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COMPANIES HOUSE 10/06/99

Copies of this report are available at the Company's registered office at 44 Davies Street, London, W1Y 1LD and have been sent to shareholders.

Directors, Company Secretary and Advisers

Directors	David G. M. Boyd CBE (*Non-executive Director and Chairman*) Robert K. M. Kennedy (*Chief Executive*) Daniel D. Clark-Lowes (*Director and Exploration Manager*) Sheikh Ahmed Abdul Rahman Banafa (*Non-executive Director*) Jonathan G. F. Cooke OBE (*Non-executive Director*) Sheikh Mohamed Farid Al Aulaqi (*Non-executive Director*) Mary Ann J. P. Lutyens (*Non-executive Director*)
Company Secretary and Registered Office	Ian Wilson 44 Davies Street London W1Y 1LD
Nominated Adviser and Nominated Broker	HSBC Investment Bank plc Vintners Place 68 Upper Thames Street London EC4V 3BJ
Legal Adviser to the Company	Michael K.I. Kennedy, Barrister 1 New Square Lincoln's Inn London WC2A 3SA
Auditors	Arthur Andersen 1 Surrey Street London WC2R 2PS
Principal Bankers	Midland Bank plc 79 Piccadilly London W1V 0EV Banque Paribas (Suisse) SA 2 Place de Hollande 1211 Geneva Switzerland
Registrars	IRG plc Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU

Notice of Meeting

NOTICE IS HEREBY GIVEN that the first Annual General Meeting of the Company will be held at Vintners Place, 68 Upper Thames Street, London, EC4V 3BJ, on 14th May 1999 at 10:30 a.m. for the purpose of transacting the ordinary business of the Annual General Meeting consisting of the following Ordinary Resolutions.

Ordinary Business

1 To receive and consider the Statement of Accounts for the year ended 31 December 1998 and the reports of the Directors and Auditors thereon.

2 To re-elect as a director of the company Daniel D. Clark-Lowes who retires in accordance with Article 93 of the Articles of Association.

3 To re-elect as a director of the company Sheikh Ahmed Abdul Rahman Banafa who retires in accordance with Article 88 of the Articles of Association.

4 To re-elect as a director of the company Sheikh Mohamed Farid Al Aulaqi who retires in accordance with Article 88 of the Articles of Association.

5 To re-elect as a director of the company David G. M. Boyd who retires in accordance with Article 88 of the Articles of Association.

6 To re-elect as a director of the company Mary Ann J. P. Lutyens who retires in accordance with Article 88 of the Articles of Association.

7 To re-elect as a director of the company Jonathan G. F. Cooke who retires in accordance with Article 88 of the Articles of Association.

8 To appoint Arthur Andersen as Auditors and authorise the Directors to fix the remuneration of the Auditors.

Dated this 20th day of April, 1999

BY ORDER OF THE BOARD
Ian Wilson
Secretary Ian Wilson.

Registered Office:
44 Davies Street, London, W1Y 1LD.

Notes:

1 A member entitled to attend and vote at the above Meeting is entitled to appoint a proxy to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.

2 Forms of proxy to be valid must be received at the Company's Registrars, IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the time of the holding of the Meeting.

3 There are no Contracts of Service required to be made available for inspection.

David G. M. Boyd, Chairman

Chairman's Statement

Dear Shareholder,

This is Anglo Siberian's first Annual Report as a public company and I extend a warm welcome to our new shareholders. In June 1998 the Company placed 15.4 million shares and raised £13.8 million net after deduction of the expenses of the placing. The Company's shares were then admitted for trading on the Alternative Investment Market of the London Stock Exchange. Anglo Siberian acts as operator and is the major partner with a 54% holding in Yeniseyneft. Yeniseyneft is a Russian Joint Venture vehicle which holds a combined exploration and production licence for the undeveloped Vankor oil and gas field located in the north eastern part of the West Siberian Petroleum Basin, and is working with Shell and Russian partners to secure the development of this field.

Results

The company is in a pre-development phase and accordingly capitalises expenditure related to its operational activities. However, until such time as the funds raised on the placing are used in operations, the proceeds are placed on interest bearing deposit in Sterling and US Dollars. The income arising therefrom amounts to £255,139. After deducting all uncapitalised expenses the company made a profit before taxation of £41,320. The Directors are not recommending a dividend at this stage in the Company's development.

In the year ended 31 December 1998 Anglo Siberian repaid loans of £3.0 million and spent £1.5 million on its activities in Russia. This expenditure (which is net of Shell's contributions to the Vankor project of £3.2 million) has been capitalised on the balance sheet. The unutilised funds are held in sterling and US dollars on deposit with Midland Bank in London. Anglo Siberian does not have material amounts of currency in the Russian banking system and has minimal rouble-denominated assets. The Company's net cash balance at the year end was £9.5 million.

Operational review

The political and financial difficulties which Russia is experiencing have had the effect of uniting Russian political opinion on the need for direct foreign involvement in large scale projects. Consequently there continues to be strong support for the Vankor project from the Russian authorities.

The Duma has passed two major laws to enable production sharing agreements to operate successfully in Russia. This legislation provides an acceptable legal framework for long-term involvement in oil field development in Russia. However, detailed regulations controlling the administration of production sharing agreements are still required. These are under discussion.

In February 1997, the Duma agreed that 26 major natural resource projects including Vankor would be eligible in principle for production sharing agreements. The approval of each project by a sub-committee of the Duma, the Conciliation Commission, is required, followed by legislation in respect of that project. After such approval the government will set up a commission to negotiate a production sharing agreement with Anglo Siberian and our partners.

In 1998, Anglo Siberian has concentrated most of its efforts on the Vankor project, the core of its strategy, as set out in its placing document. The seismic data acquired in April and May 1998 on the Vankor field and the contiguous areas covered by the Northeast Vankor exploration licence have been interpreted and have confirmed our estimates of Vankor oil reserves of 870 million barrels. In the summer, we completed a detailed study of alternative pipeline routes from the Vankor Field. Our preferred route to the north is shown to be technically and financially feasible.

Prospects

The Company continues to evaluate new projects in the area of the Vankor field and elsewhere in Siberia. However, in the current environment of very low oil prices we will proceed with the utmost caution before taking on any new commitments. Our policy is to conserve our financial resources.

In 1999 the main thrust of our activities is to pursue the conclusion of a production sharing agreement for the Vankor field. Towards the end of 1999, we look forward to beginning the programme of detailed appraisal drilling on the field, with Shell being responsible for meeting those costs.

The Company is fortunate to have the services of a small but expert team led by Robert Kennedy. They have formed excellent relations with our partners and official representatives. This is of great importance in the environment in which we work. As we saw last year with the surveys of pipeline routes to the Arctic Ocean and the investigation of oil terminal locations, their pursuit of progress for the Vankor project takes them to remote areas of Northern Siberia. Their hard work and enthusiasm for the Vankor project underpins our confidence for its eventual success.

22 March 1999

David G. M. Boyd
Chairman

Robert K. M. Kennedy,
Chief Executive

Daniel D. Clark-Lowes,
Director and
Exploration Manager

Background information

Anglo Siberian presently holds a 54% interest in Yeniseyneft, a Russian joint venture vehicle which holds an exploration and production licence over the Vankor oil and gas field and surrounding area, a total of 1,625 square kilometres in Krasnoyarsk Kray, Siberia. The Vankor licence is located in the north eastern part of the Western Siberian Petroleum Basin (shown on Maps on page 7). Three local Russian partners hold a combined 46% interest in Yeniseyneft.

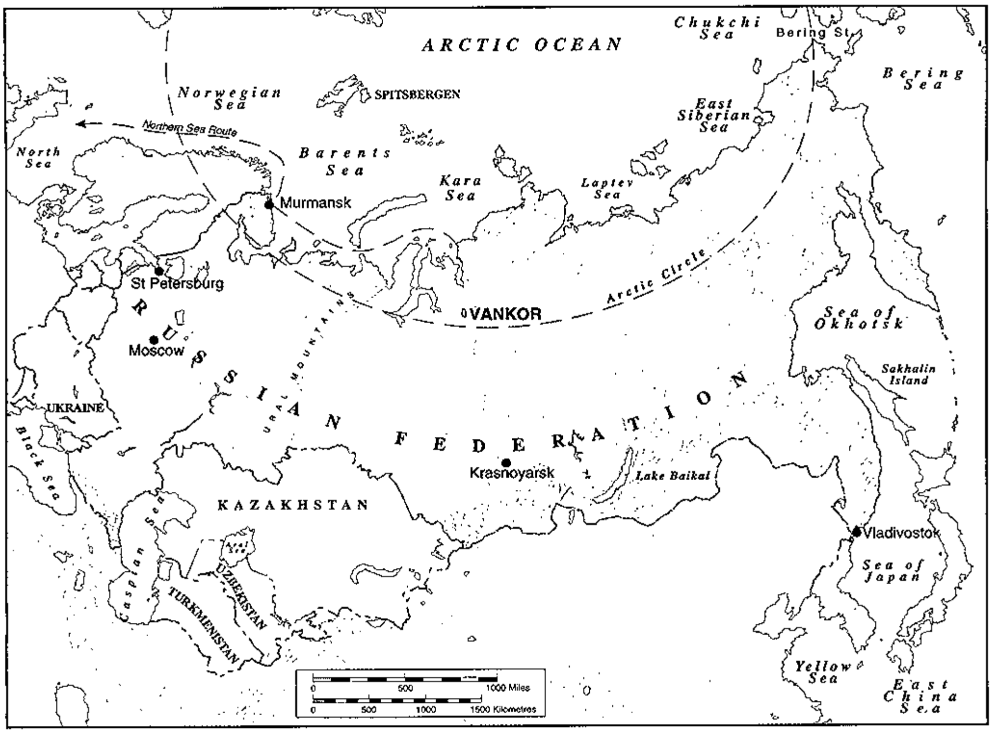
The Vankor field has estimated recoverable reserves of 870 million barrels of oil and 2.27 trillion cubic feet of gas. There are also undrilled prospects and leads in the Vankor Licence Area. Yeniseyneft holds an exploration licence over the contiguous area in Taymyr Autonomous Okrug. This Northeast Vankor Area covers 1,025 square kilometres. It has not been drilled but is likely to contain an extension of the Vankor field.

Anglo Siberian acts as operator for these licences. Shell has purchased from Anglo Siberian an option to acquire a 44% interest in the Joint Venture. Shell pays all evaluation and appraisal costs incurred in Russia on these licences and also pays its pro rata share, 81%, of Anglo Siberian's management and technical costs incurred in connection with these licences.

Anglo Siberian and Shell have formed Areas of Mutual Interest (AMI) which cover an area of over 26,000 square kilometres around the area of the two licences. In these AMI (shown on Map on page 7) the companies will together seek further exploration and production licences. Anglo Siberian is currently operator and will take a 20% interest in any future licences while Shell will take 80%. Both companies will reduce their interests to allow appropriate Russian participation.

The Vankor field is located approximately 500 kilometres north east of the existing West Siberian oil export system. Anglo Siberian, Shell and our Russian partners have completed studies which demonstrate that it is feasible to build an oil pipeline to connect the Vankor field to this existing system. We have also made detailed technical and commercial studies of alternative routes to the Arctic Ocean. These studies demonstrate that a pipeline to a dedicated oil export terminal with associated oil storage on the Arctic Ocean is technically and commercially feasible and this is our preferred option. There are other undeveloped oil fields in the area. Their oil reserves could be exported using the planned Vankor oil pipeline and terminal.

Yeniseyneft has an exploration and production licence, valid until 2017, which permits it to appraise, develop and produce oil and gas from the Vankor field and the licence area subject to the terms of the licence and to current Russian laws and regulations and the current Russian fiscal regime. However, Yeniseyneft is seeking a production sharing agreement which would provide fixed legal and fiscal conditions to govern the development and operation of the Vankor field and any other fields found on the Vankor Licence Area.

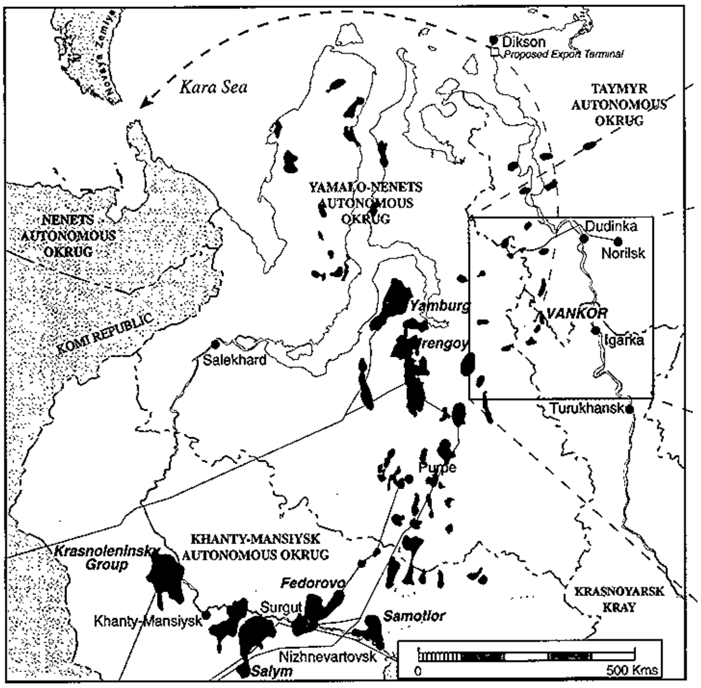


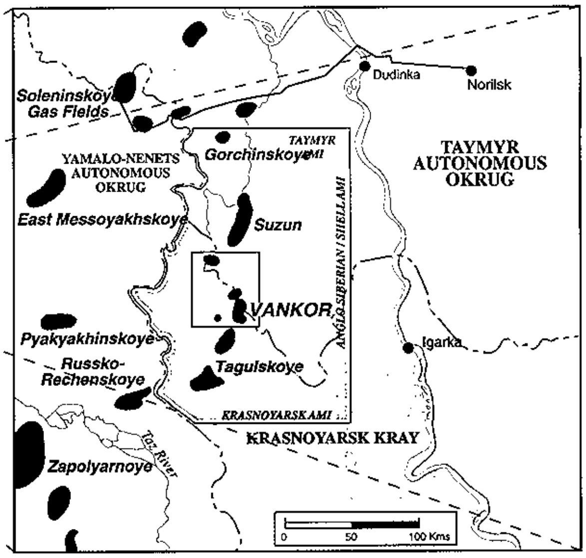
Russian Federation

Showing the Western Siberian Basin and the location of Vankor

LEGEND

- Western Siberian Basin
- Vankor Exploration and Production Licence
- NE Vankor Exploration Licence
- Oil & Gas field
- Oil field
- Gas/Condensate field
- Prospect (Vankor Licence)
- Existing gas pipeline
- Existing oil pipeline
- Possible northern oil pipeline route
- Northern sea route for export of Vankor oil





Area of Anglo Siberian Activity

Western Siberian Basin

Principal oil and gas fields and pipeline infrastructure. The most likely export pipeline route from the Vankor Field is shown

Vankor Area

Vankor Field and surrounding region showing Vankor licences, Shell / Anglo Siberian Areas of Mutual Interest (AMI) and the Norilsk Gasprom pipeline system

Anglo Siberian's strategy

Our strategy remains as described in our placing document issued in June 1998. Indeed, the current environment of low oil prices, world wide cut-backs in the oil industry and economic difficulties in Russia support our strategy. We believe that a giant oil field developed in association with surrounding oil fields and a dedicated oil export system to world markets will be profitable in foreseeable circumstances, provided that appropriate contractual arrangements are in force.

In pursuit of our strategy:

(i) we plan to achieve a production sharing agreement which has the flexibility to protect the Vankor project against long periods of low oil prices but still allows the Vankor project a fair share of the upside when oil prices improve;

(ii) we are working to reduce the planned capital and operating costs of the Vankor project;

(iii) we are continuing to plan for other oil fields in the area to be tied in to the proposed Vankor pipeline system; and

(iv) we wish to acquire interests in one or more of these fields.

Production Sharing Legislation in Russia

Production sharing agreements take the place of conventional oil concession agreements. An oil concession agreement allows an oil company to develop fields and produce oil subject to paying royalties (in cash or oil) and taxes on profits. A production sharing agreement allows an oil company to develop fields and produce oil according to detailed arrangements agreed between the oil company and the host government. Some oil production is taken as royalty by the government, some is classified as "cost-recovery oil" and taken by the oil company to repay its costs, and the balance is classified as "profit oil" and divided between the host government and the oil company on an agreed basis. A production sharing agreement provides fixed terms for both parties.

The Russian Federal Law on Production Sharing Agreements was passed in 1995 and sets out the basic principles applying to these agreements. This law was not sufficient to allow production sharing agreements to work satisfactorily although it sets out the framework.

The new government of Mr. Primakov firmly supports foreign direct investment in the natural resource sector and considers that a system of production sharing agreements is the optimum method of obtaining this. In January 1999, the Federal Law on Amendments to the Federal Law on Production Sharing Agreements was passed. This law amends the 1995 law and puts in place a favourable regime for production sharing agreements.

In February 1999, the Federal Law on Amending and Supplementing Russian Federal Legislation pursuant to the Federal Law on Production Sharing Agreements was passed. This law has amended twelve pre-existing Russian laws which were in conflict with the production sharing legislation.

Detailed regulations governing accounting, foreign exchange and other financial matters are still required. These are under discussion and indications are that the Russian government wishes to put into place regulations which will be acceptable to the oil industry and will allow production sharing agreements to operate successfully in Russia.

Vankor Production Sharing Agreement

Anglo Siberian, Shell and our Russian partners are ready to begin negotiations with the Russian authorities on a Production Sharing Agreement (PSA) to govern the Vankor project. However Russian law requires that the Duma must give its approval before an oil field with reserves of 25 million tonnes or more is awarded a PSA. In February 1997, twenty-three large oil and gas fields (and three mineral deposits) were approved in principle. Subsequently legislation has been passed approving seven of these twenty-six projects. The remaining nineteen, including the Vankor field, are currently going through the approval process. The approval of a specialist sub-committee of the Duma is first required, then the passage of specific legislation approving each project. We and our partners are doing all that we can to ensure that Vankor is approved as soon as possible. The Russian authorities will then set up a commission to negotiate a PSA with the Vankor group to govern the Vankor project.

Operations on the Vankor licence

During 1998 we made good progress in field operations. In May we completed our fourth seismic survey over the Vankor area. We acquired 262 kilometres of 2D seismic data over the northern part of the Vankor field, the undrilled north Vankor prospect and the contiguous area in the Northeast Vankor Area. This data has been processed and is of excellent quality giving a more thorough seismic coverage over this region. The interpretation has been completed and has confirmed our previous estimates of the recoverable reserves on the Vankor field in the Vankor Licence Area.

During the summer, a detailed environmental survey was carried out over the Vankor Licence Area, providing an environmental baseline prior to the forthcoming drilling operations.

In addition, we completed our survey of alternative pipeline routes from the Vankor field. Our preferred route has been confirmed as technically and commercially feasible – crossing the Yenisey River due north of the Vankor Field and then running up the east bank of the Yenisey River to a terminal near Dikson, a total of 730 kilometres. A satellite image of this route is shown on the back cover of this Annual Report. We have also made a detailed evaluation of the optimum sites for the terminal and associated oil storage and have chosen a preferred site. Total expenditure by Shell in relation to the Vankor project during 1998 exceeded the level budgeted at the time of our placing document.

Development planning

Work is progressing towards an appraisal drilling programme expected to begin on the Vankor field in the winter of 1999/2000. A pre-qualification and tender process is underway to contract a rig. The preferred site of the oil export terminal and associated oil storage will be further investigated by means of shallow core drilling during 1999.

In current economic conditions an independent oil export route is especially attractive and would be a valuable long-term asset. We plan to maximise the use of Russian goods and services where their cost efficiency is comparable with imported supplies. We have undertaken a study of Russian suppliers.

New opportunities in the Vankor area

In the area around Vankor there are oil fields which are unlicensed and others which are licensed to Russian oil companies. These fields require further appraisal. They could then be developed and tied in to the proposed Vankor pipeline system. There are also undrilled prospects. Our technical team is continuing a thorough evaluation of these fields and prospects.

We expect that Anglo Siberian, Shell and the Russian partners will apply for a combined production and exploration licence over the Northeast Vankor Area (where Yeniseyneft presently holds an exploration licence). We will only undertake new commitments after the most careful consideration.

Other Opportunities

We have completed the first phase of our technical evaluation of a possible joint venture with Norilsk Gasprom. Norilsk Gasprom produces gas for the local market from gas fields 160 kilometres north of the Vankor field. We have determined that incremental gas production could be obtained from existing wells at low cost. We have not yet initiated commercial negotiations.

We are working with a leading geological research institute in Moscow to compile regional maps of producing and prospective horizons across the entire Western Siberian Petroleum Basin. This will enable us to evaluate opportunities in a regional context. We continue to acquire detailed information on selected areas of West Siberia and have evaluated a number of fields in which interests are available.

Report of the Directors for the Year to 31 December 1998

The Directors present their annual report and audited financial statements for the year ended 31 December 1998 for Anglo Siberian Oil Company plc and its subsidiaries ("the Group").

Principal activities

The principal activities of the Group are the development and production of oil and gas reserves. The Group operates through subsidiary undertakings, details of which are set out in Note 9 to the financial statements. The principal area of activity is in the Western Siberian Petroleum Basin of Russia.

Business review and future developments

Anglo Siberian Oil Company plc was incorporated on 5 May 1998 and on 23 May 1998 a group reorganisation was undertaken which has enabled the group to adopt merger accounting under Financial Reporting Standard No. 6. Further details of the re-organisation are stated in Note 9 to the financial statements. In June 1998 the Company placed 15.4 million shares and raised £13.8 million net after deduction of the expenses of the placing. The Company's shares were then admitted for trading on the Alternative Investment Market of the London Stock Exchange. A more detailed review of the Group's activities during the year and likely future developments are set out in the Chairman's Statement and the Review of Activities.

Results and dividends

The Group is in a research and development period where no trading income is generated. Following the successful AIM listing in June 1998 the Group has generated interest income on funds raised in the placing that have not yet been used in the activities of the Group. After deducting all uncapitalised corporate overheads and tax, a profit of £25,126 (1997 – £nil) remains for the period. The directors do not recommend the payment of a dividend.

Share capital

Details of increases in issued share capital during the year, amounting to 36,289,820 ordinary shares, are set out in Note 14 to the financial statements.

Directors and their interests

The Directors who served during the period are as follows:

Robert K. M. Kennedy	(appointed 5 May 1998)
Daniel D. Clark-Lowes	(appointed 5 May 1998)
Sheikh Ahmed Banafa	(appointed 7 May 1998)
David G. M. Boyd	(appointed 7 May 1998)
Jonathan G. F. Cooke	(appointed 7 May 1998)
Sheikh Mohamed Farid	(appointed 7 May 1998)
Mary Ann J. P. Lutyens	(appointed 7 May 1998)

Details of the present Directors of the Company are set out on pages 17 and 18. In accordance with the Articles of Association Daniel D. Clark-Lowes, Sheikh Ahmed Banafa, Sheikh Mohamed Farid, David G. M. Boyd, Mary Ann J. P. Lutyens and Jonathan G. F. Cooke retire from the Board and being eligible offer themselves for re-election. The unexpired term of the service contract with Daniel D. Clark-Lowes, who is retiring and offering himself for re-election is six months. The Non-Executive Directors do not have service contracts.

With the exception of the loan stated in Note 12 to the financial statements, there were no other significant contracts, other than Executive Directors' contracts of service, in which any Director had a material interest during the year.

The interests of the Directors who held office at 31 December 1998 (including persons connected with them within the meaning of Section 346 of the Act) in the issued share capital of the Company which have been notified to the Company pursuant to Sections 324 and 328 of the Act as they appear in the Register of Directors' Interests maintained by the Company under Section 325 of the Act were at 31 December 1998:

Directors	**Ordinary shares at beginning of year**[3]	**Ordinary shares movement during the year**[4]	**Ordinary shares at end of year**	**Percentage of issued share capital**
Robert K. M. Kennedy	955,407	–	955,407	2.6%
Daniel D. Clark-Lowes[2]	125,000	15,000	140,000	0.4%
Sheikh Ahmed Banafa	7,520,314	–	7,520,314	20.7%
Sheikh Mohamed Farid				
– directly held	3,910,570	–	3,910,570	10.8%
– beneficial holding[1]	3,464,858	(840,405)	2,624,453	7.2%

(1) Held by The Falcon Trust Company Limited (as trustee for The Falcon Settlement of which the family of Sheikh Mohamed Farid are beneficiaries).

(2) Daniel D. Clark-Lowes has been conditionally allocated 140,000 Shares under the Anglo Siberian Oil Company Trust and the table above gives his beneficial holding in Anglo Siberian, should the conditions be satisfied. The Trust was established from shares provided by the founding shareholders for present and future employees and consultants of the Group to reward those who have made, and who are continuing to make, a major contribution to the Group's development. At 31 December 1998 the Trust owned 1,050,000 (1997 – 1,045,186) ordinary shares of the Company, which it acquired for nil consideration. 910,000 shares were conditionally gifted or put under option to employees during the year (1997 – nil).

(3) Ordinary shares held within Anglo Siberian Oil Company Holdings Limited ("Holdings") which was previously the parent company of the Group.

(4) On 6 May 1998, Sheikh Mohamed Farid's beneficial shareholding was reduced by the transfer of 835,593 shares to a third party for nil consideration and by the transfer of 4,812 shares to the Anglo Siberian Oil Company Trust ("the Trust"). On 6 May 1998, the Director of the Trust allocated an additional 15,000 shares of Anglo Siberian Oil Company plc to Daniel Clark-Lowes, thus bringing his total conditional shareholding to 140,000. On 23 May 1998, pursuant to the reorganisation described in note 9, the directors shown above exchanged each one of their shares in Anglo Siberian Oil Company Holdings Limited for an equivalent number of shares in Anglo Siberian Oil Company plc prior to the placing on the Alternative Investment Market.

Details of Directors' share options are set out below.

Directors	Share options at beginning of year	Share options granted during the period being the total at end of year	Exercise price	Exercise dates
Robert K. M. Kennedy	–	525,000	107.5p	30 June 2000 – 30 June 2008
Daniel D. Clark-Lowes	–	105,000	107.5p	30 June 2000 – 30 June 2008

No share options lapsed during the period.

Substantial shareholdings in the Company

As of the date of this report the following were the holders of 3% or more of the Company's issued Ordinary Share capital as it was constituted on that date according to the register kept pursuant to Section 211 of the Companies Act 1985:

		Ordinary shares of 25p each	Percentage of issued share capital
Directors			
Sheikh Ahmed Banafa		7,520,314	20.7%
Sheikh Mohamed Farid	– directly held	3,910,570	10.8%
	– beneficial holding *	2,624,453	7.2%
Other			
Amvescap		2,000,000	5.5%
Royal London Asset Management Limited		2,000,000	5.5%
Schroder Investment Management Limited		2,000,000	5.5%
James Capel Investment Management Limited		1,400,000	3.9%
Murray Johnstone Unit Trust Management Limited		1,400,000	3.9%
Apax Partners		1,200,000	3.3%
Framlington Investment Management Limited		1,170,000	3.2%

* Held by The Falcon Trust Company Limited (as trustee for The Falcon Settlement of which the family of Sheikh Mohamed Farid are beneficiaries).

The Directors have not been made aware of any other beneficial shareholdings of three per cent or more of the issued share capital as of the date of this report.

Year 2000

Anglo Siberian is fully aware of the Year 2000 problem and all computer systems and microprocessor reliant equipment on which the Group's operations are significantly dependent have been reviewed to ensure they are Year 2000 compliant. In addition, suppliers have also been contacted to ensure that no disruption to supply will occur as a result of this problem.

No material costs have been incurred, or are anticipated, arising therefrom.

Health and safety at work

It is Company policy to ensure that a full health and safety programme is in force throughout the Group. During 1998 the directors adopted a formal statement of the policy and have since reviewed its application. The Directors are satisfied that the policy they have set is operating satisfactorily.

Payment of suppliers

The Group's policy is to agree payment terms with individual suppliers and to abide by such terms.

The total amount of trade creditors falling due within one year at 31st December, 1998, represents 43 days worth as a proportion of the total amount invoiced by suppliers during the year ended on that date (1997 – 66 days).

Donations

The Group did not make any political or charitable donations during the year or the previous year.

Auditors

The Directors will place a resolution before the annual general meeting to re-appoint Arthur Andersen as auditors for the ensuing year.

CORPORATE GOVERNANCE

Compliance

Anglo Siberian Oil Company plc complied with the relevant paragraphs of the Code of Best Practice throughout 1998. Consideration has been given to the following:

The Board

The Board of Anglo Siberian Oil Company plc consists of a Non-Executive Chairman, four further Non-Executive Directors and two Executive Directors. Biographies of the Directors are set out on pages 16 – 17. The Board meets at least six times each year and holds other meetings as and when required. It is responsible for Group strategy and policy, finance and material acquisitions and disposals. Certain matters have been delegated by the Board to specific committees.

Responsibilities of Chairman and Chief Executive

The Board has shown its commitment to dividing responsibilities for running the board and running the company's business by appointing David G. M. Boyd as non-executive Chairman and naming Robert K. M. Kennedy as Chief Executive.

Board appointments

In the Board's view the appointment in the period of David G. M. Boyd, Mary Ann J. P. Lutyens, Jonathan G. F. Cooke, Sheikh Mohamed Farid and Sheikh Ahmed Banafa showed how the Board follows formal procedures when appointing directors. In particular the views and recommendations of the Corporate Advisers were sought and followed.

Audit Committee

The Audit Committee consists of the five Non-Executive Directors under the chairmanship of Mary Ann J. P. Lutyens and meets at least twice a year, with the Chief Executive and Financial Controller in attendance as appropriate. The committee reports to the Board on all aspects of financial reporting and accounting policy and reviews the Group's financial statements. There are opportunities for the members of the committee to meet privately with the auditors.

Remuneration Committee

The Remuneration Committee consists of the five Non-Executive Directors under the chairmanship of David G. M. Boyd. The committee is responsible for recommending to the Board the terms of employment for Executive Directors and certain senior employees, their remuneration and any grants of share options. The committee's report is set out on pages 19 and 20.

Timeliness and quality of board information

The Board has sought to ensure that directors are properly briefed on issues arising at board meetings by establishing procedures for: distributing board papers one week in advance of meetings; considering the adequacy of the information provided before making decisions; adjourning meetings or deferring decisions when directors have concerns about the information available to them; having a standing agenda item to consider the timeliness and quality of information and making the company secretary responsible to the board for the timeliness and quality of information.

Internal financial control

In applying the principle that the board should maintain a sound system of internal control to safeguard shareholders' investment and the Group's assets, the directors recognise that they have overall responsibility for ensuring that the group maintains a system of internal control to provide them with reasonable assurance regarding effective and efficient operations, internal financial control and compliance with laws and regulations. However, there are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance.

The Directors are required to conduct a review of the effectiveness of the group's system of internal control. The Directors have performed such a review but have limited it to internal financial controls, as permitted by the London Stock Exchange, pending publication of guidance for directors.

Going concern

After making enquiries, the Directors have a reasonable expectation of maintaining adequate resources for the Group's business and consider that the Group can continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors' responsibilities

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period. In preparing those accounts, the directors are required to: select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; and state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

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

Dialogue with Institutional shareholders

The Directors seek to build on a mutual understanding of objectives between the company and its institutional shareholders.

Annual General Meeting

Following the successful AIM listing in June 1998 the board will seek to use the Annual General Meeting to communicate with private and Institutional investors and encourage their participation.

On behalf of the Board

Robert K. M. Kennedy
Director

44 Davies Street
London
W1Y 1LD

22 March 1999

Directors

The board comprises two executive and five non-executive Directors.

David G. M. Boyd, *CBE, BA, Non-executive Director and Chairman (Age 63)*

David Boyd has worked for 35 years in the oil industry. From 1963 to 1973, he worked in overseas marketing management for Shell International Petroleum Company Limited. In 1973, he took over management of the newly formed North Sea exploration company later known as Goal Petroleum plc, becoming Director in 1977, Managing Director in 1981 and retiring in 1994. From 1995 to 1997 he was a non-executive director of JKX Oil & Gas plc, moving from board member to, by the end of his term, Chairman. He was also Chairman of Brindex, the Association of British Independent Exploration Companies, in 1977, 1989 and 1990.

Robert K. M. Kennedy, *BA, MBA, Chief Executive (Age 54)*

Robert Kennedy was appointed Chief Executive of Anglo Siberian at the time of its formation in 1992. He has over 25 years experience in the international oil and gas industry. His previous directorships include Director of International Negotiations with operating subsidiaries of Kerr-McGee Corporation from 1976 to 1992, where he was also responsible for international acquisition of exploration and production acreage. Before joining Kerr-McGee, he was with Sunningdale Oils Limited, a Canadian independent involved in oil exploration, which was subsequently acquired by Kerr-McGee.

Daniel D. Clark-Lowes, *MA, PhD, Director and Exploration Manager (Age 48)*

Dr. Daniel Clark-Lowes joined the Group in 1993. He has over 20 years experience working in the oil and gas industry for companies including Shell International Petroleum Company and Charterhouse Petroleum plc, where he was Chief Geologist. Before joining the Group, he was a director of Scott Pickford plc, the British-based petroleum consultancy, for eight years, with responsibility for the international petroleum geology division.

Sheikh Ahmed Abdul Rahman Banafa, *Non-executive Director (Age 60)*

Sheikh Ahmed Banafa was a founding shareholder of Anglo Siberian. He has substantial business interests but his core business is that of supplier and contractor to Saudi Arabian Ministries.

Jonathan G. F. Cooke, *OBE, Non-executive (Age 55)*

After more than 30 years in the Royal Navy to the rank of Commodore, Jonathan Cooke is currently Chief Executive of a City Guild with substantial property, financial and charitable interests. His recent career has included three years (1990 – 1993) as Naval Attaché with the British Embassy in Paris and three years at the Ministry of Defence as Director of Assessments, including predictive analysis of the former Soviet Union.

Sheikh Mohamed Farid Al Aulaqi, *Non-executive Director (Age 71)*

Sheikh Mohamed Farid joined Anglo Siberian at its inception. He was previously the Vice President of the United Arab Emirates subsidiaries of Sunningdale Oils Limited and subsequently of those subsidiaries of Kerr-McGee following its acquisition of Sunningdale Oils in 1976. From 1959 – 1963 he was Minister of Finance for the Federation of South Arabia (now Yemen) and from 1964 – 1967 he was the Minister of Foreign Affairs. He has been a colleague of Robert Kennedy since 1974.

Mary Ann J. P. Lutyens, *MA, Non-executive Director (Age 49)*

Mary Ann Lutyens is an independent business consultant with a background in development capital and corporate finance. She has experience in a number of industries including oil and shipping where she was previously a Director of Highland Participants plc, A&P Appledore plc and Falmouth Oil Services Limited. She acts as adviser and director to a number of companies with responsibility for business development and corporate affairs.

Remuneration policy

It is the policy of the Board to compensate Executive Directors with a combination of salary, fees and other benefits together with a flexible share option package with the intention of aligning their interests with those of the Company's shareholders. It is the policy of the committee to ensure that no director is involved in deciding his or her own remuneration. The Committee can draw on independent external advice, where it deems necessary, and consults with the Chief Executive with regard to the remuneration of certain senior employees.

Remuneration of the Directors

	Fees £	Basic Salary £	Total £	Pension £
Executive Directors				
Year ended 31 December 1998	–	279,900	279,900	18,000
Year ended 31 December 1997	–	–	–	–
Non-Executive Directors				
Year ended 31 December 1998	65,999	–	65,999	–
Year ended 31 December 1997	–	–	–	–
Total				
Year ended 31 December 1998	65,999	279,900	345,899	18,000
Year ended 31 December 1997	–	–	–	–

Directors' salaries are reviewed annually with effect from1 July. No benefits in kind are paid excepts contributions are made to the private pension plans of one Executive Director, calculated on an agreed percentage of his basic salary.

The remuneration of the non-executive directors is determined by the board as a whole, based on outside advice and review of current practices in other companies. Full details of the remuneration packages of individual directors and information on share options and pension benefits are set out in note 4 to the Financial Statements and the Directors' Report.

Share options

Directors and other Executives participate in the Anglo Siberian Oil Executive Share Option Scheme and are granted options over the Company's Ordinary Shares at prevailing market prices at the time of grant. Options are exercisable not later than ten years after the date of grant. The Scheme was established in 1998.

No options lapsed during 1998, and the market price of the Company's Ordinary Shares during the year ranged between 107.5p and 98.5p and at 31 December 1998 was 98.5p.

On 30 June 1998, 1,107,500 options were granted to Directors and Employees at an exercise price of 107.5p, exercisable between 2000 and 2008. Of these, 525,000 were to Robert K.M. Kennedy and 105,000 to Daniel D. Clark-Lowes, both Executive Directors, which are disclosed in the Directors' Report.

Service contracts

Each Executive Director has a service contract; none contains provisions, which could result in the Director receiving compensation in excess of one year's salary and benefits in kind.

Non-executive Directors

Fees paid to Non-Executive Directors are determined by the Board. Each Non-Executive Director has a letter of appointment, although either party may terminate the agreement at any time.

Compliance

The Company has complied throughout 1998 with Section A of the best practice provisions annexed to the Listing Rules of the London Stock Exchanges and the Remuneration Committee has given full consideration to the best practice provisions set out in Section B.

David G. M. Boyd
Chairman of the Remuneration Committee

Auditors' Report for the Year to 31 December 1998

To the Shareholders of Anglo Siberian Oil Company plc

We have audited the financial statements on pages 22 to 36 which have been prepared under the historical cost convention and the accounting policies set out on pages 26 to 28. We have also examined the amounts disclosed relating to the emoluments, share options and pension benefits of the Directors which form part of the Directors' Report on pages 11 to 18 and the Remuneration Report on pages 19 and 20.

Respective responsibilities of directors and auditors

The Directors are responsible for preparing the Annual Report, including as described on page 16 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 December 1998 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Chartered Accountants and Registered Auditors
1 Surrey Street
London
WC2R 2PS
22 March 1999

Arthur Andersen

Consolidated Profit and Loss Account for the Year to 31 December 1998

	Note	1998
		£
Administrative expenses (net)		(213,819)
Operating loss		(213,819)
Interest receivable		255,139
Profit on ordinary activities before taxation	3	41,320
Tax on profit on ordinary activities	6	(16,194)
Profit on ordinary activities after taxation, being the retained profit for the year		25,126
Earnings per share		
Basic	7	0.088p
Diluted	7	0.085p

The result for the period is derived entirely from continuing operations.

There are no recognised gains or losses other than the profit included within the profit and loss account for the year ended 31 December 1998.

The notes on pages 26 to 36 form an integral part of these financial statements.

Consolidated Balance Sheet at 31 December 1998

	Note	1998 £	1997 £
Fixed assets			
Intangible oil and gas assets	8	5,025,158	3,453,190
Current Assets			
Debtors	10	52,143	11,220
Investments	11	9,110,298	–
Cash at bank		402,110	7,139
		9,564,551	18,359
Creditors: Amounts falling due within one year	12	(705,235)	(3,459,391)
Net current assets (liabilities)		8,859,316	(3,441,032)
Net assets		13,884,474	12,158
Capital and reserves			
Called-up equity share capital	14	9,072,455	5,222,455
Share premium account	15	9,998,974	–
Other reserve	15	(5,212,081)	(5,210,297)
Profit and loss account	15	25,126	–
Total equity shareholders' funds		13,884,474	12,158

The notes on pages 26 to 36 form an integral part of these financial statements

Company Balance Sheet
at 31 December 1998

	Note	1998 £
Fixed assets		
Investment	9	5,222,455
Current Assets		
Debtors	10	4,774,558
Investments	11	9,110,298
Cash at bank		78,080
		13,962,936
Creditors: Amounts falling due within one year	12	(85,154)
Net current assets		13,877,782
Net assets		19,100,237
Capital and reserves		
Called-up equity share capital	14	9,072,455
Share premium account	15	9,998,974
Profit and loss account	15	28,808
Total equity shareholders' funds		19,100,237

The financial statements on pages 22 to 36 were approved by the board of directors on 22 March 1999 and signed on its behalf by:

Robert K. M. Kennedy
Director

The notes on pages 26 to 36 form an integral part of these financial statements

Consolidated Cash Flow Statement for the Year to 31 December 1998

	Note	1998 £	1997 £
Net cash (outflow) inflow from operating activities	17a	(162,257)	67,526
Return on investments and servicing of finance			
Interest paid		(123,097)	(334,265)
Interest received		233,982	–
Net cash inflow (outflow) from returns on investments and servicing of finance		110,885	(334,265)
Investing activities			
Cash payments for purchase of intangible fixed assets		(1,258,216)	(448,074)
Net cash outflow from investing activities		(1,258,216)	(448,074)
Net cash outflow before financing and management of liquid resources		(1,309,588)	(714,813)
Management of liquid resources			
Short-term deposits	11	(9,110,298)	–
Financing			
Issue of ordinary share capital	17c	15,400,000	–
New loan		–	668,530
Expenses paid in connection with share issue	17c	(1,551,026)	–
Repayment of loan	17c	(3,034,117)	–
Net cash inflow from financing		10,814,857	668,530
Increase (decrease) in cash balances	17b	394,971	(46,283)

The notes on pages 26 to 36 form an integral part of these financial statements

1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

(a) Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

(b) Basis of consolidation

The corporate reconstruction whereby Anglo Siberian Oil Company plc acquired Anglo Siberian Oil Company Holdings Limited qualifies as a group reorganisation under Financial Reporting Standard No. 6, Acquisitions and Mergers, (FRS 6) and has been accounted for using merger accounting as permitted under FRS 6. Accordingly, the group financial information in this report consolidates the accounts of the companies comprising the Group, all of which are made up to 31 December in each period, as if they had been in a group relationship throughout the reported period. The excess of the nominal value of the shares issued over the nominal value of the share capital acquired is included as a debit to "Other reserves" in the consolidated balance sheet.

(c) Consortium accounting

The Group's activities are generally conducted as co-licensee with other companies in the Yeniseyneft joint arrangement, which is not an entity for the purposes of Financial Reporting Standard No. 9, Associates and Joint Ventures. The financial information reflects the relevant proportion of the capital expenditure and cash flows measured pro rata to the Group's interest.

(d) Intangible oil and gas assets

Intangible oil and gas assets comprise the pre-licence, licence acquisition, exploration and appraisal costs relating either to unevaluated properties or properties awaiting further evaluation. When a decision to develop these properties has been taken, or if there is evidence of impairment in value, the costs are transferred to the tangible oil and gas assets cost pool.

(e) Exploration and development expenditure

The Group follows the full-cost method of accounting for oil and gas properties under which all exploration and development expenditure including financing costs and related foreign exchange differences in respect of properties under appraisal or development is capitalised in a depreciable cost pool. Proceeds from the disposal of interests are deducted from the cost pool.

In the event of the Group's interest in a field changing as a result of a redetermination of a unitised field (being a field straddling more than one area), additional capital expenditure payable or disposal proceeds receivable are treated as increases or reductions in tangible oil and gas asset costs.

(f) Depreciation

All capitalised costs within the pool of tangible oil and gas assets together with estimated future development costs are to be depreciated using the unit of production method based on commercial reserves associated with that pool.

(g) Ceiling test

The recoverability of the tangible oil and gas asset pool is assessed against the likely future discounted net revenues associated with future reserves. A provision is made where the directors are of the opinion that there has been a permanent diminution in the capitalised value of the cost pool.

(h) Investments

Fixed asset investments are shown at cost less provision for permanent diminution in value. Current asset investments are stated at the lower of cost or net realisable value.

Where permitted, investments in new subsidiaries are accounted for under the provisions of merger relief with the company opting to carry its investments in new subsidiaries at the nominal value of the shares it has issued. No share premium is therefore recorded in respect of the shares issued in such acquisitions.

(i) Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is capitalised or expensed as appropriate.

(j) Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

(k) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred tax is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future.

(l) Employee Share Ownership Plan (ESOP)

In accordance with UITF 13 "Accounting for ESOP Trusts" the Company recognises the assets and liabilities of the trust as assets and liabilities of the Company and states the value of shares at the lower of cost and net realisable value. Amounts are charged to the profit and loss account as staff costs in respect of discounts to market value on the grant of the options.

The Anglo Siberian Oil Company Trust was established from shares provided by the founding shareholders at no cost to the Company.

2. Profit and loss account

Under the provisions of the Companies Act 1985, the Company has not published a company profit and loss account. The Company recorded a retained profit for the period ended 31 December 1998 of £28,808.

3. Profit on ordinary activities before taxation

Administrative expenses may be capitalised as part of intangible oil and gas assets, charged to share premium account or included within the profit and loss account according to their nature.

The following expenses have been accounted for in these Financial Statements as below:

	Group 1998 £	Group 1997 £
Auditors' remuneration		
– audit fees	36,000	9,276
– services relating to AIM listing	88,711	–
– other services	–	26,182
Operating lease rentals		
– property	20,250	20,000
– other	2,361	3,883
Staff costs (note 5)	328,046	10,761
	475,368	70,102
Capitalised as part of intangible oil and gas assets	292,621	70,102
Charged to share premium account	88,711	–
Charged to profit and loss account	94,036	–
	475,368	70,102

Included above are costs relating to the AIM listing amounting to £88,711 (1997 – £nil), which have been charged to the share premium account.

4. Directors' remuneration

The directors received total remuneration of £363,899 in respect of services to the company for the year.

The remuneration and benefits of the directors during the period were:

Name of director or past director	Salaries £	Fees £	Aggregate Emoluments £	Company contributions to money purchase pension schemes £
Highest paid director				
Robert K. M. Kennedy	180,000	–	180,000	18,000
Other				
Daniel D. Clark-Lowes *	99,900	–	99,900	–
David G. M. Boyd	–	19,524	19,524	–
Mary Ann J. P. Lutyens	–	9,762	9,762	–
Jonathan G. F. Cooke	–	9,762	9,762	–
Sheikh Ahmed Banafa	–	9,762	9,762	–
Sheikh Mohamed Farid	–	17,189	17,189	–
	279,900	65,999	345,899	18,000

* Paid under the terms of a consultancy agreement.

Directors' share options are detailed within the Directors' report. None of the Directors exercised any of their share options during the period.

During 1997 no directors received any remuneration for their services to the Group.

5. Staff costs

	1998 £	1997 £
Wages and salaries, including directors	287,075	8,860
Social security costs	22,971	1,901
Pension cost	18,000	–
	328,046	10,761
Less capitalised	252,010	(10,761)
	76,036	–

The average number of employees in the year was 4 (1997 – 3).

At this stage of the Company's development it primarily uses the services of consultants in its operations.

6. Tax on profit on ordinary activities

	1998
	£
UK Corporation Tax at 21%	16,194

7. Earnings per share

The calculation of earnings per share is based on the profit for the year of £25,126 and on 28,589,820 ordinary shares, being the weighted average for the year.

Earnings per share on a diluted basis is based on the profit for the year of £25,126 and the diluted equivalent weighted average number of ordinary shares, being 29,596,993.

8. Intangible oil and gas assets

Group	Exploration, appraisal and licence acquisition costs	Capitalised interest	Shell advances	Total
	£	£	£	£
Beginning of the year	5,869,020	1,230,700	(3,646,530)	3,453,190
Additions *	1,448,871	123,097	–	1,571,968
End of year	7,317,891	1,353,797	(3,646,530)	5,025,158

* Additions are net of reimbursements received under the agreement with Shell which are £3,223,011 for 1998 (1997 £1,367,592).

The Group operates in the oil and gas sector in Russia and is therefore subject to a number of significant potential risks, including:

- uncertainty of estimates of reserves
- fluctuations in future oil and gas prices
- uncertainty of development and operating costs
- operational and environment risks
- transportation of oil and gas to market
- foreign exchange risk
- political and legal risk associated with operating in Russia, including arrangements with the government for licences, profit sharing and taxation.

The recoverability of the Group's investment in oil and gas assets is dependent upon the success of its operations, which are affected by these and other risks, many of which are outside the Group's control.

9. Fixed asset investments

	Company 1998 £
Subsidiary undertakings	5,222,455

Investments

The parent company and the group have investments in the following subsidiary undertakings.

Subsidiary	Country of incorporation	Principal activity	Proportion of shares held Directly	Indirectly
Anglo Siberian Oil Company Holdings Limited	Guernsey	Intermediate Holding Company	100%	
Anglo-Siberian Oil Company (Cyprus) Limited	Cyprus	Oil and gas reserves development		100%
Anglo Siberian Oil Services Limited	England and Wales	Provision of services to the Group		100%

On 23 May 1998 the Company acquired the entire issued share capital of Anglo Siberian Oil Company Holdings Limited via a share for share exchange of 20,889,820 ordinary shares of 25p each. Anglo Siberian Oil Company Holdings Limited held at that time, and at 31 December 1998, the entire issued share capital of Anglo-Siberian Oil Company (Cyprus) Limited and Anglo Siberian Oil Services Limited. Anglo Siberian Oil Company plc is the group's ultimate parent company and consolidates all subsidiaries' financial statements.

10. Debtors

	Group 1998 £	Group 1997 £	Company 1998 £
Amounts falling due within one year:			
Amounts owed by subsidiary undertakings	–	–	110,268
Amounts owed by other group undertakings	–	–	4,648,818
Prepayments and deposits	52,143	11,220	15,472
	52,143	11,220	4,774,558

Amounts owed by subsidiary undertakings and other group undertakings are repayable on demand and are not interest bearing

11. Current asset investments

	Group 1998 £	Group 1997 £	Company 1998 £
Short term deposits	9,110,298	–	9,110,298

Short term deposits mature within periods of up to six months from the balance sheet date and are denominated in US dollars and Sterling.

12. Creditors

	Group 1998 £	Group 1997 £	Company 1998 £
Amounts falling due within one year:			
Director's loan	–	3,034,117	–
Trade creditors	570,053	347,315	50,978
Amounts owed to directors	118,988	71,865	21,817
Taxation	16,194	227	12,359
Other creditors	–	3,660	–
Accruals	–	2,207	–
	705,235	3,459,391	85,154

The loan owed to Sheikh Ahmed Banafa, a director of the Company, was interest bearing at 1% per month. Interest of £123,097 was paid and capitalised during the year. The loan was fully repaid following the AIM listing.

13. Financial commitments

Annual commitments under operating leases are as follows:

Group	1998 £	1997 £
Expiry date within 1 year		
– property	15,187	–
– other	2,361	–
	17,548	–
Expiry date within 2 to 5 years	–	
– property	–	20,250
– other		2,361
	–	22,611

14. Called-up equity share capital

	Company 1998 £
Authorised:	
200,000,000 ordinary shares of 25 pence each	50,000,000
Allotted, called-up and fully paid in the year:	
20,889,820 ordinary shares on acquisition of Anglo Siberian Oil Company Holdings Limited (note 9)	5,222,455
15,400,000 ordinary shares on AIM listing placing	3,850,000
36,289,820 ordinary shares of 25 pence each	9,072,455

On 23 May 1998, the company acquired the entire issued share capital of Anglo Siberian Oil Company Holdings Limited via a share for share exchange of 20,889,820 ordinary shares of 25p each.

As part of the AIM listing which occurred in June 1998, the company issued 15,400,000 ordinary shares of 25p each at a premium of 75p each.

Also as part of the placing Gordon House Asset Management Limited became entitled to subscribe for up to 907,246 ordinary shares at a price of 100p per share, such option to be exercisable before 31st December, 2004.

15. Reserves

	Profit and loss account £	Share Premium £	Other Reserve £	Total £
Group				
At beginning of the year	–	–	(5,210,297)	(5,210,297)
Issue of share capital	–	11,550,000	–	11,550,000
Expenses of the share issue	–	(1,551,026)	–	(1,551,026)
Profit for the year	25,126	–	–	25,126
Other movements	–	–	(1,784)	(1,784)
At end of the year	25,126	9,998,974	(5,212,081)	4,812,019
Company				
At beginning of period	–	–	–	–
Issue of share capital	–	11,550,000	–	11,550,000
Expenses	–	(1,551,026)	–	(1,551,062)
Profit for the period	28,808	–	–	28,808
At end of period	28,808	9,998,974	–	10,027,746

16. Reconciliation of group equity shareholders' funds

	1998	1997
	£	£
Profit for the year	25,126	–
New ordinary shares issued	15,400,000	–
Issue costs	(1,551,026)	–
Other reserve	(1,784)	2,595
Net addition to equity shareholders' funds	13,872,316	2,595
Opening group equity shareholders' funds	12,158	9,563
Closing group equity shareholders' funds	13,884,474	12,158

17. Cash flow information

(a) Reconciliation of operating loss to net cash (outflow)/inflow from operating activities

	Group 1998	Group 1997
	£	£
Operating loss	(213,819)	–
Decrease in debtors	–	7,356
Increase in creditors	53,346	57,575
Other adjustments	(1,784)	2,595
Net cash (outflow) / inflow from continuing operating activities	(162,257)	67,526

(b) Analysis of changes in cash during the year

	Cash at bank
	£
Balance 31 December 1996	53,422
Net cash outflow	(46,283)
Balance 31 December 1997	7,139
Net cash inflow	394,971
Balance 31 December 1998	402,110

(c) Analysis of changes in financing during the year

	Share capital (including other reserve and share premium) £	Loans £	Net Financing £
At beginning of year	12,158	3,034,117	3,046,275
Ordinary shares issued	15,400,000	–	15,400,000
Issue costs	(1,551,026)	–	(1,551,026)
Repayment of loan	–	(3,034,117)	(3,034,117)
At end of year	13,861,132	–	13,861,132

(d) Analysis of net funds

	At beginning of year £	Cash flow £	At end of year £
Cash	7,139	394,971	402,110
Debt due within 1 year	(3,034,117)	3,034,117	–
Current asset investments	–	9,110,298	9,110,298
Total	(3,026,978)	12,539,386	9,512,408

(e) Reconciliation of net funds	£
Increase of cash in the year	394,971
Cash outflow from decrease in debt	3,034,117
Increase in cash deposits	9,110,298
Change in net funds resulting from cash flows being movement in net funds during the year	12,539,386
Net funds at beginning of year	(3,026,978)
Net funds at end of year	9,512,408

18. Contingent liability – Shell advances

The Group has a contingent liability to Shell under various agreements in respect of monies advanced by Shell and expended on the Vankor Field through the Yeniseyneft Joint Venture by the Group, and monies otherwise expended by Shell in respect of the Joint Venture. In accordance with those agreements and subject to inter alia the commencement of production from the Vankor Field by the Joint Venture with Shell as a participant, Shell shall be entitled to be repaid such monies as are agreed by all partners to the Joint Venture from the total commercial petroleum production belonging to all the Joint Venture partners with interest thereon ("the sum").

In default of such an agreement from these partners the Group will be liable to Shell to a maximum of 18.52% thereof, payable from 50% of its share of the commercial production derived from the Joint Venture.

In the absence of commercial petroleum production for the Joint Venture, Shell's advances are not repayable.

Anglo Siberian Oil Company plc

Form of Proxy

Annual General Meeting – 14 May 1999

I/We the undersigned, being a member/members of the above named Company hereby appoint the Chairman of the Meeting (see Note 6 below) or ....

.... of ....

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 14 May 1999 at 10.30 a.m. and at any adjournment thereof.

I/We direct my/our proxy to vote on the resolutions set out in the Notice convening the Meeting as follows:

Ordinary Business	For	Against
1 To receive and consider the Statement of Accounts and the Directors' and Auditors' Report		
2 To re-elect Daniel D. Clark-Lowes as a Director		
3 To re-elect Sheikh Ahmed Abdul Rahman Banafa as a Director		
4 To re-elect Sheikh Mohamed Farid Al Aulaqi as a Director		
5 To re-elect David G. M. Boyd as a Director		
6 To re-elect Mary Ann J. P. Lutyens as a Director		
7 To re-elect Jonathan G. F. Cooke as a Director		
8 To appoint Arthur Andersen as Auditors and authorise the Directors to fix their remuneration.		

Signature ....

Name in full (block capitals) ....

Address ....

....

Dated this .... day of 1999

Notes:

1 For this instruction of proxy to be valid it must be deposited at the Company's Registrars, IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time fixed for the Meeting.

2 In the case of a corporation, this instrument may be either under its common seal or under the hand of an office or attorney duly authorised.

3 In the case of joint holders, only the person whose name stands first in the Register of Members shall be entitled to vote or appoint a proxy in respect of the joint holding.

4 Unless otherwise indicated, the proxy will vote or abstain from voting at his/her discretion.

5 Every member entitled to attend and vote at the Meeting may appoint a proxy to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.

6 If it is desired to appoint another person as proxy, the words "the Chairman of the Meeting" should be deleted and the name of the proxy inserted.