gas from the fields (8.75 billion scf at peak of production in 2009). The study recommended, and the SPD board approved, the construction of a 45 MW of power generation plant that will cover 70% of SPD power requirements at peak production.



Above: Construction of the ComCor road at Salym

Associated gas in excess of power plant requirements will be injected into the aquifer overlaying the oil producing reservoirs. The power plant is expected to provide significant savings versus import power and guarantee stable electricity supply to the fields when completed at the end of 2007.

In course of 2006 at least 81 wells will be drilled (72 on West Salym and 9 on Vadelyp). A fifth drilling rig will be mobilised

in Q4 2006 to drill exploration and appraisal wells. The second train of the CPF will be completed and Phase Two of the CTF will be completed to comply fully with Transneft pipeline requirements and deliveries of up to 200,000 bopd.

The combined effect of SPD's activities in 2006 is expected to deliver a production rate of not less than 70,000 bopd by year end (35,000 bopd Sibir share).

## Group Reserves Summary

The Group's interests in commercial reserves of oil as of 31 December 2005 are included in the unaudited table below:

### Russian reserves classification<sup>1</sup>

Million barrels	A+B+C1	C2	Total
Magma's Yuzhnoe Oilfield	81	6	87
Salym Group of Fields (50%) <sup>2</sup>	400	156	556
<b>Total</b>	<b>481</b>	<b>162</b>	<b>643</b>

### 1. Russian reserves are classified as follows:

- A = reserves proved and developed.
- B = reserves proved but not yet developed.
- C1 = reserves tested and lie within proven and probable.
- C2 = reserves contiguous to C1 and substantiated by Geological data and lie within probable, possible and contingent.

### 2. As noted previously, the operator of the Salym fields, SPD, uses a reserves classification known as proven, expected and scope for recovery reserves. The current scope for recovery reserve estimate based on the field development plan total 926 million barrels or 463 million barrels Sibir share. The difference between the SPD estimates and the Russian reserves numbers are due primarily to the exclusion of the lower reservoirs in the SPD numbers.

“The Group’s gross margin from the sale of oil products in 2005 increased by 115% to £43.8 million...”

## Financial Review

### Turnover and Cost of Sales

Turnover for 2005 amounted to £357.2 million compared to £168.1 million in 2004. Sales of crude oil and oil products in 2005 were 1,584,407 barrels and 14,670,573 barrels respectively (2004: crude oil 1,035,379 barrels and oil products 9,861,590 barrels). The increase of oil products sales volume of 49% was due to our involvement in MOGC. The increase in crude oil sales volume of 53% was due to an increase in production.

The following table details the company’s gross margin and gross profit:

	2005 (£000)	2004 (£000)	change (%)
Turnover	357,242	168,142	112.5
Cost of Sales	292,085	137,961	111.7
<b>Gross Margin</b>	<b>65,157</b>	<b>30,181</b>	<b>115.9</b>
Production Expenses	16,045	7,092	126.3
Depletion	1,245	1,725	(27.8)
<b>Gross Profit</b>	<b>47,867</b>	<b>21,364</b>	<b>124.1</b>

### Gross Margin

The Group’s gross margin in 2005 has increased by 116% to £65.2 million from £30.2 million in 2004.

Gross margin from the sale of crude oil in 2005 increased by 119% to £21.4 million from £9.8 million in 2004. The increase is attributed to the effect of higher sales volumes (resulting from a production increase in Magma of 41%), as well as higher oil prices.



Above: Operations control room at West Salym

The Group’s gross margin from the sale of oil products in 2005 increased by 115% to £43.8 million from £20.4 million 2004. The increase is attributed to higher volumes of crude oil processed at the Moscow refinery and sold compared to 2004, as well as higher oil product margins achieved as a result of higher average oil product prices in 2005 compared to the previous year.

### Gross Profit

The Group’s gross profit in 2005 increased by 124% to £47.9 million from £21.3 million in 2004. This is explained by the increase in gross margins described above, offset by an increase in production expenses. Production expenses increased 126.3% from £7.1 million in 2004 to £16.0 million in 2005. 38% of the increase in production expenses is attributed to a 41% increase in production at the Group’s Magma production unit, 55% of the increase is attributed to the increase in mineral extraction tax from an average of \$4.92/barrel in 2004 to \$9.02/barrel in 2005, and 7% is attributed to an increase in lifting costs from an average of \$2.37/barrel in 2004 to \$2.81/barrel in 2005 due to inflation and the strengthening of the rouble.

### Administration Expenses

The Group’s administration and general expenses in 2005 were £17.9 million compared with £14.9 million in 2004. After excluding from these figures the effect of foreign exchange movements and other non-recurring items, the Group’s administration expenses in 2005 have increased by



Above: Drilling continues around the clock at West Salym

39% from £11.9 million in 2004 to £16.3 million in 2005. This increase is largely attributable to legal fees incurred in defending the bogus and unsuccessful minority shareholder claim brought against the company and pursuing the Group's legitimate rights to Sibneft-Yugra both in Russia and the British Virgin Islands.

### Operating Profit for the Year

The Group's operating profit before its share of operating loss from the Salym Petroleum Development joint venture was £29.9 million compared to operating profit before exceptional items of £6.5 million in 2004. This substantial improvement from the prior year is due mostly to the increased margins achieved as a result of higher oil and oil product prices, as well as a production increase in Magma.

The Group's share of losses from SPD of £21.0 million have increased from £15.2 million in 2004, reflecting the increased activity of the joint venture. Commercial production began in late November and sales in December.

After deducting the share of losses from SPD of £21.0 million from operating profit of £29.9 million the Group's profit from ordinary activities before interest and taxation was £8.9 million, compared to a loss before exceptional items of £11.5 million in 2004.

### Interest Expense

Net interest expense for the Group in 2005 increased to £19.7 million from £2.5 million in 2004. The increase is mostly

attributable to financing of Sibir's share of development expenditures of SPD by way of loans, and to a lesser extent the financing of the Group's trading activity by way of trade finance lines.

### Taxation

2005 taxation of £9.6 million versus £3.5 million in 2004 represents profits tax paid by our Russian operating subsidiaries.

### Net Loss

The loss to the Group for 2005 after interest, taxation and minority interest was £21.9 million in 2005 compared with a loss of £30.8 million in 2004.

### Financial Instruments

The Group's financial instruments comprise borrowings, cash and liquid resources, and various items, such as trade debtors, and trade creditors which arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations. It is, and has been throughout the period under review, the Group's policy that there is no trading in financial instruments. The main risks arising from the Group's financial instruments are foreign currency risk, oil price risk, interest rate and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised as follows under the following two headings:



Above: Crude oil heaters at Salym CPF



Above: 10,000 m<sup>3</sup> storage tanks at Salym CPF

### Foreign Currency Policy

Approximately half of Sibir's revenue in 2005 was received in United States dollars, the balance being received in Russian roubles. Significant protection from movements in exchange rates results from the majority of loans which are repayable in United States dollars. As the vast majority of development, production and taxation expenditures are in roubles, and some interest servicing and loan repayments are in roubles, the risk from variations in the value of the rouble is insignificant.

Sibir continues to transfer funds to and from Russia without incident or impediment, with the exception of foreign currency reservation requirements in respect of loans from the Group's Russian subsidiaries to the Group's non-Russian companies (e.g. head office) imposed by the Central Bank of the Russian Federation since August 2004. These requirements have resulted in additional, though insignificant, interest expense to the Group.

### Interest Rate and Liquidity Policy

The Group finances its operations through bank loans, trade finance and short term loans. Since the end of 2005 the company has raised in excess of £300 million through new equity issues which have enabled the company to pay down debt and fund its outstanding obligations for capital expense in 2006.

### Forward Looking Statements

This report contains certain forward looking statements that involve substantial known and unknown risks and

uncertainties, some of which are beyond Sibir's control, including: the impact of general economic conditions where Sibir operates, industry conditions, changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced, increased competition, the lack of availability of qualified personnel or management, fluctuations in foreign exchange or interest rates, stock market volatility and market valuations of companies with respect to announced transactions and the final valuations thereof, and obtaining required approvals of regulatory authorities. Sibir's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward looking statements will transpire or occur, or if any of them do so, what benefits, including the amount of proceeds, that Sibir will derive therefrom.

### Going Concern

The directors have a reasonable expectation that the Group has adequate resources to continue its operations for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

**William L S Guinness**  
Chairman  
29 June, 2006

**Henry O Cameron**  
Chief Executive Officer  
29 June, 2006

# The Workings of the Board and its Committees

## The Board

At 31 December 2005 the Board comprised four executive directors and two non-executive directors, whose details are included on page 21.

The Board is responsible to the shareholders for the proper management of the Group. It meets formally four times a year, to review trading performance, set and monitor strategy, examine acquisition and divestment possibilities, approve major capital expenditure projects, corporate overhead costs, significant financing matters and report to shareholders. Matters reserved for the Board are communicated in advance of formal meetings.

The following committees deal with specific aspects of the Group's affairs.

## Audit Committee

The Company currently does not have an Audit Committee however it is the intention that this situation will not continue as and when new non-executive Directors are appointed to the Board. The Audit Committee will then, once again, provide a forum for reporting by the Group's external auditors. It is the intention that these meetings will be attended, by invitation, by the Finance Director and the CEO.

## Remuneration Committee

The Remuneration Committee is responsible for recommending to the Board the remuneration of the executive directors and the ongoing review of the remuneration and other benefits of the executive directors and senior executives; recommending from time to time the introduction, variation or discontinuance of any benefits, including bonuses and share options and keeping under review the line of succession of senior executives in the Group. The Remuneration Committee comprises all non-executive directors. It is the intention of the Board to appoint a new Chairman in 2006.

The report on the directors' remuneration, which includes details of the directors' interests in options together with information on service contracts, is set out on pages 15 and 16.

## Relations with Shareholders

Communication with shareholders is conducted through correspondence, face to face meetings, press announcements, stock exchange releases and Sibir's website, [www.sibirenergy.com](http://www.sibirenergy.com). The Report of the Chairman and Chief Executive and Financial Review include a detailed summary of the business and future developments. The Board proposes to use Annual General Meetings ("AGM") to communicate with private and institutional investors and welcomes their participation.

## Internal Controls

The Group has not complied with the Turnbull guidance on internal controls and the Board believes that due to the current size of the Company's business it is not necessary to do so. The Company is quoted on AIM and as such is not required to comply with the Turnbull guidance, however, the Directors continue to monitor and review the Group's procedures and policies on internal control.

The Board acknowledges that it is responsible for establishing and maintaining the Group's system of internal control, the effectiveness of which is reviewed on a regular basis. The internal control system is designed to meet particular needs of the Group and the risks to which it is exposed, and by its nature can provide reasonable but not absolute assurance against material misstatement or loss. In view of the size of the Company, the Board does not consider that an internal audit function is required at present, however, the Board intends to keep this under review.

The key procedures which the directors have established with a view to providing effective internal control are as follows:

### **Management Structure**

The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. Each executive has been given responsibility for specific aspects of the Group's affairs. The executive directors together with the key senior executives constitute the Executive Committee which meets as required to discuss operational matters.

### **Quality and Integrity of Personnel**

The integrity and competence of personnel is ensured through supervision and training. High quality personnel are seen as an essential part of the control environment.

### **Identification of Business Risks**

The Board is responsible for identifying the major business risks faced by the Group and for determining the appropriate course of action to manage those risks.

### **Budgetary Process**

Each year the Board approves the annual budget. Key risk areas are identified. Performance is monitored and relevant actions taken throughout the year through the monthly reporting to the Board of variances from the budget, updated forecasts for the year together with information on the key risk areas.

### **Investment Appraisal**

Capital expenditure is regulated by the budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board. Reviews are carried out after the acquisition is complete and, for some projects, during the acquisition period, to monitor expenditure. Major overruns are investigated.

The directors continue to monitor and review the Group's procedures and policies on internal controls on an annual basis.

# Remuneration Report

## Policy

Whilst not mandatory for an AIM Company, the Directors have produced a Directors Remuneration Report. This report is not intended to comply with the provisions of Schedule 7A to the Companies Act.

The Remuneration Committee comprises non-executive directors only. The role of the Committee is to make recommendations to the Board within agreed terms of reference on the Company's framework of executive remuneration and its cost and to determine, on their behalf, specific remuneration packages for each of the executive directors including pension rights and any compensation payments. The Committee also determines the overall remuneration policy for staff and reviews the recommendations of the executive directors in respect of the annual salary reviews of employees.

Directors remuneration packages are designed to attract, motivate and retain directors of the quality needed and with the appropriate skills and experience. Remuneration packages currently comprise basic salary and pension contributions. The Company has implemented a share options scheme which it recognises as an important element of the remuneration package as employees are rewarded for their contribution to enhancing shareholder value.

The fees of non-executive directors are reviewed periodically to ensure that they are in line with the current practice. Changes are recommended by the Chief Executive and approved by all executive directors. The Company's Articles of Association restrict non-executive director's remuneration to an aggregate of £150,000 per annum or such other sum as the Company, in general meeting, shall from time to time determine.

At an Extraordinary General Meeting held on 20 December 2004 Shareholders passed a resolution to increase the limit of £150,000, referred to in the paragraph above, up to \$ 29,500,000 for the year in which the Company makes a single payment to Bennfield Limited in consideration for certain past services provided by it and its representative Chalva Tchigirinski to the Company outside his ordinary duties as a director. After the payment has been made the limit reverts back to £150,000. The payment was settled in 2004 by the issue of 6,555,555 new ordinary shares at a price of £2.50 based on an exchange rate of 1.8 US\$ to the £.

## Annual Remuneration of Executive Directors

The remuneration paid to the directors in the year ended 31 December 2005 is shown in the table on page 16.

Set out below are the annual salaries and employer pension contributions contracted into by the executive directors.

Executive Director	Annual Salary £	Pension Contributions £
H O Cameron	220,000	22,000
A Betsky	144,900	6,900
U Haener	150,000	–
	US\$	US\$
S Detmer	250,000	–

## Directors' remuneration

	Salary £000	Bonus £000	Benefits £000	Pension Contributions £000	Fees £000	Total 2005 £00	Total 2004 £000
H O Cameron	220	–	51	22	–	293	243
A Betsky	145	–	2	7	–	154	167
S Detmer	139	87	56	–	–	282	240
W L S Guinness	–	–	–	–	40	40	40
C Tchigirinski	–	–	–	–	15	15	15
K-H Stock <sup>[ii]</sup>	–	–	–	–	–	–	15
P Gregory <sup>[iii]</sup>	–	–	–	–	–	–	4
U Haener <sup>[iv]</sup>	288	–	–	–	–	288	15
Y Savostyanov <sup>[i] &amp; [iii]</sup>	–	–	–	–	–	–	14
	792	87	109	29	55	1,072	753

The emoluments of the highest paid director were £271,000 before pension contributions during the year ended 31 December 2005 (2004 – £221,000). Pension contributions of the highest paid director were £22,000 during the year ended 31 December 2005 (2004 – £22,000).

[i] Appointed 3 February 2004

[ii] Resigned 3 February 2004

[iii] Resigned 20 December 2004

[iv] Includes £138,000 of remuneration in respect of 2004 but which was agreed and paid in 2005.

[v] Two directors accrued pension benefits during 2005. For 2004 the directors' emoluments totalled £724,000; pension contributions £29,000.

In addition to the remuneration detailed in the table above in 2004 the Company made a single payment to Bennfield Limited in consideration for certain past services provided by it and its representative Chalva Tchigirinski to the Company outside his ordinary duties as a director. This was approved by shareholders at an Extraordinary General Meeting held on 20 December 2004 and was for a total of \$ 29,500,000. The payment was settled in 2004 by the issue of 6,555,555 new ordinary shares at a price of £2.50 based on an exchange rate of 1.8 US\$ to the £.

## Service Contracts

No director has a service contract of more than one year. The Company is liable to pay compensation for any unexpired period of a contract if it is terminated by the Company.

## Directors' Share Options

Details of the Directors' Share Options for the year ended 31 December 2005 and 31 December 2004 are as follows:

Name of Director	No. 000	Exercise Price	Exercisable From	Exercisable To
H O Cameron	150	100p	30.06.2000	09.06.2010
	75	100p	31.12.2000	09.06.2010
	75	100p	31.12.2001	09.06.2010
	300			
S Detmer	100	195p	22.12.2004	21.12.2013

# Directors' Report

The Directors present their report and the Group financial statements for the year ended 31 December 2005.

## Principal activities

The Company is an independent oil and gas exploration and production Company and it is also engaged in the refining of oil and the sale of oil products. The Group's areas of oil and gas exploration and production activity are in the Khanty-Mansiysk Okrug in Western Siberia in the Russian Federation.

## Results and dividends

The Group's loss for the year amounted to £21,870,000 (2004 – loss £30,820,000). The Directors do not recommend payment of a dividend.

A review of the Group's business and prospects is set out in the Report of the Chairman and Chief Executive and Operations Review on pages 1 to 9.

## Share Capital

At an Extraordinary General Meeting held on 20 December 2004 Shareholders approved the issue of up to 34,066,631 new ordinary shares for the acquisition of Hitchens Global S.A. from Bennfield Limited and also the payment of cash for the acquisition of 10% of Evikhon from Dana Petroleum Limited.

On 22 September 2005 the Company completed the acquisition of Hitchens Global S.A., bringing to 100% its ownership of Russian subsidiary, OAO NK Evikhon. Evikhon is the formal partner with Shell in a 50/50 joint venture to develop the Salym group of oil fields in Western Siberia.

The Hitchens acquisition brought three assets into the company, 8% of Evikhon, the benefit of a \$9.9 million debt payable by Evikhon (eliminated on consolidation), and a 12.5% interest in Mosnefteproduct, a downstream fuels retailing and distribution network in the Moscow region. In parallel Sibir is finalising the acquisition of a 25% + 1 share interest in STBP directly from its beneficial owner, Mr. Chalva Tchigirinsky, as provided for by the shareholder approved restructuring. STBP is a joint venture which owns and operates a network of 45 BP branded filling stations in the City of Moscow.

Sibir acquired Hitchens in exchange for 12,111,111 ordinary Sibir shares at a price of £2.50/share or £30,277,778. Sibir shares were valued at £2.275/share the day after the transaction was approved and £3.335/share the day the shares were issued.

On 12 July 2005 the Company issued 800,000 new ordinary shares at the price of 250p per share in settlement of fees for corporate advisory service received during 2004. The total value of the services was £2,530,000 with £2,000,000 being settled by the issues of the new shares and the balance in cash.

On 23 August 2005 10,000 new ordinary shares were issued as a result of the exercise of share options. The options were exercised at the exercise price of £1 for a total consideration of £10,000 by a former employee of the Company.

## Events since the Balance Sheet Date

### (i) Cancellation of Deferred Share Capital

On 18 January 2006 the High Court of Justice, Chancery Division confirmed the Special Resolution passed by the Company's shareholders on 8 December 2005 that the issued share capital of the Company be reduced by cancelling the 191,847,421 issued Deferred Shares of 10p each in the Capital of the Company. The effect of the resolution is to create a reserve of £172,633,000 which may first be used to eliminate the deficit on the Company's profit and loss account and secondly to create a pool of realised profit to retain within the Company until the Company is ready and able to pay dividends to its shareholders.

**(ii) Extraordinary General Meeting – Bennfield Restructuring and Placings**

At an Extraordinary General Meeting held on 27 January 2006 shareholders approved an increase in the authorized ordinary share capital of the Company to £43,000,000 by the creation of an additional 130,000,000 new ordinary shares of 10p each. Shareholders also approved the issue of 58,813,000 new ordinary shares to Bennfield together with a further 20,000,000 new ordinary shares to places. The transactions were announced on 9 December 2005 and a Circular sent to shareholders on 4 January 2006.

As announced by Sibir on 9 December 2005 Orton Oil Company Limited (“Orton Oil”), a subsidiary of the Mercury Group of Companies (“Mercury”), signed an agreement with the Company’s existing major shareholder Bennfield, a company ultimately beneficially owned by Mr Chalva Tchigirinski. Under the terms of the agreement existing and new shares in Bennfield were to be sold and issued to Orton Oil so that Orton Oil would own a 50% shareholding in Bennfield. Mercury is owned and operated by Mr Igor Kesaev, a well known and prominent businessman in the Russian Federation.

Orton Oil subsequently acquired its 50% shareholding in Bennfield via an investment of \$620,358,051, of which \$404,633,493 was by way of a capital increase. Bennfield used the proceeds from the capital increase to subscribe by way of a placing for 58,813,008 new shares in the Company for a consideration of \$404,633,493 in cash at a price of 392 pence per new share (the “Bennfield Placing”). Simultaneously with the Bennfield Placing, the Company raised an additional \$137,600,000 on a non-underwritten basis from qualified investors who were then current shareholders (other than Bennfield) and from retail shareholders to the extent permitted by law on the same terms as the Bennfield Placing. The placings valued each new share at 392p based on the market exchange rate on the day the issues were placed.

The Bennfield Placing is considered to be a “related party” transaction under the AIM Rules. The directors of Sibir, with the exception of Chalva Tchigirinski and Urs Haener, having consulted with Strand Partners Limited, consider that the terms of the transaction are fair and reasonable insofar as shareholders are concerned.

As a result of the Bennfield Placing, Bennfield’s shareholding in Sibir increased to 180,336,643 ordinary shares, representing 56.81% of the enlarged share capital of Sibir on a fully diluted basis upon completion of the acquisition of the BP Retail interests previously agreed by shareholders.

The issue of new shares to Bennfield is intended to achieve the following goals:

- Broaden the scope and reach of the Company thereby reducing both political and business risks by diversifying its ultimate Russian shareholder base
- Create an enhanced platform for the expansion of Sibir’s business interests in Russia
- Provide cash funding resulting in the Company being debt free and also fund Sibir’s remaining commitments for the Salym project.

The introduction of Mr Kesaev as a significant shareholder is an extension of the Company’s fundamental and well publicised strategy of aligning its interests with influential Russian businessmen. Mr Kesaev’s principle business activities are conducted through a diversified conglomerate called Mercury which he founded in 1991 after graduating from Moscow State University for International Relations. Mercury’s business partners include Philip Morris Inc.

**(iii) B.V.I Appeal in Sibneft-Yugra Case**

On 16 May 2006 the Company announced that it had been advised by its English lawyers that upon completion of hearings in the BVI to secure jurisdiction against Sibneft and others in the Sibneft Yugra affair it became apparent that Sibir had lost its appeal. Neither Sibir nor its lawyers are aware of any formal judgment having been issued but Sibir has noted that Sibneft has announced a victory in this respect on their website.

#### **(iv) Moscow Oil and Gas Company (MOGC)**

On 12 June 2006 an ad hoc International Arbitration Tribunal in London, in its final decision, rejected claims against Moscow Refinery which had been brought by Fiber Technologies International Ltd (“Fiber”), in respect of construction work carried out at the Moscow Refinery.

Having originally been stated in the sum of approximately \$440 million, the claim had been reduced by Fiber themselves to less than \$50 million by the beginning of the final session of the Tribunal in London. The final decision therefore rejected the claim as amended to \$50 million.

Previous proceedings by Joy Lud Distributors Int., Inc. (Joy Lud), a company owned by the owners of Fiber, in respect of product sales from Moscow Refinery took place in Stockholm International Tribunal, where an award of \$28 million was made in favour of Joy Lud. However, subsequent proceedings in both the Moscow Court of Arbitration and the Federal Court of Arbitration in Moscow on this matter in effect set aside the Stockholm award.

#### **(v) Russian Supreme Arbitrage Court Ruling Confirms MOGC Control of Moscow Oil Refinery (MOR)**

On 20 June 2006 the Supreme Arbitrage Court of the Russian Federation made public its decision of 8 June 2006 refusing an application by MOR minority shareholders Richard Enterprises and Phoenix Asset Management (affiliates of the former Sibneft and Tatneft respectively) for the Court to review two earlier lower court decisions which declared lawful the declaration of a dividend on MOR’s preference shares for 2004 as approved at the 2005 MOR Annual Shareholder Meeting. The decision of the Supreme Arbitrage Court is final and cannot be appealed.

The ruling on the dividend payment is important because if a dividend is not paid on the preference shares they may be converted to common voting shares which in turn would lead to a change of control at MOR which is what Richard Enterprises and Phoenix Asset Management sought to achieve through their application.

The 2004 dividend on the preference shares was paid in Q3 2005. The court’s decision means that MOGC remains the controlling shareholder of MOR. MOGC’s and therefore Sibir’s supply and capacity-sharing agreements at the plant therefore remain firmly in place.

#### **Financial Instruments**

The Group’s financial instruments comprise borrowings, cash and liquid resources, and various items, such as trade debtors, and trade creditors which arise directly from its operations. The main purpose of these financial instruments is to finance the Group’s operations. It is, and has been throughout the period under review, the Group’s policy that there is no trading in financial instruments. The main risks arising from the Group’s financial instruments are foreign currency risk, oil price risk, interest rate and liquidity risk.

## Directors

The Directors holding office at the end of the year ended 31 December 2005 had the following interests in the New Ordinary Shares of the Company:

	31 December 2005		1 January 2005 or the date of appointment, if later	
	New Ordinary Shares	Options	Ordinary Shares	Options
W L S Guinness <sup>[ii]</sup>	1,198,111	–	1,198,111	–
H O Cameron	1,026,427	300,000	1,321,427	300,000
A Betsky	–	–	–	–
C Tchigirinski <sup>[i]</sup>	99,568,115	–	89,021,413	–
S Detmer	–	100,000	–	100,000
U Haener	4,133,619	–	3,962,366	–

All the holdings are beneficially held unless otherwise indicated.

[i] Held through the ownership of Bennfield Limited, in which Mr Tchigirinski has an interest.

[ii] Held by a company owned by a trust in which Mr Guinness has a discretionary interest.

No Director had any interest in the shares of subsidiary undertakings or any other Group undertakings.

Since 31 December 2005 Bennfield Limited has subscribed for £58,813,008 new ordinary shares in the company bringing their total holding to 158,381,123.

As a result of the reorganization of Strand Associates Limited on 28 February 2006, which involved the distribution in specie of its investment in the company to its underlying shareholders, Welde Trust Inc. has been issued 66,882 ordinary shares of 10p each in the company. William Guinness, is a principal beneficiary of Welde Trust Inc.

## Board Changes during 2005

On 8 March 2005 Mr Urs Haener, previously a non-executive Director of the Company, accepted an executive appointment as Deputy Chief Executive Officer.

## Board Changes during 2006

In accordance with the Articles of Association, Messrs Betsky and Guinness retire by rotation and, being eligible, offer themselves for re-election.

## Biographical information of Directors

### Mr. William L. S. Guinness Non-Executive Chairman

Mr. Guinness, age 66, has been Chairman of Sibir since March 1999, having previously been a Non-Executive Director of Pentex Energy plc and Pentex Oil plc. He is also a member of the Audit and Remuneration Committees. Mr. Guinness is a director of a number of private companies involved in a wide range of commercial activities.

### Mr. Henry O. Cameron Chief Executive Officer

Mr. Cameron, age 66, is a Scottish solicitor by profession. Before devoting his full time attention to the oil sector Mr. Cameron founded and was senior partner of Peterkins, a large firm of solicitors in Scotland. Peterkins had clients involved with the former Soviet Union which enabled Mr. Cameron to acquire a rare working knowledge of doing business in Russia. He has had association with the oil sector since the earliest beginnings of exploration in the North Sea. In 1989 he assumed control of the Pentex Oil group of companies, which in turn led to the creation of Sibir Energy plc. Mr. Cameron spends most of his time in the Company's offices in Moscow.

### Mr. Alexander Betsky, CA Finance Director

Mr. Betsky, age 36, is a Canadian chartered accountant. Before joining Sibir in July 2000, he worked as a corporate finance executive at Dresdner Kleinwort Benson in Moscow and earlier as an investment banking associate with Bank Menatep in Moscow. Mr. Betsky also has three years of accounting and audit experience with Ernst & Young and Lippman Leebosh April in Canada. He holds a Bachelor of Commerce degree and a Graduate Diploma in Public Accounting, both from McGill University. He is also a member of the Canadian Institute of Chartered Accountants. Mr. Betsky speaks fluent Russian and French.

### Mr. Stuard Detmer Director and Manager of Downstream Operations

Mr. Detmer, age 42, has an extensive background in the oil industry, having previously worked with Mobil in the US, Latin America and Russia. He received a Bachelor of Arts degree from Vanderbilt University and an MBA from the Darden School at the University of Virginia. Mr. Detmer speaks fluent Russian and Spanish.

### Mr. Chalva P. Tchigirinski Non-Executive Director

Mr. Tchigirinski, age 56, is the representative of the largest shareholder in Sibir. In this capacity he is a director of both Evikhon and Salym Petroleum Development BV. He is also President of both Moscow Oil and Gas Company (MOGC) and Central Fuel Company (which controls the Moscow refinery) neither of which are in competition with Sibir. His interests in the sector include a key role in BP's impressive fuel retail network in Moscow. Mr. Tchigirinski speaks fluent English.

### Mr. Urs Haener Deputy Chief Executive Officer

Mr. Haener, age 53, holds two university degrees in business administration and law from the University of St Gallen, Switzerland. Mr. Haener spent his distinguished career in banking. He was Head of Credit Suisse Australia Operations in 1991-1993. In 1993 he became the President and CEO of Credit Suisse (Moscow) Ltd and was from 1996 Managing Director of Credit Suisse First Boston. In late 1997 he joined Republic National Bank as CEO of Moscow subsidiary which was taken over by HSBC Bank in 1999. Until June 2001 he was the President and CEO of HSBC's Russian subsidiary. In July 2001 he started his own consulting business in Russia. Mr. Haener is conversant in several languages.

## Substantial Shareholders

At 31 May 2006 the Company had been notified of the following interests of 3% or more in the nominal value of the Company's ordinary shares.

	No. of shares	%
Bennfield Limited	158,381,123	53.7
M & G Investment Management Limited	24,252,922	8.2
Merrill Lynch Investment Managers	12,301,923	4.2

## Creditors Payment Policy

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its individual suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 2005, the Company had an average of 32 days purchases outstanding in trade creditors.

## Conversion to IFRS

To satisfy its reporting obligations, Sibir will be drawing up its financial statements for 2007 and subsequent years in accordance with International Financial Reporting Standards.

## Auditors

Ernst & Young LLP have expressed their willingness to continue as auditors and their reappointment will be proposed at the Annual General Meeting in accordance with Section 385 of the Companies Act 1985.

By order of the Board

A Harrison  
Secretary

Date: 29 June 2006

## Statement of Directors' Responsibilities in Respect of the Financial Statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Independent Auditors' Report to the Members of Sibir Energy plc

We have audited the Group's financial statements for the year ended 31 December 2005, which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Losses, Group Reconciliation of Shareholders' Funds, Group Balance Sheet, Company Balance Sheet, Group Statement of Cash Flows, and the related notes 1 to 29. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the AIM Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Report of the Chairman and Chief Executive, the Operations Review, the Directors Report, the Financial Review, the Corporate Governance Statement and the Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion:

- the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and parent company's affairs as at 31 December 2005 and of the group's loss for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP  
Registered Auditor London

29 June 2006

## Group Profit and Loss Account

For the year ended 31 December 2005

	Notes	Total 2005 £000	Total 2004 £000
<b>Turnover;</b> group and share of joint venture's turnover	2	365,270	168,870
Less:share of joint venture		(8,028)	(728)
<b>Group turnover</b>		357,242	168,142
<b>Cost of sales</b>	3		
Depletion of oil and gas properties		(1,245)	(1,725)
Decommissioning charge		(3)	(18)
Cost of sales		(308,127)	(145,035)
<b>Gross profit</b>		47,867	21,364
General and administrative expenses		(17,937)	(14,903)
Fee for services of Bennfield Limited	5	–	(16,389)
<b>Group operating profit/(loss)</b>	4	29,930	(9,928)
Share of operating loss in joint venture		(21,050)	(15,185)
<b>Operating profit/(loss):</b>			
<b>Group and share of joint venture</b>		8,880	(25,113)
Loss on disposal of fixed assets	5	–	(2,807)
<b>Profit/(Loss) on ordinary activities before interest and taxation</b>		8,880	(27,920)
Interest receivable		10,805	3,010
<b>Interest payable:</b>	8		
Group		(18,270)	(2,318)
Joint venture		(12,280)	(3,236)
<b>Loss on ordinary activities before taxation</b>		(10,865)	(30,464)
Tax on profit on ordinary activities	9	(9,635)	(3,494)
<b>Loss on ordinary activities after taxation</b>		(20,500)	(33,958)
Minority interests – equity		(1,370)	3,138
<b>Loss for the financial year attributable to the members of the parent company</b>		(21,870)	(30,820)
<b>Basic &amp; diluted loss per share (pence)</b>	10	(10.57)	(17.32)

## Group Statement of Total Recognised Losses

For the year ended 31 December 2005

	Notes	2005 £000	2004 £000
Loss for the year attributable to members of the parent company	22	(21,870)	(30,820)
Exchange difference on re-translation of net investments and related borrowings	22	(5,931)	(1,631)
<b>Total losses recognised since last annual report</b>		<b>(27,801)</b>	<b>(32,451)</b>

## Group Reconciliation of Shareholders' Funds

For the year ended 31 December 2005

	Notes	2005 £000	2004 £000
Total recognised gains and losses		(27,801)	(32,451)
New share capital subscribed	21	1,292	18,325
Share premium on shares issued less issue costs	22	41,109	30,012
Asset revaluation reserve	22	83,793	–
Issue of shares to be issued	21	(2,000)	2,000
Total movements during the year		96,393	17,886
Shareholders' funds at 1 January		163,267	145,381
<b>Shareholders' funds at 31 December</b>		<b>259,660</b>	<b>163,267</b>

# Group Balance Sheet

At 31 December 2005

	Notes	31 December 2005 £000	31 December 2004 £000 (restated)
<b>Fixed Assets</b>			
Tangible assets	11	29,748	23,852
Other investments	12	11,117	6
<b>Investment In Joint Venture</b>			
– Share of gross assets		437,356	213,713
– Share of gross liabilities		(261,606)	(101,594)
	12(c)	175,750	112,119
Goodwill	13	5,053	–
Negative Goodwill	13	(10,324)	–
		(5,271)	–
		211,344	135,977
<b>Current Assets</b>			
Stocks	14	18,671	7,250
Debtors			
Amounts falling due within one year	15	79,397	36,345
Amounts falling due after more than one year	15	222,539	73,346
		301,936	109,691
Cash at bank and in hand		5,398	4,362
		326,005	121,303
<b>Creditors:</b> amounts falling due within one year	16	(264,973)	(52,340)
Net Current Assets		61,032	68,963
<b>Total Assets Less Current Liabilities</b>			
		272,376	204,940
<b>Creditors:</b> amounts falling due after more than one year	17	(8,052)	(23,365)
<b>Provision for Liabilities and Charges</b>	20	(1,039)	(1,133)
		263,285	180,442
<b>Minority Interest – Equity</b>		(3,625)	(17,175)
		259,660	163,267
<b>Capital and Reserves</b>			
Called up share capital	21	194,271	192,979
Share premium account	22	110,377	69,268
Shares to be issued	21	–	2,000
Asset revaluation reserve	22	83,793	–
Capital redemption reserve	22	14,396	14,396
Profit and loss account	22	(143,177)	(115,376)
<b>Equity Shareholders' Funds</b>		259,660	163,267

H Cameron  
Director  
29 June 2006

A Betsky  
Director  
29 June 2006

## Company Balance Sheet

At 31 December 2005

	Notes	31 December 2005 £000	31 December 2004 £000
<b>Fixed Assets</b>			
Tangible assets	11	83	93
Investments	12	180,852	127,655
		180,935	127,748
<b>Current Assets</b>			
Debtors:			
amounts falling due within one year	15	5,652	2,071
amounts falling due after more than one year	15	186,808	60,178
		192,460	62,249
Cash at bank and in hand		80	778
		192,540	63,027
<b>Creditors:</b> amounts falling due within one year	16	(175,536)	(19,228)
<b>Net Current Assets</b>		17,004	43,799
<b>Total Assets Less Current Liabilities</b>		197,939	171,547
<b>Creditors:</b> amounts falling due after more than one year	17	(3,698)	(7,740)
Provisions for liabilities and charges	20	(811)	(811)
		193,430	162,996
<b>Capital and Reserves</b>			
Called up share capital	21	194,271	192,979
Share premium account	22	110,377	69,268
Shares to be issued	21	–	2,000
Capital redemption reserve	22	14,396	14,396
Profit and loss account	22	(125,614)	(115,647)
<b>Equity Shareholders' Funds</b>		193,430	162,996

H Cameron  
Director  
29 June 2006

A Betsky  
Director  
29 June 2006

## Group Statement of Cash Flows

At 31 December 2005

	Notes	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Net cash flow from operating activities	23(a)	36,584	(9,012)
Returns on investments and servicing of finance	23(b)	(14,790)	(2,337)
Taxation	23(c)	(7,553)	(3,596)
Acquisitions and disposals	23(d)	(12,552)	–
Capital expenditure and financial investment	23(e)	(162,215)	(52,533)
Net cash outflow before financing		(160,526)	(67,478)
Financing	23(f)	161,562	62,379
<b>Increase/(Decrease) in Cash</b>		1,036	(5,099)

## Group Reconciliation of Net Cash Flow to Movement in Net Debt

	Notes	2005 £000	2004 £000
Increase/(Decrease)/in cash		1,036	(5,099)
Cash outflow for repayment of convertible loan notes		–	677
Cash outflow for repayment of borrowings		183,225	64,603
Cash inflow from receipt of loans		(344,777)	(107,654)
Change in net debt resulting from cash flows		(160,516)	(47,473)
Exchange differences		(1,551)	2,366
Other non cash movements	23(g)	5,148	12,046
<b>Movement in Net Debt</b>		(156,919)	(33,061)
Net Debt at beginning of year		(47,477)	(14,416)
<b>Net Debt at end of year</b>	23(g)	(204,396)	(47,477)

## Notes to the Financial Statements

### 1 Accounting Policies

#### Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

In addition to the requirements of the accounting standards, the accounting for exploration and production activities is governed by the Statement of Recommended Practice (SORP) 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities' issued by the UK Oil Industry Accounting Committee on 7 June 2001. These financial statements have been prepared in accordance with the SORP's provisions.

#### Changes in accounting policies

As required by UK GAAP, starting from 1 January 2005 the Group has adopted the following new accounting standards:

- FRS 21—Events after the balance sheet date
- FRS 22—Earnings per share
- FRS 25—Financial instruments disclosure and presentation\*
- FRS 28—Corresponding amounts

The adoption of these standards have not resulted in the restatement of retained earnings and have had no impact on the results or net assets for the current or prior year.

\* The Group has only adopted the presentation requirements of this standard, as it does not have to comply with the disclosure requirements this year.

#### Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all its subsidiary undertakings for the year ended 31 December 2005. No profit and loss account is presented for the Company as permitted by Section 230 of the Companies Act 1985.

The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

#### Prior Year Adjustment

The comparative financial information has been restated to reclassify the £140,073,000 fair value adjustment to Oil & Gas assets which arose on the original acquisition of Sibir's 50% of Salymn Petroleum Development N.V. (SPD) and which was incorrectly included in Property, Plant and Equipment to Share of Assets of Joint Venture, to better reflect the value of Sibir's share of the assets of SPD.

#### Russian business environment

During the year ended 31 December 2005 all of the Company's business was conducted in Russia through its investment in subsidiaries operating in the oil and gas industry. These operations and those of similar companies in Russia, are subject to the economic, political and regulatory uncertainties prevailing in Russia.

The Russian economy, while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market in transition. These characteristics have in the past included higher than normal historic inflation, lack of liquidity in the capital markets, and the existence of currency controls which cause the national currency

to be illiquid outside Russia. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

## Turnover

Turnover represents the amounts invoiced by the Group to third parties in the ordinary course of business and is stated net of value added tax and similar levies.

## Joint ventures

Entities in which the Group holds an interest on a long-term basis and which are jointly controlled by the Group and one or more other venturers under a contractual arrangement, are treated as joint ventures. In the Group financial statements joint ventures are accounted for using the gross equity method in accordance with FRS 9 "Associates and Joint Ventures".

## Goodwill

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair value of that entity's identifiable assets and liabilities.

Positive goodwill is capitalized, classified as an asset on the balance sheet and amortised on a unit of production method, in the proportion of actual production for the period to the total remaining commercial reserves. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Negative goodwill is recorded, classified as a negative asset on the balance sheet and released on a unit of production method, in the proportion of actual production for the period to the total remaining commercial reserves.

## Fixed Assets

### (a) Tangible Oil and Gas Assets

The Group follows the "full cost" method of accounting for the costs associated with exploration, appraisal, development and production of oil and gas reserves. Under this method costs are aggregated in geographical cost pools. The costs of acquisition of property (including rights and concessions) and plant and equipment are classified as tangible fixed assets if they relate to proved oil and gas properties. Exploration expenditure on unproved properties is initially classified as intangible assets and is excluded from the tangible cost pools pending determination of the recoverable reserves attributable to the Group's interests.

All costs associated with property acquisition, exploration and development are capitalised regardless of whether they result in commercial discoveries or not. Proceeds from the disposal of oil and gas assets are deducted from the cost pools.

Producing oil and gas assets are depleted by pool, on a unit of production method, in the proportion of actual production for the period to the total remaining commercial reserves. The remaining commercial reserves are those estimated at the end of the period plus production during the period. For depletion purposes only, the cost base include costs of capital assets and anticipated future development expenditure.

### (b) Other Tangible Fixed Assets

Other tangible fixed assets are depreciated on a straight-line basis so as to write off the cost less any estimated residual value of each asset evenly over its estimated useful economic life as follows:

- Plant and equipment – between 3 to 10 years

### (c) Impairment of Fixed Assets

The carrying values of fixed assets are reviewed for impairment in the periods when events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is provided for in the current period profit and loss account when the carrying value of the assets exceeds their estimated recoverable amount. The estimated

recoverable amount is defined as the higher of the net realisable value and the value in use. The value in use is determined by reference to estimated future discounted cashflows.

### Oil and gas reserves

Commercial reserves for Magma are based on the Russian Reserves classification which is defined as reserves proved and developed, reserves proved but not yet developed and reserves tested and lie within proven and probable. SPD, uses a reserves classification known as proven, expected and scope for recovery reserves.

### Decommissioning provision

Provision for decommissioning of oil and gas production facilities is recognised in the financial statements on commencement of field development on the basis of costs estimated at the balance sheet date in accordance with the local conditions and requirements. Such provision represents the company's share of the estimated liability for costs which will be incurred in removing production platforms and facilities at the end of the commercial production from the field.

Where the time value of money is material, the provision made in the financial statements is for the present value of the estimated future costs. A corresponding tangible fixed asset is also created for the amount equal to the provision when it is first made in the financial statements. This asset is subsequently depleted as part of oil and gas assets in accordance with the depreciation and depletion policy applied to such assets.

Where the provision is discounted, the carrying value of the provision increases each year to reflect the passage of time. This increase is recognised as an annual charge to the current year profit and loss account and is included within interest expense.

### Investments

Fixed asset investments in subsidiaries, joint ventures and associates are included in the financial statements of the company at cost less provisions for impairment. All other fixed asset investments are stated in the financial statements of the company and the Group at cost less provisions for permanent diminution in value. All current asset investments are stated at the lower of cost and net realisable value.

### Lease and hire purchase obligations

Assets held on finance leases and under hire purchase contracts, where the risk and rewards of ownership have been passed to the Group, are capitalised and depreciated in accordance with the Group's depreciation policy. Finance charges included in the total lease obligations are charged to the profit and loss account over the period of the lease at a constant proportion to the capital amount outstanding. Operating lease rentals are charged to the profit and loss account as incurred.

### Stocks

Stocks which comprise oil in tanks and pipelines, refined products and materials, are stated at the lower of cost or net realisable value. Overlifts and underlifts are valued at market value and are included in creditors or debtors respectively.

### Foreign currencies

#### (a) Company

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

#### (b) Group

These financial statements use the Pound sterling (£) as the reporting currency. The Company's subsidiary undertakings use the United States dollar (\$) as the reporting currency however the accounting records of these entities are maintained in Russian roubles. The functional currency of the Group's operating companies is the \$ in Russia and the £ in the UK.

The financial statements of the overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date.

The exchange differences arising on re-translation of the opening net assets of the Company's subsidiary undertakings and quasi-equity long term loans to those undertakings are taken directly to other reserves. All other translation differences are taken to the profit and loss account.

## Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the exception that:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

## Pension costs

The Group contributes to a defined contribution scheme and to personal pension schemes. Contributions are charged to the profit and loss account as they become payable.

## 2 Turnover and Segmental Analysis

### Segmental information

During 2005, the Group operated in two business segments, being those of oil and gas exploration, development and production and the refining and marketing of oil products, and in one geographical segment, being Khanty-Mansiysk Okrug in Western Siberia, in the Russian Federation.

### Turnover

Area of activity

	Oil Production 2005 £000	Oil Production 2004 £000	Refining of oil products 2005 £000	Refining of oil products 2004 £000	Total 2005 £000	Total 2004 £000
Continuing operations						
Export	24,742	12,465	153,905	52,710	178,647	65,175
Domestic	8,966	2,269	169,629	100,698	178,595	102,967
	33,708	14,734	323,534	153,408	357,242	168,142

### Profit

Segment profit:

Continuing operations	10,135	4,246	34,454	14,172	44,589	18,418
Common Costs					(14,659)	(28,346)
Group Operating profit/(Loss)					29,930	(9,928)
Share of operating loss in joint venture					(21,050)	(15,185)
Loss on disposal of Fixed Assets					–	(2,807)
Net Interest payable					(19,745)	(2,544)
Loss on ordinary activities before taxation					(10,865)	(30,464)

	Oil Production 2005 £000	Oil Production 2004 £000	Refining of oil products 2005 £000	Refining of oil products 2004 £000	Total 2005 £000	Total 2004 £000
<b>Net Assets by segment:</b>						
Continuing Operations	30,463	25,292	11,461	21,999	41,924	47,291
Unallocated Net Assets					45,611	21,032
					87,535	68,323
Share of Net Assets of Joint Venture					175,750	112,119
Minority Interest					(3,625)	(17,175)
<b>Total Net Assets</b>					259,660	163,267

## Turnover

Destination	2005 £000	2004 £000
Russian Federation	178,595	102,967
Holland	122,505	–
Germany	24,742	12,466
Belarus	774	2,722
USA	22,969	–
Nigeria	7,657	–
Switzerland	–	49,987
<b>Total</b>	357,242	168,142

## Turnover analysis of Joint Venture

Destination	2005 £000	2004 £000
Russian Federation	5,210	728
Belarus	847	–
USA	638	–
Holland	542	–
Germany	452	–
Hungary	339	–
	8,028	728

## 3 Cost of Sales and Operating Expenses

	2005 £000	2004 £000
Cost of sales	308,127	145,035
Depletion of oil and gas properties	1,245	1,725
Decommissioning charge	3	18
Administration expenses	16,322	11,905
Exchange (gains)/losses	(1,369)	3,135
Other (income)/expenses	2,984	(137)

#### 4 Operating profit/(Loss)

This is stated after charging/(crediting):

	2005 £000	2004 £000
Auditors' remuneration		
– Group audit services*	272	288
– Non-audit services relating to tax and advisory services	50	83
	322	371

\* £50,000 (2004 – £50,000) relates to the Company

Depletion of oil and gas properties	1,245	1,725
Depreciation of other tangible fixed assets	39	38
Total depreciation charge	1,284	1,763
Decommissioning of oil and gas properties	3	18
Release of negative goodwill	(62)	–
Amortisation of positive goodwill	30	–
Operating lease rental – land and buildings	183	183

#### 5 Exceptional Items

	2005 £000	2004 £000
Recognised in arriving at operating loss:		
Fee for services of Bennfield Limited	–	16,389
Recognised after arriving at operating loss:		
Loss on disposal of fixed assets	–	2,807
Minority interest share of loss on disposal of fixed assets	–	(505)

#### 6 Staff Costs

Staff costs, including executive directors, were as follows:

	2005 £000	2004 £000
Wages and salaries	3,576	3,786
Social security costs	237	265
Other pension costs	209	235
	4,022	4,286

The average monthly number of employees during the year was made up as follows:

	2005 No.	2004 No.
Management and administration	135	118
Technical and operational	128	150
	263	268

## 7 Directors' Emoluments

	2005 £000	2004 £000
Aggregate directors' emoluments	1,043	724
Company contributions to personal pension schemes	29	29

The emoluments of the highest paid director were as follows:

	2005 £000	2004 £000
Emoluments	271	221
Company contributions to personal pension schemes	22	22

There are two directors in money purchase pension schemes.

## 8 Interest Payable and Similar Charges

	2005 £000	2004 £000
Bank interest	6,691	676
Convertible loan interest	–	38
Other loan interest	11,560	1,564
	18,251	2,278
Unwinding of discount on decommissioning provision	19	40
Group interest payable and similar charges	18,270	2,318
Share of joint venture interest	12,280	3,236
	30,550	5,554

## 9 Tax on Profit on Ordinary Activities

The taxation charge is made up as follows:

	2005 £000	2004 £000
<b>UK corporation tax</b>		
Current tax on profit on ordinary activities before share of associates and J.V. projects	–	–
	–	–
<b>Foreign tax</b>		
Current tax on profits for the year	9,635	4,148
Total current tax	9,635	4,148
<b>Deferred taxation</b>		
Originating and reversal of timing differences	–	(654)
	9,635	3,494

## Factors affecting tax charge for the period

The tax assessed on the profit on ordinary activities for the period is disproportionate to the standard rate of taxation in the UK. The differences are explained below:

	2005 £000	2004 £000
Loss on ordinary activities before tax	(10,865)	(30,464)
Loss on ordinary activities before tax at the standard UK corporation tax rate of 30% (2004 – 30%)	(3,260)	(9,139)
Effects of:		
Disallowed expenses and non-taxable income	2,326	6,889
Depreciation in excess of capital allowances	12	512
Other timing differences	77	308
Current year UK tax losses not utilized	2,782	6,791
Foreign Exchange differences	83	(54)
Lower taxes on overseas earnings	(2,158)	506
Overseas tax losses carried forward	9,825	(484)
Utilisation of prior year unrecognized overseas tax losses	(52)	(1,181)
Total current tax on loss on ordinary activities	9,635	4,148

## Factors affecting future tax charge

The Group has tax losses of approximately £51,726,000 (2004 – £46,832,000) arising in the UK that are available indefinitely for offset against future taxable profits. The tax returns for the years ended 31 December 2000, 2001, 2002, 2003 and 2004 for Sibir Energy plc have yet to be agreed by the H M Revenue & Customs and the tax losses could be reduced when the returns are agreed. Deferred tax assets have not been recognised in respect of these losses because although losses arising in the UK may be used to offset profits arising in certain UK companies, the UK subsidiaries within the same tax group are currently loss-making. Deferred tax assets of £2.97 million have not been recognised as a result of existing uncertainties over their realisation.

## 10 Loss per share

The calculation of loss per ordinary share is based on the loss for the year of £21,870,000 (2004 – loss £30,820,000).

The weighted average number of ordinary shares in issue during the year was 206,854,887 (2004 – 177,960,404).

Potential ordinary shares resulting from the exercise of the share options and the issue of shares agreed to be issued have an anti-dilutive effect and, as such, were excluded from the calculation of diluted loss per share.

## 11 Tangible Fixed Assets

### Group

	Exploration and development costs £000	Plant and equipment £000	Total £000
<b>Cost:</b>			
At 1 January 2005 (restated)	40,055	255	40,310
Currency movements	5,630	–	5,630
Additions	7,078	29	7,107
Disposals	(1,252)	(58)	(1,310)
Disposals to joint venture	(2,159)	–	(2,159)
At 31 December 2005	49,352	226	49,578
<b>Depreciation:</b>			
At 1 January 2005	16,308	150	16,458
Currency movements	2,260	–	2,260
Depreciation on disposals to joint venture	–	–	–
Provided during the year	1,245	39	1,284
Disposals	(126)	(46)	(172)
At 31 December 2005	19,687	143	19,830
Net book value at 31 December 2005	29,665	83	29,748
Net book value at 31 December 2004 (restated)	23,747	105	23,852

(ii) The prior year comparatives have been changed to comply with the current year presentation – see Note 29.

### Company

	Plant and equipment £000	Total £000
<b>Cost:</b>		
At 1 January 2005	197	197
Additions	29	29
At 31 December 2005	226	226
<b>Depreciation:</b>		
At 1 January 2005	104	104
Provided during the year	39	39
At 31 December 2005	143	143
Net book value at 31 December 2005	83	83
Net book value at 31 December 2004	93	93

## 12 Investments

### (a) Other Investments

#### Group

	Unlisted €000	Listed €000	Total €000
<b>Cost:</b>			
At 1 January 2005	24,266	6	24,272
Additions	11,111	–	11,111
At 31 December 2005	35,377	6	35,383
<b>Amounts provided:</b>			
At 1 January 2005	24,266	–	24,266
Charge	–	–	–
At 31 December 2005	24,266	–	24,266
<b>Net book value:</b>			
At 31 December 2005	11,111	6	11,117
At 31 December 2004	–	6	6

The market value of the investment in Fortune Oil PLC, a company listed on the London Stock Exchange, was £22,000 at 31 December 2005 (2004 – £33,750).

The addition in the year of £11,111,000 represents the fair value of a 12.5% interest in Mosnefteproduct, a downstream fuels retailing and distribution network in the Moscow region. This was purchased on 22 September 2005 as the Company completed the acquisition of Hitchens Global S.A. Limited which is explained in detail below.

#### Company

	Shares in subsidiary undertakings (b) & (c) €000	Capital contributions to subsidiary undertaking €000	Other fixed asset investments (a) €000	Total €000
<b>Cost:</b>				
At 1 January 2005	135,450	26,593	6	162,049
Additions <sup>(i)</sup>	53,197	–	–	53,197
At 31 December 2005	188,647	26,593	6	215,246
<b>Amounts provided:</b>				
	Shares in subsidiary undertakings (c) €000	Capital contributions to subsidiary undertaking €000	Other fixed asset investments (a) €000	Total €000
<b>Provision:</b>				
At 1 January 2005	30,006	4,388	–	34,394
Charges	–	–	–	–
At 31 December 2005	30,006	4,388	–	34,394
<b>Net book value:</b>				
At 31 December 2005	158,641	22,205	6	180,852
At 31 December 2004	105,444	22,205	6	127,655

(i) Additions comprise the following	€000
Consideration for the purchase of 10% of Evikhon from Dana Petroleum plc	12,551
Consideration for the purchase of 100% of Hitchens Global S.A.	40,641
Investment in Expid Holdings Limited/Visini holdings Limited/Yaklort Holdings Limited/Labico Holdings Limited	5
	53,197

On 13 June 2005 the Company completed the acquisition of a further 10% of the issued share capital of Evikhon Oil Open Joint Stock Company from Dana Petroleum Limited. The consideration for the acquisition was £12.6 million paid in cash and brought the Group's total holding in Evikhon to 92%. Evikhon is Sibir's Russian subsidiary which is partnered with Shell in a 50/50 joint venture to develop the Salym group of oil fields in Western Siberia.

The investment in Evikhon has been included in the Group balance sheet at its preliminary fair value at the date of acquisition which can be analysed as follows:

	Book Value €000	Adjustments €000	Preliminary Fair Value to the Group €000
Tangible assets	5,581	–	5,581
<i>Investment in joint venture</i>			
Share of gross assets	285,060	102,186	387,246
Share of gross liabilities	(187,136)	–	(187,136)
Debtors : amounts falling due after one year	45,000	–	45,000
Debtors : amounts falling due within one year	2,182	–	2,182
Stocks	27	–	27
Cash	8	–	8
Creditors : amounts falling due after one year	(18,125)	–	(18,125)
Creditors : amounts falling due within one year	(5,409)	–	(5,409)
Net assets	127,188	102,186	229,374

Fair Value of assets acquired	€000
Consideration paid	22,937
Negative goodwill	(12,551)
	10,386

The fair value of the net assets acquired was £22.9 million which has been accounted for as a reduction to the Minority Interest. The excess of the fair value of the assets acquired over the purchase consideration was £10.4 million which has been accounted for as negative goodwill on the balance sheet. The negative goodwill will be released to profit over the life of the Salym project.

The adjustment detailed above of £102.2 million is reflected in the accounts as a credit to an asset revaluation reserve of £83.8 million and a credit to minority interest of £18.4 million and has arisen as a result of the requirement to revalue Evikhon's assets to fair value

On 22 September 2005 the Company completed the acquisition of Hitchens Global S.A., bringing to 100% its ownership of Russian subsidiary, OAO NK Evikhon.

The Hitchens acquisition is part of a larger corporate restructuring approved by shareholders at Sibir's EGM on December 20, 2004 and brings into the company three assets, 8% of Evikhon, benefit of a \$9.9 million debt payable by Evikhon (eliminated on consolidation), and a 12.5% interest in Mosnefteproduct, a downstream fuels retailing and distribution network in the Moscow region. In parallel Sibir is finalizing the acquisition of a 25% + 1 share interest in STBP directly from its beneficial owner, Mr. Chalva Tchigirinsky, as provided for by the shareholder approved restructuring. STBP is a joint venture which owns and operates a network of 45 BP branded filling stations in the City of Moscow.

Sibir acquired Hitchens in exchange for 12,111,111 ordinary Sibir shares at a price of £2.50/share or £30,277,778. Sibir shares were valued at £2.275/share the day after the transaction was approved and £3.335/share the day the shares were issued. The total acquisition cost, based on the price of the shares on the day they were issued and including acquisition expenses was therefore £40.6 million.

The investment in Hitchens has been included in the Group balance sheet at its preliminary fair value at the date of acquisition which can be analysed as follows:

	Book Value £000	Adjustments £000	Preliminary Fair Value to the Group £000
Investment in Mostnefteprodukt	–	11,111	11,111
Investment in Evikhon	1,173	17,749	18,922
Debtors – Inter-co loan -Evikhon	5,525	–	5,525
	6,698	28,860	35,558
<b>Discharged by:</b>			
– issue of shares			(40,391)
– transaction costs			(250)
			(40,641)
Goodwill arising on acquisition on acquisition of Hitchens			5,083

The fair value of the net assets acquired was £35.6 million. The excess of the purchase consideration over the fair value of the net assets acquired was £5.1 million which has been accounted for as goodwill on the balance sheet. The goodwill will be released to the profit and loss account over the life of the Salym project.

The above assessments of fair values are estimates made by management based upon the information available at the time. Amendments may be made to these amounts as values are subject to final closing adjustments in the year ending 31 December 2006.

**(b) Subsidiary undertakings**

The Group's subsidiary undertakings at 31 December 2005 are listed below.

	Country of Incorporation	Class of share capital held	Proportion held by the Group	Nature of business
Sibir Energy Overseas Limited	Guernsey	Ordinary	100%	Investment holding
Caraline Trading Limited	Cyprus	Ordinary	100%	Investment holding
Silver Fox Limited	Isle of Man	Ordinary	100%	Investment holding
Expid Holdings Limited	Cyprus	Ordinary	100%	Investment holding
Yaklort Holdings Limited	Cyprus	Ordinary	100%	Investment holding
Visini Holdings Limited	Cyprus	Ordinary	100%	Investment holding
Labico Holdings Limited	Cyprus	Ordinary	100%	Investment holding
Eurosov Energy PLC	England & Wales	Ordinary	100%	Intermediate holding
Sibenergy (Cyprus) Limited	Cyprus	Ordinary	100%	Intermediate holding
Kangol Enterprises Limited	Cyprus	Ordinary	100%	Intermediate holding
Rensdorf Management Limited	Cyprus	Ordinary	100%	Intermediate holding
Printempa Holding Limited	Cyprus	Ordinary	100%	Intermediate holding
Farrell Resources Limited	British Virgin Islands	Ordinary	100%	Intermediate holding
Zambrano Limited	British Virgin Islands	Ordinary	100%	Intermediate holding
Hitchens Global S.A	British Virgin Islands	Ordinary	100%	Intermediate holding
Moscow Oil International Limited	England & Wales	Ordinary	100%	Dormant

**Held indirectly**

	Country of Incorporation	Class of share capital held	Proportion held by the Group	Nature of business
Yugraneft Joint Stock Oil Company and gas reserves	Russian Federation	Ordinary	43.6%	Development of oil
Evikhon Oil Open Joint Stock Company and gas reserves	Russian Federation	Ordinary	100%	Development of oil
SF International LLC	Russian Federation	Ordinary	100%	Investment holding
Caraline Inter LLC	Russian Federation	Ordinary	100%	Investment holding
Farrell Resources LLC	Russian Federation	Ordinary	100%	Investment holding
EuroSov Petroleum Limited	Guernsey	Ordinary	100%	Intermediate holding company and provider of technical and management services
W & D Holdings Limited	Guernsey	Ordinary	100%	Intermediate holding
Langue Limited	Isle of Man	Ordinary	100%	Investment holding
Fabula Limited	Isle of Man	Ordinary	100%	Investment holding
EuroSov Petroleum Holdings (Cyprus) Limited	Cyprus	Ordinary	100%	Investment Holding
SOC (Cyprus) Limited	Cyprus	Ordinary	100%	Investment Holding
Cosmodon Holdings Limited	Cyprus	Ordinary	100%	Oilfield supplies & Services
G. S. Margarita Holdings Limited	Cyprus	Ordinary	100%	Intermediate holding
Magma Oil Company	Russian Federation	Ordinary	95%	Oil and gas production and exploration

All subsidiary undertakings have been consolidated in the Group financial statements.

Two dormant subsidiaries, EuroSov Petroleum (UK) Limited and EuroSov Energy Holdings Limited were wound up in 2005.

### (c) Joint ventures

	Country of Incorporation	Class of share capital held	Proportion held by the Group	Nature of business
(i) Alendina Holdings Limited	Cyprus	Ordinary	50%	Oil trading company
(ii) Salym Petroleum Development N.V.	Netherlands	Ordinary	50%	Oil & gas production & exploration

### Investment in Joint Venture

	€000
At 1 January 2005 (restated)	112,119
Loss for the year	(31,891)
Increase in fair value	102,186
Depletion of joint venture assets	(1,439)
Exchange differences	(5,225)
At 31 December 2005	175,750

The Group's share of the net assets of SPD is as follows:

	2005 €000	2004 €000
Fixed assets (restated)	347,668	184,709
Current assets	59,946	29,004
Share of gross assets	437,356	213,713
Liabilities due within one year	(28,998)	(28,569)
Liabilities due after more than one year	(232,608)	(73,025)
Share of gross liabilities	(261,606)	(101,594)
Share of net assets	175,750	112,119
Turnover	8,028	728
Loss before tax	(31,891)	(18,421)
Taxation	–	–
Loss after tax	(31,891)	(18,421)

Management believe that at 31 December 2005 \$31.8 million expenses, of which 50% Sibir's share is \$15.9 million, incurred during 2002-2005 by the Moscow branch of the joint venture, SPD, could not be utilised. Accordingly, no deferred tax asset has been recognised in relation to these expenses.

Furthermore, at 31 December 2005 deferred tax asset not recognised on the losses carried forward of the joint venture amounts to \$15.9 million, of which Sibir's share is \$7.95 million (2004-nil).

This asset will be recognised should it become more likely than not that taxable profits or timing differences against which they may be deducted arise.

### 13 Goodwill

	Goodwill £000	Negative Goodwill £000
<b>Cost:</b>		
At 1 January 2005	–	–
Additions	5,083	(10,386)
At 31 December 2005	5,083	(10,386)
<b>Depreciation:</b>		
At 1 January 2005	–	–
Provided during the year	(30)	62
At 31 December 2005	(30)	62
Net book value at 31 December 2005	5,053	(10,324)
Net book value at 31 December 2004	–	–

The fair value of the net assets acquired of Hitchens Global SA was £35.6 million. The excess of the purchase consideration over the fair value of the net assets acquired was £5.1 million which has been accounted for as goodwill on the balance sheet. The goodwill will be released to the profit and loss account over the life of the Salym project.

The fair value of the net assets acquired by the acquisition of 10% of the issued share capital of Evikhon Oil Open Joint Stock Company from Dana Petroleum Limited was £22.9 million which has been accounted for as a reduction to the Minority Interest. The excess of the fair value of the assets acquired over the purchase consideration was £10.4 million which has been accounted for as negative goodwill on the balance sheet. The negative goodwill will be released to profit over the life of the Salym project.

### 14 Stocks

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Oil products	17,223	4,484	–	–
Raw materials and consumables	1,448	2,766	–	–
	18,671	7,250	–	–

The difference between the purchase price or production cost of stocks and their replacement cost is not material.

## 15 Debtors

Amounts falling due within one year:

	Group 2005 €000	Group 2004 €000	Company 2005 €000	Company 2004 €000
Trade debtors	5,345	19,337	–	–
Amounts owed by subsidiary undertakings	–	–	5,229	1,471
VAT receivable	42,398	13,420	50	–
Other debtors	117	1,145	17	6
Other loans receivable	28,745	–	282	–
Deferred acquisition costs	–	500	–	500
Prepayments and accrued income	2,792	1,943	74	94
	79,397	36,345	5,652	2,071

Amounts falling due after more than one year are:

	Group 2005 €000	Group 2004 €000	Company 2005 €000	Company 2004 €000
Amounts owed by subsidiary undertakings <sup>[i]</sup>	–	–	–	24,768
Other loans receivable <sup>[ii]</sup>	220,096	71,079	184,365	33,143
Prepayments and accrued income	2,443	2,267	2,443	2,267
	222,539	73,346	186,808	60,178

[i] Amounts owed by subsidiary undertakings shown as due after more than one year in 2004 were repaid during the year. At 31 December 2004 these included interest free and interest bearing loans of £14,713,000 due from Evikhon and interest free and interest bearing loans of £10,055,000 due from Magma. Interest was charged on the interest bearing loans at the US Dollar six month Libor rate plus 4%.

[ii] Other loans receivable falling due after more than one year is an amount owed by Salym Petroleum Development NV, the Group's Joint Venture with Shell's Salym Development B.V, a member of the Royal Dutch Shell Group. The total amount outstanding as at the end of the year was – £220,096,000 (\$377,861,000) (2004 – £70,824,000 (\$136,000,000)). The loans are interest bearing with interest being charged at the US Dollar six month Libor rate plus 5% and it planned that these will start to be repaid when the joint venture becomes cash flow positive which is anticipated to be in the second half of 2007.

## 16 Creditors: amounts falling due within one year

	Group 2005 €000	Group 2004 €000	Company 2005 €000	Company 2004 €000
Trade creditors	44,890	11,954	–	–
Amounts owed to subsidiary undertakings	–	–	58,950	10,234
Taxation and social security	7,586	6,872	17	20
Other Creditors	26	24	26	24
Accruals and deferred income	6,375	5,016	5,210	2,065
Other loans (Note 18)	206,096	28,474	111,333	6,885
	264,973	52,340	175,536	19,228

## 17 Creditors: amounts falling due after more than one year

	Group 2005 €000	Group 2004 €000	Company 2005 €000	Company 2004 €000
Other loans (Note 18)	3,698	23,365	3,698	7,740
Deferred income	4,354	–	–	–
	8,052	23,365	3,698	7,740

## 18 Financial Instruments

### (a) Short-term Debtors and Creditors

Short-term debtors and creditors have been excluded from the numerical disclosures, except currency risk disclosures, as permitted by FRS13 "Derivatives and other financial instruments: Disclosures".

The Group's financial instruments comprise borrowings, cash and liquid resources, and various items, such as trade debtors, and trade creditors which arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations. It is, and has been throughout the period under review, the Group's policy that there is no trading in financial instruments. The main risks arising from the Group's financial instruments are foreign currency risk, oil price risk, interest rate and liquidity risk.

### Foreign Currency Policy

Approximately half of Sibir's revenue in 2005 was received in United States dollars, the balance being received in Russian roubles. Significant protection from movements in exchange rates results from the majority of loans which are repayable in United States dollars. As the vast majority of development, production and taxation expenditures are in roubles, and some interest servicing and loan repayments are in roubles, the risk from variations in the value of the rouble is insignificant. Sibir continues to transfer funds to and from Russia without incident or impediment, with the exception of foreign currency reservation requirements in respect of loans from the Group's Russian subsidiaries to the Group's non-Russian companies (e.g. head office) imposed by the Central Bank of the Russian Federation since August 2004.

### (b) Interest Rate Risk Profile of Financial Assets

The interest rate risk profile of the Group's financial assets was as follows:

#### 31 December 2005

Currency	Interest-free £000	Fixed rate £000	Floating rate £000	Total £000
<b>Cash</b>				
Sterling	35	–	–	35
US Dollar	29	1,485	–	1,514
Roubles	61	3,788	–	3,849
	125	5,273	–	5,398
<b>Other loans receivable</b>				
US Dollar – falling due within one year	3,226	17,165	8,354	28,745
<b>Other loans receivable</b>				
US Dollar – falling due within one year	–	–	220,096	220,096
<b>Investments</b>				
Sterling	6	–	–	6
Roubles	11,111	–	–	11,111
	11,117	–	–	11,117
<b>Total</b>	14,468	22,438	228,450	265,356

### 31 December 2004

Currency	Interest-free €000	Floating rate €000	Total €000
<b>Cash</b>			
Sterling	–	530	530
US Dollar	–	3,546	3,546
Roubles	–	286	286
	–	4,362	4,362
<b>Investments</b>			
Sterling	6	–	6
	6	4,362	4,368

The cash at bank comprises floating rate deposits placed on money markets at call.

Investments comprise equity investment in Mostneftprodukt of £11,111,000 and Fortune Oil PLC of £5,625.

Other loans receivable falling due within one year include loans made to Evrazbank £8,354,000 (2004 – £nil) to secure loans made by Evrazbank to the Company for the purpose of financing cash calls to SPD. These loans were made by the Company's Russian subsidiary Magma, purchasing US dollar-denominated interest-bearing promissory notes with Evrazbank worth \$14,300,000, which were then pledged as security for loans provided to Sibir Energy by Evrazbank. Both loans and promissory notes were redeemed and repaid after 31 December 2005. Also included were loans to Ingas £3,232,000 (2004 – £nil) and loans to Magnetic LLC £13,932,000 (2004 – £nil) for the purpose of financing oil trading and interest free loans to which included an interest free loan to the Central Fuel Company of £2,944,000 (2004 – £nil).

Other loans receivable falling due after more than one year is an amount owed by Salym Petroleum Development NV, the Group's Joint Venture with Shell's Salym Development B.V, a member of the Royal Dutch Shell Group. The total amount outstanding as at the end of the year was – £249,838,000 (\$428,923,000) (2004 – £70,824,000 (\$136,000,000).) The loans are interest bearing with interest being charged at the US Dollar six month Libor rate plus 5%.

### (c) Interest Rate Risk Profile of Financial Liabilities

The interest rate risk profile of the Group's financial liabilities was as follows:

#### 31 December 2005

Currency	Interest-free €000	Fixed Rate €000	Floating Rate €000	Total €000	Fixed Rate Weighted average interest rate %	Weighted average period for which rate is fixed, year
US Dollar	–	185,680	9,075	194,755	12	1.44
Roubles	–	15,039	–	15,039	11	0.33
	–	200,719	9,075	209,794		

#### 31 December 2004

Currency	Interest-free €000	Fixed Rate €000	Floating Rate €000	Total €000	Fixed Rate Weighted average interest rate %	Weighted average period for which rate is fixed, year
Sterling	–	–	–	–	–	–
US Dollar	6,653	20,904	13,065	40,622	10	0.95
Roubles	–	6,003	5,214	11,217	12	0.18
	6,653	26,907	18,279	51,839		

The fixed rate \$ liabilities comprise the following loans:

Counterparty	Interest Rate	2005 £	2004 £
<b>Sibir</b>			
Gradison Consultant Inc	10% pa	3,378,378	–
Gradison Consultant Inc	12% pa	4,077,353	–
Gradison Consultant Inc	12.5% pa	933,956	4,164,064
Mantrac Investment Inc	15% pa	7,572,227	–
Worldwide Division Limited	7.5% pa	3,571,018	–
Evrazbank	7.5% pa	8,715,442	–
Prol Investments Limited	7.5% pa	13,635,543	–
Folbert Limited	10% pa	5,824,790	–
Transimpex Trading Limited	15% pa	4,077,353	–
Panorama Services Limited	15% pa	2,155,172	–
Kinvard Ventures Limited	15% pa	2,504,660	–
Bank of Moscow	12.5% pa	49,510,718	–
<b>Evikhon</b>			
Bank of Moscow	12.5% pa	31,890,727	–
Russian Ministry of Finance	10% pa	99,604	89,000
Amsterdam Trade Bank NV	10% pa	–	10,410,160
<b>Magma</b>			
Sberbank	11.5% pa	23,299,161	–
Sberbank	12.5% pa	20,386,766	–
Bank Zenit	12.3% pa	4,047,647	–
Bank Zenit	10.25% pa	–	5,199,875
Mantrac Investments Inc	5% pa	–	1,041,016
		185,680,515	20,904,115

The fixed rate rouble liabilities comprise of the following loans:

Counterparty	Interest Rate	2005 £	2004 £
<b>Magma</b>			
Bank of Moscow	13% pa	8,748,000	–
International Moscow Bank	13% pa	6,291,000	845,000
Bank Zenit	13% pa	–	5,158,000
		15,039,000	6,003,000

The floating rate liabilities comprise a loan of £9,075,000 (\$15,580,000) (2004 – £8,848,000 (\$17,000,000)) from Central Energy Ag bearing interest at one month \$ LIBOR plus 5.5%. At 31 December 2004 the floating rate liabilities also included a loan from Select Energy Trading GmbH of £1,613,000 (\$3,100,000) which bears interest at the US\$ one month Libor rate plus 5.5%, loans from International Moscow Bank of £1,563,000 (\$3,000,000) and £1,041,000 (\$2,000,000) which bears interest at the US \$ one month Libor rate plus 5.2% and a rouble denominated loan from the Moscow Oil Company of £5,214,000 (278,000,000 roubles) which bears interest at a rate linked to the Central Bank of Russia's borrowing rate and equates to approximately 9%.

The interest free liabilities comprise £nil (2004 – £6,653,000). At 31 December 2004 the interest free liabilities comprise a loan from minority shareholders to the Company's subsidiaries Evikhon. This loan was acquired on 22 September 2005 as part of the Hitchens acquisition.

#### (d) Currency Exposures

The Group's objectives in managing the currency exposures arising from its net investments overseas (in other words, its structural currency exposures) are to match, to the extent practical, receipts and payments in the same currency and by following a range of commercial policies to minimise exposure to the roubles denominated sales.

Gains and losses arising from these transactional currency exposures are recognised in the profit and loss account.

The table below shows the Group's currency exposures. Such exposures comprise the monetary assets and monetary liabilities of the Group that are denominated in the currencies other than the functional currency of the operating unit involved. The functional currency of the Group's operating companies is the US dollar in Russia and Pound Sterling in the UK.

At 31 December 2005 the currency risk attributable to net monetary assets and liabilities was as follows:

	Sterling	Net foreign currency monetary assets/(liabilities) in €000		Total
		US Dollar	Roubles	
<b>Functional currency of Group operations</b>				
Sterling	–	(13,109)	25	(13,084)
US Dollar	–	–	(11,215)	(11,215)
	–	(13,109)	(11,190)	(24,299)

At 31 December 2004 the currency risk attributable to net monetary assets and liabilities was as follows:

	Sterling	Net foreign currency monetary assets/(liabilities) in €000		Total
		US Dollar	Roubles	
Sterling	–	(26,020)	86	(25,934)
US Dollar	–	–	(11,015)	(11,015)
	–	(26,020)	(10,929)	(36,949)

#### (e) Maturity of Financial Liabilities

The maturity profile of the Group's financial liabilities (ie. Convertible loan notes and bank and other loans) was:

	Group 2005 €000	Group 2004 €000	Company 2005 €000	Company 2004 €000
In one year or less				
Other loans	206,096	28,474	111,333	6,885
Between one and two years				
Other loans	3,698	23,365	3,698	7,740
	209,794	51,839	115,031	14,625

#### (f) Borrowing Facilities

At 31 December 2005 the Company had a pre-export finance facility with Central Energy AG of \$15,580,000 (2004 – \$17,000,000) of which \$15,580,000 (2004 – \$17,000,000) had been drawn down. The loan was held under a fixed term, fixed repayment facility with interest chargeable on the remaining outstanding balance at one month \$ LIBOR plus 5.5%. The loan must be repaid in monthly instalments as follows: \$2,840,000 on 31 March 2006, \$710,000 per month beginning on 30 April and ending on 31 August 2007, and a final payment of \$670,000 on 30 September 2007. The facility is for the purposes of oilfield development. The Company has also guaranteed that, for the period of the facility, all crude oil export sales will be sold via Select Energy Trading GmbH. Repayments have been made on schedule.

At 31 December 2005 the Company's subsidiary Magma had the following trade finance borrowing facilities:

- (1) borrowings from Bank Zenit in the amount of \$10,000,000 and 430,000,000 roubles, of which \$nil and 200,000,000 roubles were drawn down, and rouble-denominated trade finance borrowings from Bank of Moscow in the amount of 1,700,000,000 roubles of which 432,287,000 was drawn. Subsequent to year-end, these facilities have been repaid.

At 31 December 2005, the Company's subsidiary Magma had the following non-trade finance borrowings:

- (1) long-term borrowings from Sberbank totalling \$75,000,000 (secured by the Group's shareholding in Magma) which was fully drawn down and;
- (2) short-term rouble denominated borrowings from International Moscow Bank in the amount of \$20,000,000 of which \$10,800,000 (2004 – 45,000,000 roubles) was drawn down secured by a charge over a heater treater belonging to Magma and oil stored at Yuzhnoye. These borrowings have been repaid subsequent to year-end.

At 31 December 2005, the Company's subsidiary Evikhon had a fully drawn facility with Bank of Moscow of \$31,890,726 which was repaid after year-end.

At 31 December 2005, the Company had a fully drawn facility with Bank of Moscow of \$85,000,000, which was fully repaid after year-end.

At 31 December 2004 the Group had a loan from the Amsterdam Trade Bank of \$20,000,000. The loan was repaid in full in July 2005.

The Group did not have any undrawn borrowing facilities as at 31 December 2005 (2004 – £nil).

Many of the borrowings of the Company's subsidiary Magma had covenants which Magma had complied with as at 31 December 2005, with the exception of the following:

Bank Zenit: As at 31 December 2005, Magma did not comply with minimum monthly turnover requirements in respect of a trade finance loan with Bank Zenit. Magma received a waiver from the bank in respect of the violation and the loan was repaid after year-end. As at the date of this report, Magma continues to work with Bank Zenit and has available credit facilities.

International Moscow Bank: As at 31 December 2005, Magma did not comply with minimum quarterly turnover requirements in respect of a revolving credit facility. The loan was repaid after year-end. As at the date of this report, Magma continues to work with the International Moscow Bank and has available credit facilities.

Sberbank: As at 31 December 2005, Magma did not comply with minimum quarterly turnover obligations in respect of borrowings with the bank and as a result the loans totalling £43,686 have been reclassified from long term loans to short term loans. Subsequent to the year end Magma received a waiver in respect of this breach. As at the date of this report, Magma continues to work with Sberbank to the satisfaction of both parties.

### (g) Fair Values of Financial Assets and Financial Liabilities

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities.

#### At 31 December 2005

	Book Value £000	Estimated Fair Value £000
Primary financial instruments held		
Investments	11,117	11,133
Short term loans receivable	28,745	26,560
Long term loans receivable	220,096	220,096
Cash	5,398	5,398
Short term borrowings	(206,096)	(188,288)
Long term borrowings	(3,698)	(3,698)

#### At 31 December 2004

	Book Value £000	Estimated Fair Value £000
Primary financial instruments held		
Investments	6	33
Cash	4,362	4,362
Short term borrowings	(28,474)	(28,474)
Long term borrowings	(23,365)	(20,765)

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction, other than in a forced or liquidated sale.

### (h) Hedging

The Company did not hedge any production for the calendar year 2005 but continues to monitor the position.

## 19 Obligations Under Operating Leases

Annual commitments under non-cancellable operating leases are as follows:

Group and Company

	Land & buildings 2005 £000	Land & buildings 2004 £000
Operating leases which expire:		
Within one year	33	—
In two to five years	—	33
Over five years	150	150
	183	183

## 20 Provisions for Liabilities and Charges

Group	Deferred tax £000	Decommissioning provision £000	Other £000	Total £000
At 1 January 2005	–	322	811	1,133
Additions during the year	–	3	–	3
Unwinding of discount	–	19	–	19
Release of provision	–	(147)	–	(147)
Currency movements	–	31	–	31
At 31 December 2005	–	228	811	1,039

Company	Other £000	Total £000
At 1 January and 31 December 2005	811	811

The decommissioning provision relates to the future costs of decommissioning of the Group's oil and gas assets expected to be incurred over the next eighteen years according to the estimates provided by the field operators.

Other provisions relate to a lease agreement on the Group's vacant leasehold property in Aberdeen which is partially re-let.

The deferred tax consists of:

	2005 £000	2004 £000
Undiscounted net deferred tax liability		
Accelerated capital allowances	–	679
Other timing differences	–	–
Tax losses	–	(679)
	–	–

## 21 Share Capital

Authorised	31 December 2005 No.	31 December 2004 No.	31 December 2005 £000	31 December 2004 £000
New Ordinary shares of 10p each	300,000,000	300,000,000	30,000	30,000
Deferred shares of 90p each	240,000,000	240,000,000	216,000	216,000
			246,000	246,000
Allotted, called up and fully paid				
	31 December 2005 No.	31 December 2004 No.	31 December 2005 £000	31 December 2004 £000
New Ordinary shares of 10p each	216,081,913	203,160,802	21,608	20,316
Deferred shares of 90p each	191,847,421	191,847,421	172,663	172,663
			194,271	192,979

At an Extraordinary General Meeting held on 20 December 2004 Shareholders approved the issue of up to 34,066,631 new ordinary shares for the acquisition of Hitchens Global S.A. from Bennfield Limited and also the payment of cash for the acquisition of 10 % of Evikhon from Dana Petroleum Limited.

On 22 September 2005 the Company completed the acquisition of Hitchens Global S.A., bringing to 100% its ownership of Russian subsidiary, OAO NK Evikhon.

The Hitchens acquisition brought three assets into the company, 8% of Evikhon, the benefit of a \$9.9 million debt payable by Evikhon (eliminated on consolidation), and a 12.5% interest in Mosnefteproduct, a downstream fuels retailing and distribution network in the Moscow region. In parallel Sibir is finalising the acquisition of a 25% + 1 share interest in STBP directly from its beneficial owner, Mr. Chalva Tchigirinsky, as provided for by the shareholder approved restructuring. STBP is a joint venture which owns and operates a network of 45 BP branded filling stations in the City of Moscow.

Sibir acquired Hitchens in exchange for 12,111,111 ordinary Sibir shares at a price of £2.50/share or £30,277,778. Sibir shares were valued at £2.275/share the day after the transaction was approved and £3.335/share the day the shares were issued.

On 12 July 2005 the Company issued 800,000 new ordinary shares at the price of 250p per share in settlement of fees for corporate advisory service received during 2004. The total value of the services was £2,530,000 with £2,000,000 being settled by the issues of the new shares and the balance in cash.

On the 23 August 2005 10,000 new ordinary shares were issued as a result of the exercise of share options. The options were exercised at the exercise price of £1 for a total consideration of £10,000 by a former employee of the Company.

The company has a share option scheme under which options to subscribe for the company's shares have been granted to certain executives and employees. At 31 December 2005 options under the scheme were outstanding over 575,000 ordinary shares exercisable at 10p each. These are exercisable at any time up to 9 June 2010.

#### Shares to be Issued

Ordinary shares of 10p each	31 December 2005 No.	31 December 2004 No.	31 December 2005 £000	31 December 2004 £000
Nominal value		800,000	–	80,000
Share premium			–	1,920,000
Total			–	2,000,000

On the 12 July 2005 the Company issued £800,000 new ordinary shares at the price of 250p per share in partial settlement of fees for corporate advisory services rendered during 2004. The total value of the services is £2,530,000 with £2,000,000 being settled by the issue of the new shares and the balance in cash.

## 22 Reserves

#### Group

	Asset Revaluation reserve £000	Capital Redemption reserve £000	Share premium account £000	Profit and loss account £000
At 1 January 2005		14,396	69,268	(115,376)
Loss for the year	–	–	–	(21,870)
Exchange differences	–	–	–	(5,931)
Premium on shares issued	–	–	41,109	–
Fair value asset revaluations	83,793	–	–	–
At 31 December 2005	83,793	14,396	110,377	(143,177)

Included in the loss for the year of £21,870,000 is £1,369,000 of exchange gains. Exchange differences comprise gains of £1,227,000 which have arisen as a result of the re-translation of related borrowings and losses of £7,158,000 which are due to the retranslation of the net investments.

## Company

	Capital Redemption reserve £000	Share premium account £000	Profit and loss account £000
At 1 January 2005	14,396	69,268	(115,647)
Loss for the year	–	–	(9,967)
Premium on shares issued	–	41,109	–
At 31 December 2005	14,396	110,377	(125,614)

## 23 Notes to the Statement of Cash Flows

	2005 £000	2004 £000
<b>(a) Reconciliation of operating profit/(loss) to net cash outflow from operating activities</b>		
Operating profit /(loss)	29,930	(9,928)
Fee for services of Bennfield Limited	–	16,389
Depreciation, depletion and decommissioning	1,284	1,763
Amortisation of goodwill	30	–
Release of negative goodwill	(62)	–
Decrease in loan provision	–	(474)
Increase in stocks	(11,421)	(6,619)
Increase in debtors	(14,307)	(29,155)
Increase in creditors	31,130	19,012
Net cash inflow/(outflow) from operating activities	36,584	(9,012)
<b>(b) Returns on investment and servicing of finance</b>		
Interest received	60	40
Interest paid	(14,850)	(2,377)
	(14,790)	(2,337)
<b>(c) Taxation</b>		
Corporation tax paid	(7,553)	(3,596)
<b>(d) Acquisitions and disposals</b>		
Purchase of shares in subsidiary	(12,552)	–
<b>(e) Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(4,431)	(5,377)
Sale of plant and machinery	2,158	–
Loans to joint venture	(131,197)	(47,156)
Purchase of promissory notes	95,150	–
Redemption of promissory notes	(95,150)	–
Loans to other entities	(28,745)	–
	(162,215)	(52,533)
<b>(f) Financing</b>		
Receipt of loans	344,777	107,654
Proceeds of share issue	–	20,005
Proceeds of share options	10	–
Repayment of convertible loan notes	–	(677)
Repayment of secured loan	(183,225)	(64,603)
	161,562	62,379

### (g) Analysis of net debt

	At 1 January 2005 £000	Cash flow £000	Exchange differences £000	Other Non-cash movements <sup>[i]</sup> £000	At 31 December 2005 £000
Cash at bank and in hand	4,362	1,036	–	–	5,398
Debt due after one year	(23,365)	19,667	–	–	(3,698)
Debt due within one year	(28,474)	(181,219)	(1,551)	5,148	(206,096)
	(47,477)	(160,516)	(1,551)	5,148	(204,396)

[i] The other non-cash movements comprise a loan due by Evikhon to a third party that was acquired by the Group on 22 September 2005 when the Company completed the acquisition of Hitchens Global S.A.

#### Major non-cash transactions

See note 12 for an analysis of the acquisition of Hitchens Global S.A.

## 24 Capital Commitments

	Group 2005 £000	Group 2004 £000
Contracted but not provided for	100	535

## 25 Contingent Liabilities

(i) On 9 June 1997 the Company's subsidiary EuroSov Petroleum Limited as a condition of an assignment of contract debt agreed to arrange delivery of certain Russian equipment valued at \$500,000 to Henuset Pipeline Construction Limited ("Henuset"). Henuset had been responsible for the construction of a pipeline at the Group's subsidiary Magma. The equipment was handed over in 1998, however, in June 2000 a statement of claim for \$750,000 was issued by Henuset which stated that they had not received all of the Russian equipment. EuroSov Petroleum Limited is currently defending the claim. The directors expect that no payment will be made and therefore no provision has been made in these financial statements.

(ii) At the date of this report, the regional tax inspection of Nefteyugansk, Russia, had completed a tax audit of the Company's joint venture Salym Petroleum Development ("SPD"). The inspection has assessed SPD with additional tax charges totalling \$12.8 million. SPD intends to contest all of these tax charges to the full extent of the law. The Company believes that the chances of the courts deciding against SPD in respect of \$10.1 million of this figure is remote, while the chances of the courts siding against SPD in respect of \$2.7million of this figure is possible.

(iii) At 31 December 2005, the Company had outstanding guarantees in respect of the performance of obligations of third parties to help finance the Group's trading operations as follows::

#### Moscow Oil Company (MOC)

MOC had 427,077,000 roubles (\$15.8 million) outstanding to Bank of Moscow guaranteed by the Company. As at the date of this report, the outstanding amounts still owed to Bank of Moscow by MOC are 427,000,000 roubles (\$15.8 million).

#### Goshel Consultants Limited (Goshel)

On 18 October 2005, the Company signed a guarantee in respect of the performance obligation on a 1.9 billion rouble (\$66.0 million) loan Goshel received from three companies (Stroitranssvyaz, Stal-converter and Yugo-Zapadnoe Rudoupravlenije) repayable beginning in March.2006 and ending in August 2008. As at the date of this report, the outstanding amounts owed have not changed materially.

### Export trading

The Company signed a guarantee in respect of the performance obligation on a loan of 1,419,000,000 roubles (\$52 million) provided by Bank of Moscow to Export trading. As at the date this report, the outstanding amount due has been fully redeemed.

### Post balance sheet guarantees

The Company signed guarantees in respect of the performance obligations on four loans provided by Bank of Moscow to Export trading on 1 February 2006, 1 March 2006, 3 April 2006 and 16 May 2006 in the amounts of 1,973,000,000 roubles (\$73 million), 2,051,000,000 roubles (\$76 million), 1,615,000,000 roubles (\$60 million) and 1,500,000,000 roubles (\$55.5 million) respectively.

As at the date of this report, the first two amounts have been fully repaid, the third amount is outstanding in the amount of 505,000,000 roubles (\$18.7 million) and the fourth amount is still outstanding in the amount of 980,000,000 roubles (\$36.3 million).

## 26 Pension Commitments

The Company's Russian subsidiaries contribute to the Russian Federation State pension fund, social insurance, medical insurance and unemployment funds on behalf of its employees. The Group contributes to a defined contribution pension scheme which is administered by Standard Life Assurance Company and to various personal pension schemes of directors and senior employees. There were no unpaid contributions to the schemes as at 31 December 2005 (2004 – £nil)

## 27 Ultimate Parent Undertaking and Controlling Party

In the directors' opinion, the Company's ultimate parent undertaking is Bennfield Limited, a company incorporated in the Isle of Man. Bennfield is owned equally by the Tchigirinski family and by Orton Oil Company Limited ("Orton Oil"), a subsidiary of the Mercury Group of Companies ("Mercury"). Mercury is owned and operated by Mr Igor Kesaev, a well known and prominent businessman in the Russian Federation.

At 31 December 2005 Bennfield Limited owned 46.8% of the Company's ordinary share capital. Since 31 December 2005 Bennfield has increased its shareholding in the Company to 53.7% and upon completion of the acquisition of the BP Retail interests their shareholding will increase to 56.8%. This is explained in greater detail in Note 29 Post Balance Sheet Events.

## 28 Related Party Transactions

### A. List of Related Parties:

#### (i) Moscow Oil Company (MOC)

The Moscow Oil Company was related by virtue of cross-Directorships and the position of Chalva Tchigirinski as General Director of Moscow Oil Company until his resignation as a director in May 2005.

#### (ii) Moscow Oil and Gas Company (MOGC)

The Moscow Oil and Gas Company was incorporated on 30 May 2003. The terms of the Founders Agreement provide that the two shareholders of MOGC, Sibir and the Central Fuel Company, shall have equal representation on the Board of MOGC.

Yuri Mikhailovitch Luzhkov, the prominent and influential Mayor of Moscow is the Chairman of MOGC and Chalva Pavlovitch Tchigirinski, a non-executive director and significant shareholder of Sibir has been appointed the Chief Executive of MOGC for a five year term. William Guinness and Henry Cameron, the Chairman and Chief Executive of Sibir respectively, are also Board Members of MOGC, as are Sibir directors Urs Haener, and Stuard Detmer.

### **(iii) Central Fuel Company (CFC)**

Chalva Tchigirinski holds the position of General Director of the Central Fuel Company.

### **(iv) Bennfield Limited (Bennfield)**

In June 2000, Bennfield, Chalva Tchigirinski and Pavel Tchigirinsky (being directors of Bennfield at that time) entered into a controlling shareholder agreement with Sibir on the acquisition of Evikhon by Sibir. Following the agreement between Bennfield and Orton Oil as described below, the Independent Directors have agreed new terms of the controlling shareholder agreement with Bennfield and Orton Oil.

This new agreement, which came into force upon completion of the Bennfield Subscription, stipulates that Bennfield, Orton, Gradison Consultants, Chalva Tchigirinski and Igor Kesaev (the “Controlling Parties”) will agree that, for so long as they control the voting of 30% or more of the issued Ordinary Shares in the capital of the Company (or until that share capital ceases to be admitted to trading on AIM or admitted to the Official List of Financial Services Authority and to trading on the listed securities market of the London Stock Exchange plc) they will (except with the consent of a majority of the Directors who are independent of the Controlling Parties (the “Independent Directors”)):

- not use their voting power in relation to the Company to appoint or dismiss any director nor appoint a majority of the board;
- not be interested in any company or business which carries on the same or a similar or related business to that of the Company (except through being the holder for investment purposes of only 3% or less of the issued share capital of any publicly quoted company);
- not accept any offer for all or any of the shares which they own in the capital of the Company unless the offeror makes at the same time as such an offer is made, an offer or offers for the share capital of the Company which the offeror would be required to make if the City Code on Takeovers and Mergers applied to the Company;
- not vote in respect of any contract or arrangement with the Company in which they have an interest, except with the consent of the Independent Directors;
- not behave in any way which is detrimental to the interest of the Shareholders as a whole or which precludes the company from carrying on its business independently;
- conduct all transactions and relationships with the Company on an arm’s length basis on normal commercial terms; and
- ensure that the Board has at all times no fewer than two independent directors.

During the continuance of these obligations, Sibir will not appoint a Chief Executive without the consent of Bennfield, such consent not to be unreasonably withheld.

With regard to the existing controlling shareholder agreement, from June 2000 referred to above, the Independent Directors have given their consent to Bennfield to vote for the Resolutions.

### **(v) Gradison Consultants (Gradison)**

Beneficially owned by Chalva Tchigirinski

### **(vi) Mantrac invest Inc. (Mantrac)**

Beneficially owned by Chalva Tchigirinski

### **(vii) Folbert Limited (Folbert)**

Beneficially owned by Chalva Tchigirinski

### **(viii) 000 STT Group**

Majority owned by Chalva Tchigirinski

**(ix) Mall Gallery 1, 2 and 3**

Majority owned by Chalva Tchigirinski

**B. Summary of Related Party Transactions****(i) Moscow Oil Company (MOC)**

The company's subsidiary Magma borrowed funds from MOC for the purposes of financing crude oil purchases for later refining. The exact amounts borrowed were as follows:

- 22 February 2005: 237,000,000 roubles at (interest rate) of 14% (repaid with interest on 23 December 2005)
- 9 June 2005: 350,000,000 roubles at 14% (repaid with interest on 22 December 2005)

On 22 December 2005, accrued interest in the amount of 38,648,902 roubles due from Magma to MOC related to borrowings made to Magma on 23 April 2003 was paid.

On 22 December 2005, a loan provided to Evikhon by MOC on 21 May 2004 for 278,000,000 roubles plus accrued interest of 34,316,482 roubles was reassigned to Magma. Subsequently, on 22 December 2005, Magma repaid the loan plus accrued interest.

During 2005 Magma purchased at arms length a total of 123,846 metric tons of crude oil from the Moscow Oil Company for a total of 469,976,812 roubles which was processed at the Moscow refinery into various refined products which were subsequently sold on export or domestic markets.

Magma acted as an agent in selling exported volumes of products of MOC, earning additional agency revenue.

**(ii) Moscow Oil and Gas Company (MOGC)**

On 27 December 2005, Magma provided a loan to MOGC in the amount of 28,000,000 roubles at an interest rate of 13%, repayable on 27 November 2006.

**(iii) Central Fuel Company (CFC)**

On 27 December 2005, a loan in the amount of 117,980,600 roubles was provided to CFC by Magma at an interest rate of 13%. The loan is repayable on 27 November 2006.

**(iv) Bennfield Limited (Bennfield)**

On 22 April 2005, Bennfield provided a loan of \$13 million to the company at an interest rate of 15%. The term of the loan was extended until final repayment which occurred subsequent to year end. The funds were used to fund SPD cash calls. The outstanding sums due were settled after year end.

**(v) Gradison Consultants (Gradison)**

Throughout the year the Company borrowed funds from Gradison at interest rates ranging from 10% to 12.5%. In total, drawdowns totalling \$18.6 million were made, while repayments totalling \$4.2 million were made. The funds were provided to meet SPD cash calls. The remaining outstanding balance was settled subsequent to year end.

**(vi) Mantrac Invest Inc (Mantrac)**

Magma sold and Mantrac purchased on an arms length basis a total of 711,434 metric tons of oil products for a total of \$194.3 million. The oil products sold to Mantrac included gasoline, diesel, as well as heating oil.

On 21 September 2005, Magma repaid a \$2 million loan provided by Mantrac on 26 July 2004 at an interest rate of 5%.

**(vii) Folbert Limited (Folbert)**

On 4 August 2005, the company borrowed \$10 million from Folbert at an interest rate of 10% for the purposes of financing SPD cash calls. The loan was repaid subsequent to year end.

#### **(viii) 000 STT Group (STT)**

On 20 July 2005, the company's subsidiary Magma provided a loan of 27,300,000 roubles to STT at an interest rate of 3%, which was repaid on 30 December 2005. On 20 October 2005, the company's subsidiary Magma provided a loan of 45,780,000 roubles to STT at an interest rate of 10%, which was repaid on 30 December 2005.

#### **(ix) Mall Gallery 1, 2, and 3**

The company's subsidiary Magma subleased office space to Mall Gallery 1,2 and 3 in 2005 at a slight markup (5.7%) to its cost.

## **29 Events since the Balance Sheet Date**

#### **(i) Cancellation of Deferred Share Capital**

On 18 January 2006 the High Court of Justice, Chancery Division confirmed the Special Resolution passed by the Company's shareholders on 8 December 2005 that the issued share capital of the Company be reduced by cancelling the 191,847,421 issued Deferred Shares of 10p each in the Capital of the Company. The effect of the resolution is to create a reserve of £172,663,000 which may first be used to eliminate the deficit on the Company's profit and loss account and secondly to create a pool of realised profit to retain within the Company until the Company is ready and able to pay dividends to its shareholders.

#### **(ii) Extraordinary General Meeting – Bennfield Restructuring and Placings**

At an Extraordinary General Meeting held on 27 January 2006 shareholders approved an increase in the authorized ordinary share capital of the Company to £43,000,000 by the creation of an additional 130,000,000 new ordinary shares of 10p each. Shareholders also approved the issue of 58,813,000 new ordinary shares to Bennfield together with a further 20,000,000 new ordinary shares to placees. The transactions were announced on 9 December 2005 and a Circular sent to shareholders on 4 January 2006.

As announced by Sibir on 9 December 2005 Orton Oil Company Limited ("Orton Oil"), a subsidiary of the Mercury Group of Companies ("Mercury"), signed an agreement with the Company's existing major shareholder Bennfield, a company ultimately beneficially owned by Mr Chalva Tchigirinski. Under the terms of the agreement existing and new shares in Bennfield were to be sold and issued to Orton Oil so that Orton Oil would own a 50% shareholding in Bennfield. Mercury is owned and operated by Mr Igor Kesaev, a well known and prominent businessman in the Russian Federation.

Orton Oil subsequently acquired its 50% shareholding in Bennfield via an investment of \$620,358,051, of which \$404,633,493 was by way of a capital increase. Bennfield used the proceeds from the capital increase to subscribe by way of a placing for 58,813,008 new shares in the Company for a consideration of \$404,633,493 in cash at a price of 392 pence per new share (the "Bennfield Placing"). Simultaneously with the Bennfield Placing, the Company raised an additional \$137,600,000 on a non-underwritten basis from qualified investors who were then current shareholders (other than Bennfield) and from retail shareholders to the extent permitted by law on the same terms as the Bennfield Placing. The placings valued each new share at 392p based on the market exchange rate on the day the issues were placed.

The Bennfield Placing is considered to be a "Related party" transaction under the AIM Rules. The directors of Sibir, with the exception of Chalva Tchigirinski and Urs Haener, having consulted with Strand Partners Limited, consider that the terms of the transaction are fair and reasonable insofar as shareholders are concerned.

As a result of the Bennfield Placing, Bennfield's shareholding in Sibir increased to 180,336,643 ordinary shares, representing 56.81% of the enlarged share capital of Sibir on a fully diluted basis upon completion of the acquisition of the BP Retail interests previously agreed by shareholders.

The issue of new shares to Bennfield is intended to achieve the following goals:

- Broaden the scope and reach of the Company thereby reducing both political and business risks by diversifying its ultimate Russian shareholder base

- Create an enhanced platform for the expansion of Sibir's business interests in Russia.
- Provide cash funding resulting in the Company being debt free and also fund Sibir's remaining commitments for the Salym project.

The introduction of Mr Kesaev as a significant shareholder is an extension of the Company's fundamental and well publicised strategy of aligning its interests with influential Russian businessmen. Mr Kesaev's principle business activities are conducted through a diversified conglomerate called Mercury which he founded in 1991 after graduating from Moscow State University for International Relations. Mercury's business partners include Philip Morris Inc.

#### **(iii) B.V.I Appeal in Sibneft-Yugra Case**

On 16 May 2006 the Company announced that it had been advised by its English lawyers that upon completion of hearings in the BVI to secure jurisdiction against Sibneft and others in the Sibneft Yugra affair it became apparent that Sibir had lost its appeal. Neither Sibir nor its lawyers are aware of any formal judgment having been issued but Sibir has noted that Sibneft has announced a victory in this respect on their website.

#### **(iv) Moscow Oil and Gas Company (MOGC)**

On 12 June 2006 an ad hoc International Arbitration Tribunal in London, in its final decision, rejected claims against Moscow Refinery which had been brought by Fiber Technologies International Ltd (Fiber), in respect of construction work carried out at the Moscow Refinery.

Having originally been stated in the sum of approximately \$440 million, the claim had been reduced by Fiber themselves to less than \$50 million by the beginning of the final session of the Tribunal in London. The final decision therefore rejected the claim as amended to \$50 million.

Previous proceedings by Joy Lud Distributors Int., Inc. (Joy Lud), a company owned by the owners of Fiber, in respect of product sales from Moscow Refinery took place in Stockholm International Tribunal, where an award of \$28 million was made in favour of Joy Lud. However, subsequent proceedings in both the Moscow Court of Arbitration and the Federal Court of Arbitration in Moscow on this matter in effect set aside the Stockholm award.

#### **(v) Russian Supreme Arbitrage Court Ruling Confirms MOGC Control of Moscow Oil Refinery (MOR)**

On 20 June 2006 the Supreme Arbitrage Court of the Russian Federation made public its decision of 8 June 2006 refusing an application by MOR minority shareholders Richard Enterprises and Phoenix Asset Management (affiliates of the former Sibneft and Tatneft respectively) for the Court to review two earlier lower court decisions which declared lawful the declaration of a dividend on MOR's preference shares for 2004 as approved at the 2005 MOR Annual Shareholder Meeting. The decision of the Supreme Arbitrage Court is final and cannot be appealed.

The ruling on the dividend payment is important because if a dividend is not paid on the preference shares they may be converted to common voting shares which in turn would lead to a change of control at MOR which is what Richard Enterprises and Phoenix Asset Management sought to achieve through their application.

The 2004 dividend on the preference shares was paid in Q3 2005. The court's decision means that MOGC remains the controlling shareholder of MOR. MOGC's and therefore Sibir's supply and capacity-sharing agreements at the plant therefore remain firmly in place.

## Corporate Directory

### Directors

William L S Guinness, Non-Executive Chairman  
Henry O Cameron, Chief Executive  
Alexander Betsky, Finance Director  
Stuard Detmer, Downstream Operations Director  
Urs Haener, Executive Director  
Chalva Tchigirinski, Non-Executive Director

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Andrew Harrison

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