
SIBIR ENERGY PLC INTERIM REPORT & ACCOUNTS

FOR THE 6 MONTHS ENDED 30 JUNE 2007



EXPLORATION
PRODUCTION
REFINING
MARKETING

RUSSIAN AND INTERNATIONAL



SALYM CENTRAL PROCESSING FACILITY

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BUSINESS IN HARMONY

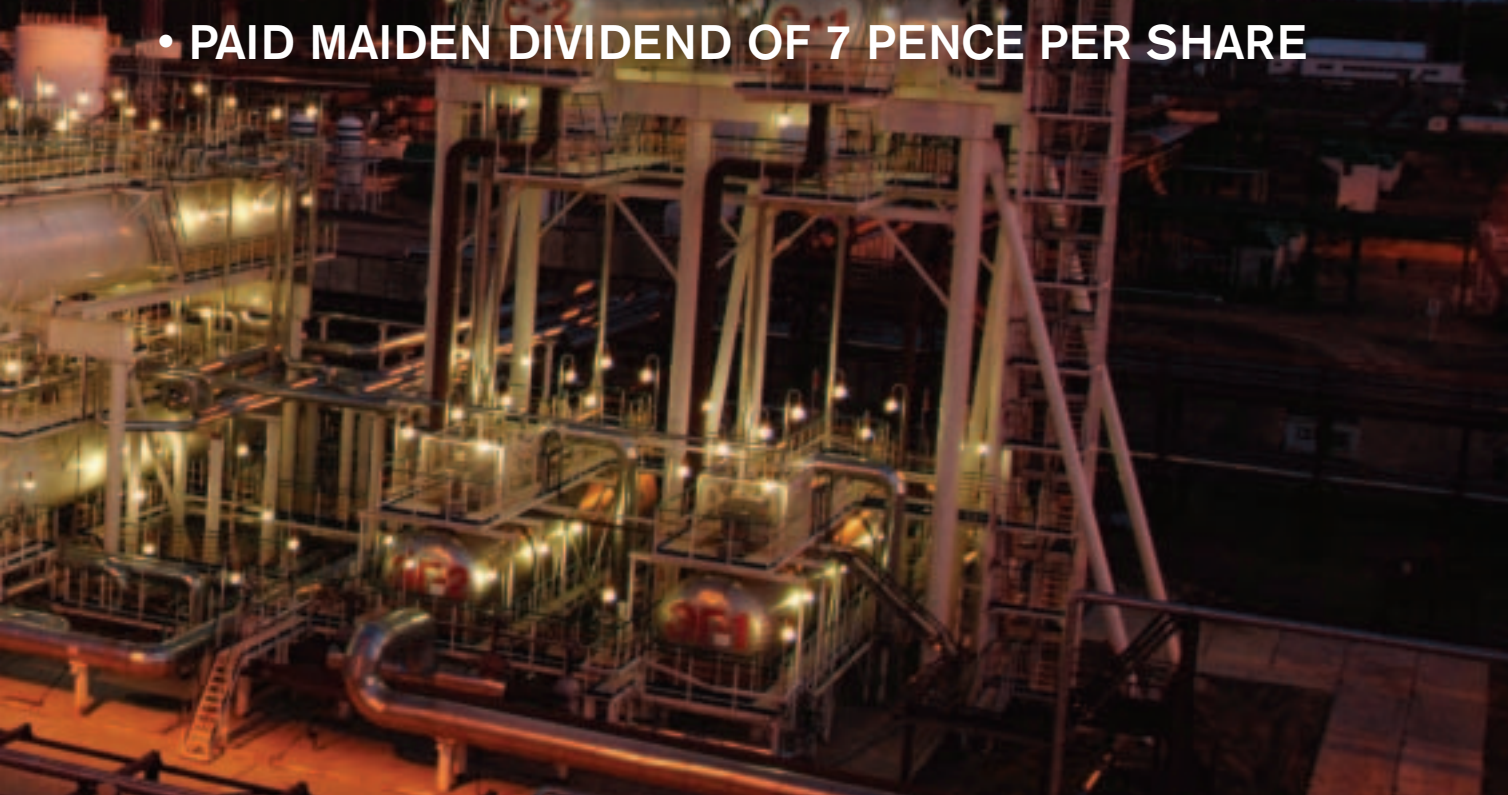


2007 INTERIM PERIOD HIGHLIGHTS

- **TOTAL GROUP PRODUCTION UP 95% TO 7.8 MILLION BARRELS VERSUS EQUIVALENT PERIOD 2006**
- **DAILY GROUP PRODUCTION UP 22% TO 47,180 BOPD DURING THE PERIOD**
- **EBITDA INCREASED 97% TO A RECORD £76.6 MILLION VERSUS EQUIVALENT PERIOD 2006**
- **RECORD NET PROFIT AFTER TAX OF £45.3 MILLION, UP 108% OVER THE EQUIVALENT PERIOD IN 2006**
- **EARNINGS PER SHARE OF 14 PENCE**
- **RECEIVED DIVIDEND OF \$15.1 MILLION FROM BP RETAIL NETWORK IN MOSCOW**
- **SPD NOW GENERATING CASH SURPLUSES AND REPAYING LOANS TO SIBIR**
- **COMPLETED ACQUISITION OF KOLTOGOR EXPLORATION BLOCKS WITH 970 MILLION BARRELS OF C3 RESOURCES**

POST INTERIM PERIOD HIGHLIGHTS

- **COMPLETED ACQUISITION OF 69% IN MOSCOW OIL AND GAS COMPANY, MORE THAN DOUBLING SIBIR'S REFINING CAPACITY AND EXPANDING ACCESS TO 139 PETROL STATIONS IN MOSCOW REGION**
- **ADDED CITY OF MOSCOW, AN IMPORTANT ARM OF THE RUSSIAN STATE, AS 18.03% SHAREHOLDER IN SIBIR THUS SIGNIFICANTLY REDUCING PERCEIVED RUSSIAN RISK**
- **PAID MAIDEN DIVIDEND OF 7 PENCE PER SHARE**



REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE



FROM
WELLHEAD
TO WHEEL

“OVERVIEW OF AN EXCELLENT PERIOD FOR YOUR COMPANY.”

In the annual report for the year to 31st December 2006 we concluded by expressing great confidence that we would report strong performance and exciting developments in the months ahead. The six months to 30th June was indeed a period of strong performance, achievement and industry.

Our colleagues in Sibir's 50% owned Salym Petroleum Development (SPD) drilled 45 wells and brought production from the Salym fields from nearly 64,000 barrels of oil per day (bopd) on 1st January 2007 to nearly 81,000 bopd on 30th June 2007. As we go to print production has reached 95,000 bopd and the average production for the six month period was 73,050 bopd with a total of 13.1 million barrels of oil being produced during the period. 50% of these numbers is attributable to your Company. Looking ahead the most notable developments at Salym will be further drilling and the construction of a 45 megawatt power generation plant which will utilise associated gas and reduce our energy costs and reduce materially the flaring of gas in part compliance with our environmental obligations.

Our 95% owned subsidiary Magma Oil produced an average of 6,861 bopd for a total of 1.24 million barrels of oil produced from the Yuzhnoye field during the period, and Magma's trading unit refined 9.5 million barrels of crude oil and sold 10.95 million barrels of refined oil products.

For the first time we have included the results from our 25% interest in the BP branded gasoline retail network of 48 stations in



**CHAIRMAN
MR. WILLIAM GUINNESS**



**CHIEF EXECUTIVE
MR. HENRY CAMERON**

Moscow and Moscow region. Average sales volume for the network reached 2.6 million litres per day which represents a remarkable performance by any standard. This interest contributed to our financial performance and we received a dividend net of tax of \$15.1 million in September 2007.

We are pleased to inform you that all of these achievements combined to produce a net profit after tax of £45.3 million or 14 pence per share for the half year, a new record for your company. Clearly this augurs well for the second half of the year as growing production, robust oil prices and an expanded trading operation referred to below are expected to build on the success achieved in the first half of the year.

The first six months of 2007 was also the period when we did much of the groundwork to finalise our long term aim to acquire from the City of Moscow a bigger stake in Moscow Oil and Gas Company (MOGC) in which we already held 31.5%. In the event we agreed with the City of Moscow that they should merge their interest in MOGC into Sibir in return for an 18.03% stake in Sibir and \$200 million in cash and this transaction was approved by Sibir shareholders at an Extraordinary General Meeting of shareholders

REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE (CONTINUED)



SUITED-UP AND READY FOR WORK AT SALYM



WELL MAINTENAINCE AT SALYM

on 18th September 2007. Today Sibir owns 100% of MOGC and the City of Moscow is an 18.03% shareholder in Sibir. Your Board is confident that having the City as a shareholder reduces the perceived Russian risk which inhibits the market's valuation of the Sibir shares as partly evidenced by the performance of the share price following announcement of the deal.

During the period we also completed our acquisition of the Koltogor Blocks with their 970 million barrels of C3 (Russian standard) resources as defined in the Group Reserves Summary contained within the Operations Review. We expect to spud the first well there in October followed by a second in December. This development is very significant as it shows clearly that your Company is committed to the replacement of its reserves through the drill bit. We shall keep you informed of progress.

Confident that our production, refining and finished product marketing and gasoline retail sales were in robust growth mode, and on schedule, Sibir management has made ambitious plans

for the further development of your Company. These plans, should they materialise, and we have reasons to believe that this is achievable, will result in the company more than doubling its size in the course of the next 18 months.

Administrative costs for the period were maintained within historic levels. However we recognise that our business has grown to a size that we now require additional personnel and it should be expected that such costs will increase in the future. We are pleased to report that an operating cost review at SPD was completed during the period and that SPD are operating at costs below the reviewed budget.

In our last report we disclosed that we expected to capitalise an element of Sibir Group loans to SPD. That remains our plan but as yet we have not agreed the details with our fellow shareholder, Shell Group. Despite this plan we are delighted to inform you that as of September 2007 SPD plans to start discharging its loan obligations to Sibir and will continue to do so on a very regular

“WE ARE NOW PREPARING TO MOVE FROM AIM TO THE OFFICIAL LIST OF THE LONDON STOCK EXCHANGE.”



MONITORING SAFETY AT SALYM



SALYM PUMPING STATION WORKER

basis. This of course means that SPD is self financing and generating cash surpluses.

During the period there was much press speculation about a growing relationship between Sibir and Gazpromneft. Some of this speculation was inaccurate but we can confirm with conviction that both Sibir and Gazpromneft are committed to finding an acceptable way in which to collaborate together in the conduct of business at Moscow Refinery and we are hopeful that we shall be able to report progress in this respect in the near future.

In our last report we expressed our commitment to the restitution of our impaired value at Sibneft Yugra. Of necessity our plans for this must remain confidential but we wish to assure you this matter is very much alive as far as Sibir is concerned.

Sibir has achieved significant scale and we are now preparing to move from AIM to the Official List of the London Stock Exchange. This will entail bringing MOGC's accounts to IFRS standard, securing

an independent audit of Sibir's reserves according to the Society of Petroleum Engineers (SPE) classification, and making changes to corporate governance procedures for the company. A move to the main list should significantly raise Sibir's profile in the investment world as the company takes its place amongst the leading British companies in the FTSE index.

The Board was pleased to achieve payment of the maiden 7 pence per share dividend on August 16th 2007 and reaffirms its intention to pursue a robust and regular dividend policy in the future. Your Board is proud to present these results to you and to convey to you its confidence that Sibir is about to embark on further expansion which we are determined will be no less successful than our achievements to date.

OPERATIONS REVIEW



GROWTH MODE

“A TOTAL OF 13.1 MILLION BARRELS WERE PRODUCED OF WHICH 5.5 MILLION WERE EXPORTED AND 7.6 MILLION WERE DESTINED FOR THE DOMESTIC MARKET.”

As the Salym project moved into its second full year of commercial operations, production from the fields increased some 27% from nearly 64,000 bopd at the beginning of the year to nearly 81,000 bopd at the close of the first half. Magma focused on future growth as it made preparations to spud the first well at Orekhovskoye and begin exploration activities at Sibir’s newly acquired Koltogor blocks.



CONTROL ROOM AT SALYM

To achieve these results, our field personnel had to overcome many challenges including some of the worst spring flooding on record in West Siberia which led to early closure of winter roads and extensive delays in construction work. Additionally, changes to Russian permitting procedures delayed the launch of new projects by several months. Nonetheless, our field personnel at Salym and Magma found a way to deliver excellent results as you will see below.

Salym Petroleum Development N.V. (SPD)

SPD is Sibir’s 50/50 joint venture between its 100% owned subsidiary Evikhon and Shell Salym Development B.V, a member of the Royal Dutch Shell Group. SPD operates the Salym Group of fields (West Salym, Vadelyp and Upper Salym) in the Khanty-Mansiysk District in West Siberia.

Salym Fields

West Salym, the largest field in the Group continued to be the focus of SPD’s drilling activities with three drilling rigs and 4 service rigs fully engaged on completions and workovers. An additional drilling

rig and service rig were deployed at the Vadelyp field and one service rig was assigned to Upper Salym. Implementation of Shell’s World Class Performance programme contributed to further improvement in all aspects of well engineering. Drilling, well completions and hook up times are at their technical limits while remaining within strict safety guidelines. A 200 tonne mobile drilling rig has been dispatched to drill exploration and appraisal wells in Upper Salym and Vadelyp South and will spud its first well in early October. Construction of infield infrastructure (well pads, infield roads, power lines and flow lines) lagged somewhat due to problems with high water levels and delays in securing permits and approvals, but is currently back on schedule.

Production

Salym continued to ramp up production from 63,880 bopd at the beginning of the year to 80,638 bopd by the end of the period for an average production rate of 73,050 bopd for the first half of the year. A total of 13.1 million barrels were produced of which 5.5 million barrels were exported and 7.6 million barrels were destined for the domestic market. Difficulties with water injection facilities, which slowed production growth beginning in the autumn

OPERATIONS REVIEW (CONTINUED)



AT DUSK, WORK CONTINUES AT SALYM

of 2006, were resolved by April of this year and water injection has returned to the levels sufficient to manage reservoir pressure and reduce voidage.

Capital, Exploration and Abandonment Expenditure

Period capital expenditure for construction projects totalled \$112.2 million and drilling outlays totalled \$69.8 million. Along with exploration expense of \$2.7 million, total spend for the period amounted to \$184.7 million. Accruals for abandonment expense amounted to \$4.5 million. An additional \$159.2 million is budgeted for the second half of 2007.

Operational Highlights

Construction highlights at SalyM included:

- Commencement of construction of 45 MW Power Generation Plant (PGP) with three Gas Turbines;
- Construction of water injection facilities on Upper SalyM and water intake facilities;



HEAVY TRUCKING ON THE COMCOR ROAD

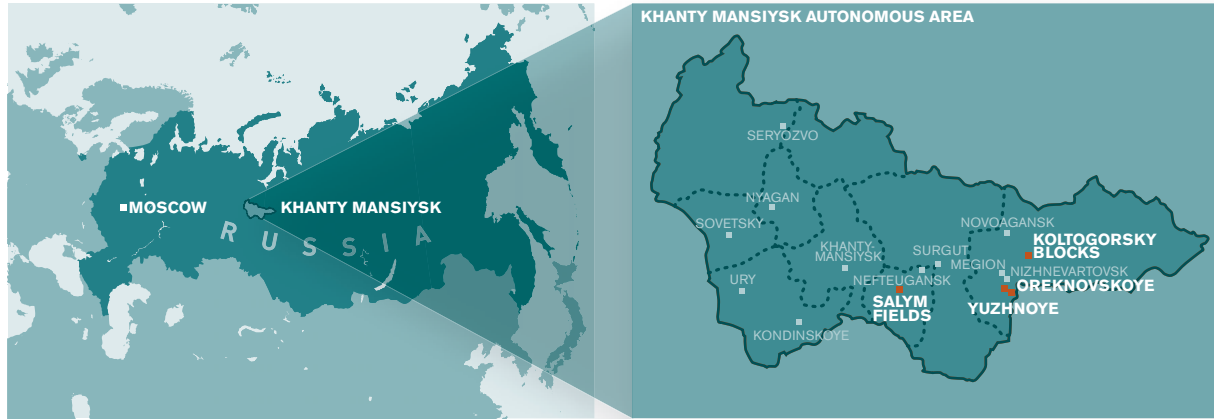
- Continued construction of the custody transfer facilities (CTF);
- Completion of a waste utilisation site on West SalyM;
- Construction of one well pad on Upper SalyM, one on Vadelyp and three on West SalyM with related infield roads, oil and water pipe lines and power lines.

Drilling

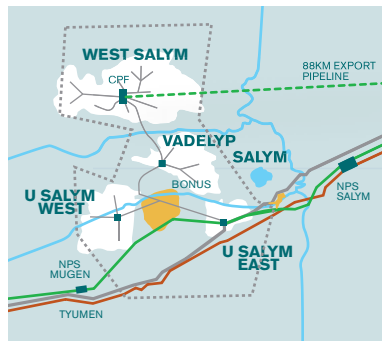
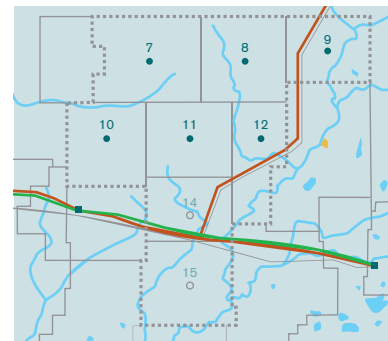
SPD's aggressive drilling program continued apace with four drilling rigs and six service rigs for completions and workovers. The SPD drilling team set a new record for drilling time, completing one well in 6.9 days. For the period a total of 45 wells were drilled, 51 were hooked up and 42 completed. By the end of period 125 wells were on stream. The addition of a 200 tonne mobile drilling rig in September will allow for appraisal and development drilling on smaller pads in Upper SalyM and Vadelyp.

Pilot Achimov Development

A pilot project for development of the Achimov reservoir in West SalyM was launched in the Spring by drilling four producing wells

**KEY**

— OIL TRUNKLINES — GAS TRUNKLINES — MAIN ROADS — ACCESS ROADS ... LICENCE AREAS

■ SALYM FIELDS**■ OREKHOVSKOYE ■ YUZHNOYE****■ KOLTOGORSKY BLOCKS**

and one injector well. Estimated oil in place of Achimov reservoir is in excess of 700 million bbls. The Achimov reservoir is well known in West Siberia for its vertical and lateral heterogeneity and low permeability. All wells will be completed and stimulated before the end of 2007 and pilot production is expected by the end of year.

Power Generation

A contract for the supply of gas turbines for a 45 MW Power Generation Plant (PGP) was executed in April 2006. The first turbine is expected to commence operations in October and the plant is expected to be operating at full power by Q2 2008. When completed the PGP will utilise most of the associated gas from

production and will significantly reduce SPD's reliance on the national electric utility monopoly while minimising flaring of associated gas.

Appraisal and Development

Appraisal and development of the "Bonus" structure prospect (well pad K2) and the K7 area in Upper Salym was approved. Most of the construction work has been done in preparation for spudding the first well in early October with the newly acquired 200 tonne mobile rig mentioned earlier.

OPERATIONS REVIEW (CONTINUED)

Magma Oil Company

Magma Oil Company (95% Sibir owned) holds the licenses for the Yuzhnoye and Orekhovskoe oilfields in Khanty-Mansiysk District of West Siberia. The company's activities for the period focused primarily on the launch of the development of the Orekhovskoe oilfield and, in parallel, continued development of common facilities to serve both Yuzhnoye and Orekhovskoe oilfields.

Yuzhnoye Oilfield

In the first half of 2007 Magma completed drilling two wells on pad 6 and temporarily ceased drilling to commence development of Orekhovskoe.

Production

Production at Yuzhnoye for the first half of 2007 totalled 1,235,009 barrels for an average production rate of 6,861 bopd, from 45 producing wells supported by 17 injectors and 7 water source wells.

Capital Spending

Capital spending for the period totalled \$13.5 million with another \$18.9 million budgeted for the remainder of the year (of which \$12.7 million is targeted for the Orekhovskoye development).

Operational Highlights

Yuzhnoye operational highlights for the first half of 2007 include:

- Completion and commissioning of a second phase of water injection facilities at the Magma Central Processing Facility (CPF);
- 2,549,865 barrels of water injected for reservoir pressure maintenance through 17 water injection wells;
- 5 new wells completed, 27 well workovers and 45 well service jobs performed;

- no lost time through injuries or environmental incidents.

Orekhovskoye Oilfield

In August of 2006 the Russian authorities approved a revised development plan for the Orekhovskoye oilfield that delivers positive economics at oil prices above \$30 a barrel and increases Magma's C1+C2 Russian classification reserves by 54 million barrels. The improved development plan envisages drilling development wells with bigger step-outs which results in fewer well pads and infield infrastructure. Another innovation was to plan for the development of Orekhovskoye as a satellite field of the Yuzhnoye field, utilising a common CPF, and export oil and wet gas pipelines.

Having secured approval of the development plan Magma accelerated the approval and permitting process to commence development works. However, spring flooding and changes to the construction permitting process, as outlined earlier, led to delays of the project's launch until November when Magma expects to spud the first Orekhovskoye well.

Koltogor Exploration Project

In 2006, as part of the company's business development plan, Sibir's upstream team commenced due diligence and evaluation of a group of eight contiguous exploration properties known collectively as the Koltogor blocks. The Koltogor blocks total 2,100 sq km in area and lie 180 kilometers northeast of the city of Nizhnevartovsk and are surrounded by significant producing oilfields including the giant Samotlor field – one of the largest oilfield ever discovered. Subsequent negotiations with the blocks' owners led to purchase of the blocks by Sibir in March of 2007.

The Koltogor blocks benefit from excellent available infrastructure including a paved road, high voltage power lines, Transneft trunk oil pipe line, and a wet gas pipeline all of which cross the blocks' territory.

2,574 km of 2D seismic surveys were acquired and interpreted during the course of 2005 and 2006 and results indicate 39 potential



MOVING HEAVY EQUIPMENT AT SALYM



WATER PIPELINES AT SLYM

hydrocarbon bearing structures with estimated C3 resources of 970 million barrels as defined by Russian categorisation of reserves and resources. According to the terms of the licences Sibir is obliged to drill 8 exploration wells, one for each block, over the next 18 months. Sibir is currently in the process of securing permits and approvals and plans to spud the first well in early October.

Group Reserves Summary

The Group's interests in commercial reserves of oil as of 31 December 2006 are included in the unaudited table below:

RUSSIAN RESERVES CLASSIFICATION (1)

Million barrels	A+B+C1	C2	Total
Magma's Yuzhnoye and Orekhovskoe Oilfields	126	11	137
Salym Group of Fields (50%) (2)	387	156	543
Total	513	167	680

1. RUSSIAN RESERVES ARE CLASSIFIED AS FOLLOWS:

A = RESERVES PROVED AND DEVELOPED IN ACCORDANCE WITH THE DEVELOPMENT PLAN APPROVED BY THE RUSSIAN AUTHORITIES.

B = RESERVES PROVED AND DEVELOPED IN ACCORDANCE WITH EARLY DEVELOPMENT PLAN.

C1 = RESERVES TESTED AND MOSTLY PROVED BUT NOT DEVELOPED.

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.

FINANCIAL REVIEW



**STRONG
PERFORMANCE**

“EXPORT CRUDE PRICES ROSE STEADILY FOR THE FIRST SIX MONTHS OF 2007 AS THE BENCHMARK BRENT PRICE MARCHED STEADILY UPWARD.”

The company’s 2007 interim results are the best in the company’s history and resulted from continued growth in production at Salym, robust crude oil prices, strong refining margins and, for the first time, inclusion of retail earnings from Sibir’s 25% share in the BP-branded petrol station network in Moscow following completion of its acquisition in late December 2006.



THE BP BRAND HAS A STRONG PRESENCE IN THE MOSCOW AREA

In 2007 Sibir presents its financial statements for the first time in accordance with International Financial Reporting Standards (IFRS) as required by the Alternative Investment Market. A summary of the impact of adopting IFRS is detailed at the end of this section and also in Note 14 to the Financial Statements.

Operating Environment

Export crude prices rose steadily for the first six months of 2007 as the benchmark Brent price marched steadily upward from a monthly average of \$53.68/bbl in January to a high of \$71.54/bbl in June. Domestic crude oil prices for the period were lower and more volatile than export prices and bolstered downstream earnings as refining benefited from lower input costs.

Russian Mineral Extraction Tax (MET) and export taxes are set every two months based on the previous two months average prices. In a rising market, those taxes therefore lag behind the rising crude price. Throughout the first six months of 2007 Sibir benefited from this lag effect as MET and export tax calculations trailed rising crude prices.

Crude Oil Production

Compared to the last six months of 2006 Salym production for the period was up 41% to 7.8 million barrels while Magma production held steady at 1.24 million barrels.

Turnover and Cost of Sales (which does not include results of SPD and BP Retail)

Volumes of crude produced by Magma amounted to 1.24 million barrels of which 0.57 million barrels were sold for export. The remaining 0.67 million barrels of Magma production was delivered to the Moscow refinery for processing and eventual sale as oil products. Additionally, Magma purchased 5.0 million barrels of crude on the open market and processed Sibir’s share of SPD domestic crude production (3.86 million barrels) to make up for the remainder of its requirement for the Moscow Refinery. Sales of refined oil products totalled 11.0 million barrels for the period, of which 2.3 million barrels related to Magma’s lower margin oil products reselling business.

FINANCIAL REVIEW (CONTINUED)



MAINTENANCE WORK IS ONGOING AT SALYM

Group Turnover for the first six months of 2007 (excluding the attributable SPD and BP Retail Turnover numbers) increased to £343.4 million which includes £78.4 million from Magma export crude sales and £265 million from sales of refined product, also conducted by Magma. The increase in Turnover is due primarily to increased trading volumes and higher average refined product prices realised during the period at Magma's trading unit.

Gross Profit (which does not include results of SPD and BP Retail)

The Group's Gross Profit in the first six months of 2007 increased to £31.2 million as a result of increased gross margins offset by an increase in production expenses. Production expenses increased to £11.2 million this year due to increased lifting costs offset by a strengthening of the pound of 3%. Per barrel lifting costs in dollar terms increased 35% from \$2.98 in the first half of 2006 to \$4.03 in the first half of 2007 as a result of increased cost inflation for oil treatment expenses, wages, oil field services and electric power.

Administration Expenses (which does not include those of SPD and BP Retail)

The Group's administration and general expenses for the period were £6.7 million compared with £7.6 million for the same period last year, a reduction of 11%. After excluding the effect of foreign exchange movements, the Group's administration expenses have increased by 8% to £6.6 million in the first half of 2007 from £6.1 million for the same period in 2006.

Operating Profit for the period

The Group's Operating Profit before its share of Operating Profit from the SPD and BP Retail joint ventures increased to £24.5 million due primarily to improved refined product prices and margins.

SPD and BP Retail Key Results

Under IFRS we are obliged to account for our interests in SPD and BP Retail in the Share of Income from Joint Venture and Associates line item which means that SPD and BP Retail numbers are not included in the Turnover, Gross Profit and Operating figures referred

“THE GROUP’S GROSS PROFIT IN THE FIRST SIX MONTHS OF 2007 INCREASED TO £31.2 MILLION AS A RESULT OF INCREASED GROSS MARGINS.”



INSIDE THE SALYM PUMP HOUSE



MEDICAL CHECK-UP AT SALYM

to above. However, the importance of these businesses to your Company is such that we wish to provide you with more information.

According to SPD's own accounts turnover was £267.8 million in the first six months of 2007. Gross profit after depletion was £72.7 million for the period and Operating Profit was £48.8 million. Sibir's 50% share of SPD's operating profit is therefore £24.4 million. This figure however has then been adjusted as a result of a reduction in the amortisation charge on the reduced fair value uplift arising under IFRS from the acquisition of Evikhon by Sibir.

After interest and taxation the Group's share of the net profit from SPD is £10.5 million which, when the interest earned on our loans to SPD is added, brings SPD's total contribution to our financial performance to £ 24.5 million.

The Group's interest in its Associate STBP (BP Retail) contributed a share of net profit after interest and taxation of £6.0 million which was then reduced by a £1.7 million amortization charge on the fair value uplift which arose on the acquisition of STBP in December 2006.

EBITDA

The Group's EBITDA for the period from all activities was £76.6 million.

Interest Income

Net interest income for the Group in the first six months of 2007 increased to £13.1 million. This comprises £14 million of interest receivable from the Group's loans to SPD less interest payable on Bank loans which interest was much reduced due primarily to the recapitalisation of the company in April of 2006 following the issue of new shares previously reported.

Taxation

The taxation charge for the period amounted to £7.1 million. This figure comprises profits tax payable by our Russian operating subsidiary Magma of £5.8 million and a provision for deferred tax of £1.3 million.

FINANCIAL REVIEW (CONTINUED)



PANORAMIC VIEW OF OUR MOSCOW REFINERY

Net Profit

Group net profit for the period after interest, taxation and minority interest was £45.3 million.

Balance Sheet

As at 30 June 2007, the Company had net current assets of £89.4 million compared with net current assets of £117.8 million as at 31 December 2006. This has arisen as a result of the acquisition of the Koltgor licence blocks being financed by a short term loan which has been refinanced since the end of the period.

Total assets less current liabilities as at 30 June 2007 was £626.5 million compared with £588.2 million as of 31 December 2006 reflecting the Group earnings for the period.

Total shareholder's equity and minority interest as at 30 June 2007 was £571.2 million compared to £532.2 million as at 31 December 2006 for the same reason as above.

Group cash balances have decreased from £110.7 million as at 31 December 2006 to £94.1 million as at 30 June 2007.

Cash Flow

In the first six months of 2007, the Group recorded a net cash inflow from operating activities of £8.5 million. During the period, the Group financed £9.4 million of capital expenditure in its subsidiary company Magma, made loans totalling £15.8 million to SPD and purchased the Koltgor exploration licence blocks at a cost of £25.2 million.

Analysis of Financial Statements

As we stated at the beginning of this section, our 2007 results are presented under IFRS for the first time. The new IFRS standards also require that Sibir restate its comparative figures to IFRS. In this respect, the comparatives for the first six months of 2006 in this report will differ from those reported last year (under UK GAAP).

The transition to IFRS represents a significant change to Sibir's accounting policies. The full details of the impact of the changes are contained in detail in Note 14.

In understanding the changes, it is important to note that adopting IFRS has no impact on our business strategy which remains consistent with that which we presented in our previously published

“IN THE FIRST SIX MONTHS OF 2007, THE GROUP RECORDED A NET CASH INFLOW FROM OPERATING ACTIVITIES OF £8.5 MILLION.”

Annual Report and Accounts for the year ended 31 December 2006. Adoption of IFRS also does not change the underlying drivers of value in our businesses.

The main accounting changes introduced by IFRS relate to the following:

- restatement of tangible fixed assets, reclassification of exploration and evaluation costs to intangible assets and changes in depreciation expenses;
- eliminating negative goodwill which arose on the acquisition of Magma, with an associated adjustment for deferred tax;
- reversal of fair value adjustments arising on the acquisition of minority shares in Evikhon;
- fair valuing the Group's investments in Mostnefteprodukt and Fortune Oil Plc;
- fair valuing through the Income Statement some of our oil and oil product purchase and sales contracts;
- presentation of certain oil purchase and sale arrangements on a net basis in the Income Statement; and
- re-classification of promissory notes from 'trade and other debtors' to 'cash and cash equivalent' with an associated impact on the Group's cash flow statement.

Impact on period ended 30 June 2006

Earnings per share

For the comparative period to June 2006, these changes increased basic earnings per share by 0.53 pence per share to 8.06 pence per share and increased diluted earnings per share by 0.51 pence per share to 8.04 pence compared to the UK GAAP position.

Profit for the period ended 30 June 2006

Profit for the period ended 30 June 2006 increased by £1.28 million to £21.68 when compared to the UK GAAP position of £20.4 million.

Net assets

Net assets at 30 June 2006 decrease by £135.5 million to £436.1 million. This is primarily due to the reversal of fair value adjustments on the acquisition of the minority shares in Evikhon and the restatement of goodwill calculated on Evikhon minority share acquisitions.

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:

Foreign Currency Policy

Approximately 71% of Sibir's revenue in the first six months of 2007 was received in United States dollars, the balance being received in Russian roubles. 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 not significant.

FINANCIAL REVIEW (CONTINUED)



REFINERY IS GEARED FOR UPGRADE

Sibir continues to transfer funds to and from Russia without incident or impediment.

Interest Rate and Liquidity Policy

The Group finances its operations through its own cash on hand, project finance and trade finance.

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



SIBIR SET TO MORE THAN DOUBLE REFINING CAPACITY THROUGH MOGC DEAL

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
28 September, 2007

Henry O Cameron
Chief Executive Officer
28 September, 2007

UNAUDITED INTERIM CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

	Note	Six months ended 30 June 2007 £000	Six months ended 30 June 2006 £000
Revenue	4	343,423	251,211
Cost of sales		(312,227)	(227,021)
Gross profit		31,196	24,190
Administrative expenses		(6,696)	(7,633)
Other (losses)/gains – net		–	(677)
Operating profit		24,500	15,880
Finance income		18,894	13,547
Finance costs		(5,752)	(8,178)
Share of profit from joint ventures and associates net of interest and taxation		14,766	5,023
Profit before taxation		52,408	26,272
Taxation	6	(7,096)	(4,592)
Profit for the period		45,312	21,680
Attributable to:			
Equity holders of the Company		44,320	20,983
Minority interest		992	697
		45,312	21,680
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in pence per share)			
– Basic	7	13.99	8.06
– Diluted	7	13.97	8.04

The notes 1 to 14 form part of these unaudited consolidated interim financial statements.

UNAUDITED INTERIM CONSOLIDATED BALANCE SHEET

At 30 June 2007

	30 June 2007	31 December 2006	30 June 2006
Note	£000	£000	£000
Assets			
Non-current assets			
Property, plant and equipment	43,759	44,240	42,405
Intangible assets	39,459	12,647	13,184
Investments in joint ventures accounted for using the equity method	33,926	24,262	27,727
Investments in associates	97,226	92,212	–
Available for sale financial assets	12,234	12,539	11,837
Trade and other receivables	308,815	284,535	275,440
	535,419	470,435	370,593
Current assets			
Inventories	17,931	12,523	12,791
Trade and other receivables	128,733	88,164	90,284
Derivative financial instruments	–	–	304
Cash and cash equivalents	94,098	110,744	48,554
	240,762	211,431	151,933
Assets classified as held for sale	1,652	–	–
Total assets	777,833	681,866	522,526
Current liabilities			
Borrowings	9 (124,984)	(68,634)	–
Trade and other payables	(26,333)	(25,013)	(66,873)
Derivative financial instruments	–	–	(126)
	(151,317)	(93,647)	(66,999)
Net current assets	89,445	117,784	84,934
Total assets less current liabilities	626,516	588,219	455,527

At 30 June 2007

	Note	30 June 2007 £000	31 December 2006 £000	30 June 2006 £000
Non-current liabilities				
Borrowings	9	(32,064)	(35,595)	–
Trade and other payables		(8,777)	(6,983)	(6,739)
Deferred income tax liabilities		(12,780)	(11,677)	(11,643)
Provisions		(1,703)	(1,777)	(1,022)
		(55,324)	(56,032)	(19,404)
Net assets				
		571,192	532,187	436,123
Equity				
Capital and reserves attributable to equity holders of the Company				
Called up share capital		31,685	31,685	29,489
Share premium		498,295	498,295	408,278
Other reserves	8	(38,240)	(31,912)	(9,285)
Retained earnings		73,453	29,133	3,650
		565,193	527,201	432,132
Minority interest in equity				
		5,999	4,986	3,991
Total minority interest and shareholders' equity				
		571,192	532,187	436,123

The unaudited consolidated interim financial statements comprising the unaudited interim consolidated income statement, balance sheet, statement of changes in equity and cash flow statement were approved and authorised for issue by the Board of Directors on 27 September 2007 and were signed on its behalf by:

H Cameron
Director

A Betsky
Director

UNAUDITED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total £000	Minority £000	Total £000
At 1 January 2006	8	194,271	110,377	19,100	(189,996)	133,752	3,565	137,317
– Gains on revaluation of available for sale financial assets		–	–	704	–	704	–	704
– Currency translation adjustments		–	–	(29,089)	–	(29,089)	–	(29,089)
– Total income and expense for the period recognised directly in equity		–	–	(28,385)	–	(28,385)	–	(28,385)
– Profit for the period		–	–	–	20,983	20,983	697	21,680
– Total income and expense for the period		–	–	(28,385)	20,983	(7,402)	697	(6,705)
– Shares issued		7,881	297,901	–	–	305,782	–	305,782
– Reduction of share capital		(115,647)	–	–	115,647	–	–	–
– Creation of special reserve		(57,016)	–	–	57,016	–	–	–
– Changes in minority due to share acquisitions		–	–	–	–	–	(271)	(271)
At 30 June 2006 (Unaudited)	8	29,489	408,278	(9,285)	3,650	432,132	3,991	436,123
– Gains on revaluation of available for sale financial assets		–	–	703	–	703	–	703
– Currency translation adjustments		–	–	(23,330)	–	(23,330)	–	(23,330)
– Total income and expense for the period recognised directly in equity		–	–	(22,627)	–	(22,627)	–	(22,627)
– Profit for the period		–	–	–	25,483	25,483	1,269	26,752
– Total income and expense for the period		–	–	(22,627)	25,483	2,856	1,269	4,125
– Shares issued		2,196	90,017	–	–	92,213	–	92,213
– Reduction of share capital		–	–	–	57,016	57,016	–	57,016
– Reversal of special reserve		–	–	–	(57,016)	(57,016)	–	(57,016)
– Changes in minority due to share acquisitions		–	–	–	–	–	(274)	(274)
At 31 December 2006		31,685	498,295	(31,912)	29,133	527,201	4,986	532,187

For the six months ended 30 June 2007

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total £000	Minority £000	Total £000
At 1 January 2007	8	31,685	498,295	(31,912)	29,133	527,201	4,986	532,187
- Losses on revaluation of available for sale financial assets		-	-	(305)	-	(305)	-	(305)
- Currency translation adjustments		-	-	(6,023)	-	(6,023)	-	(6,023)
- Total income and expense for the period recognised directly in equity		-	-	(6,328)	-	(6,328)	-	(6,328)
- Profit for the period		-	-	-	44,320	44,320	992	45,312
- Total income and expense for the period		-	-	(6,328)	44,320	37,992	992	38,984
- Other		-	-	-	-	-	21	21
At 30 June 2007 (unaudited)		31,685	498,295	(38,240)	73,453	565,193	5,999	571,192

UNAUDITED INTERIM CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	Note	Six months ended 30 June 2007 £000	Six months ended 30 June 2006 £000
Cash flows from operating activities			
Cash generated from operations	10	15,859	(32,216)
Interest received		2,220	807
Interest paid		(4,308)	(10,930)
Tax paid		(5,261)	(5,676)
Net cash flow from operating activities		8,510	(48,015)
Cash flows from investing activities			
Purchase of property, plant and equipment		(9,369)	(4,335)
Proceeds from disposal of property, plant and equipment		–	20
Loans to joint ventures		(15,828)	(59,114)
Loans to other entities		(25,188)	4,378
Purchase of intangibles		(25,220)	–
Net cash flow from investing activities		(75,605)	(59,051)
Cash flows from financing activities			
Proceeds from issue of shares		–	305,766
Proceeds from loans		85,872	166,686
Repayment of loans		(35,423)	(322,230)
Net cash flow financing activities		50,449	150,222
Net (decrease)/increase in cash and cash equivalents		(16,646)	43,156
Opening cash and cash equivalents		110,744	5,398
Closing cash and cash equivalents		94,098	48,554

UNAUDITED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Sibir Energy plc ("the Company") is a Company domiciled and incorporated in the United Kingdom under the Companies Act 1985. The address and registered office is 17c Curzon Street, London W1J 5HU.

Sibir Energy plc and its subsidiaries (together "the Group") is involved in oil and gas exploration and production and is also engaged in the refining of oil and the sale of oil and gas products.

The Group's areas of oil and gas exploration and production activity are in the Khanty-Mansiysk Okrug area in Western Siberia in the Russian Federation. The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2006. These consolidated unaudited interim financial statements for the half year ended 30 June 2007 and for the comparative half year ended 30 June 2006 were authorised for issue by the Board of Directors on 27 September 2007.

The information for the year ended 31 December 2006 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

As Sibir Energy plc is an AIM listed entity, the Group is required to prepare consolidated financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union ('IFRS') for periods beginning on or after 1 January 2007. Based on the requirement to present comparative information under IFRS, the mandatory transition date would be 1 January 2006.

The Board has however decided to adopt IFRS early and has elected therefore to bring the date of transition forward to 1 January 2005. The Group has accordingly applied IFRS for the half year ended 30 June 2007 and has prepared 2006 comparative figures on the same basis.

The Group's previous published annual financial statements for the years ending 31 December 2006 and 31 December 2005 were prepared under United Kingdom Generally Accepted Accounting Principles ("UK GAAP").

To assist with the understanding of the impact of transition from UK GAAP to IFRS, the Group has presented the reconciliations of UK GAAP to IFRS as required by IFRS 1, "First time adoption of International Financial Reporting Standards" for 1 January 2005, 30 June 2006 and 31 December 2006 in Note 14.

UNAUDITED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

This report contains the consolidated financial statements for these periods under the basis of preparation and principal accounting policies set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These interim consolidated financial statements have been prepared on the going concern basis in accordance with IFRS and IFRIC interpretations endorsed by the European Union ("EU") and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. These consolidated interim financial statements represent the Group's first application of IFRS.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated interim financial statements, are disclosed in Note 3.

Transitional arrangements

IFRS 1 – First Time Adoption of International Financial Reporting Standards

IFRS 1 requires that an entity developed and applied accounting policies based on the standards and interpretations effective at the date of transition, 1 January 2005.

On transition to IFRS, an entity is generally required to apply IFRS retrospectively, except where an exemption is available under IFRS 1. IFRS 1 allows exemptions from the application of certain IFRSs to assist with the transition process. Accordingly, the Group has made the following accounting treatments on transition.

IFRS 2 – Share-based Payment

The Group has applied the requirements of IFRS 2 "Share-based Payment". In accordance with the transitional provisions of that standard, only those awards that were granted after 7 November 2002 and had not vested at 1 January 2005 are included.

IFRS 3 – Business Combinations

Business combinations prior to 31 December 2004 have not been restated.

Early adoption of accounting standards

The Group as a first time adopter has adopted early (with effect from 1 January 2005) the following standards and interpretations. There has been no significant impact of early adoption on the transition financial statements.

IAS 21 (Amendment) – Net Investment in a Foreign Operation

IAS 39 (Amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions

IAS 39 and IFRS 4 (Amendment) – Financial Guarantee Contracts

IFRS 1 (Amendment) – First-time Adoption of International Financial Reporting Standards

IFRS 6 – Exploration and Evaluation of Mineral Resources

IFRIC 4 – Determining whether an Arrangement contains a Lease

IFRIC 5 – Rights to Interests arising from Decommissioning, Restoration, Environmental Rehabilitation Funds

IFRIC 8 – Scope of IFRS 2 – which requires consideration of transactions involving issuance of equity instruments where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2.

Other standards and interpretations that are not yet effective and have not been early adopted by the Group

The following standards and interpretations to existing standards that are not yet effective have not been early adopted by the Group:

IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007), have not been early adopted in 2006. IFRS 7 introduces new disclosures relating to financial instruments. IFRS 7 will be adopted for the Group's financial statements for the year-ended 31 December 2007.

IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006). IFRIC 7 provides guidance on how to apply requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the Group entities has a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Group's operations.

IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 is not expected to be relevant to the Group's operations because none of the terms of the Group's contracts has been changed. However the Group will continue to monitor changes to contracts in order to assess the application of IFRIC 9.

UNAUDITED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

IFRIC 10 – Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007 but it is not expected to have any impact on the Group's financial statements.

Basis of consolidation

The consolidated financial statements incorporate the results of the Company and its subsidiary undertakings that are directly or indirectly controlled by the Company.

Subsidiaries

Subsidiaries are entities over which the Group has the ability to control the financial and operating policies, either through a shareholding of more than fifty percent of the voting rights, a right to exercise a controlling influence or to obtain the majority of the benefits and be exposed to the majority of the risks. Subsidiaries are consolidated from the date on which control transfers to the Group. They are de-consolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the purchase of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets acquired, any equity instruments issued and liabilities incurred or assumed at the date of acquisition, plus any costs directly attributable to the acquisition. The identifiable assets, liabilities including any contingent liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated as part of the consolidation process. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Associates

Investments where Sibir has significant influence, but not control or joint control, are accounted for as an associate. Significant influence is the power to participate in the financial and operating policy decisions of the investee entity but not control or joint control over those policies.

Financial statements of associates are prepared for the same reporting year as the Group. Where necessary, adjustments are made to those financial statements to bring the accounting policies into line with those used by the Group. Unrealised gains/losses arising from transactions between the Group and associates are eliminated to the extent of the Group's interest in the associates' equity.

In the consolidated financial statements, associates are consolidated using the equity method. The share of earnings recorded in the consolidated financial statements are based on the after tax earnings of the associates. In the income statement, the share of earnings from associates is shown after Operating profit and is stated net of interest and taxation.

The investment in associate is carried in the balance sheet at the Group's share of the fair value of the associate's net assets at the date of acquisition plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value.

Joint Ventures

An investment in a joint venture is where contractual arrangements between two or more participants gives each investee joint control over the business.

Financial statements of jointly controlled entities are prepared for the same reporting year as the Group. Where necessary, adjustments are made to those financial statements to bring the accounting policies into line with those used by the Group. Unrealised gains/losses arising from transactions between the Group and the joint venture are eliminated to the extent of the Group's interest in the joint ventures' equity.

In the consolidated financial statements, joint ventures are consolidated using the equity method. The share of earnings recorded in the consolidated financial statements are based on the after tax earnings of the joint venture. In the income statement, the share of earnings from joint ventures is shown after Operating profit and is stated net of interest and taxation.

Segment reporting

Segment reporting follows the Group's internal reporting structure, and accordingly its primary segment reporting is by business segment. A business segment is engaged in providing products within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments. In the opinion of the directors' the operations of the Group comprise two classes of business:

- Production and sale of crude oil; and
- Sale of refined oil products.

UNAUDITED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Foreign currency translation

Functional and presentation currency

Sibir Energy plc is domiciled in the UK, which is its primary economic environment and the Company's functional currency is Sterling.

Whilst the Group's operations are based in the Russian Federation, the functional currency of the Group's entities is the US Dollar due to the direct or indirect linkage of Oil and Oil Product prices to the US Dollar, even when contracts are priced and settled in Roubles.

Given that the functional currency of the Company is Sterling, management have elected to continue to present the consolidated interim financial statements of the Group in Sterling.

Items included in the financial statements of each of the Group entities are measured using the functional currency of the primary economic environment in which the entity operates. Transactions and balances are converted to the Group's presentational currency on the basis set out below.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange gains or losses arising on the translation of long term monetary assets, where there is no intention to seek repayment for the foreseeable future and the investment is of a long term nature, form part of the Group's investment in the net assets of a foreign operation. The foreign exchange gain or losses arising on translation are recognised as a separate component in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss.

Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments entered into as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Oil and gas assets

Exploration and evaluation

(a) Pre-licence expenditure

Any expenditure incurred relating to exploration and evaluation and similar activities prior to obtaining a field exploration or development licence (or similar rights) are expensed as incurred.

(b) Licence costs

The cost of acquiring an exploration/development licence (or similar rights) are capitalised and classified as an intangible asset. Incidental costs relating to the acquisition of the licence are capitalised as part of the cost of acquisition.

Licence costs will be amortised over the expected remaining life of the licence on a straight line basis from the point that production commences. The licence asset will be subject to impairment review as required by our accounting policy for Impairment.

(c) Exploration and evaluation expenditure

All post licence, pre-production expenditure is capitalised as Exploration and Evaluation costs in the balance sheet either as an intangible or property, plant and equipment ("PP&E") item, depending on the nature of the expenditure. The type of expenditure, which will be capitalised, includes:

- topographical, geological, geochemical and geophysical studies;
- exploratory drilling;
- trenching;
- sampling; and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting the Oil & Gas.

UNAUDITED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

On completion of Exploration and Evaluation of a field, the associated exploration and evaluation assets in property, plant and equipment and any Exploration and Evaluation intangible assets (other than those which can be separately identifiable, such as licences) are reclassified as development and production assets within the property, plant and equipment category at cost less any impairment charged. Exploration and Evaluation is deemed to be completed when proved reserves of oil and natural gas are determined to be commercially viable, technically feasible and development is authorised by management.

(d) Amortisation and depreciation

Intangible exploration and evaluation assets are not subject to amortisation until production commences. Property, plant and equipment that are consumed in developing an intangible Exploration and Evaluation asset are subject to depreciation over their useful economic lives. The depreciation amount reflecting that consumption will be capitalised as part of the cost of developing the intangible exploration and evaluation asset.

(e) Impairment

Exploration and evaluation expenditure is assessed for impairment purposes when facts and circumstances suggest that the carrying amount of exploration and evaluation assets may exceed their recoverable amount on an individual cash generating unit basis in accordance with the principles set out in IAS 36 Impairment of assets. If the prospects of generating commercially viable reserves are subsequently determined to be unlikely on completion of evaluation, the associated costs are expensed in the period in which that determination is made.

Development and production

All capitalised costs associated with developed fields are classified as 'development and production' assets (an individual category within property, plant and equipment) or within intangibles, depending on the nature of the assets. Costs capitalised within development and production assets include items such as the acquisition and installation of production facilities, pipelines, development drilling costs, project related engineering and other technical and services costs.

Development assets are depreciated using either the straight line or unit of production basis:

(a) Straight line basis

Assets whose value is depleted with the passage of time are depreciated on a straight line basis over the asset's expected useful economic life, which can be summarised as follows:

General plant and machinery	4 to 10 years
Pipeline and related equipment	7 to 15 years

Oil and gas treatment facilities	4 to 15 years
Electricity generating assets	7 to 25 years

(b) Unit of production

Assets whose value is depleted in accordance with the volume of production are depreciated on a unit of production basis in the proportion of actual production for the period to the total remaining commercial reserves. Depreciation commences from the commencement of production in the fields concerned. The remaining commercial reserves are those estimated at the end of the period plus production during the period, and are based on proved and probable reserves utilising Russian A, B and C1 reserves classifications. For depletion purposes only, an estimate of the future cost of developing the reserves is included. This estimate is based on a current period estimate and does not allow for future price changes. Changes in these estimates are dealt with prospectively.

Abandonment

Provision for decommissioning of oil and gas facilities is recognised in full at the commencement of field development. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. This is subsequently depreciated based on a unit of production basis. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset. Unwinding of the discount is treated as a finance cost.

Other property, plant and equipment

Other property, plant and equipment include buildings, plant equipment, office equipment and vehicles. These assets are shown at cost less subsequent depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

Plant and machinery	4 to 10 years
Office equipment	3 to 10 years
Motor vehicles	4 to 7 years
Buildings	8 to 25 years

UNAUDITED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, joint venture, or associate at the date of acquisition. Goodwill arising on acquisitions of subsidiaries is included as a separately identified component within Intangible assets. Goodwill arising on acquisitions of joint ventures or associates is included as a component within the category "investments in associates" or "investments in joint ventures".

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. For goodwill arising on acquisition of joint ventures or associates, goodwill is tested for impairment as a component of the total carrying value of each investment. Impairment losses are allocated to goodwill before the Group's share of the underlying assets.

Impairment of intangible assets and property plant and equipment

At each year end, the Group reviews the carrying value of its property, plant and equipment and intangible assets to determine whether any indicators that the assets may have suffered impairment have occurred. Such indicators for example will include significant changes in the technological, market, economic or legal environment in which the Group operates. Where such indicators have occurred a full impairment review is undertaken.

For impairment purposes, assets are grouped together as a cash generating unit (CGU) being the smallest identifiable group of assets that generate cash inflows that are largely independent of other assets. For development and production assets this is typically an individual oil field. An estimate of the CGU's recoverable amount is determined based on the higher of its value in use and its fair value (including disposal costs). Value in use is determined on a discounted cash flow basis.

Inventories

Inventories are stated at the lower of weighted average cost and net realisable value and comprise oil in tanks and pipelines, refined products and spare parts and materials and include costs associated with bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Financial instruments

Derivative financial instruments

The Group enters into contracts for the sale and purchase of oil and oil products. The majority of these contracts are entered into and continue to be held for the purpose of receipt or delivery of the oil or oil products in accordance with the Group's expected sale, purchase or usage requirements. Accordingly, these contracts are not within the scope of IAS 39.

Certain transactions where the Group enters into contracts to purchase oil products from third parties and re-sell this oil to other third parties in return for a fee are within the scope of IAS 39 because they are not for the Group's expected sale, purchase or usage requirements. Such contracts are accounted for as derivatives under IAS 39 and are initially recognised at trade date on the balance sheet at their fair values. Subsequently, the contracts are revalued, with any gains or losses arising recognised in the Income Statement.

Available for sale financial assets

"Available for sale financial assets" are defined by IAS 39: Financial instruments recognition and measurement. These include the Group's listed and unlisted equity investments which are initially recognised at fair value. They are subsequently recognised at fair value with gains and losses arising from changes in fair value recognised directly in equity until the asset is disposed of.

Trade and other receivables

Trade receivables, which generally have 30 day or less terms, are recognised at fair value, which is considered to be the lower of original invoice amount and recoverable amount. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Balances are written off when the probability of recovery is assessed as being remote.

Other receivables include loans made by the Group. Loans are non-derivative financial instruments with fixed or determinable repayment dates and are not quoted on an active market. They do not qualify as trading assets and have not been designated as fair value through the profit and loss account or available for sale. Long term loan assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income where the loans are derecognised as well as through any amortisation.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, bank overdrafts and deposits with banks including short term deposits and other highly liquid investments, which are readily convertible into cash with maturity dates of less than three months on origination. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

UNAUDITED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, for the acquisition of a business are included in the cost of acquisition as part of the purchase consideration. Dividends on ordinary shares are not recognised as a liability or charged to equity until they have been declared.

Current and deferred income tax

The Corporate tax charge represents the sum of tax payable, based on the taxable profit for the year. Deferred income tax is provided in full, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences.

However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Customs duties and sales taxes

Revenues, expenses and assets are recognised net of the amount of customs duties or sales tax except where:

- Revenue from the export of oil and oil products are stated gross of export duties;
- Customs duty or sales tax incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the customs duty or sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables are stated with the amount of customs duty or sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Employee benefits

Pension costs

The Group pays contributions to personal pension schemes of employees, which are administered independently of the Group. The Group has no other obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

Share based compensation

The Group makes equity-settled, share-based payments to certain directors and senior management. These are measured at fair value at the date of grant and are recognised as an expense on a straight line basis over the vesting period of the option using the Group's estimate of the percentage of shares which will eventually vest. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

Provisions and contingent assets and liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, if it is probable that an outflow of resources will be required and the amount of the obligation can be estimated reliably.

A contingent liability is disclosed where the Group has an obligation which will only be confirmed by future events or the amount of the obligation can not be measured with reasonable reliability.

Contingent assets are not recognised, but are disclosed where it is probable that a future inflow of resources will occur.

UNAUDITED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Revenue recognition

Revenue comprises the fair value for the sale of goods and services sold, net of VAT, but gross of export duties. Revenue is recognised when it is probable that the benefits associated with the transaction will flow to the Group and the amounts can be measured reliably.

Revenue associated with the sale of oil, natural gas and refined oil products are recognised when title passes on delivery to the customer. Sales and purchases made as part of an arrangement where physical exchange of oil or oil products occurs with the same or another counter-party and the substance of the transactions are effectively to swap the oil or oil products in different physical locations for the Group's own commercial purposes, are reported net within cost of sales. Where the Group acts as agent for a third party to purchase or sell oil, gas or oil products, revenue is recognised in respect of the Group's fees and not for the full value of the sale.

Oil and gas reserves

The Group's commercial reserves are based on the Russian federal government reserves classification. This is defined as reserves proved and developed, reserves proved but not yet developed and reserves tested and lie within proven and probable. The Group's joint venture Salym Petroleum Development N.V. uses a reserves classification known as "proven, expected and scope for recovery reserves", which is broadly similar.

Leases

Assets held on finance leases and under hire purchase agreements, where the risks and rewards of ownership have been passed to the Group, are capitalised and depreciated in accordance with the Group's property, plant & equipment policy. Finance charges are recognised in the income statement over the term of the lease at a constant effective interest rate.

Operating leases are those leases where the Group does not obtain the significant risks and rewards of ownership. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Minority interests

Minority interests represent the proportion of the net assets or liabilities and income or loss in a subsidiary under-taking, which is not owned by the Group. Minority interests are presented as a separately identifiable component in equity. Where the Group purchases part or all of a minority's interest in a subsidiary, the acquisition is accounted for at cost to the Group, cost being the minority's share of the net assets of the subsidiary at the date of acquisition. Any excess of the cost of acquisition over the value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policies stated in Note 2. In addition, the Group also considers the facts and circumstances surrounding its exploration and evaluation expenditure, property, plant and equipment and intangible assets and whether these suggest that the carrying amount may be impaired. Where necessary a full impairment review will be performed on a cash-generating unit basis.

The recoverable amounts of cash-generating units are determined based on value in use calculations. These calculations require the use of estimates.

Value in use is based on the cash flows expected to be generated by the projected oil or natural gas production profiles up to the earlier of the expected dates of cessation of production or the expected licence termination date of each producing field. The date of cessation of production depends on the interaction of a number of variables, such as the recoverable quantities of oil and gas, the production profile of the field, the cost of the development of the infrastructure necessary to recover the oil and gas, the production costs and the selling price of the oil and gas produced. As each producing field has specific reservoir characteristics and economic circumstances, the cash flows of the fields are computed using appropriate individual economic models and key assumptions agreed by management. These cash flows are then discounted to their present value using an appropriate discount rate.

Oil field and other asset retirement obligations including decommissioning costs

The Group makes full provision for the future cost of decommissioning oil and gas production facilities and related pipelines on a discounted basis upon the installation of those facilities. Provisions for environmental remediation are made when a clean-up is required under the Group's licence obligations, in accordance with Russian state or federal law, or when the requirement is probable and the amount can be reasonably determined.

The provision for the costs of decommissioning and environmental remediation of these production facilities and pipelines at the end of their economic lives has been estimated using existing technology, at current prices increased by forecast future Russian inflation and discounted using a real discount rate of 10% (2006 – 10%). These costs are expected to be incurred over the next 20 to 30 years. While

UNAUDITED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines, there is uncertainty regarding both the amount and timing of incurring these costs. In addition, there is additional uncertainty regarding the scale of any possible environmental contamination, the timing and extent of future corrective actions and changes in Russian state or federal requirements.

Oil and gas reserve estimates

The Group uses the Russian federal government reserves classification for estimating oil and gas reserves for all accounting and reporting purposes. The Russian classification is defined as 'reserves proved and developed, reserves proved but not yet developed and reserves tested and lie within proven and probable'. The Group's joint venture Salym Petroleum Development N.V. uses a reserves classification known as 'proven, expected and scope for recovery reserves', which is broadly similar.

Fair value of non-traded investments

Sibir has a trade investment representing 12.5% of the issued share capital and voting rights in Mostnefteprodukt, a downstream fuels retailing and distribution network in the Moscow region, and a small holding in Fortune Oil Plc, a company listed on the London Stock Exchange. These investments are carried in the balance sheet at their fair value. For Mostnefteprodukt, Sibir estimates the fair value using its estimated net realisable value and estimated value in use using discounted cash flow forecasts and information supplied by market analysts.

Salym Petroleum Development N.V. – Current and deferred taxation

During 2005 the regional tax inspection of Nefteyugansk, Russia, had completed a tax audit of the company's joint venture, SPD. The inspection had assessed SPD with additional tax charges totalling \$12.8 million. Whilst the management of SPD believes that the company is in strict compliance with the Russian tax regulations the company lost its case in the first and second instances in the Khanty-Mansiysk Arbitration Court. The liabilities have been provided for in full during 2006, however, management is to appeal the decision as it believes it has a reasonable chance of winning on the majority of matters.

As at 30 June 2007 \$35 million of losses, of which Sibir's 50% share is \$17.5 million, incurred during the period 2002-2006 by the Moscow branch of the SPD Joint Venture could not be utilised. These losses are not expected to be recoverable as it is unlikely that there will be assessable income generated in the Moscow branch in the foreseeable future against which these losses could be utilised. The tax losses expire after 10 years from the date that they are incurred. Accordingly, no deferred tax asset has been recognised in relation to these expenses.

4. SEGMENTAL INFORMATION

Primary reporting format – business segments

During 2007, the Group operated in two business segments, being those of production and sale of crude oil and sale of refined oil products.

The segment results for the six months ended 30 June 2007 are as follows:

	Sales of crude oil £000	Sales of refined oil products £000	Unallocated £000	Total £000
Segment revenue	78,422	265,001		343,423
Segment profit	(2,764)	33,960	(6,696)	24,500
Finance income			18,894	18,894
Finance costs			(5,752)	(5,752)
Share of profit from JV	10,487			10,487
Share of profit of associate		4,279		4,279
Taxation			(7,096)	(7,096)
Profit/(loss) for the period	7,723	38,239	(650)	45,312

The segment results for the six months ended 30 June 2006 are as follows:

	Sales of crude oil £000	Sales of refined oil products £000	Unallocated £000	Total £000
Segment revenue	16,037	235,174	–	251,211
Segment profit	(3,061)	27,251	(8,310)	15,880
Finance income			13,547	13,547
Finance costs			(8,178)	(8,178)
Share of profit from JV	5,023			5,023
Taxation			(4,592)	(4,592)
Profit/(loss) for the period	1,962	27,251	(7,533)	21,680

UNAUDITED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. DIVIDEND PAID AND PROPOSED

A dividend was paid on the 16 August 2007, to all shareholders on the register at the close of business on the 3 August 2007, of 7 pence per share (2006 – nil) amounting to approximately £22.2 million.

6. TAXATION

Analysis of income tax charge for the period:

	Six months ended 30 June 2007 £000	Six months ended 30 June 2006 £000
Current tax	5,753	4,507
Deferred tax	1,343	85
Tax charge for the period	7,096	4,592

7. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period. The diluted earnings per share includes the potential ordinary shares resulting from the exercise of the share options.

	Six months ended 30 June 2007	Six months ended 30 June 2006
Earnings (£000)	44,320	20,983
Weighted average number of ordinary shares in issue used in basic earnings per ordinary share	316,850,441	260,495,873
Basic earnings per share (pence per share)	13.99	8.06
Weighted average number of ordinary shares in issue used in diluted earnings per ordinary share	317,270,348	260,932,228
Diluted earnings attributable to ordinary shareholders (pence per share)	13.97	8.04

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume the conversion of the share options to ordinary shares. 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 30 June 2007, options under the scheme were outstanding over 575,000 ordinary shares exercisable, with 475,000 exercisable at 100p and 100,000 exercisable at 195p. The market price of the company's share was 432p as at 30 June 2007 (30 June 2006 – 483p).

8. OTHER RESERVES

	Capital redemption reserve £000	Fair value adjustment for other investments £000	Currency translation reserve £000	Total £000
At 1 January 2006	14,396	16	4,688	19,100
Fair value adjustments for				
Available for sale financial assets	–	704	–	704
Currency translation differences on re-translation of net investments and related borrowings	–	–	(29,089)	(29,089)
At 30 June 2006	14,396	720	(24,401)	(9,285)
Fair value adjustments for				
Available for sale financial assets	–	703	–	703
Currency translation differences on re-translation of net investments and related borrowings	–	–	(23,330)	(23,330)
At 31 December 2006	14,396	1,423	(47,731)	(31,912)
Fair value adjustments for				
Available for sale financial assets	–	(305)	–	(305)
Currency translation differences on re-translation of net investments and related borrowings	–	–	(6,023)	(6,023)
At 30 June 2007	14,396	1,118	(53,754)	(38,240)

9. BORROWING AND LOANS

On 8 May 2007, Sibir entered into a term facility agreement for \$50 million from J.P. Morgan Chase Bank NA. The loan bears interest at a rate of Libor + 1.75%. The loan is secured and will be repaid from the \$400 million term facility detailed in the Events after the balance sheet date (Note 13).

UNAUDITED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. CASH GENERATED FROM OPERATIONS

	Six months ended 30 June 2007 £000	Six months ended 30 June 2006 £000
Profit before taxation	52,408	26,272
Less share of profits of joint ventures	(14,766)	(5,023)
Group operating profit excluding share of result of joint ventures	37,642	21,249
Adjustments for:		
– Depletion and depreciation charge for the year	1,786	1,981
– Fair value gains on derivative financial instruments	–	677
– Finance income	(18,894)	(13,547)
– Finance costs	5,752	8,178
Changes in working capital:		
– Inventories	(5,408)	5,880
– Trade and other receivables	(10,810)	(21,810)
– Trade and other payables	5,791	(34,824)
Cash flow from operations	15,859	(32,216)

11. CONTINGENT LIABILITIES AND ASSETS

At 30 June 2007, 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:

CJSC Ridgit

The Company signed a performance obligation guarantee in respect of the loan for 1,300 million roubles (\$50 million) provided by Rosselkhozbank to Ridgit. As at the reporting date the outstanding loan amounted to 625,007,000 roubles (\$24 million). As at the beginning of September 2007 the outstanding loan has been fully repaid by Ridgit to Rosselkhozbank.

Goshel Consultants Limited (Goshel)

The Company reissued a guarantee in respect of the performance obligation on a loan Goshel received from three companies (Stroitranssvyaz, Stal-converter, and Yugo-Zapadnoe Rudoupravlenije). As at the reporting date the outstanding balance amounted to 1,000 million roubles (\$41.6 million). As at the beginning of September 2007 the outstanding balance amounted to 770 million roubles (\$30.1 million).

Salym Petroleum Development N.V.

As at 30 June 2007, \$35 million losses of which Sibir's share is \$17.5 million incurred during 2002–2006 by the Moscow branch of the SPD joint venture could not be utilised. Accordingly, no deferred tax asset has been recognised in relation to these expenses. Further details are shown in Note 3.

12. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

Moscow Oil and Gas Company and its subsidiary undertakings

The Moscow Oil and Gas Company (MOGC) 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 (CFC), shall have equal representation on the Board of MOGC.

Yuri Mikhailovitch Luzhkov, the 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 is Sibir Director, Stuard Detmer.

Loan transactions with the MOGC

In 2006 Magma provided rouble-denominated loans to MOGC of 1,229 million roubles. These loans were provided to help MOGC repay its refinery liabilities as well as to finance administration expenses. All loans were fully repaid as of 30 June 2007.

On 23 March 2007 MOGC provided a loan to Magma of 200 million roubles at an interest rate of 11%. These funds were used to help finance the purchase of crude oil. Loan agreement terms provide for repayment on 23 February 2008.

Salym Petroleum Development N.V.

This is a Joint Venture. The table below details transactions between SPD and other Group companies.

Transaction type & detail:

	30 June 2007 £000	30 June 2006 £000
Loans receivable from SPD (falling due after more than 1 year)	294,343	260,255
Purchases of crude oil for production	29,362	20,370
Purchases of crude oil for resale	83,650	18,997

The loans are interest bearing with interest being charged at the US dollar six month Libor rate plus 5%.

UNAUDITED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. EVENTS AFTER THE BALANCE SHEET DATE

Financial assistance from a minority shareholder

MOGC acquired its interest in Sibneft Yugra when that interest was contributed to MOGC by the Group's subsidiary, Sibenergy in return for its holding of 31.5 per cent. of the ordinary charter capital of MOGC. As the contribution was made in good faith when Sibenergy had no knowledge that the value of its interest in Sibneft Yugra had been impaired, there was no legal obligation on Sibenergy to compensate MOGC for the impairment. Russian accounting standards require MOGC to write down the value of its interest in Sibneft Yugra as a result of the impairment, thus requiring its charter capital to be reduced. This in turn would have adversely affected its financial stability and thus the interests of CFC and Sibenergy as its shareholders. In these circumstances, Sibenergy believed that it had a moral obligation to provide financial assistance to MOGC of such amount as would prevent the reduction in charter capital from occurring to MOGC and that the fulfilment of that obligation would also maintain its relations with CFC and thus the Moscow City Government. Accordingly, having taken the appropriate advice, Sibenergy has paid the sum of US\$102 million to MOGC by way of financial assistance from a minority shareholder.

Completion of the investment in Sibir by the City of Moscow

At an Extraordinary General Meeting of the Company held on 18 September 2007 shareholders approved all the resolutions necessary for the Directors to complete the acquisition of MOGC.

As a result CFC, a company owned by the Moscow City Government, has subscribed for 69,714,254 new ordinary shares in Sibir ("Subscription Shares") in exchange for the transfer of 35,010 common shares in MOGC to Sibir ("Subscription"). The Subscription Shares were admitted to trading on AIM at 8.00 am on 19 September 2007. At the same time, Sibir completed the acquisition of the 7,780 preferred shares in MOGC from CFC in exchange for US\$200 million ("Preferred Shares Acquisition").

As a result of the Subscription and the Preferred Shares Acquisition, Sibir now owns 100% of MOGC, and CFC owns shares in Sibir representing 18.03% of Sibir's issued share capital, as enlarged by the Subscription shares.

On 24 August 2007 Sibir signed a term facility agreement with ING Bank N.V and J.P. Morgan Plc for a value of \$400 million in order to fund the cash element of the transaction, refinance certain other Sibir indebtedness and provide a trading and refining facility.

14. RECONCILIATIONS BETWEEN UK GAAP AND IFRS

The Group reported under UK GAAP in its previously published financial statements for the six months period ended 30 June 2006 and for the year ended 31 December 2006. The analysis below shows a reconciliation of the Group net assets, and profit or (loss) as reported under UK GAAP as at 30 June 2006 and 31 December 2006 to the revised net assets, and profit or (loss) under IFRS as reported in these financial statements. In addition, there is a reconciliation of net assets under UK GAAP to IFRS at the transition date of 1 January 2005 for the Group.

Reconciliation of net assets at 1 January 2005 (Date of transition to IFRS)

	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
Assets				
Non-current assets				
Property, plant and equipment	(a)(b)	23,852	14,719	38,571
Intangible assets	(b)	–	215	215
Investments in joint ventures accounted for using the equity method	(c)(d)	112,119	(56,383)	55,736
Available for sale financial assets		6	–	6
Trade and other receivables		73,346	–	73,346
		209,323	(41,449)	167,874
Current assets				
Inventories		7,250	–	7,250
Trade and other receivables		36,345	–	36,345
Cash and cash equivalents		4,362	–	4,362
		47,957	–	47,957
Total assets		257,280	(41,449)	215,831

UNAUDITED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Reconciliation of net assets at 1 January 2005 (Date of transition to IFRS) (continued)

Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
Liabilities			
Current liabilities			
Borrowings	(28,474)	–	(28,474)
Trade and other payables	(23,866)	–	(23,866)
Derivative financial instruments	–	–	–
	(52,340)	–	(52,340)
Net current liabilities	(4,383)	–	(4,383)
Total assets less current liabilities	204,940	(41,449)	163,491
Non-current liabilities			
Borrowings	–	–	–
Trade and other payables	(23,365)	–	(23,365)
Deferred income tax liabilities	(e) –	(7,080)	(7,080)
Provisions	(1,133)	–	(1,133)
	(24,498)	(7,080)	(31,578)
Net assets	180,442	(48,529)	131,913
Equity			
Capital and reserves attributable to equity holders of the Company			
Called up share capital	192,979	–	192,979
Share premium	69,268	–	69,268
Shares to be issued	2,000	–	2,000
Other reserves	14,396	–	14,396
Retained earnings	(f) (115,376)	(48,495)	(163,871)
	163,267	(48,495)	114,772
Minority interest in equity	(g) 17,175	(34)	17,141
Total minority interest and shareholders' equity	180,442	(48,529)	131,913.

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- (a.1) In the Group's UK GAAP financial statements, the Group's assets were depreciated based on the guidance contained in the *Statement of Recommended Practice: Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities. IAS 16; Property, plant and equipment* contains much stricter requirements for the identification of depreciable pools of assets (components). As a result of the adoption of the stricter requirements outlined in IAS 16, PP&E has increased by £4.4 million.
- (a.2) *IAS 38: Intangible assets* does not permit the recognition of negative goodwill on the balance sheet. As a result, £10.5 million of negative goodwill which arose on the acquisition of Magma and which had previously been recorded as a credit to fixed assets under UK GAAP can no longer be recognised under IFRS and has been written off through retained earnings.
- (b) *IFRS 6: Exploration for and evaluation of mineral resources* requires exploration and evaluation expenditure (E&E) relating to oil fields, where management has not yet taken the decision to commence commercial development, to be classified as an Intangible asset where it meets the definition of an intangible asset under IAS 38. As a result, £0.2 million of E&E costs in relation to the Orekhovskoye field have been reclassified from tangible to intangible assets.
- (c) In accordance with *IAS 12: Income taxes*, £26.4 million of deferred tax liabilities have been recognised in the investment in joint venture in relation to the fair value adjustment on the acquisition of Evikhon in 2000, for which no corresponding tax base exists.
- (d) An adjustment of £30.0 million was made in accordance with *IAS 21: The effects of changes in foreign exchange rates*. This relates to the fair value adjustment on the acquisition of Evikhon in 2000 and requires goodwill and any fair value adjustments to be expressed in the functional currency of the overseas business and translated at the closing rate in the consolidated balance sheet of its parent.
- (e) £7.1 million of deferred tax liabilities have been recognised in respect of the unremitted earnings of subsidiaries, representing the withholding tax that will be suffered when Siber's subsidiaries remit their distributable earnings to the UK and temporary differences arising from PP&E in accordance with *IAS 12: Income taxes*. This liability was not required to be recognised under UK GAAP.
- (f) This adjustment relates to the combined impact of the adjustment explained in (a),(c) (d) and (e) on retained earnings.
- (g) This adjustment reflects the minority interest's share of the impact of adjustment (a) above.

UNAUDITED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Reconciliation of net assets at 30 June 2006

	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
Assets				
Non-current assets				
Property, plant and equipment	(a)(b)	31,587	10,818	42,405
Intangible assets	(b)(c)	(5,154)	18,338	13,184
Investments in joint ventures accounted for using the equity method	(c)	181,696	(153,969)	27,727
Available for sale financial assets	(d)	11,117	720	11,837
Trade and other receivables		275,440	–	275,440
		494,686	(124,093)	370,593
Current assets				
Inventories		12,791	–	12,791
Trade and other receivables	(e)	96,273	(5,989)	90,284
Derivative financial instruments	(f)	–	304	304
Cash and cash equivalents	(e)	42,564	5,990	48,554
		151,628	305	151,933
Total assets		646,314	(123,788)	522,526

	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
Liabilities				
Current liabilities				
Trade and other payables		(66,873)	–	(66,873)
Derivative financial instruments	(f)	–	(126)	(126)
		(66,873)	(126)	(66,999)
Net current assets		84,755	179	84,934
Total assets less current liabilities		579,441	(123,914)	455,527
Non-current liabilities				
Trade and other payables		(6,739)	–	(6,739)
Deferred income tax liabilities	(g)	–	(11,643)	(11,643)
Provisions		(1,022)	–	(1,022)
		(7,761)	(11,643)	(19,404)
Net assets		571,680	(135,557)	436,123
Equity				
Capital and reserves attributable to equity holders of the Company				
Called up share capital		29,489	–	29,489
Share premium		408,278	–	408,278
Other reserves	(c)(h)	71,412	(80,697)	(9,285)
Retained earnings	(h)	58,350	(54,700)	3,650
		567,529	(135,397)	432,132
Minority interest in equity	(j)	4,151	(160)	3,991
Total minority interest and shareholders' equity		571,680	(135,557)	436,123

(a.1) In the Group's UK GAAP financial statements, the Group's assets were depreciated based on the guidance contained in the *Statement of Recommended Practice: Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities. IAS 16: Property, plant and equipment* contains much stricter requirements for the identification of depreciable pools of assets (components). As a result of the adoption of the stricter requirements outlined in IAS 16, PP&E has increased by £0.9 million.

(a.2) *IAS 38: Intangible assets* does not permit the recognition of negative goodwill on the balance sheet. As a result, £10.1 million of negative goodwill which arose on the acquisition of Magma and which had previously been recorded as a credit to fixed assets under UK GAAP can no longer be recognised under IFRS and has been written off through retained earnings.

UNAUDITED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- (b) *IFRS 6: Exploration for and evaluation of mineral resources* requires exploration and evaluation expenditure (E&E) relating to oil fields, where management has not yet taken the decision to commence commercial development, to be classified as an Intangible asset where it meets the definition of an intangible asset under IAS 38. As a result, £0.2 million of E&E costs in relation to the Orekhovskoye field have been reclassified from tangible to intangible assets.
- (c.1) During 2005, Sibir acquired the remaining minority interest in Evikhon through two separate transactions. Under UK GAAP, the acquisition of the minority interest resulted in the requirement to revalue Evikhon's net assets to fair value at the date of the acquisition of the minority. These two transactions also resulted in the recognition of negative goodwill and positive goodwill respectively, where were calculated as the difference between the purchase consideration, and the fair value of the minority interest acquired.
- Under IFRS, the revaluation of net assets of Evikhon is not permitted, and accordingly the revaluation has been reversed. In addition, the negative goodwill has been written off as it is not permitted to be recognised under IFRS, and the positive goodwill has been calculated based on the carrying value of the minority interest at the date of acquisition, rather than the fair value. The impact of these adjustments is as follows:
- The £102.2 million revaluation to fixed assets was reversed against Other reserves (£83.8 million) and against minority interest (£18.4 million – representing the minority's share of the revaluation);
 - The negative goodwill which arose of £10.4 million has been written off to retained earnings;
 - Reversal of £3.0 million of depreciation, depletion and amortisation;
 - An additional £7.9 million of positive goodwill has been recognised;
 - The release of negative goodwill of £0.3 million, and the amortisation of positive goodwill of £0.1 million has been reversed against retained earnings.
- (c.2) In accordance with *IAS 12: Income taxes*, £28.2 million of deferred tax liabilities have been recognised in the investment in joint venture in relation to the fair value adjustment on the acquisition of Evikhon in 2000, for which no corresponding tax base exists.
- (c.3) An adjustment of £26.6 million was made in accordance with *IAS 21: The effects of changes in foreign exchange rates*. This relates to the fair value adjustment on the acquisition of Evikhon in 2000 and requires goodwill and any fair value adjustments to be expressed in the functional currency of the overseas business and translated at the closing rate in the consolidated balance sheet of its parent.
- (d) *IAS 39: Financial Instruments: Recognition and Measurement* requires that financial assets be identified and classified using specified criteria. Sibir's assessment is that its investments in Mosnefteproduct and Fortune Oil plc meet the criteria to be classified as Available for sale financial assets (called "Other Investments" under UK GAAP). In line with IAS 39 these assets are recorded at fair value, rather than historic cost as per UK GAAP, with changes in the fair value recorded in equity. The increase in fair value of these investments of £0.7 million has been recorded, with a matching credit to Other reserves.
- (e) Sibir has reviewed the classification of cash deposits held as security in respect of certain promissory notes with the value of £6.0 million. These deposits have been reclassified from Trade and other receivables to Cash and cash equivalents in line with treatment of short term deposits set out in *IAS 7: Cash flow Statements*.
- (f) *IAS 39: Financial Instruments: Recognition and Measurement* requires that certain forward commodity contracts, which do not meet the definition as being for own use are accounted for as derivative financial instruments, which are accounted for at their fair value through the income statement. Accordingly IAS39 requires the recognition of the fair value of these future contracts as assets (valued at £0.3 million) and liabilities (valued at £0.1 million) on the balance sheet.
- (g) £11.6 million of deferred tax liabilities have been recognised in respect of the unremitted earnings of subsidiaries, representing the withholding tax that will be suffered when Sibir's subsidiaries remit their distributable earnings to the UK and temporary differences arising from PP&E in accordance with *IAS 12: Income taxes*. This liability was not required to be recognised under UK GAAP.
- (h) This adjustment is due to the impact on retained earnings arising from the IFRS transition adjustments set out above combined with the reclassification of currency translation adjustments arising on consolidation to the cumulative translation adjustment reserve, which forms part of Other reserves in the IFRS balance sheet.
- (j) The adjustment reflects the effect of the change on minority interest as a result of the adjustments discussed in (d), (f), and (g) above.

Reconciliation of profit for the six months period ended 30 June 2006

	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
Revenue	(a)	265,790	(14,579)	251,211
Cost of sales	(b)	(240,123)	13,102	(227,021)
Gross profit		25,667	(1,477)	24,190
Administrative expenses		(7,633)	–	(7,633)
Other gains/(losses) – net	(c)	–	(677)	(677)
Operating profit		18,034	(2,154)	15,880
Finance income		13,547	–	13,547
Finance costs		(8,178)	–	(8,178)
Share of profit from joint ventures	(d)	1,505	3,518	5,023
Profit before taxation		24,908	1,364	26,272
Taxation	(e)	(4,508)	(84)	(4,592)
Profit for the period		20,400	1,280	21,680
Attributable to:				
Equity holders of the Company		19,603	1,380	20,983
Minority interest	(f)	797	(100)	697
		20,400	1,280	21,680
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in pence per share)				
– basic		7.53	0.53	8.06
– diluted		7.53	0.51	8.04

(a) Sibir enters into "locational swap contracts" where they sell produced oil in the Siberian market and purchase an equivalent volume of oil in Moscow for its refining needs. This arrangement results in a saving of transportation costs between Siberia and Moscow. Under UK GAAP, the sale and purchase were presented on a gross basis. Under IAS 18: Revenue, these transactions are required to be shown net in cost of sales. This change in revenue recognition resulted £14.6 million of revenue being reclassified to cost of sales.

(b.1) Refer to item (a) above.

(b.2) Reversal of £0.1 million of amortisation of Goodwill as IFRS does not permit the amortisation of Goodwill.

(b.3) Increased depreciation expense of £1.4 million as a result of the adoption of IAS 16: Property, plant and equipment.

(b.4) The release of £0.2 million of negative goodwill has been reversed.

(c) The recognition of certain forward commodity derivatives at fair value through the income statement in line with IAS 39: Financial instruments; Recognition and measurement results in an increase in Other gains/(losses) of £0.7 million.

UNAUDITED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- (d.1) Reversal of depletion, depreciation and amortisation expense of £2.4 million resulting from the reversal of the fair value adjustment in the SPD joint venture, which was not permitted to be recognised under IFRS.
- (d.2) Recognition of £1.1 million of deferred taxes in the share of profit from joint venture in relation to the fair value adjustment on the acquisition of Evikhon in 2000 in accordance with *IAS 12: Income taxes*.
- (e.1) A deferred tax liability has been recognised in respect of the withholding tax leakage that will be paid when Sibir's subsidiaries remit their distributable earnings to the UK.
- (e.2) A deferred tax liability of £0.1 million has been recognised in respect of the recognition of certain forward commodity derivatives at fair value (adjustment (c) above)
- (f) The minority's share on the profit for the year has been reduced by £0.1 million to reflect the net impact to profit arising from adjustments (b.2) and (c) set out above.

Reconciliation of cash flows for the six months period ended 30 June 2006

	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
Cash flows from operating activities				
Cash generated from operations	(a)	(38,206)	5,990	(32,216)
Net cash flow from operating activities	(a)	(54,005)	5,990	(48,015)
Cash flows from investing activities				
Net cash flow from investing activities		(59,051)	–	(59,051)
Cash flows from financing activities				
Net cash flow financing activities		150,222	–	150,222
Net increase in cash and cash equivalents	(a)	37,166	5,990	43,156
Opening cash and cash equivalents	(a)	5,398	–	5,398
Closing cash and cash equivalents		42,564	5,990	48,554

- (a) The sole adjustment relates to the effect of reclassifying cash deposits held as security in respect of promissory notes with the value of £5.9 million from Trade and other receivables to Cash and cash equivalents. This reclassification has been made as *IAS 7: Cash flow statements* permits a wider range of short term deposits to be classified as cash and cash equivalents than UK GAAP permitted.

Reconciliation of net assets at 31 December 2006

	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
Assets				
Non-current assets				
Property, plant and equipment	(a)(c)	45,310	(1,070)	44,240
Intangible assets	(b)(c)(d)	(14,830)	27,477	12,647
Investments in joint ventures accounted for using the equity method	(d)	181,844	(157,582)	24,262
Investments in associates		92,212	–	92,212
Available for sale financial assets	(e)	11,117	1,422	12,539
Trade and other receivables		284,535	–	284,535
		600,188	(129,753)	470,435
Current assets				
Inventories		12,523	–	12,523
Trade and other receivables		88,164	–	88,164
Cash and cash equivalents		110,744	–	110,744
		211,431	–	211,431
Total assets		811,619	(129,753)	681,866
Liabilities				
Current liabilities				
Borrowings		(68,634)	–	(68,634)
Trade and other payables		(25,013)	–	(25,013)
		(93,647)	–	(93,647)
Net current assets		117,784	–	117,784
Total assets less current liabilities		717,972	(129,753)	588,219

UNAUDITED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Reconciliation of net assets at 31 December 2006 (continued)

	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
Non-current liabilities				
Borrowings		(35,595)	–	(35,595)
Trade and other payables		(6,983)	–	(6,983)
Deferred income tax liabilities	(f)	–	(11,677)	(11,677)
Provisions for other liabilities and charges		(1,777)	–	(1,777)
		(44,355)	(11,677)	(56,032)
Net assets		673,617	(141,430)	532,187
Equity				
Capital and reserves attributable to equity holders of the Company				
Ordinary shares		31,685	–	31,685
Share premium		498,295	–	498,295
Other reserves	(g)	14,396	(46,308)	(31,912)
Retained earnings	(h)	124,033	(94,900)	29,133
		668,409	(141,208)	527,201
Minority interest in equity	(i)	5,208	(222)	4,986
Total minority interest and shareholders' equity		673,617	(141,430)	532,187

- (a) In the Group's UK GAAP financial statements, the Group's assets were depreciated based on the guidance contained in the *Statement of Recommended Practice: Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities. IAS 16: Property, plant and equipment* contains much stricter requirements for the identification of depreciable pools of assets (components). As a result of the adoption of the stricter requirements outlined in IAS 16, PP&E has decreased by £0.7 million.
- (b) *IAS 38: Intangible assets* do not permit the recognition of negative goodwill on the balance sheet. As a result the £9.7 million of negative goodwill which arose on the acquisition of Magma has been written off through retained earnings. The £0.1 million amortisation of positive goodwill (goodwill is not amortised under IFRS) has been reversed to retained earnings.
- (c) *IFRS 6: Exploration for and evaluation of mineral resources* requires exploration and evaluation expenditure (E&E) relating to oil fields, where management has not yet taken the decision to commence commercial development, to be classified as an Intangible asset where it meets the definition of an intangible asset under IAS 38. As a result, £0.4 million of E&E costs in relation to the Orekhovskoye field have been reclassified from tangible to intangible assets.

(d.1) During 2005, Sibir acquired the remaining minority interest in Evikhon through two separate transactions. Under UK GAAP, the acquisition of the minority interest resulted in the requirement to revalue Evikhon's net assets to fair value at the date of the acquisition of the minority. These two transactions also resulted in the recognition of negative goodwill and positive goodwill respectively, where were calculated as the difference between the purchase consideration, and the fair value of the minority interest acquired.

Under IFRS, the revaluation of net assets of Evikhon is not permitted, and accordingly the revaluation has been reversed. In addition, the negative goodwill has been written off as it is not permitted to be recognised under IFRS, and the positive goodwill has been calculated based on the carrying value of the minority interest at the date of acquisition, rather than the fair value.

The impact of these adjustments is as follows:

- The £102.2 million revaluation to fixed assets was reversed against Other reserves (£83.7 million) and against minority interest (£18.4 million – representing the minority's share of the revaluation);
- Reversal of £2.9 million of depreciation, depletion and amortisation;
- An additional £8.1 million of positive goodwill has been recognised;
- The negative goodwill of £9.5 million has been written off to retained earnings;
- The release of negative goodwill of £0.3 million has been written off to retained earnings.

(d.2) In accordance with *IAS 12: Income taxes*, £27.3 million of deferred tax liabilities have been recognised in the investment in joint venture in relation to the fair value adjustment on the acquisition of Evikhon in 2000, for which no corresponding tax base exists.

(d.3) An adjustment of £31.0 million was made in accordance with *IAS 21: The effects of changes in foreign exchange rates*. This relates to the fair value adjustment on the acquisition of Evikhon in 2000 and requires goodwill and any fair value adjustments to be expressed in the functional currency of the overseas business and translated at the closing rate in the consolidated balance sheet of its parent.

(e) *IAS 39: Financial instruments: Recognition and measurement* requires that financial assets be identified and classified using specified criteria. Sibir's assessment is that its investments in Mosneftproduct and Fortune Oil plc meet the criteria to be classified as Available for sale financial assets (called "Other Investments" under UK GAAP). In line with *IAS 39: Financial instruments: Recognition and measurement* requirements these assets are reported at fair value rather than historic cost as per UK GAAP. The increase in fair value of these investments of £1.4 million has been recorded, with a matching credit to Other reserves.

(f.1) £11.6 million of deferred tax liabilities have been recognised in respect of the unremitted earnings of subsidiaries, representing the withholding tax that will be suffered when Sibir's subsidiaries remit their distributable earnings to the UK and temporary differences arising from PP&E in accordance with *IAS 12: Income taxes*. This liability was not required to be recognised under UK GAAP.

(f.2) This adjustment recognises the tax impact of the fair value adjustment arising from the derivative commodity contracts discussed above in (e), and results in an increase in the deferred tax liability of £0.1 million.

(g) This adjustment is due to the impact on Other reserves arising from the IFRS transition adjustments set out above combined with the reclassification of £46.3 million of currency translation adjustments arising on consolidation to the cumulative translation adjustment reserve, which forms part of Other reserves in the IFRS balance sheet from retained earnings.

(h) This is the cumulative effect of the adjustments (a), (b), (d), (f) and (g) set out above, which impact on the current and prior year retained earnings of the group.

(i) The adjustment reflects the effect of the change on minority interest as a result of the adjustments discussed in (a), (d) and (f) above.

UNAUDITED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Reconciliation of profit for the year ended 31 December 2006

	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
Revenue	(a)	604,620	(33,093)	571,527
Cost of sales	(b)	(542,535)	30,269	(512,266)
Gross profit		62,085	(2,824)	59,261
Administrative expenses		(15,678)	–	(15,678)
Other gains/(losses) – net	(c)	–	(855)	(855)
Operating profit		46,407	(3,679)	42,728
Finance income		27,880	–	27,880
Finance costs		(11,482)	–	(11,482)
Share of profit from joint ventures	(d)	(1,763)	3,592	1,829
Profit before taxation		61,042	(87)	60,955
Taxation	(e)	(12,112)	(411)	(12,523)
Profit for the year		48,930	(498)	48,432
Attributable to:				
Equity holders of the Company	(f)	46,802	(336)	46,466
Minority interest	(f)	2,128	(162)	1,966
		48,930	(498)	48,432

Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in pence per share)

– basic	16.81	(0.13)	16.68
– diluted	16.77	(0.11)	16.66

(a) Sibir enters into "locational swap contracts" where they sell produced oil in the Siberian market and purchase an equivalent volume of oil in Moscow for its refining needs. This arrangement results in a saving of transportation costs between Siberia and Moscow. Under UK GAAP, the sale and purchase were presented on a gross basis. Under IAS 18: Revenue, these transactions are required to be shown net in cost of sales. This change in revenue recognition resulted £33.1 million of revenue being reclassified to cost of sales.

(b.1) Refer to item (a) above.

(b.2) Reversal of £0.1 million of amortisation of Goodwill as IFRS does not permit the amortisation of Goodwill.

(b.3) Change in depreciation expense arising as a result of the adoption of IAS 16: Property, plant and equipment results in an increase in depreciation charge of £2.3 million.

(b.4) The release of £0.7 million of negative goodwill has been reversed.

(c) The recognition of certain forward commodity derivatives at fair value through the income statement in line with IAS 39: Financial instruments: Recognition and measurement results in an increase in Other gains/(losses) of £0.9 million.

- (d.1) Reversal of £2.3 million of depletion, depreciation and amortisation expense resulting from reversal of fair value adjustment in SPD joint venture's accounting book value
- (d.2) Recognition of deferred taxes in the share of profit from joint venture in relation to the fair value adjustment on the acquisition of Evikhon in 2000 (of £1.3 million), as required by IAS 12.
- (e.1) A deferred tax liability has been recognised in respect of the withholding tax leakage that will be paid when Sibir's subsidiaries remit their distributable earnings to the UK.
- (e.2) A deferred tax liability amount of £0.1 million has been derecognised in respect of the recognition of certain forward commodity derivatives at fair value (adjustment (c) above).
- (f) The minority's share on the profit for the year has been reduced by £0.1 million to reflect the net impact to profit arising from adjustments (b.3) and (c) set out above.

Reconciliation of cash flows for the year 2006

	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
Cash flows from operating activities				
Cash generated from operations	(a)	136	(8,354)	(8,218)
Net cash flow from operating activities	(a)	(25,116)	(8,354)	(33,470)
Cash flows from investing activities				
Net cash flow from investing activities		(78,426)	–	(78,426)
Cash flows from financing activities				
Net cash flow financing activities		208,888	–	208,888
Net increase in cash and cash equivalents	(a)	105,346	(8,354)	96,992
Opening cash and cash equivalents	(a)	5,398	8,354	13,752
Closing cash and cash equivalents		110,744	–	110,744

- (a) The sole adjustment relates to the effect of reclassifying cash deposits held as security in respect of promissory notes with the value of £8.4 million from Trade and other receivables to Cash and Cash equivalents in 2005. This reclassification has been made as IAS 7: *Cash flow statements* permits a wider range of short term deposits to be classified as Cash and Cash equivalents than UK GAAP permitted.

UNAUDITED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. PUBLICATION OF THE INTERIM STATEMENT

The interim statement is being sent to shareholders and is available on the Company's website www.sibirenergy.com.

Review by Qualified Person

The technical information and opinions in relation to the Company's operations and reserves presented in this announcement have been reviewed by Pavle Uroda, the Chief Upstream Operations Officer for Sibir. Mr Uroda is a Professional Petroleum Engineer (Croatia) and is a member of the Society of Petroleum Engineers.

INDEPENDENT REVIEW REPORT TO SIBIR ENERGY PLC

We have been instructed by Sibir Energy plc (the company) to review the financial information for the six months ended 30 June 2007 which comprises the interim condensed consolidated balance sheet and the related interim condensed consolidated income statement, cash flow statement, and statement of recognised income and expenses and related notes 1 to 14. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 'Review of Interim Financial Information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority.

As disclosed in note 1, the next annual financial statements of the group will be prepared in accordance with those IFRSs adopted for use by the European Union. This interim report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" and the requirements of IFRS 1, "First Time Adoption of International Financial Reporting Standards" relevant to interim reports.

The accounting policies are consistent with those that the directors intend to use in the next financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRSs adopted for use by the European Union.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of Interim Financial Information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2007.

CORPORATE DIRECTORY

Directors

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

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Andrew Harrison

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In England and Wales
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