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# **Anglo Siberian Oil Company plc**

## **Annual Report and Financial Statements 1999**



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

## **Directors, Company Secretary and Advisers**

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### **Registered Office and Principal Office**

44 Davies Street  
London W1Y 1LD  
Tel. - 020.7569.1100  
Fax - 020.7569.1111  
E-mail - [aso@AngloSiberianOil.co.uk](mailto:aso@AngloSiberianOil.co.uk)  
Registered Number - 3561414

### **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**

Ian Wilson

### **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**

HSBC Bank plc	Banque Paribas (Suisse) SA
79 Piccadilly	2 Place de Hollande
London	1211 Geneva
W1V 0EV	Switzerland

### **Registrars**

IRG plc  
Bourne House  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

## **Chairman's Statement**

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Dear Shareholder,

1999 was Anglo Siberian's first full year as a public company, following its fund raising and the admission of its shares for trading on the Alternative Investment Market of the London Stock Exchange in June 1998.

During the year, significant progress was made towards securing a Production Sharing Agreement for the Vankor project and the Company agreed to purchase an additional 5% interest in the Vankor field.

### **Results**

The Company spent £2,056,175 in the period 1 January to 31 December 1999, of which £1,734,202 has been capitalised and £321,973 has been expensed. Interest income was £389,400, resulting in a profit before tax for the period of £67,427. On 31 December 1999, Anglo Siberian had net liquid assets of £7,172,369. Funds are held on bank deposit in Dollars and Sterling in London. The Directors are not recommending a dividend at this stage in the Company's development.

### **Operational Review**

As part of its policy of concentrating on its core area of Vankor, the Company has acquired a further 5% interest in Yeniseyneft, thereby increasing its interest to 59%. Yeniseyneft is the Russian joint venture company which holds a combined exploration and production licence over the undeveloped Vankor oil and gas field located in the north-eastern part of the West Siberian Petroleum Basin. Shell Vankor Development B.V., a member of the Royal Dutch/Shell group, has been working with Anglo Siberian and its Russian partners and has an option to acquire 44% from Anglo Siberian's 59% interest in return for financing all appraisal and pre-development work on the licence.

As part of the same strategy, Anglo Siberian and its new local Russian partner, Taymyrneftegasgeologia, have applied successfully for a production licence over the North Vankor Area. The area is believed to contain an extension of the Vankor field. Detailed licence terms are now being negotiated and the licence will be held by Taymyrneft, a Russian joint venture company established by Anglo Siberian and Taymyrneftegasgeologia. Anglo Siberian's present interest is 50%, which will reduce to 15% upon the exercise by Shell of its option to join the project. Thereafter, Shell would be responsible for Anglo Siberian's share of the costs of exploration and appraisal on the North Vankor Area.

During 1999, Anglo Siberian concentrated its efforts on progressing the Vankor project. The Duma (the Russian Federal Parliament) determines which major natural resources projects in Russia are eligible in principle for a Production Sharing Agreement (PSA). In February 1997, the Duma agreed that Vankor and 25 other projects would be considered. The Vankor project and each of the other approved projects then had to go through the complex process of securing the consent of six ministries, two specialist sub-committees of the Duma and the cabinet. The Vankor project completed this process on 2 July 1999. The Government then submitted a draft law to the Duma. This passed three readings of the Duma with overwhelming majorities and was approved by the Federation Council on 22 December 1999. On 2 January 2000, Acting President Vladimir Putin signed Federal Law No. 1 of the Year 2000, which authorises the negotiation and conclusion of a PSA for the Vankor project.

A Government Decree was passed on 16 March 2000 which appointed 16 representatives to serve on the Russian side of the negotiating commission for the Vankor project. The negotiations of the Vankor PSA can now begin.

The Vankor project is one of 19 from the 26 major projects approved in principle, which have now achieved the legal right to negotiate and conclude a PSA. Only four of these 19 projects are oil projects with direct participation by Western companies.

Detailed regulations (generally described as Normative Acts) are required to govern the operation of PSAs in Russia. Many of these acts have not yet been put in place. In the first half of 1999, considerable progress was achieved by the Government in drafting Normative Acts. Unfortunately, in the second half of the year the Government was preoccupied with other concerns and the Normative Acts were not progressed.

Without satisfactory Normative Acts, PSAs will not operate successfully in Russia. Western oil companies, including Shell and Anglo Siberian, are likely to make the passing of these Normative Acts a condition precedent to embarking upon significant work programmes. We are encouraged by indications that the new government will understand the importance of completing these Normative Acts expeditiously.

The passing of the PSA law for the Vankor project has started the year 2000 on a positive note. However, 1999 was a difficult year for Russia politically, with two changes of Prime Minister and the collapse of oil prices in the early part of the year.

Under the terms of the Co-operation Agreement between Anglo Siberian and Shell, Shell has been responsible for paying all costs incurred on the Vankor project and has now spent approximately \$29 million. These costs have been greatly increased by the long delays to which all major oil projects in Russia have been subjected. Shell has now requested that Anglo Siberian should make a contribution to expenditure in the year 2000. Anglo Siberian has agreed that in 2000 it will pay its own costs on the Vankor project and the costs incurred by Yeniseyneft, which will include the costs of a limited programme of field work. The additional costs which Anglo Siberian will incur in 2000 are estimated at £1 million. Total expenditure by Anglo Siberian on all currently planned activities is expected to be £2.1 million for the year. Shell will continue to be responsible for its own costs.

The Co-operation Agreement has been amended to provide that, in order to maintain its option, Shell will reimburse to Anglo Siberian the costs which Anglo Siberian incurs in 2000 on the Vankor project when Anglo Siberian, Shell and the Russian partners conclude a PSA and it has come into effect.

After the effective date of the Vankor PSA, if Shell maintains its involvement, it must complete appraisal and pre-development work on the Vankor project at an estimated cost of around \$60 million. Shell will advance these funds on behalf of Anglo Siberian and the Russian partners and recover them, together with its previous advances, from Vankor production.

Later this year, Shell will determine budgets for its projects world-wide. We expect that Shell will allocate adequate funds to the Vankor project and from 1 January 2001 will resume responsibility for advancing all the costs of the Vankor project. In this event, our assumption would be that drilling would commence in the winter of 2001/2002, with oil production being unlikely to begin before 2006, as stated in the Interim Report for the six months to 30 June 1999.

If Shell does not allocate the funds required from 1 January 2001 to continue financing the Vankor project, its option will lapse. Anglo Siberian would then retain its full 59% interest in Yeniseyneft and the Vankor field and its 50% interest in Taymyrneft and the probable extension of the Vankor field. These would be very large interests in world-class assets. If such circumstances were to arise, your Board's current intention would be to aim to complete negotiations and conclude the Vankor PSA. The Company would then seek another partner or partners.

### **Prospects**

We are encouraged by the progress which we have made on acquiring a PSA for the Vankor project. We believe there are good prospects that the political and commercial climate in Russia will continue to stabilise. If this is the case, then the few Western oil companies which have persevered and managed to retain controlling interests in major projects will have an environment in which they are at last able to make concrete progress with these projects.

Our efforts in 2000 will be focussed on executing a PSA and then beginning mobilisation for field appraisal in 2001. This should finally crystallise the value of shareholders' investment. We thank you for your continuing support.

**David G M Boyd**  
**Chairman**

20 April 2000

## Review of Activities in 1999

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### Licence Interests

The Vankor project will be familiar to most of our shareholders. Background information on the project is given on pages 9 and 10. This review concentrates on progress made in 1999 and the first few months of 2000.

Anglo Siberian Oil Company Holdings Limited (Anglo Siberian's intermediate holding company in Guernsey) has, subsequent to the year-end, completed the purchase of the entire share capital of Losiem Commercial Limited (Losiem), a company incorporated in the Republic of Cyprus, which holds an interest of 5% in Yeniseyneft, the Russian joint venture company which is the holder of the Vankor licence. Losiem has no other assets and no liabilities. Anglo Siberian Oil Company Holdings Limited also owns the entire share capital of Anglo-Siberian Oil Company (Cyprus) Limited, incorporated in the Republic of Cyprus, which holds our interest of 54% in Yeniseyneft. Our total interest in the Vankor project is therefore now 59%.

Shell has an option to acquire 44% of this interest, which would leave Anglo Siberian with a total interest of 15%. Anglo Siberian has decided to retain its interests in Yeniseyneft in these two separate subsidiaries until the exact structure of the Vankor PSA is known. The decision will be reviewed at that time. The purchase price of £0.9 million for the Losiem interest was agreed last year, at a time of low oil prices and before the Duma had approved the Vankor project for a PSA.

In September 1999, Anglo Siberian and a local oil company, Taymyrneftegasgeologia, successfully applied in a competitive tender for a production licence over the North Vankor block. (We had previously described this same area as Northeast Vankor.) A detailed licence agreement is now being negotiated with the local authorities. The North Vankor block is located in the Taymyr Autonomous Okrug and is contiguous to the Vankor licence. Anglo Siberian and Shell have shot several seismic surveys over North Vankor, which have demonstrated considerable potential, although there has not yet been any drilling. Official Russian estimates of potential recoverable oil reserves are 274 million barrels. Anglo Siberian and Taymyrneftegasgeologia will initially each have a 50% interest in this licence.

Shell has an option to acquire a 35% interest from Anglo Siberian's 50% interest in this licence, in return for reimbursing all Anglo Siberian's expenditure on North Vankor since February 1996 and advancing the future costs of exploration and appraisal which will be incurred on Anglo Siberian's retained 15% interest. These advances would be repayable by Anglo Siberian from petroleum production and not otherwise. Shell has also secured an option to acquire a 10% interest from Taymyrneftegasgeologia. If Shell exercised both options, it would then have a 45% interest in North Vankor.

## **Vankor Production Sharing Agreement**

Yeniseyneft has now received final authorisation to negotiate the terms of a Production Sharing Agreement (PSA) to cover the Vankor project. The schedule has been:

December 1996	Russian Government Ministries recommended to the Duma more than 200 projects for PSAs.
February 1997	The Duma agreed a list of 26 major natural resource projects (including Vankor) eligible in principle for a PSA.
February 1999	The Vankor Feasibility Study was approved by the Central Commission for Development of the Ministry of Fuel & Energy.
February to June 1999	Six Ministries and two sub-committees of the Duma of the Russian Federation approved the Vankor project for a PSA.
2 July 1999	Cabinet approval was received and a Government Decree and draft Vankor PSA Law were submitted to the Duma.
19 October 1999	First Reading of the draft Vankor PSA law in the Duma; 309 votes in favour, 11 votes against
26 November 1999	Second Reading of the draft Vankor PSA Law in the Duma; 296 votes in favour, 1 vote against
1 December 1999	Third Reading of the draft Vankor PSA Law in the Duma; 325 votes in favour, 11 votes against
22 December 1999	The draft Vankor PSA Law was approved by the Council of the Russian Federation
2 January 2000	Signature of the Vankor PSA Law by Acting President Vladimir Putin.
16 March 2000	A Government Decree was passed, establishing the Negotiating Committee which will negotiate the detailed Vankor PSA terms.

We hope to conclude a PSA for the Vankor Project in 2000. There are three oil projects which have been operating on PSA terms in Russia for some years with Western participation. In addition, there are a further four oil projects - including Vankor - which have direct Western participation and are currently authorised to negotiate PSAs.

## **Operations and development planning**

In 1999, Anglo Siberian and our partners continued with detailed work to facilitate Vankor field development. We acquired a detailed photographic survey from the air of the Vankor licence area and completed the detailed environmental baseline report on the field area. We have produced an environmental impact assessment report for the appraisal drilling phase of the field. This has been approved by local environmental bodies and is now under review by Federal authorities.

Detailed work continued on the design of the proposed export terminal and oil storage facilities.



We have evaluated a number of Western and Russian drilling contractors and suppliers and have designed a detailed well programme for the three appraisal wells that are planned. The well programmes have been carefully designed to ensure minimal impact on the environment and especially to preserve the fragile permafrost which covers the entire region. The well programmes have been accepted by the technical authorities after an exhaustive approvals process. Bid documents have been prepared in anticipation of the tender for a drilling contractor.

We are now fully prepared to commence the appraisal drilling programme as soon as the Vankor PSA has been successfully negotiated and has come into effect.

### **New opportunities**

We have completed our technical evaluation of the oil fields in the area of Vankor which could be developed and tied into the proposed Vankor pipeline system. This work is essential for planning the pipeline system. There are opportunities for participation by Anglo Siberian in some of these fields, but we presently consider that we should make further progress with the Vankor PSA negotiations before considering investment in other fields in the Vankor area.

We have also completed our regional evaluation of the West Siberian Petroleum Basin, which has allowed us to make detailed evaluations of several opportunities in the producing area of the basin with its developed infrastructure. We have also acquired a working knowledge of the Volga-Urals Basin, which is a mature producing area in European Russia. Anglo Siberian is now in a strong position to acquire interests in oil fields in these developed areas when the right opportunity arises.

### **Anglo Siberian Personnel**

Since the Company's flotation, we have built up a technical team which is operating the Vankor and North Vankor licences and is also undertaking evaluations of opportunities to acquire further petroleum reserves. Field development geology and geophysics, petroleum economics, computer mapping and environmental management expertise are all provided by existing staff. We work with consultants who have detailed Russian experience when we require reservoir engineering and drilling skills.

Data management procedures (for technical and licence data) have been put in place which allow us to respond rapidly to opportunities for acquisition of petroleum interests whenever and wherever they may occur.

## **Background information on the Vankor Project**

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The Vankor project comprises two adjacent licence areas in the north-eastern part of the West Siberian Petroleum Basin, known as Vankor and North Vankor:

### **Vankor Licence**

Anglo Siberian owns a 59% interest in OOO Yeniseyneft, the Russian joint venture vehicle which holds the exploration and production licence over the Vankor oil and gas field and the surrounding licence area - a total of 1,625 square kilometres - in Krasnoyarsk Kray, Siberia. The remaining partners in the venture are two local Russian companies, OAO Yeniseyneftegaz and OAO Yeniseygeophysica, and the local Administration.

The Vankor Field alone has estimated recoverable reserves of 906 million barrels of oil and 2.6 trillion cubic feet of associated gas in three reservoirs. There are also undrilled prospects and leads in the licence area.

Shell has purchased from Anglo Siberian an option to acquire a 44% interest in Yeniseyneft, which would reduce Anglo Siberian's interest to 15% upon exercise of the option.

### **North Vankor Licence** (previously the Northeast Vankor Area)

In September 1999, the results of the Taymyr Licensing Round were announced. Anglo Siberian and its Russian partner OAO Taymyrneftegasgeologia were awarded an exploration and production licence over the Northeast Vankor Area - now renamed by the local Administration North Vankor. Anglo Siberian and Taymyrneftegasgeologia have set up a joint venture company, OOO Taymyrneft, to hold the North Vankor Licence and the detailed terms of the licence are being negotiated with the Federal and local authorities.

The North Vankor Licence covers 1,163 square kilometres and contains a highly prospective undrilled structure which may be an extension of the Vankor Field. Official Russian estimates of potential recoverable oil reserves are 274 million barrels.

Anglo Siberian and Taymyrneftegasgeologia each hold 50% interests in Taymyrneft and the North Vankor Licence. Shell have an option to acquire 45% of Taymyrneft, which would reduce Anglo Siberian's interest to 15% and Taymyrneftegasgeologia's interest to 40% upon exercise of the option.

The Vankor Field is located approximately 500 kilometres north-east of the existing West Siberian oil export system, the nearest oil pipeline. Anglo Siberian, Shell and their 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 the preferred option. The most likely route is shown on the map of the Proposed Vankor Pipeline Route. It crosses the Yenisey River due north of the Vankor Field and then runs up the east bank of the river to a terminal near Dikson, a total of 730 kilometres. The route passes other undeveloped fields in the area whose oil reserves could be exported using the planned pipeline and terminal.

## **Production Sharing Agreement**

Yeniseyneft has an exploration and production licence which permits it to appraise, develop and produce oil and gas from the Vankor Field and the Vankor Licence Area, subject to the terms of the licence. However, Yeniseyneft has been working hard to secure a Production Sharing Agreement (PSA) 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.

A PSA takes the place of a conventional oil licence agreement:

- A conventional oil licence agreement allows an oil company to develop fields and produce oil subject to paying royalties (in cash or oil) and taxes on profits. Governments change taxes from time to time.
- A PSA allows an oil company to develop fields and produce oil according to detailed arrangements agreed between the oil company and the host government for the life of the project. Some oil production is taken as royalty by the government, some is classified as "cost recovery oil" and taken by the oil company to recover its costs, and the balance is classified as "profit oil" and divided between the host government and the oil company on an agreed basis. These arrangements are fixed for the life of the project.

The Russian Federal Law on Production Sharing Agreements was passed in 1995 and sets out the basic principles applying to PSAs in Russia. This law was not sufficient to allow PSAs to work satisfactorily. In January 1999, the Federal Law on Amendments to the Federal Law on Production Sharing Agreements was passed. This law amended the 1995 law. In February 1999, the Federal Law on Amending and Supplementing Russian Federation Legislation pursuant to the Federal Law on Production Sharing Agreements was passed. This law amended twelve pre-existing Russian laws which were in conflict with the production sharing legislation. There is now in place a favourable framework for PSAs. Detailed regulations are still required and these "Normative Acts" are now being drafted and should be enacted in due course.

## **Report of the Directors for the Year to 31 December 1999**

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The Directors present their annual report and audited financial statements for the year ended 31 December 1999 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**

A detailed review of the Group's activities during the year and likely future developments is 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 £47,255 (1998 - £25,126) remains for the year.* The Directors do not recommend the payment of a dividend.

### **Directors and their interests**

The Directors who served during the year and up to the date of signing these financial statements are as follows:

Sheikh Ahmed Banafa  
David G M Boyd  
Daniel D Clark-Lowes  
Jonathan G F Cooke

Sheikh Mohamed Farid  
Robert K M Kennedy  
Mary Ann J P Lutyens

Details of the present Directors of the Company are set out on pages 17 and 18. In accordance with the Articles of Association Robert K M Kennedy and Daniel D Clark-Lowes retire from the Board and being eligible offer themselves for re-election.

There were no 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 1999 (including persons connected with them within the meaning of Section 346 of the Companies Act 1985) in the issued share capital of the Company 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 1999:

<b>Directors</b>	<b>Ordinary shares at the beginning and end of the year</b>	<b>Percentage of issued share capital</b>
Robert K M Kennedy	955,407	2.6%
Daniel D Clark-Lowes <sup>(1)</sup>	140,000	0.4%
Sheikh Ahmed Banafa	7,520,314	20.7%
Sheikh Mohamed Farid		
- directly held	3,910,570	10.8%
- beneficial holding <sup>(2)</sup>	2,624,453	7.2%

(1) 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 1999 the Trust owned 1,050,000 (1998 - 1,050,000) ordinary shares of the Company, which it acquired for nil consideration. No shares were conditionally gifted or put under option to employees or consultants during the year (1998 - 910,000).

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

Details of Directors' share options are set out below:

<b>Directors</b>	<b>Share options at the beginning and end of the year</b>	<b>Exercise price</b>	<b>Exercise dates</b>
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
<i>Directors</i>		
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%
<i>Other</i>		
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 Oil Company plc and its subsidiaries ("Anglo Siberian") were fully aware of the Year 2000 problem and all computer systems and microprocessor reliant equipment on which the Group's operations are significantly dependent were reviewed to ensure they are year 2000 compliant. In addition, suppliers were contacted to ensure that no disruption to supply would occur as a result of this problem.

No material costs were incurred, or are anticipated, arising therefrom. No significant problems or disruptions have occurred to Anglo Siberian arising from the Year 2000 issue.

## **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 1999 the Directors adopted a formal statement of the policy. 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 31 December 1999 represents 51 days worth as a proportion of the total amount invoiced by suppliers during the year ended on that date (1998 - 43 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**

In June 1998 the Hampel Committee and the London Stock Exchange published the Combined Code on Corporate Governance. This combines the Cadbury Code on Corporate Governance, the Greenbury Code on Directors' Remuneration and new requirements arising from the findings of the Hampel Committee.

## **Compliance**

Anglo Siberian Oil Company plc complied with the provisions set out in Section 1 of the Combined Code of Corporate Governance throughout 1999. 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 17 and 18. 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 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. In accordance with the Articles, one third of the Directors (or the nearest lesser whole number) retire annually.

### *Audit Committee*

The Audit Committee consists of 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 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; considering the timeliness and quality of information at every meeting 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 Company will establish the procedures necessary to implement the guidance on internal control issued by the Turnbull Committee. In the meantime, the company has adopted the transitional approach permitted by the London Stock Exchange and reviewed the effectiveness of the system of internal control in accordance with the previous guidance. Accordingly, the disclosures below are restricted to internal financial controls. The Company will report in accordance with the Turnbull guidance in the next annual report.

The Board has established procedures for identifying, evaluating and managing the significant risks the Group faces. The Board will regularly review the procedures which are in accordance with Internal Control: Guidance for Directors on the Combined Code published in September 1999. The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with Provision D.2.1 of the Combined Code, the Board will continuously review the effectiveness of the Group's system of internal control. The Board's monitoring will cover all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Audit Committee assists the Board in discharging its review responsibilities.

The principal financial assets of the Group are the cash at bank and investments and the Board has strict controls over the disbursement and investment strategy for the management of these to ensure that they are not jeopardised.



### *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*

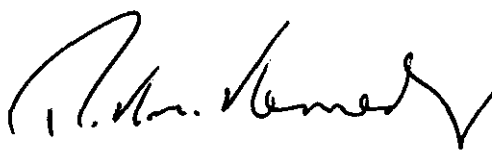
The Directors seek to build on a mutual understanding of objectives between the Company and its institutional shareholders.

### *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  
England

16 March 2000

## Directors

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

**David G M Boyd, CBE, BA, Non-Executive Director and Chairman (Age 64)**

David Boyd has worked for over 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 a 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 55)**

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 49)**

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 61)**

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 56)**

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 72)***

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 50)***

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.

## Report of the Remuneration Committee

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As well as complying with the Provisions of the Code as disclosed in the Company's Corporate Governance statements, the Board has applied the Principles of Good Governance relating to Directors' remuneration as described below.

### 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

	<b>Fees £</b>	<b>Salary £</b>	<b>Total £</b>	<b>Pension £</b>
<i>Executive Directors</i>				
Year ended 31 December 1999	-	279,900	279,900	18,000
Year ended 31 December 1998	-	279,900	279,900	18,000
<i>Non-Executive Directors</i>				
Year ended 31 December 1999	97,500	-	97,500	-
Year ended 31 December 1998	65,999	-	65,999	-
<i>Total</i>				
Year ended 31 December 1999	97,500	279,900	377,400	18,000
Year ended 31 December 1998	65,999	279,900	345,899	18,000

Directors' salaries are reviewed annually with effect from 1 July. No benefits in kind are paid, except 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 Company plc 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 1999, and the market price of the Company's Ordinary Shares during the year ranged between 97p and 80.5p and at 31 December 1999 was 80.5p.

Options granted to Directors are disclosed in the Directors' Report.

### **Service contracts**

Each Executive Director has a service contract; none contain 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 1999 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 1999**

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### **To the Shareholders of Anglo Siberian Oil Company plc**

We have audited the financial statements on pages 23 to 37 which have been prepared under the historical cost convention and the accounting policies set out on pages 27 and 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 Report of the Directors on pages 11 to 16 and the Report of the Remuneration Committee 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, preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange 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 or the Listing Rules regarding directors' remuneration and transactions with the Company and the Group is not disclosed.

We review whether the corporate governance statement on pages 14 to 16 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

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 1999 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*

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**Arthur Andersen**

Chartered Accountants and Registered Auditors  
1 Surrey Street  
London WC2R 2PS

16 March 2000

## Consolidated Profit and Loss Account for the Year to 31 December 1999

	Note	1999 £	1998 £
Administrative expenses (net)		(321,973)	(213,819)
<b>Operating loss</b>		(321,973)	(213,819)
Interest receivable		389,400	255,139
<b>Profit on ordinary activities before taxation</b>	3	67,427	41,320
Tax on profit on ordinary activities	6	(20,172)	(16,194)
<b>Profit on ordinary activities after taxation, being the retained profit for the year</b>		<u>47,255</u>	<u>25,126</u>
<b>Earnings per share</b>			
Basic	7	0.130p	0.088p
Diluted	7	0.123p	0.085p

The results above are derived entirely from continuing operations.

There are no recognised gains or losses other than the profit included within the profit and loss account for either financial years.

The accompanying notes on pages 27 to 37 form an integral part of these financial statements



## Consolidated Balance Sheet at 31 December 1999

	Note	1999 £	1998 £
<b>Fixed assets</b>			
Intangible oil and gas assets	8(a)	6,681,923	5,025,158
Tangible fixed assets	8(b)	77,437	-
		<u>6,759,360</u>	<u>5,025,158</u>
<b>Current assets</b>			
Debtors	10	239,777	52,143
Investments	11	6,608,311	9,110,298
Cash at bank		905,613	402,110
		<u>7,753,701</u>	<u>9,564,551</u>
<b>Creditors: amounts falling due within one year</b>	12	<u>(581,332)</u>	<u>(705,235)</u>
<b>Net current assets</b>		<u>7,172,369</u>	<u>8,859,316</u>
<b>Net assets</b>		<u>13,931,729</u>	<u>13,884,474</u>
<b>Capital and reserves</b>			
Called-up equity share capital	14	9,072,455	9,072,455
Share premium account	15	9,998,974	9,998,974
Other reserve	15	(5,212,081)	(5,212,081)
Profit and loss account	15	72,381	25,126
<b>Total equity shareholders' funds</b>		<u>13,931,729</u>	<u>13,884,474</u>

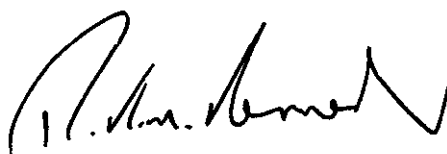
The accompanying notes on pages 27 to 37 form an integral part of these financial statements

## Company Balance Sheet at 31 December 1999

	Note	1999 £	1998 £
<b>Fixed assets</b>			
Investment	9	<u>5,222,455</u>	<u>5,222,455</u>
<b>Current assets</b>			
Debtors	10	7,434,981	4,774,558
Investments	11	6,608,311	9,110,298
Cash at bank		22,553	78,081
		<u>14,065,845</u>	<u>13,962,936</u>
<b>Creditors: amounts falling due within one year</b>	12	<u>(134,458)</u>	<u>(85,154)</u>
<b>Net current assets</b>		<u>13,931,387</u>	<u>13,877,782</u>
<b>Net assets</b>		<u>19,153,842</u>	<u>19,100,237</u>
<b>Capital and reserves</b>			
Called-up equity share capital	14	9,072,455	9,072,455
Share premium account	15	9,998,974	9,998,974
Profit and loss account	15	82,413	28,808
<b>Total equity shareholders' funds</b>		<u>19,153,842</u>	<u>19,100,237</u>

The financial statements on pages 23 to 37 were approved by the Board of Directors on 16 March 2000 and signed on its behalf by:

**Robert K M Kennedy**  
Director



The accompanying notes on pages 27 to 37 form an integral part of these financial statements

## Consolidated Cash Flow Statement for the Year to 31 December 1999

	Note	1999 £	1998 £
<b>Net cash outflow from operating activities</b>	17(a)	<u>(498,736)</u>	<u>(162,257)</u>
<b>Return on investments and servicing of finance</b>			
Interest paid		-	(123,097)
Interest received		<u>340,071</u>	<u>233,982</u>
<b>Net cash inflow from returns on investments and servicing of finance</b>		<u>340,071</u>	<u>110,885</u>
<b>Taxation paid</b>		<u>(12,835)</u>	<u>-</u>
<b>Capital expenditure and financial investment</b>			
Cash payments for purchase of tangible and intangible fixed assets		<u>(1,826,984)</u>	<u>(1,258,216)</u>
<b>Net cash outflow from capital expenditure and financial investment</b>		<u>(1,826,984)</u>	<u>(1,258,216)</u>
<b>Net cash outflow before financing and management of liquid resources</b>		<u>(1,998,484)</u>	<u>(1,309,588)</u>
<b>Management of liquid resources</b>			
Short-term deposits		<u>2,501,987</u>	<u>(9,110,298)</u>
<b>Financing</b>			
Issue of ordinary share capital		-	15,400,000
Expenses paid in connection with share issue		-	(1,551,026)
Repayment of loan		<u>-</u>	<u>(3,034,117)</u>
<b>Net cash inflow from financing</b>		<u>-</u>	<u>10,814,857</u>
<b>Increase in cash balances</b>	17(b)	<u>503,503</u>	<u>394,971</u>

The accompanying notes on pages 27 to 37 form an integral part of these financial statements

## Notes to the Financial Statements for the Year to 31 December 1999

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### 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 the applicable accounting standards.

#### (b) *Basis of consolidation*

The corporate reconstruction whereby Anglo Siberian Oil Company plc acquired Anglo Siberian Oil Company Holdings Limited in 1998 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 of tangible fixed assets*

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

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.

Depreciation is provided on all other tangible fixed assets, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life.

Office furniture and equipment is depreciated over 3 years.

*(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 any diminution in value. Current asset investments are stated at the lower of cost or net realisable value.

*(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 profit after taxation being the retained profit for the year ended 31 December 1999 of £82,413 (1998 - £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:

	<b>Group 1999 £</b>	<b>Group 1998 £</b>
Depreciation of tangible fixed assets (note 8 (b))	35,852	-
Auditors' remuneration		
- audit fees	36,000	36,000
- services relating to AIM listing	-	88,711
- other services	25,536	-
Operating lease rentals		
- property	70,878	20,250
- other	13,804	2,361
Staff costs (note 5)	441,666	328,046
	<u>623,736</u>	<u>475,368</u>
Capitalised as part of intangible oil and gas assets	525,456	292,621
Charged to share premium account	-	88,711
Charged to profit and loss account	98,280	94,036
	<u>569,312</u>	<u>475,368</u>

#### 4. Directors' remuneration

The Directors received total remuneration of £395,400 in respect of services to the company for the year (1998 - £363,899). The remuneration and benefits of the Directors during the year were:

Name of director or past director	Salaries £	Fees £	Aggregate Emoluments £	Company contributions to money purchase pension schemes £
<b>1999:</b>				
<i>Highest paid director</i>				
Robert K M Kennedy	180,000	-	180,000	18,000
<i>Other</i>				
Daniel D Clark-Lowes*	99,900	-	99,900	-
David G M Boyd	-	37,500	37,500	-
Mary Ann J P Lutyens	-	15,000	15,000	-
Jonathan G F Cooke	-	15,000	15,000	-
Sheikh Ahmed Banafa	-	15,000	15,000	-
Sheikh Mohamed Farid	-	15,000	15,000	-
	<u>279,900</u>	<u>97,500</u>	<u>377,400</u>	<u>18,000</u>
<b>1998:</b>				
<i>Highest paid director</i>				
Robert K M Kennedy	180,000	-	180,000	18,000
<i>Other</i>				
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	-
	<u>279,900</u>	<u>65,999</u>	<u>345,899</u>	<u>18,000</u>

\* Paid under the terms of a consultancy agreement

Directors' share options are detailed in the Directors' report. None of the Directors exercised any of their share options during either year.

**5. Staff costs**

	1999 £	1998 £
Wages and salaries, including Executive Directors	391,729	287,075
Social security costs	31,937	22,971
Pension cost	18,000	18,000
	<u>441,666</u>	<u>328,046</u>
Less capitalised	(336,830)	(252,010)
	<u>104,836</u>	<u>76,036</u>

The average number of employees in the year was 4 (1998 – 4).

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**

	1999 £	1998 £
UK Corporation Tax	<u>20,172</u>	<u>16,194</u>

**7. Earnings per share**

The calculation of earnings per share is based on the profit for the year of £47,255 (1998 - £25,126) and on 36,289,820 (1998 - 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 £47,255 (1998 - £25,126) and the diluted equivalent weighted average number of ordinary shares, being 38,304,566 (1998 - 29,596,993).



## 8. Fixed assets

### (a) Intangible oil and gas assets

<b>Group</b>	<b>Exploration, appraisal and licence acquisition costs £</b>	<b>Capitalised interest £</b>	<b>Shell advances £</b>	<b>Total £</b>
Beginning of the year	7,317,891	1,353,797	(3,646,530)	5,025,158
Additions*	1,656,765	-	-	1,656,765
End of the year	<u>8,974,656</u>	<u>1,353,797</u>	<u>(3,646,530)</u>	<u>6,681,923</u>

\* Additions are net of reimbursements received under the agreement with Shell which are £1,170,785 for 1999 (1998 - £3,223,011)

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.

### (b) Tangible fixed assets

	<b>Office furniture and equipment £</b>	<b>Total £</b>
<b>Cost</b>		
At beginning of year	-	-
Additions	113,289	113,289
At end of year	<u>113,289</u>	<u>113,289</u>
<b>Depreciation</b>		
At beginning of year	-	-
Additions	35,852	35,852
At end of year	<u>35,852</u>	<u>35,852</u>
<b>Net book value</b>		
At beginning of year	-	-
At end of year	<u>77,437</u>	<u>77,437</u>

## 9. Fixed asset investments

	Company 1999 £	Company 1998 £
Subsidiary undertakings	<u>5,222,455</u>	<u>5,222,455</u>

### *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 development		100%
Anglo Siberian Oil Services Limited	England and Wales	Provision of services to the Group		100%

## 10. Debtors

	Group 1999 £	Group 1998 £	Company 1999 £	Company 1998 £
Amounts falling due within one year:				
Amounts owed by subsidiary undertakings	-	-	7,411,407	4,759,086
Prepayments and deposits	<u>239,777</u>	<u>52,143</u>	<u>23,574</u>	<u>15,472</u>
	<u>239,777</u>	<u>52,143</u>	<u>7,434,981</u>	<u>4,774,558</u>

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

# 11. Current asset investments

	Group 1999 £	Group 1998 £	Company 1999 £	Company 1998 £
Short term deposits	<u>6,608,311</u>	<u>9,110,298</u>	<u>6,608,311</u>	<u>9,110,298</u>

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

# 12. Creditors: Amounts falling due within one year

	Group 1999 £	Group 1998 £	Company 1999 £	Company 1998 £
Trade creditors	427,966	570,053	73,645	50,978
Amounts owed to directors	129,859	118,988	43,656	21,817
Taxation	<u>23,507</u>	<u>16,194</u>	<u>17,157</u>	<u>12,359</u>
	<u>581,332</u>	<u>705,235</u>	<u>134,458</u>	<u>85,154</u>

# 13. Financial commitments

Annual commitments under operating leases are as follows:

	1999 £	1998 £
<i>Group</i>		
Expiry date within 1 year		
- property	-	15,187
- other	-	2,361
	<u>-</u>	<u>17,548</u>
Expiry date within 2 to 5 years		
- property	80,524	-
- other	-	-
	<u>80,524</u>	<u>-</u>
Expiry date after 5 years		
- property	-	-
- other	8,900	-
	<u>8,900</u>	<u>-</u>

The company had no financial commitments under operating leases (1998 – £Nil).

#### 14. Called-up equity share capital

	Company 1998 £	Company 1998 £
<b>Authorised:</b>		
200,000,000 ordinary shares of 25 pence each	<u>50,000,000</u>	<u>50,000,000</u>
<b>Allotted, called-up and fully paid in the year:</b>		
36,289,820 ordinary shares of 25 pence each	<u>9,072,455</u>	<u>9,072,455</u>

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 exercised before 31 December 2004.

#### 15. Reserves

	Profit and loss account £	Share premium £	Other Reserve £	Total £
<i>Group</i>				
At beginning of the year	25,126	9,998,974	(5,212,081)	4,812,019
Profit for the year	<u>47,255</u>	<u>-</u>	<u>-</u>	<u>47,255</u>
At end of the year	<u>72,381</u>	<u>9,998,974</u>	<u>(5,212,081)</u>	<u>4,859,274</u>
<i>Company</i>				
At beginning of the year	28,808	9,998,974	-	10,027,746
Profit for the year	<u>67,427</u>	<u>-</u>	<u>-</u>	<u>67,427</u>
At end of the year	<u>96,235</u>	<u>9,998,974</u>	<u>-</u>	<u>10,095,173</u>

#### 16. Reconciliation of group equity shareholders' funds

	1999 £	1998 £
Profit for the year	47,255	25,126
New ordinary shares issued	-	15,400,000
Issue costs	-	(1,551,026)
Other reserve	<u>-</u>	<u>(1,784)</u>
Net addition to equity shareholders' funds	47,255	13,872,316
Opening group equity shareholders' funds	<u>13,884,474</u>	<u>12,158</u>
Closing group equity shareholders' funds	<u>13,931,729</u>	<u>13,884,474</u>

## 17. Cash flow information

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

	Group 1999 £	Group 1998 £
Operating loss	(321,973)	(213,819)
Increase in debtors	(187,634)	-
Increase in creditors	10,871	53,346
Other adjustments	-	(1,784)
<b>Net cash outflow from continuing operating activities</b>	<b>(498,736)</b>	<b>(162,257)</b>

### (b) Analysis of changes in cash during the year

	Cash at bank £
<b>Balance at 31 December 1997</b>	7,139
Net cash inflow	394,971
<b>Balance 31 December 1998</b>	<b>402,110</b>
Net cash inflow	503,503
<b>Balance 31 December 1999</b>	<b>905,613</b>

### (c) Analysis of net funds

	At beginning of year £	Cash Flow £	At end of year £
Cash	402,110	503,503	905,613
Current asset investments	9,110,298	(2,501,987)	6,608,311
<b>Total</b>	<b>9,512,408</b>	<b>(1,998,484)</b>	<b>7,513,924</b>

### (d) Reconciliation of net funds

	£
Increase of cash in the year	503,503
Increase in cash deposits	(2,501,987)
Change in net funds resulting from cash flows being movement in net funds during the year	(1,998,484)
Net funds at beginning of year	9,512,408
Net funds at end of year	7,513,924

## 18. Interest Rate risk of financial assets

The Group held the following financial assets as at 31 December 1999:

	US\$	£stg
Assets held as part of the financing arrangements of the Group:		
Sterling cash deposits		1,504,449
US Dollar cash deposits	8,253,455	5,103,862
Sterling cash		26,852
US Dollar cash	1,421,045	878,761

The cash deposits comprise deposits placed on money markets at call and monthly rates. The weighted average interest rate on the Sterling cash deposits is 4.99% and the weighted average time until maturity is 8 days. The weighted average interest on the US Dollar cash deposits is 5.86% and the weighted average time until maturity is 9 days. Fair values are not materially different to book values.

## 19. Currency expenses

The functional currency of the main operating subsidiary is US dollars and the financing arrangements of the Group have the objective of meeting its funding requirements. Accordingly the majority of the financial assets are held in US dollars apart from that minor part retained to meet Sterling denominated expenditure.

## 20. 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.

## 21. Post Balance Sheet Event

Anglo Siberian Oil Company Holdings Limited (Anglo Siberian's intermediate holding company in Guernsey) has, subsequent to the year-end, completed the purchase of the entire share capital of Losiem Commercial Limited, a company incorporated in the Republic of Cyprus, which holds an interest of 5% in Yeniseyneft, the Russian joint venture company which is the holder of the Vankor licence.