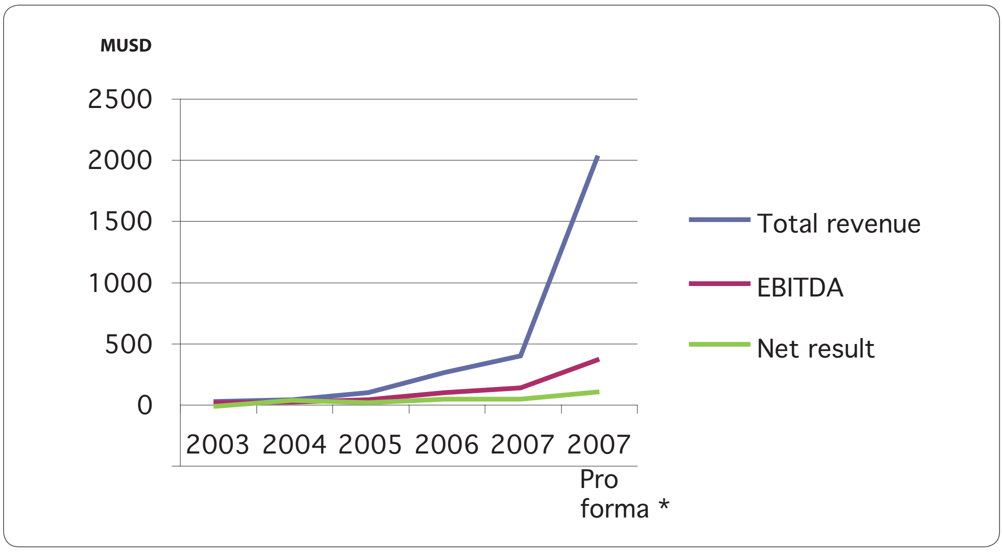
Annual Report 2007

WEST SIBERIAN
Resources Ltd

West Siberian Resources Ltd 2007

- Revenue increased by 55% to MUSD 380.3 (MUSD 245.2)
- EBITDA amounted to MUSD 120.9 (MUSD 81.6)
- Net result amounted to MUSD 29.9 (MUSD 30.2).
- Proven and probable reserves increased by 18% to 361 million barrels
- Oil production increased by 33% to 10,637,650 barrels
- Merger with Alliance Oil completed in April 2008

Revenues, EBITDA and net result in 2003-2007



** The pro forma revenue, EBITDA and net result were based on WSR and Alliance Oil financial statements for 2007. For more detailed information refer to page 13.*

The Annual General Meeting

The company's Annual General Meeting ("AGM") will be held on 21 May 2008 at 3 pm at the Operaterassen in Stockholm, Sweden.

Holders of Swedish Depository Receipts, ("SDRs"), of the Company who wish to attend the AGM must:

- be listed in the register of directly registered holders of SDRs kept by VPC AB on Thursday 15 May 2008
- notify Skandinaviska Enskilda Banken AB (publ) ("SEB") of their intention to attend the AGM not later than the same day, Thursday 15 May 2008 at 5.00 pm.

SDR holders registered in the name of a nominee must have their SDRs re-registered in their own names in the VPC register in order to attend and vote at the AGM. SDR holders who hold SDRs through a nominee must therefore notify their nominee to request a temporary owner registration (so-called voting-right registration) in ample time before Thursday 15 May 2008 if they wish to attend and vote.

SDR holders who are directly registered in the VPC register or who have a voting-right registration by 15 May 2008 may vote at the AGM.

Notice of the intention to attend the AGM should be given to SEB, by mailing to the address: SEB Issue department, Special Services, RB6, SEB Group Operations, SE-106 40 Stockholm, email: tsoissuedepartment@seb.se or by faxing +46-8-763 62 50.

Financial information

The company plans to publish the following financial reports:

Three months report (January – March 2008) on May 21 , 2008
Six months report (January – June 2008) on August 29 , 2008
Nine months report (January – September 2008) on November 28, 2008
Year end report (January – December 2008) in February 2009

All information is directly published on the company's website: **www.westsiberian.com.**

Contents

A new platform for growth

The emergence of a fully integrated Russian oil company

West Siberian's growth over the last few years has been exceptional. Since 2004, the company has developed from a small local operator to a significant upstream oil company operating in several Russian regions and now, through the recent merger with Alliance Oil Company, into a fully integrated oil company operating across Russia.

Prior to 2004, the company was primarily engaged in the development of the Middle Nyurola oil field in the Tomsk region seeking to put necessary infrastructure in place and getting oil production started. In 2004, West Siberian emerged from a financial reorganization with a solid balance sheet, and new major shareholders who replaced the board of directors. A new management team was appointed and the objective was to increase Tomsk oil production from 1,500 barrels per day at the time and to become profitable. With a focused operation and tight cost control oil production increased and the company became profitable late in 2004 which would form the basis for future growth.

The objective was to build the reserve base for future production growth, and in 2005–2006 six acquisitions of oil reserves and production were concluded that established operations in the Timano-Pechora and Volga-Urals regions in addition to Tomsk. In all three regions the company has assembled important exploration and production licenses with significant oil reserves and production and many opportunities for future growth through development and exploration drilling. For these assets, we have developed plans for rapid production growth in coming years.

In 2007, 100 per cent of our growth was organic and the results of our development efforts in all regions were obvious. We added 65 million barrels of proven and probable reserves, representing an 18 per cent reserve increase and a 609 per cent reserve replacement ratio. Oil production increased by 33 per cent to 10.6 million barrels. By the end of 2007, oil production reached 40,000 barrels per day. Our capital expenditures for 2007 amounted to almost MUSD 200.

Oil prices increased further in 2007 and have recently traded above 100 USD per barrel. Higher world market oil prices led to significant increases in domestic oil prices in Russia fuelled by rapidly increasing demand in domestic markets. Higher oil prices also resulted in significant increases in production taxes and export duties. Netbacks did improve during the year but the current tax regime provides upstream companies with limited incremental benefits from world market oil price increases. Meanwhile, Russian refiners were able to capture the benefits of higher prices, increased demand for oil products in Russia and meaningful tax advantages relative to the upstream sector.

Financially, the operational success and higher oil prices

Maxim Barski and Musa Bazhaev

translated into record level revenues, EBITDA and cash flow. In 2007 revenues amounted to MUSD 380.3 and EBITDA amounted to MUSD 120.9. The full year operating cash flow amounted to almost MUSD 100. This performance allowed us to refinance our short-term loans and raise MUSD 300 through a six year syndicated loan arrangement. WSR production subsidiaries incur operating costs in Russian rubles. However, despite Russian ruble appreciation and inflation (20 per cent in 2007) due to efficient cost management WSR succeeded in keeping controllable production cost at a targeted level of USD 4 per barrel.

The operational success was however not fully reflected at the bottom line in 2007. The net income amounted to MUSD 29.9 and was essentially unchanged from MUSD 30.2 in 2006, despite improvements in revenue, EBITDA and cash flow from operations. The primary reasons for this were increasing depletion charges for the oil reserves and an impairment charge for the Liginski Block. Net income was also affected by currency exchange gains resulting from the US dollars depreciation against the Russian Ruble. Therefore, internally we view operating cash flow as the most meaningful indicator of the company's operating performance.

The merger with Alliance

2008 started with the announcement of the merger between West Siberian and Alliance Oil Company.

The merger created a fully integrated oil company operating throughout the oil industry value chain with a mix of upstream and downstream assets in key oil regions of Russia. The upstream exploration and production assets provide a combination of current oil production with significant low-risk development and exploration potential. The crude oil refining and marketing of refined products business is focused on the Russian Far East and neighbouring export markets and provides significant growth opportunities. We also have an extensive transport infrastructure including own railway tanks, oil terminals and storage facilities to support operations.

We operate in three of Russia's largest oil basins: Western Siberia, Timano-Pechora and Volga-Urals, Our combined oil reserves amount to 489 million barrels (2P PMRS reserves) and together we produced 46,130 barrels per day in March 2008. In 2007, West Siberian's and Alliance's combined production amounted to 14.2 million barrels compared to 10.74 million barrels in 2006.

We are now engaged in crude oil refining and marketing of refined products focused in the Russian Far East and neighbouring export markets. The Khabarovsk refinery has a refining capacity of 70,000 barrels per day (3.5 million tons per year) and processed 23.6 million barrels (3.2 million tons) of oil in total (approximately 65,000 barrels per day) in 2007. The refined oil products are marketed through our network of 255 branded and 6 unbranded petrol stations and 24 oil products terminals.

Profitability in Russian refining is benefiting from the low domestic oil prices and lower export taxation than for crude oil. The merger will enable us to capture the higher margins of the downstream segment, by allowing processing of own crude, and offers security of supply for refining and marketing operations. The size of the business, balance sheet and market capitalization has increased significantly which provides more stability, better financing opportunities, lower cost of capital and increased investor awareness. Consequently, we will enjoy the operational and financial benefits of vertical integration.

Financially, the merger adds value for West Siberian's shareholders as all important financial measures improve and it is accretive on an earnings per share basis. In early April 2008, our market capitalisation amounted to approximately USD 2.3 billion, while combined pro forma revenues for the 2007 amounted to MUSD 1,998 and combined EBITDA amounted to MUSD 346. Combined net income amounted to MUSD 85, or 2.8 times more than before the merger.

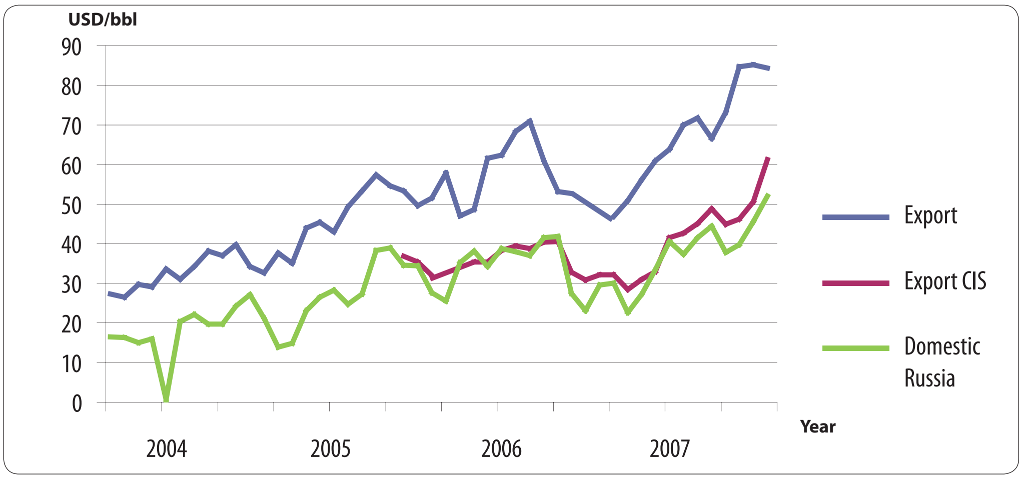
Strategy

West Siberian's primary objective is to create shareholder value through growth in oil reserves and production as well as providing high-quality petroleum products and related services in the Russia, CIS, Asia Pacific, and other export markets.

The combination of West Siberian's upstream assets with Alliance's downstream operations has created a strategic platform that makes us well positioned for further growth in Russia and neighboring countries. Going forward we expect to benefit from the following competitive strengths:

- a balanced upstream and downstream asset mix that will provide for self-sufficiency in crude oil supply for the Khabarovsk oil refinery by 2009;
- a leading market position in the Russian Far East benefiting from the Alliance Brand recognition throughout the extensive retail and wholesale network;
- the Russian Far East oil products retail market is isolated with a limited number of competitors. There is currently only one other refinery operating in this market: Rosneft's Komsomolsk oil refinery. In 2007, the Khabarovsk oil refinery supplied approximately 27 per cent of the total demand for petroleum products in the Russian Far East. This market configuration allows us to sell petroleum products in the retail market at premium prices resulting in high margins;
- the Kahabarovsk oil refinery will benefit significantly from construction of the Eastern Siberia-Pacific Ocean pipeline (the "ESPO Pipeline") that would link Khabarovsk oil refinery to the Transneft pipeline, resulting in decreased transportation costs and local oil prices;

West Siberian's gross prices in 2004–2007



- the Khabarovsk oil refinery is located close to the Russian Federation's borders with China, North Korea and Japan, which facilitates access to the growing Asia Pacific petroleum products consumption markets;
- a modernisation programme at the Khabarovsk refinery will increase the refinery's Nelson complexity index from the current level of 3.4 to 9.9 and the depth of refining from 61 per cent to 93 per cent. The share of higher value-added light petroleum products in total output to meet growing demand for light petroleum products in and is expected to result in refining margins. The refinery upgrade will increase the production capacity to 90,000 barrels per day;
- a business model that generates strong cash flow from operations, provides flexibility and allows us to capitalise on growth opportunities along the whole upstream – refining – downstream value chain;
- well positioned to improve the capital structure and lower the cost of capital by financing capital requirements through an optimal combination of operating cash flow, long-term debt available under existing credit agreements and additional external debt and equity. The long-term objective is to maintain a solid balance sheet and financial flexibility. The targeted long-term debt to EBITDA ratio below 3.0 was met in 2007. In April 2008, we raised MUSD 170 in additional equity from qualified investors.

We will seek to capitalise on these competitive strengths and our larger size, increased financing capacity and strong cash flows to further strengthen our position within the upstream oil and refined products industry. In particular, we will focus on increasing oil reserves and production, as well as providing high-quality petroleum products and related services in Russia, CIS, Asia Pacific, and other export markets. The highlights of our strategy to achieve this are presented below.

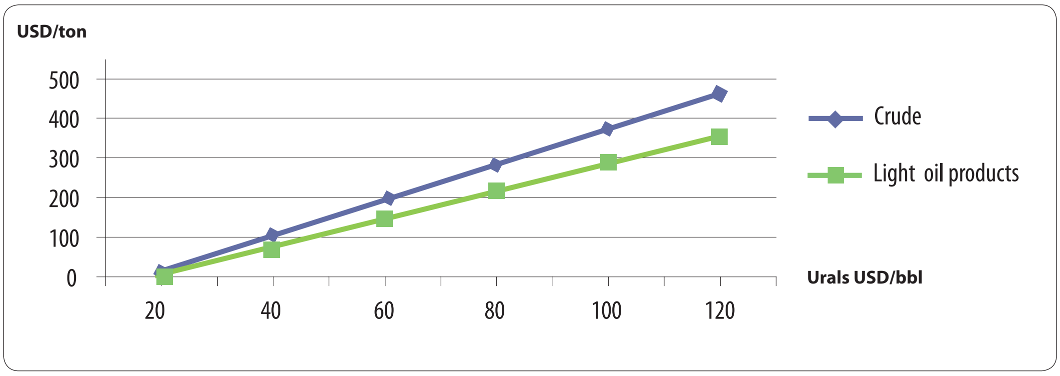
Upstream: exploiting the asset base with tight cost control

The base of long life oil reserves provides for continued growth in production targeted at reaching 90,000 barrels of oil per day in 2011. The asset base also contains exploration opportunities that could significantly affect reserve numbers and production targets. In order to exploit the asset base, we will continue to increase production while maintaining a firm grip on controllable operating costs and through efficient investment in development and exploration drilling, improving existing and adding new infrastructure and implementing operating efficiencies. Proven technologies like water injection, horizontal drilling, hydrofracturing and acid treatment will continue to be employed.

We aim to extend the upstream asset base through acquisitions of Russian oil resources with proven producing reserves and development and exploration potential that are not sufficiently large to be of primary strategic interest to Russia's larger oil companies but which can be developed profitably. We also continue to consider opportunities to participate in future subsoil licence auctions with potential synergies with our existing operations.

Currently, we are developing six new oil fields that we opened up for production in the last couple of years. We

Export Duty



Maxim Barski at the Special General Meeting on March 3, 2008.

are also about to start production drilling at our largest development project to date, the Kolvinskoye field. The plan for 2008 is to increase total production by 76 per cent to 18.6 million barrels with upstream capital expenditures of MUSD 257. These capital expenditures include drilling of 70 new production, injection and exploration wells. Early in the year, production was negatively affected by intense development activities and preparations in the fields with production planned to increase from the second quarter and onwards. In the first quarter of 2008, we produced 4.1 million barrels of oil.

Refining: upgrade to increase the volume and margins of oil products

The modernisation of the Khabarovsk oil refinery requires capital expenditures of approximately USD 1 billion until 2011. This includes a MUSD 806.7 turn key contract with Technical Reunidas to be completed early 2011. Approximately MUSD 200 will be invested in additional processes and infrastructure. This upgrade will result in a greater degree of refining, higher quality petroleum products and increased light petroleum products. The strategy is to achieve sustainable growth by increasing the share of higher-value, lighter petroleum products in the total oil refining output to meet growing demand. We expect future demand for high-quality oil products and will invest significant resources into the introduction of new products (such as biodiesel and jet fuel) to the market.

Marketing: optimisation of the Far East network

We plan to optimise the portfolio of retail refuelling stations in the Russian Far East at approximately existing levels by reconstructing existing refuelling stations and by constructing new refuelling stations while closing underperforming stations. In this process, we will seek to substantially increase the number of refuelling stations providing supplemental services.

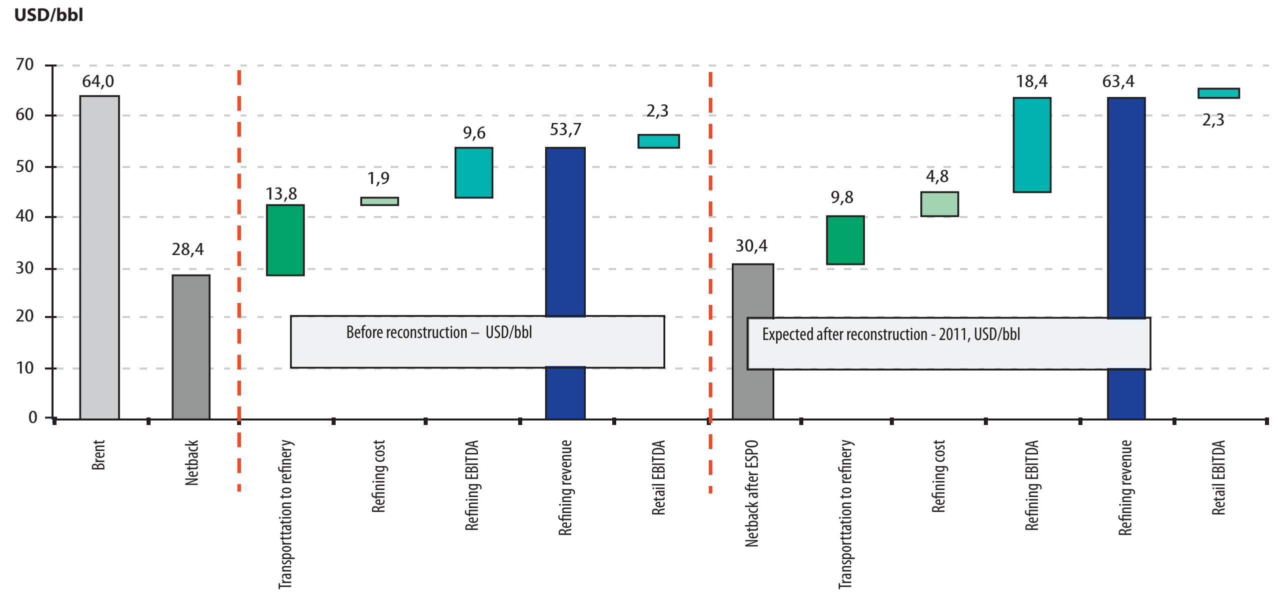
The strategy is also to optimise the Russian oil terminal network for increased competitiveness and retention of strong wholesale market share. The wholesale market share can be increased by increasing sales of petroleum products under federal programmes, and sales to airline, gold mining, coal and road construction companies and for purposes of the planned construction of the ESPO Pipeline. The oil terminal network will be optimised for more efficient storage and delivery of petroleum products.

The objective is to capitalise on the close geographical proximity to growing Asian markets in order to increase export sales. The strategy is to widen the range of petroleum products and increasing sales volumes of naphtha, diesel fuel, fuel oil and jet fuel supported by optimising the transportation and logistics network, including by constructing new logistics infrastructures for export sales.

Risks and rewards in the Russian oil industry

In the oil business, we face a number of risks relating to our activities and the industry we operate in. In our daily

Alliance Downstream: value build up



The modernisation and upgrade of the Khabarovsk refinery will result in the production of more light higher quality petroleum products that can be sold at higher prices. Consequently, the refining margin is expected to increase significantly following the upgrade.

management, as we evaluate any project's potential we assess and manage such risks and weigh them in relation to what we can gain. Risk management is a critical success factor for any oil company to prosper.

The business is capital intensive as it requires large investments. These investments are based on a number of factors and evaluations for example technical, geological, geophysical, and economic. There are uncertainties and assumptions associated with all such determinations which means that the outcome of any project could differ to the better or to the worse. The execution of oil industry investments also contain a number of risks. This means that we might discover, extract or refine and market larger or smaller volumes of oil than expected and that we in our operations continuously encounter unforeseen events.

Our crude oil and oil products are sold at competitive markets where prices fluctuate and price swings can be large in short time. We benefit from high prices and our financial performance is negatively affected when prices come down. Price changes also affect how much production taxes and export duties we pay and therefore our oil price exposure is lower than for many oil companies operating in other countries. We also deal in several currencies, primarily USD and Russian Rubles for which exchange rates fluctuate.

The basis for our operations are permits and licenses granted by Russian authorities. It is crucial for our operations that we are in compliance with the terms of our licenses, that we get necessary approvals when needed and that we fulfil our obligations to tax and other authorities. In our experience, the rules, regulations and tax laws governing the oil industry have been stable for quite some time now. Obviously we are addressing and managing risks associated with the Russian legislation and its implementation in our operations. West Siberian's growth in the past few years would not have been possible, if we had not been successful in managing such risks. We have been able to renew and extend licenses when needed, to obtain anti-monopoly approvals for acquisitions and receive various other permits for our operations. Also, we have obtained necessary political support for our projects. There are no unresolved disputes with tax inspectorates or other authorities and we have not been frequenting the Russian courts.

More growth ahead

In the past four years, we have come along way from being a local Tomsk operator. During the same time the fundamentals for the Russian oil industry have improved dramatically. We are meeting these improved conditions as a fully integrated oil company operating across Russia. In the beginning of 2008 the Russian Government has signalled the market about long awaited reduction of taxes.

Together with Alliance Oil, we have the necessary components to continue to grow and prosper for many years to come. By 2009, we expect to produce 65,000 barrels of oil which will allow us to fully supply the Khabarovsk refinery.

By the time the upgrade of the refinery is completed in 2011, we plan to produce and supply the refinery with 90,000 barrels of oil per day. On these barrels, we expect to earn significantly higher margins than in past years. We expect that this will bring West Siberian's financial performance and profitability to new levels.

Maxim Barski
Managing Director

Financial Summary

TUSD	Pro forma 2007 12 months	2007 12 months	2006 12 months	2005 12 months	2004 15 months	2003 12 months
Total assets	3 701 802	1 133 818	970 206	425 848	91 752	38 591
Oil and gas properties	2 375 792	1 045 879	864 465	378 982	74 551	31 562
Current assets	957 155	77 054	95 368	38 242	9 457	2 787
Total liabilities	1 628 554	487 151	468 159	251 525	21 451	28 178
Shareholders' equity	2 044 749	646 667	502 047	174 323	70 300	10 412
Minority share	28 500	295	310	313	-	869
P/E ratio at the end of the period	0,00	22,18	35,75	2092,94	4,70	neg
Profit margin (before net financial income/ expenses and before tax)	8%	9%	11%	15%	106%	-271%
Cash flow per share, USD	0,08	0,08	0,05	0,01	0,02	-0,09
Cash flow per share (fully dilluted), USD	0,08	0,08	0,05	0,02	0,03	-0,09
Dividend per share, USD	-	-	-	-	-	-
Equity ratio	56%	57%	52%	41%	77%	27%
Net result for the period	84 696	29 891	30 224	231	17 415	-27 983
EBITDA (excluding impairment reversal/ charge, disposal of subsidiaries shares and charity expenses)	346 466	120 899	81 627	25 727	3 703	-2 319
Return on shareholders equity	4%	5%	6%	0%	24%	-293%
Oil production, bbls	14 184 851	10 637 650	8 010 855	2 976 312	1 176 903	596 642
Revenue from sales of oil and gas / Total revenue for pro forma	1 998 435	371 696	237 980	73 544	22 119	8 858
Revenue from sales of oil and gas per barrel, USD	-	35,30	30,39	26,38	20,09	15,22
Operating costs per barrel produced, USD	-	25,38	22,96	17,62	11,87	11,66

The pro forma financial information was based on WSR's and Alliance Oil's audited financial statements for 2007 prepared in accordance with IFRS and was compiled based on the assumption that WSR acquired 100% of the shares in Alliance Oil as at 1 January 2006 using the accounting model prescribed by IFRS 3 "Business combination" for "reversed acquisitions" as Alliance's shareholders own 60% of WSR following the merger. This accounting treatment requires the assets and liabilities of WSR, being the legal parent, should be initially recorded at fair value in the consolidated financial statements, while the assets and liabilities of the legal subsidiary, Alliance Oil, should be recognized and measured at their pre-combination carrying amounts. The difference between the cost of combination and consolidated net assets of WSR as at 1 January 2006 was allocated to WSR oil and gas properties and corresponding deferred tax liability. Based on the fair values allocated to the oil and gas properties new depletion charges for 2006 and 2007 were calculated for WSR affecting the pro forma income statement for 2007 and the closing balances of oil and gas properties as at 31 December 2007 of the combined entities. The pro forma information will differ from the final cost of combination and allocation of fair values at the date of the combination mainly due to possible fluctuations of the market share price, possible changes of WSR's consolidated net assets' book values and other potential changes to the purchase price allocation.

Summary 2007

Adding reserves in all regions trough successful exploration

In 2007, West Siberian Resources Ltd successful exploration and development programme added net proven and probable oil reserves of 64.8 million barrels. The net proven oil reserves increased by 48 per cent to 162.9 million barrels. Proven and probable (2P) reserves increased by 18 per cent to 361.0 million barrels. The increase in 2P reserves represents an internal reserve replacement ratio of 609 per cent. 3P reserves (proven, probable and possible) increased to 488.6 million barrels (443.9 million barrels).

West Siberian's proven and probable oil reserves under Russian classification amount to 376.4 million barrels. Under PRMS (Petroleum Resources Management System, earlier referred to as Society of Petroleum Engineers - SPE) classification, proven and probable reserves amounted to 365.0 million barrels as of August 31, 2007 based on D&M's appraisal. Excluding the production for September-December 2007 the proven and probable reserves as of December 31, 2007 amounted to 361.0 million barrels (306.8 million barrels in 2006).

Oil reserves increased in all operating regions with the Timano-Pechora region accounting for the largest increases. The reserve appraisal does not reflect reserves added in the merger with Alliance Oil Company of 127.7 million barrels 2P PRMS reserves and 3P reserves of 166.1 million barrels according to Miller and Lents' appraisal. Total 2P reserves, pro forma for the merger, amounted to 489 million barrels.

Exploiting the reserves yields production growth

The successful drilling programme resulted in oil production increasing by 33 per cent to 10,637,650 barrels in 2007 (8,010,855 barrels in 2006). The average daily production amounted to 29,144 barrels per day (21,948 barrels per day in 2006). In 2007, a total of 117 wells contributed to production, out of which 52 wells in the Tomsk region, 31 wells in the Timano-Pechora region and 34 wells in the Volga-Urals region. Net cash investments in oil and gas assets for the financial year amounted to MUSD 196.50 (MUSD 112.67 in 2006), and were made in the Timano-Pechora region (MUSD 82.68), Tomsk region (MUSD 71.05), and Volga-Urals region (MUSD 42.77).

Continued oil price improvement

Oil markets continued to be strong and even strengthened during 2007. In the world market oil prices reached levels of USD 100 per barrel for the first time in history. The domestic Russian market also strengthened and went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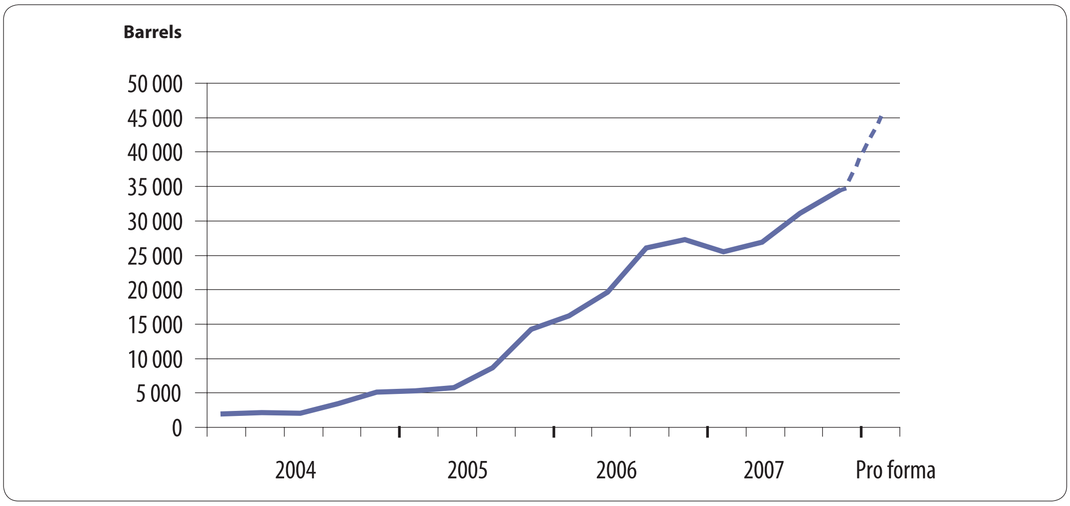
Average Daily Production in 2004–2007



from an average of USD 24.12 in 2006 to an average of USD 31.59 and a peak above USD 42.00 in 2007. Some 15 per cent of WSR's 2007 sales volumes were exported to non-CIS countries and 33 per cent to CIS countries. 52 per cent was sold on the domestic Russian market. The average net export price to non-CIS countries increased to USD 40.29 per barrel (exclusive export duty) (USD 32.08 USD per barrel in 2006) and the average export price to CIS countries amounted to USD 38.75 per barrel (USD 35.10 per barrel in 2006). The average domestic price rose to USD 31.70 per barrel (exclusive VAT) (USD 28.02 per barrel in 2006).

2007 Results – the Group

The net result for 2007 was MUSD 29.91 corresponding to USD 0.03 per share (MUSD 30.23 and USD 0.03 per share, respectively. EBITDA amounted to MUSD 120.90 (MUSD 81.63). Group revenue was MUSD 380.33 (MUSD 245.21). Cash flow before changes in working capital amounted to MUSD 87.13 (MUSD 54 .86). The increase in revenue, EBITDA and cash flow resulted from growth in production and improved netback prices. WSR also continued to have tight cost controls. Production costs for the financial year were MUSD 198.34 (MUSD 127.36). On a per barrel basis, production costs (excluding refining costs and production and other taxes) amounted to USD 4.06 (3.99).

Following the significant increase in oil production in the Timano-Pechora region, the group's social responsibilities in the region are increasing. WSR has agreed to pay USD 3.5 for each ton of oil produced (about USD 0.47 per barrel produced) from the Middle Kharyaga oil field to the Administration of the Nenetsk Autonomous Area. In 2007 MUSD 4.75 charge was recorded in the income statement out of which MUSD 2.12 related to the period March 31, 2004 to September 30, 2005 and the remaining MUSD 2.63 related to the period from October 1, 2005 till December 31, 2007.

The depletion and depreciation charge was MUSD 77.70 (MUSD 59.85). Depletion and depreciation charges increased as a result of higher production volumes, reclassification of exploration assets to production assets, increasing reserves and higher estimates of future capital expenditures.

Depletion charges are calculated based on DeGolyer and MacNaughton's (D&M) PRMS (Petroleum Resources Management System, earlier referred to as Society of Petroleum Engineers – SPE) classification of the company's recoverable reserves and estimates of future capital expenditures. In 2007, D&M estimates of future capital expenditures increased significantly to reflect the devaluation of the US dollar, inflation and higher expected future drilling costs.

An impairment charge of MUSD 10.48 was recorded in

Sales volumes and oil prices (2007)

	Export	CIS	Domestic	Total
Sold volume (barrels)	1 603 711	3 421 708	5 503 993	10 529 411
Gross price (USD/barrel)	70.36	41.75	37.72	44.00
Net price (USD/barrel)	40.29	38.75	31.70	35.30
Selling expenses (USD/barrel)	4.71	7.74	0.50	3.49
Netback price (USD/barrel)	35.58	31.01	31.20	31.81

Sales volumes and oil prices (2006)

	Export	CIS	Domestic	Total
Sold volume (barrels)	1 136 357	1 964 904	4 730 793	7 832 055
Gross price (USD/barrel)	57.20	35.40	33.32	37.17
Net price (USD/barrel)	32.08	35.10	28.02	30.39
Selling expenses (USD/barrel)	4.98	6.96	0.46	2.75
Netback price (USD/barrel)	27.10	28.14	27.56	27.64

the income statement in the fourth quarter 2007 to reflect the abandonment of the Liginski Block in the Timano-Pechora region for which the license expired in December 2007. WSR did not seek to extend the exploration license following an unsuccessful exploration test in 2006 and subsequent technical evaluations.

The Selling expenses amounted to MUSD 37.60 (MUSD 21.57) for the financial year. Comparing to 2006 the selling expenses increased due to larger volumes of crude oil sold, increased transportation charges per barrel and higher volumes of crude oil sold for far abroad export and export to CIS countries.

The Administration expenses amounted to MUSD 22.83 (MUSD 14.36) for the financial year. The charge related to the global share option plan amounted to MUSD 4.96 (MUSD 3.97). The annual bonus awarded to management amounted to MUSD 0.88 (MUSD 0.90) was included in the Administration expenses. Costs associated with the listing on the OMX Nordic Exchange Stockholm were included in the Administration expenses and amounted to MUSD 0.77.

The operating income amounted to MUSD 32.72 (MUSD 27.63). Last financial year, a gain of MUSD 5.84 from the sale of shares in subsidiaries was included in the operating income.

Net finance expenses were MUSD 15.53 (14.87 MUSD).

Currency exchange rate gains amounted to MUSD 24.53 (MUSD 21.75). These mainly unrealised currency exchange rate gains resulted from the substantial devaluation of the US Dollar against the Russian Rouble and were mainly derived from recalculating inter-company loans of the subsidiaries from Russian Roubles to US Dollars. The exchange rate used regarding the Russian Rouble to the USD at December 31, 2006 and December 31, 2007 were 26.33 and 24.55 per to USD.

Tax charges amounted to MUSD 11.82 (MUSD 4.29).

Maxim Barski and Musa Bazhaev

Financing

In January 2007, MSEK 562.50 (MUSD 80.36 before placement costs) was raised through a private placement of 90 million common shares. The net proceeds after placement costs amounted to MSEK 544.71 (MUSD 77.79). The placement costs amounting to MUSD 2.57 were mainly paid in April 2007.

In September 2007, a MUSD 250 bridge facility payable to BNP Paribas was extended until March 2008 with an interest rate LIBOR plus 3.5 per cent.

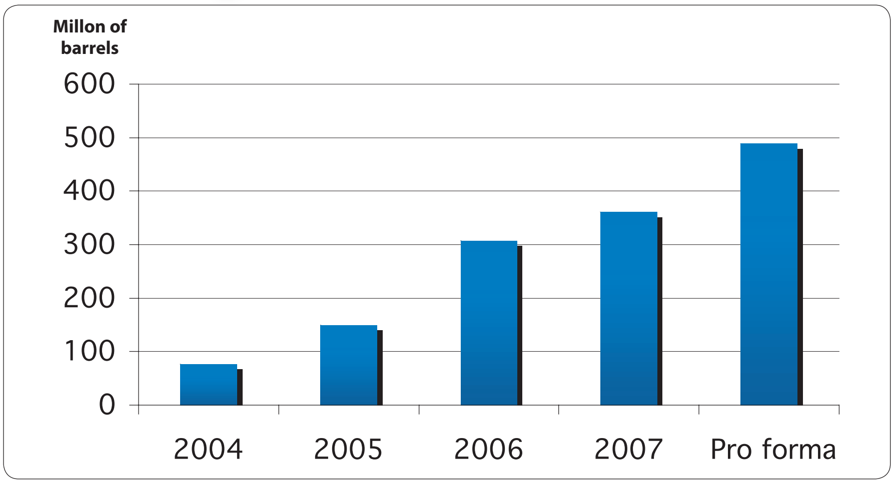
In December 2007 a loan facility for up to MUSD 350 was signed with a syndicate of banks out of which MUSD 240 was disbursed to refinance the bridge facility expiring in March 2008. An additional MUSD 60 was disbursed in February 2008. The loan matures in 6 years and bears interest rate LIBOR plus 3.25%–3.75%.

Subsequent events – Merger with Alliance Oil Company

On 10 April 2008, Alliance Oil Shareholders contributed the entire share capital of Alliance Oil to WSR in exchange for 1,783,540,968 ordinary shares in WSR. Warrants to subscribe for 99,682,500 ordinary shares at an exercise price of SEK 6.21 per share were also issued as part of the merger.

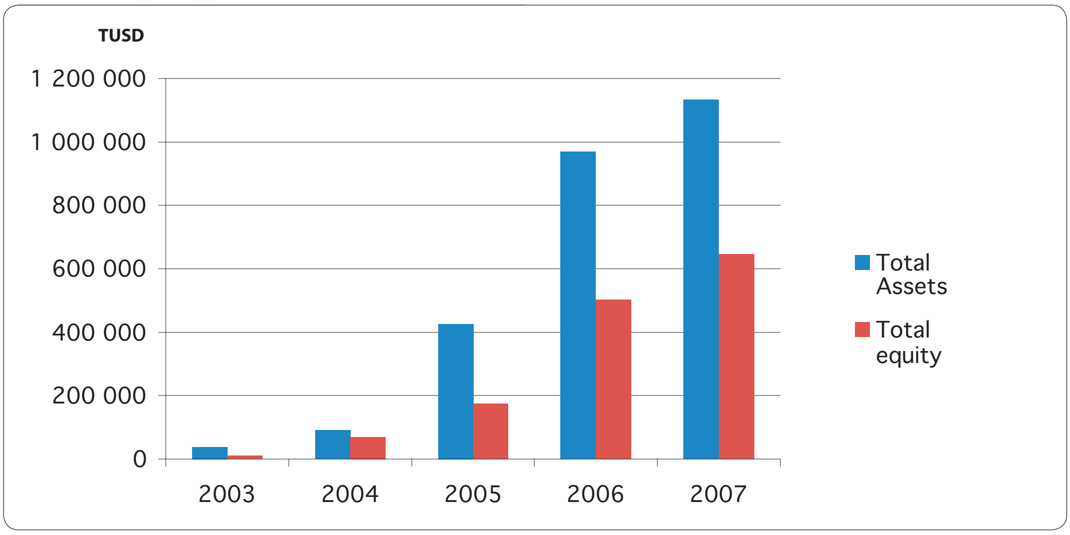
In April, West Siberian raised approximately MUSD 170 (MSEK 1,006) through a private placement of 258 million new common shares issued as SDRs. The SDRs were placed with qualified investors at a subscription price of SEK 3.90 per share.

Proven and probable reserves



The pro forma proven and probable reserves are the sum of the proven and probable reserves of WSR and Alliance Oil as at 31 December 2007 under PRMS classification in accordance with D&M and Miller & Lentz reserve estimation reports.

Total equity and total assets



Russian Taxes

The Russian tax system includes federal, regional and local taxes. For an oil company, the most significant taxes are the following:

Value-added tax

Value-added tax (VAT) of 18 per cent is imposed on Russian domestic sales of oil.

Export duty – crude oil

Export duty is imposed on Russian export sales of oil to non-CIS countries. The export duty increases exponentially, and as a result Russian oil companies are not able to take full advantage of rising international oil prices achieved on export sales. If the export price is below 15 USD per barrel, no export duty is imposed. For export prices between 15 and 20 USD per barrel, 35 per cent of the surplus over and above USD 15/bbl is imposed. For oil prices between 20 and 25 USD per barrel, a flat rate of 1.75 USD per barrel plus 45 per cent of the surplus over and above 20 USD per barrel is imposed. For export prices over 25 USD per barrel, a flat rate of 4 USD plus 65 per cent of the surplus over and above 25 USD is imposed. The export price used is an officially stated average price/barrel of Urals Blend export oil for the previous 2 months before export duty announcement.

Export duty – oil products

The rates of export duties on oil products are established by the Russian Government and published together with the export duties for crude oil. In average export duties on light oil products are approximated at 71–72% of the export duty for crude oil and export duty on dark oil products are approximated at 38-39% of the export duty for crude oil. The current export duty rates for light oil products is USD 241.4 per ton (USD 197.8 per ton in 2007) and USD 130.1 per ton (USD 106.6 per ton in 2007) for dark oil products.

Production tax

Production tax is imposed on all oil produced. The amount of the production tax is depending of the Urals Blend oil price and the exchange rate between the Russian Ruble and the US Dollar. In calendar year 2006 production tax (PT) was calculated using the formula: Production tax (PT)=419 x K (419: production tax rate RUR per ton, K: (P-9) x FX/261, P: has an average Urals price USD/bbl for previous month, FX: has a RUR/USD exchange rate).

Excise Tax – oil products

The rates of excise tax on oil products are set and published by the Russian Government with no regular revision. The excise tax is applicable to all oil products.

West Siberian Shares

Share Capital, Voting Rights and Trading

The registered share capital at December 31, 2007 amounts to USD 59,451,365.60 represented by 1,189,027,312 shares with a par value per share of USD 0.05. Each share carries one vote. The shares are traded as Swedish Depository Receipts (SDRs) at the OMX Nordic Exchange Stockholm, where they were approved for trading from May 23, 2007. SEB acts as the custodian bank. Before May 23, 2007, West Siberian was listed on First North – an alternative marketplace for small growth companies at the OMX Nordic Exchange. After the merger with Alliance and the private placement in April 2008, the total number of outstanding shares increase to 3,230,568,280 with a total share capital of USD 161,528,414.

Market Capitalisation and Share Turnover

The market capitalisation as of December 31, 2007 was MSEK 5,065.26 (MSEK 8,077.85 as of December 31, 2006). In 2007, 1,141,231,246 shares were traded. The average daily turnover during the year amounted to 4,564,925 shares. The 2007 year high of SEK 7.50 was noted on January 2, and the year low of SEK 4.00 on November 23.

Dividend Policy

WSR's strategy is to redeploy cash flows from operations through its capital expenditure programme aimed at increasing oil reserves and production and upgrading the Khabarovsk refinery. The company has not paid any dividends since it went public in the year 2000 and does not currently plan to propose dividend payments for the foreseeable future. The dividend policy is reviewed annually.

Largest Shareholders

The 10 largest shareholders of West Siberian Resources Ltd (as per VPC's data as of March 31, 2008 combined with known changes thereafter) Note that this does not reflect equity placement in April 2008.

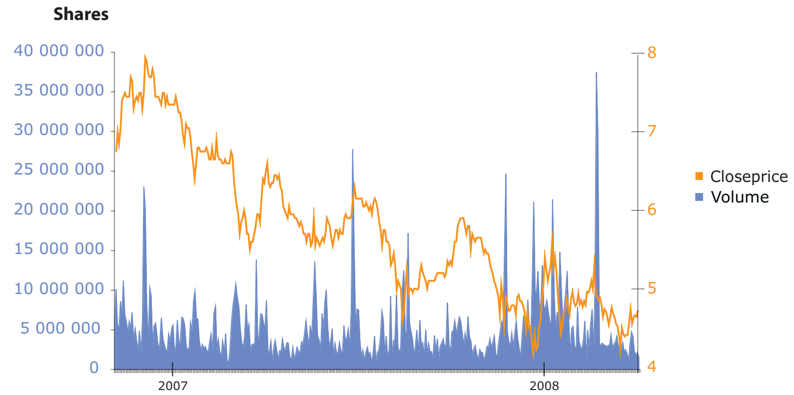
Name	Number of SDRs owned	% of total capital and votes
Alliance Capital	892 742 594	30,0%
Alliance Group	616 339 940	20,7%
Daumier Investments Ltd	274 458 434	9,2%
Alltech Investment Ltd	217 850 208	7,3%
Repsol Exploracion S.A.	118 902 732	4,0%
Investors Life Insurance Corp.	69 214 675	2,3%
Marbled Financial Holding S.A	32 495 209	1,1%
Dangol Associated S.A.	31 495 208	1,1%
Surual Finance S.A.	26 545 381	0,9%
Bäverbäcken Förvaltning AB	19 534 840	0,7%
Subtotal 10 largest shareholders	2 299 579 221	77,4%
Other, approximatly 29,000 owners	672 989 059	22,6%
Total	**2 972 568 280**	**100,0%**

Distribution of Shareholders

Share distribution by size of holdings (as per VPC's data as of March 31, 2008 combined with known changes thereafter).

Shareholding	No. of owners	No. of shares	Share in %
1 - 500	3 908	961 670	0,0%
501 - 1 000	4 371	4 102 299	0,1%
1 001 - 5 000	10 229	29 643 810	1,0%
5 001 - 10 000	4 641	38 611 350	1,3%
10 001 - 15 000	1 236	16 046 628	0,5%
15 001 - 20 000	1 466	27 646 077	0,9%
20 001 -	3 230	2 855 556 446	96,1%
Total	**29 081**	**2 972 568 280**	**100,0%**

Share Price Development and Turnover



Data per share

	2007 12 months	2006 12 months	2005 12 months	2004 15 months	2003 12 months
Earnings per share for the period (USD)	0,03	0,03	0,00	0,06	-0,86
Earnings per share for the period (fully dilluted) (USD)	0,03	0,03	0,00	0,06	-0,48
Market capitalization at the end of the period (MSEK)	5065,26	8077,85	3851,68	806,61	39,26
Revenue per share (USD)	0,32	0,22	0,10	0,05	0,28
Revenue per share (fully dilluted) (USD)	0,32	0,23	0,12	0,08	0,28
Assets value per share (USD)	0,95	0,88	0,54	0,21	1,20
Share price at financial period end (SEK)*	4,26	7,35	4,86	1,79	1,22
Dividend per share	-	-	-	-	-
Average share trading volumes	4 564 925	7 182 847	6 191 797	2 338 677	210 268
Number of shares at financial period end	1 189 027 312	1 099 027 312	792 527 312	429 050 500	32 179 989
Weighted average number of shares at financial period end (fully dilluted)	1 186 447 178	1 064 214 168	635 615 586	296 350 869	32 179 989
Number of outstanding options at period end	66 455 000	38 499 000	-	-	-

* Share price adjusted for right issues.

Additional data and ratios are presented in the "Key financial and operating ratios" on page 56.

WSR's operations

After the merger with Alliance Oil in 2008, West Siberian became a vertically integrated oil company with both upstream and downstream operations. Exploration and production of crude oil is conducted in four different regions in two countries – Russia and Kazakhstan. Refining is conducted at the Khabarovsk refinery in the Russian Far East. Oil products are primarily marketed in the Russian Far East through the group's oil terminal and gas station networks.

Oil Reserves and Production

In 2007, West Siberian Resources produced crude oil in three regions: the Tomsk, the Timano-Pechora and the Volga-Urals region. In these regions, the group had 1,259 employees as of 31 December 2007, out of which 845 were field workers, 386 were engineers and specialists and 28 were management and administrative employees.

As of December 31, 2007, West Siberian Resources Ltd`s proven, probable and possible oil reserves amounted to 489 million barrels, according to DeGolyer and MacNaughton's PRMS estimates. The proven and probable (2P) oil reserves amounted to 361 million barrels. According to official Russian reserve estimates proven and probable (ABC1+C2) reserves amounted to 376 million barrels. In addition, the company has identified significant resource potential in several fields which has not yet been fully evaluated.

The Timano-Pechora region accounted for 72.2 per cent of total 2P PRMS reserves. In 2007, 3.34 million barrels were produced in the region, corresponding to 31.4 per cent of total oil production. The Tomsk region accounted for 19.3 per cent of 2P PRMS reserves, producing 3.55 million barrels, or 33.3 per cent out of the total oil production in 2007. 8.5 per cent of total 2P reserves were located in the Volga-Urals region. The region produced 3.75 million barrels or 35.2 per cent of total production in 2007.

Trough the merger with Alliance Oil in April 2008, additional 2P PRMS reserves of 127.7 million barrels and 3P reserves of 166.1 million barrels were added according to Miller and Lents. Total 2P reserves pro forma for the merger with Alliance amounted to 489 million barrels.

'000 bbl	Production 2007	PRMS Classification				Russian Classification		
		Proven	Probable	Possible	Total 3P	ABC1	C2	Total ABC1+C2
Tomsk region oil fields	3 546	21 570	48 147	10 007	79 724	57 429	21 266	78 695
Timano-Pechora region oil fields	3 343	125 096	135 637	112 477	373 210	151 233	125 285	276 518
Volga-Ural fields	3 749	16 264	14 296	5 108	35 668	17 998	3 233	21 231
Total	**10 638**	**162 930**	**198 080**	**127 592**	**488 602**	**226 660**	**149 784**	**376 444**
Tatarstan oil fields	3 295	91 905	19 430	33 811	145 146	74 019	24 138	98 157
Kazakhstan oil fields	252	10 034	6 294	4 587	20 915	10 550	2 707	13 257
Total following the Merger	**14 185**	**264 869**	**223 804**	**165 990**	**654 663**	**311 229**	**176 629**	**487 858**

Russian vs Western Reserve Classification

Russian Classification

The Russian reserve classification system is based on the analysis of geological attributes. The categories of the Russian system are in descending order of geological certainty, reflecting the degree of exploration that has taken place. Explored reserves are represented by categories A, B, and C1; preliminary estimated reserves are represented by category C2; and forecast resources are represented by categories Dl and D2. A predicated coefficient of extraction is calculated based on geological and technical factors.

Western Classification, PRMS Standards

In contrast to the Russian reserves classification system, PRMS standards take into account not only the probability that hydrocarbons are physically present in a given geological formation but also the economic viability of recovering the reserves. That includes such factors as exploration and drilling costs, ongoing production costs, transportation costs, taxes, prevailing prices for the products, and other factors that influence the economic viability of a given deposit. Under PRMS standards, reserves are classified as "proven", "probable" and "possible", based on both geological and commercial factors.

The Tomsk Region

The Tomsk region is located in Western Siberia in Russia and covers an area of approximately 317,000 square kilometres. The region sits on the Siberian Platform – one of the largest oil-bearing tectonic elements in the world. The Tomsk region has potential geological recoverable oil resources estimated at between approximately 3.1 and 3.4 billion tonnes or close to 25 billion barrels. West Siberian Resources has conducted oil operations in the region for almost 10 years. WSR operates one refinery and four oil fields in the region: Khvoinoye, Kluchevskoye, Puglalymskoye and Middle Nyurola.

West Siberian's proven, probable and possible oil reserves in the region amount to 79.7 million barrels of oil (87.0 million barrels in 2006) according to D&M's PRMS estimates in 2007. The total production of the Tomsk region amounted to 3,545,502 barrels in 2007 (2,757,422 barrels in 2006).

The area of West Siberian's oil fields is flat and slightly undulating with surrounding marshy and wetland areas. This land is located in very remote areas which were previously unused and it is not a protected area or sensitive environment. Land utilized for project operations within the oil fields area is leased from local authorities. There is an almost complete lack of local infrastructure development except for the construction and operation of a winter road (January to April) and the pipeline connection to the Transneft network.

In 2007, the West Siberian Group concluded several social agreements for the total of USD 593 thousand mostly with a local football club.

Work Programme 2007

The total investment programme for 2007 for the Tomsk region amounted to MUSD 62.23. The major part was invested in the drilling programme (MUSD 41.06). Investments were also made in field storage facilities (MUSD 13.74), equipment (MUSD 8.00) and geology (MUSD 1.43).

During 2007, WSR drilled a total of 21 production wells, 3 water wells and 4 injection wells in the Tomsk Region. Most of the drilling was conducted on the Kluchevskoye (12 wells) and the Puglalymskoye fields (14 wells), but 2 wells were also drilled at the Khvoinoe field. The drilling services were provided by the leading company Sibirskaya Servisnaya Kompaniya (SSK) previously related to YUKOS. A total of 19 hydrofracturings were performed on the Kluchevskoye and Puglalymskoye fields. The hydrofracturing works were performed by MeKaMiNeft and NewcoWellServis. At the Middle Nyurola field well production optimization programme was performed.

Other field work in 2007 includes a water injection system at the Kluchevskoye field and a pipeline that connects this field to the Middle Nyurola oil treatment facility. At the Puglalymskoe, an oil gathering system and power lines were completed. The construction of a 52 km winter road to the Middle-Nyurola field was finished in order to secure the supply of equipment and materials for the 2008 working programme.

At the Khvoinoye field, 3D seismic data covering 83 square kilometers were acquired.

Work Programme 2008

In 2008, the investment plan for the region amounts to MUSD 49.89. Most resources will be invested in the drilling programme (MUSD 27.70). Other planned investments are field storage facilities (MUSD 15.06), equipment (MUSD 5.95) and geology (MUSD 1.18 million).

2008 Drilling Plan

	Exploration wells	Production wells	Sidetrack	Water and other wells
Middle Nyurola	-		-	
Kluchevskoye	-	10	-	
Puglalymskoye	-	1	-	1
Khvoinoye	-	6	-	1
Total Tomsk Region	**-**	**17**	**-**	**2**

At the Kluchevskoye field, the plan for 2008 is to build appropriate infrastructure for water injection system for formation pressure maintenance. Three gas-powered generators will be installed. Besides 10 new production wells, an one older well will also be reactivated and six deviated production wells are also planned to be hydraulically fractured. In order to increase production rates at Puglalymskoye, a hydrofracturing programme is planned for 3 production wells. This will also lead to better geological knowledge about the reservoir in preparation for further drilling in 2009.

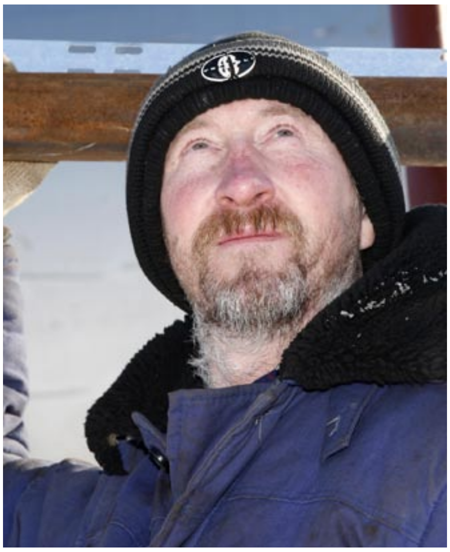
The 2008 work programme at the Khvoinoye includes next to the drilling of 6 new production wells also reactivation of one older well.

The Alexandrov Refinery

WSR operates one small refinery in the Tomsk region. The refinery can produce approximately 350,000 barrels of refined oil products per year. In 2007, the Alexandrov Refinery processed 226,502 barrels of crude oil from which it produced gasoline, diesel fuel and fuel oil. All of the Alexandrov Refinery's products are sold on the Russian market or purchased by WSR's othersubsidiaries for their own consumption. As a result revenues of MUSD 9.4 both from external and internal sales of oil products were generated in 2007 with external sales amounted to MUSD 5.4.

Tomsk Region

'000 bbl	Production 2007	PRMS Classification				Russian Classification		
		Proven	Probable	Possible	Total 3P	ABC1	C2	Total ABC1+C2
Middle Nyurola	1 562	8 871	19 286	5 976	34 133	30 007	-	30 007
Kluchevskoye	1 468	5 167	6 121	1 418	12 706	5 489	-	5 489
Puglalymskoye	323	4 978	5 916	2 371	13 265	11 571	13 621	25 192
Khvoinoye	193	2 554	16 824	242	19 620	10 362	7 645	18 007
Total Tomsk region	**3 546**	**21 570**	**48 147**	**10 007**	**79 724**	**57 429**	**21 266**	**78 695**



Timano-Pechora Region

The Timano-Pechora region, located north of the Ural mountains by the Barents and Kara Sea, is a mature petroleum province, but also contains areas which have received relatively little exploration. The basin contains identified reserves of 9 billion barrels of oil. West Siberian entered the region in 2005, and holds four exploration and production licenses in the region: Middle Kharyaga, North Kharyaga, Lek-Kharyaga and Kolvinskoye.

West Siberian's proven, probable and possible oil reserves in the region amount to 373.2 million barrels of oil (318.3 million barrels), based on D&M's estimates in 2007. The total production in the Timano-Pechora region amounted to 3,343,502 barrels in 2007 (2,842,808 barrels in 2006).

The group's oil fields are located within a large grazing area that local communities utilize for extensive reindeer herding and grazing. Out of the total area of 5.9 million ha, the oil fields occupy only approximately 260 ha of land which are leased from these farm communities. The development and operation of oil fields has not had any significant adverse impacts on the local communities. The nearest permanent settlement to the oil field facilities is 70 km distant.

West Siberian actively participates in the social programme in the Timano-Pechora region by spending more than TUSD 108 (TUSD 65 in 2006) for support of local schools and kindergartens, homes for senior citizens and the Second World War veterans and other social entities in the town of Usinsk. In addition the company provided support to the local reindeer herding and grazing farms in the region for the amount of more than TUSD 27 (TUSD 95). The relationships with the local agricultural farms are mutually beneficial as the local farmers are hired by the company for part-time work. In addition,West Siberian has agreed to pay USD 3.5 per tonne (USD 0.47 per barrel) of oil produced at the Middle Kharyaga field to the Administration of the Nenetsk Autonomous Area. In the financial year ended December 31, 2007 the total charge of MUSD 4.75 was recorded in the WSR's income statement.

Work Program 2007

The total investment programme in 2007 amounted to MUSD 83.99. The major part was invested in the drilling programme (MUSD 38.70). Investments were also made in field storage facilities (MUSD 28.38), equipment (MUSD 7.89) and geology (MUSD 9.03).

During 2007, WSR drilled a total of 16 production wells in the Timano-Pechora Region, whereof 12 at the North Kharyaga and 4 at the Lek-Kharyaga. At the North Kharyaga, three abandoned exploration wells were reactivated and put into production with electrical submersible pumps (ESP).

At the Kolvinskoye field a well was reactivated in order to test well productivity and meet license obligations. The engineering surveys were executed to determine future locations of the field's facilities and pipelines routes for connecting to the Transneft system.

Other work in the 2007 work programme included acquiring a total of 320 square kilometres 3D seismic at the Kolvinskoye, North Kharyaga and Lek-Kharyaga fields that fully covered license obligations. Following the seismic interpretation the geological models for the North Kharyaga and Lek-Kharyaga fields. An inter-field pipeline was also constructed, which enables oil produced at the Lek-Kharyaga oil field to be treated at the Middle Kharyaga treatment and production facility. Both at the North Kharyaga and Lek-Kharyaga, the power supply has been secured through the installation of high-voltage lines connecting the fields with the power generating complex at the Middle Kharyaga oil field. At the Middle Kharyaga field, water and heating supply systems for the treatment facility were constructed. The winter roads for the Middle Kharyaga and Lek-Kharyaga fields were completed to facilitate the supply of equipment and materials for 2008 working programme. Cementing, perforating, acid treatment and geological studies services were provided by Petro-Alliance.

Work Program 2008

The 2008 work programme includes investments of MUSD 120.96, out of which the drilling programme amounts to MUSD 49.00. Other planned investments are field storage facilities (MUSD 43.21), equipment (MUSD 14.09) and geology (MUSD 14.66).

Drilling Program 2008

	Exploration wells	**Production wells**	**Sidetrack**	**Water and other wells**
Middle Kharyaga	-	-	1	2
North Kharyaga	-	3	-	9
Lek-Kharyaga	1	7	-	5
Kolvinskoye	1	1	-	-
Total Timano-Pechora Region	**2**	**11**	**1**	**16**

At the North Kharyaga, the seismic survey will continue with the acquisition of 3D seismic. Acid fracturing is planned for the North Kharyaga in order to stimulate production. The work programme for 2008 also includes an oil treatment facility upgrade at the Lek-Kharyaga.

Timano-Pechora Region

	Production	**PRMS Classification**				**Russian Classification**		
'000 bbl	**2007**	**Proven**	**Probable**	**Possible**	**Total 3P**	**ABC1**	**C2**	**Total ABC1+C2**
Middle Kharyaga	2 126	8 657	14 756	3 750	27 163	42 202	2 761	44 963
North Kharyaga	656	18 137	37 802	68 027	123 966	47 136	27 330	74 466
Lek-Kharyaga	561	9 236	18 324	6 682	34 242	15 693	2 556	18 249
Kolvinskoye	-	89 066	64 755	34 018	187 839	46 202	92 638	138 840
Total Timano-Pechora Region	**3 343**	**125 096**	**135 637**	**112 477**	**373 210**	**151 233**	**125 285**	**276 518**

Volga-Urals Region

The Volga-Urals oil region is located in the southern part of European Russia. The petroleum basin extends over an area of 700,000 square kilometres located between the Volga River on the west, the Ural mountains on the east, and the Peri Caspian depression to the south. The region is one of the oldest oil regions in Russia. Through Saneco, West Siberian holds six production licences covering eight oil fields, and three exploration licences containing several oil structures. West Siberian entered the region in February 2006 through the acquisition of Saneco. Through the merger with Alliance Oil in April 2008, two oil fields in Tatarstan were added to WSR's operations in the region.

West Siberian's proven, probable and possible oil reserves in the Volga-Urals region were estimated by D&M in 2007 to amount to 35.7 million barrels of oil (38.6 million barrels). Alliance Oil's proven, probable and possible reserves in Tatarstan amounted to 145.1 million barrels. WSR produced through Saneco in 2007 a total of 3,748,646 barrels (2,679,937 barrels in 2006, out of which 2,410,625 barrels were consolidated in the 2006 financial statements). The production in 2007 of Alliance Oil in Tatarstan amounted to about 3,295,220 barrels of oil.

Saneco

The oil fields are mainly located in crop land consisting of steppe areas with high agricultural production potential. Exploration drilling and the establishment of wells are undertaken using directional drilling techniques so as to avoid settlements and built structures. None of the oil wells or exploration drilling activities is located closer than 1 kilometres from the nearest settlement. All land in the area is owned by the state and land needed permanently for oil field development is sold to the oil company.

An agreement for participation in the social-economic development was concluded with the local authorities under which the company financed a hospital building and a drinking water well and dam repairs for the amount of TUSD 280. In addition the company supported the local Municipal disabled children and teenagers' rehabilitation centre and the Social youth rehabilitation centre.

Work Programme 2007

In 2007, total investments in the region amounted to USD 42.27. The investments were distributed between the drilling programme (MUSD 9.87), field storage facilities (MUSD 13.94), geology (MUSD 10.93) and equipment (MUSD 7.53).

During 2007, WSR drilled a total of 8 production wells and 4 exploration wells in the Volga-Urals Region. Most of the production wells' drilling was conducted at the Kochevnenskoye and West Kochevnenskoye fields. The drilling works were performed by the leading Russian drilling company Sibirskaya Servisnaya Kompaniya (SSK) previously related to YUKOS and Burovie Sistemi.

The upgrade of the Kochevnenskoye field's oil treatment facility limiting the production in 2007 increased the capacity to 10,800 barrels per day. The production at the West Kochevnenskoye field was shut-in in the spring of 2006 awaiting license approvals. In March 2007 the field was put into operations again. A new 25 year oil production license for the Kovalevskoye field was obtained, and a second exploration well was successfully drilled and tested on the field. A pipeline connecting the field to the Kochevnenskoye oil field oil treatment facility was constructed. A 20 year exploration and production license for the Solnechnoye oil field, where an oil discovery recently was made, was granted. For the newly discovered Borshevskoye oil field the exploration and production license will be applied for once the necessary technical and legal documentation has been prepared. Construction works in the region included high voltage power lines, a 7 kilometres oil pipeline and a 1 million m^3 fresh water reservoir. 150 square kilometres 3D seismic for the Kochevnenskoye, West Kochevnenskoye and Solnechnoye fields were acquired and interpreted defining the fields' structure more precisely.

Work Programme 2008

The planned investment programme for the Saneco fields for 2008 amounts to MUSD 37.62. The investments are distributed as follows: drilling programme (MUSD 8.12), geology (MUSD 13.46), field storage facilities (MUSD 12.75) and equipment and other investments project (MUSD 3.29).

The work programme for 2008 also includes an upgrading of the water removal system at the Novo-Kievskoye field and an upgrading of the oil treatment facility at the Kochevnenskoye field.

In 2008 the Kovalevskoye field development plan is to be proved by Federal agency following by puting the oil field in production.

Drilling programme 2008

	Exploration wells	Production wells	Sidetrack	Water and other wells
Saneco	4	3	1	-
Tatarstan	2	22	-	-
Total Volga-Urals Region	**6**	**25**	**1**	**-**

Tatarstan:

The Stepnoozerskoye oil field is the group's largest oil field in Tatarstan and has 168 producing wells,. The Yelginskoye oil field has 62 producing wells. The fields in Tatarstan are connected to the Transneft pipeline system through the Tatneft transportation system.

In 2007, a total of 3 exploration and appraisal wells were drilled in the assets in Tatarstan, 48 kilometres of 3D seismic were acquired and 23.2 kilometres of gravity explorations were conducted. In 2007, the construction of a split flow high sulphur crude oil treatment plant and a separate crude oil extraction unit for the total cost of approximately MUSD 11.07 began at the Stepnoozerskoye oil field. The total investment programme in Tatarstan in 2007 amounted to MUSD 37.91.

For 2008, the group is considering using secondary recovery like injecting gas, water or other substances to increase reservoir pressure, and production enhancement techniques to increase its crude oil recovery ratio. Oil production enhancements techniques like electric downhole heater modules and dilatational and wave methods will also be used at the Stepnoozerskoye field. The total investment plan for Tatarstan in 2008 amounts to MUSD 31.13.

Volga-Urals Region								
'000 bbl	Production 2007	PRMS Classification				Russian Classification		
		Proven	Probable	Possible	Total 3P	ABC1	C2	Total ABC1+C2
Novo-Kievskoye	1 486	6 760	8 038	471	15 269	11 673	1 517	13 190
Kochevnenskoye	1 257	1 187	310	-	1 497	325	1 292	1 617
West Kochevnenskoye	639	2 466	1 191	-	3 657	2 984	-	2 984
Solnechnoye	75	966	195	-	1 161	1 887	-	1 887
Kovalevskoye	260	4 442	4 152	-	8 594	341	424	765
Borschevskoye	22	104	-	3 103	3 207	652	-	652
West Borshevskoye	-	-	-	1 534	1 534	-	-	-
Kulturnenskoye	10	339	410	-	749	136	-	136
Subtotal Volga-Urals Region	**3 749**	**16 264**	**14 296**	**5 108**	**35 668**	**17 998**	**3 233**	**21 231**
Tatarstan								
Stepnoozerskoye	2 227	73 945	16 168	15 152	105 265	52 081	9 962	62 043
Yelginskoye	1 068	17 960	3 262	18 659	39 881	21 938	14 176	36 114
Subtotal Tatarstan	**3 295**	**91 905**	**19 430**	**33 811**	**145 146**	**74 019**	**24 138**	**98 157**
Total Volga-Urals Region	**7 044**	**108 169**	**33 726**	**38 919**	**180 814**	**92 017**	**27 371**	**119 388**

Kazakhstan

Kazakhstan has the second largest base of proved reserves in Europe amounting to some 40 billion barrels. Only the Russian reserves are larger. Kazakhstan holds most of the Caspian Sea's biggest known oil fields. West Siberian entered Kazakhstan through the merger with Alliance Oil in 2008. The operations in Kazakhstan are conducted through the subsidiary Potential Oil. Potential Oil conducts exploration activities at the Begaidar block, located in the Atyrau region of Kazakhstan on the northern shore of the Caspian Sea. The Begaidar block covers an area of approximately 4,300 square kilometers.

Potential Oil's proven, probable and possible reserves in Kazakhstan amount to 21 million barrels of oil. The total production in 2007 amounted to 258 thousand barrels (88 thousand barrels in 2006).

Since 2001, a total 1,010 kilometres of 2D-seismic has been acquired and 27 exploration and appraisal wells have been drilled on the block. Currently, two oil fields and a gas deposits have been discovered. Potential Oil commenced pilot operation of the Yuzhno-Zhanatalap oil field in January 2006. Drilling activities and testing of exploration and appraisal wells are currently being conducted on the Zapadno-Zhanatalap oil field. Both oil fields are connected to the Transneft pipeline system through the Sazankurak and the KazTransOil transportation systems.

During 2007, MUSD 16.26 was invested for exploration and appraisal activities in the field including drilling of 8 exploration wells. The drilling programme for 2008 calls for 3 exploration and 6 development wells. The total estimated investment plan for the Begaidar block amounts to MUSD 17.32 in 2008.

Drilling programme 2008

	Exploration wells	Production wells	Sidetrack	Water and other wells
Kazakstan	3	6	-	-
Total Kazakhstan	**3**	**6**	**-**	**-**

Kazakhstan								
'000 bbl	Production 2007	PRMS Classification				Russian Classification		
		Proven	Probable	Possible	Total 3P	ABC1	C2	Total ABC1+C2
Begaidar Block								
Yuzhno Zhanatalap	91	2 700	1 313	-	4 013	3 534	-	3 534
Zapadno Zhanatalap	161	7 334	4 981	4 587	16 902	7 016	2 707	9 723
Kazakhstan totals	**252**	**10 034**	**6 294**	**4 587**	**20 915**	**10 550**	**2 707**	**13 257**

Refining

Through the merger with Alliance Oil, West Siberian Resources now owns one of the only two oil refineries currently located in the Russian Far East, the Khabarovsk oil refinery. The Khabarovsk oil refinery produced 3,173 thousand tonnes (23,661 thousand barrels) of commercial oil products in 2007 (3,026 thousand tonnes or 11,025 thousand barrels in 2006).

The number of employees as of December 31, 2007 amounts to 1,305 for the Khabarovsk oil refinery and 3,693 for the marketing subsidiaries.

History of the Khabarovsk Refinery

The Khabarovsk refinery was originally constructed in 1935. With an initial capacity of 8,000 barrels of oil per day, it was intended to supply oil products to the Soviet Union's Pacific Ocean fleet and the developing economy of the Russian Far East and Eastern Siberia.

Before 2007 the Khabarovsk oil refinery had undergone various stages of modernisation to increase its primary processing capacities and comply with applicable regulations. Currently a modernisation programme is being implemented at the refinery.

The Khabarovsk oil refinery is not connected to the Transneft or Transnefteproduct pipeline systems. As a result, crude oil and oil products have to be transported to and from Khabarovsk oil refinery by other means, primarily by rail. The Khabarovsk oil refinery is supported by advanced logistics infrastructures, including extensive storage facilities at the refinery and railway links to the Russian Railways network. In addition, it is located in close proximity to the Khabarovsk oil terminal wharf on the Amur river.

Refinery Capacity Description (000 tonnes)

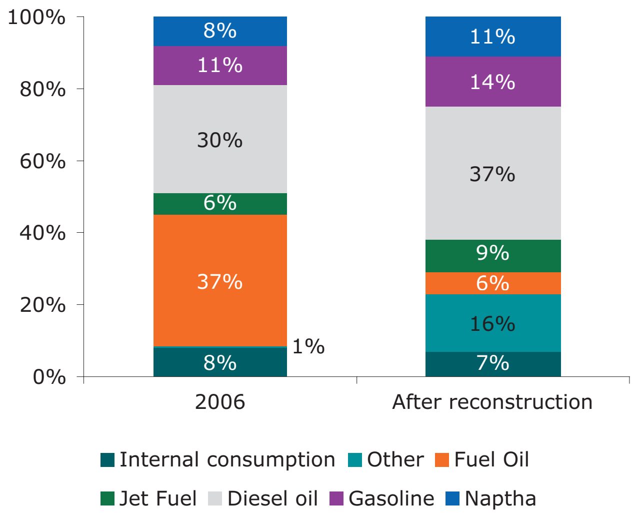
Installations and facilities	Current annual capacity	Start-up year	Modernisation year
Atmospheric crude distillation	4,178	1966	
Initial oil processing, including:	4,350		
Atmospheric distillation	2,950	1936	2001
Vacuum distillation	1,400	1988	
Catalytic reforming	300	1973	1998
Isomerisation	108	2004	
Bitumen	318	1939	
Absorption and gas fractionation	225	1998	
Gas desulphurisation	34	2001	
Inert gas	1.8	1973	

Crude Oil Suppliers

The Khabarovsk refinery processes the crude oil under tolling agreements with Alliance Khabarovsk, Dal'nevostochnyi Alliance and Naftatekhresurs, all group subsidiaries. Services provided under the tolling agreements include processing of the crude oil purchased by Alliance Khabarovsk, Dal'nevostochnyi Alliance and Naftatekhresurs and related storage and transportation services for the oil products. Alliance Khabarovsk, Dal'nevostochnyi Alliance and Naftatekhresurs purchase the majority of crude oil from external suppliers and partly directly from Tatnefteotdacha, VTK, oil producing subsidiaries of the group.

A ten year supply contract has been entered with Surgutneftegas, the refinery's current main crude oil supplier. This contract provides for a monthly supply of up to 170,000 tonnes of crude oil (more than 1.2 million barrels) to the Khabarovsk oil refinery. In addition there are one year or one month arrangements with other suppliers that establish maximum volumes of crude oil to be purchased in each period. Prices are usually denominated in roubles. They are set for each delivery and are generally based on the crude oil market price during the month of delivery. Under existing arrangements, advance payments are made for 90 per cent of crude oil supplied and payments are deferred for the remaining 10 per cent of crude oil supplied.

Product mix before and after upgrade



Production at the Khabarovsk Oil Refinery

The Khabarovsk refinery is a leading producer of advanced oil products in the Russian Far East. In 2002, the refinery was the first company to start production of A 98 gasoline in the Russian Far East. In 2005, it was the first refinery in the Russian Far East to begin production of gasoline with specifications in compliance with corresponding European standards EN-228:2004 (Regular, Euro-92/4, Premium, Euro-95/4, Super, Euro-98/4). In 2006, the Khabarovsk oil refinery began to produce high octane gasoline with improved cold start up characteristics. In 2007, the Khabarovsk oil refinery in cooperation with BASF started production of GREENECO gasoline with high detergency and improving customer contract demand.

As of 1 January 2008, the Khabarovsk oil refinery had a Nelson complexity index, which measures the technological complexity of oil refineries, of 3.4, compared to an average complexity index of Russian refineries of 4.3. The depth of crude oil processing at the Khabarovsk oil refinery in 2007 was 62.5 per cent, while the average depth of Russian refineries was 71.7 per cent.

Modernisation Programme of the Khabarovsk Oil Refinery

West Siberian Resources is planning to modernise the Khabarovsk oil refinery to widen its production processes for a higher degree of oil refining, in order to produce more of higher value light oil products. The total cost of the Khabarovsk oil refinery's modernization programme is estimated to be approximately USD 1 billion, including the construction of a hydro fining and hydro cracking units, the reconstruction of a catalytic reforming unit, the upgrade of the existing facilities to be integrated with the new installations and construction of a visbreaking unit. This modernisation will enable the refinery to capture higher margins on sales of oil products and to preserve its position in domestic and international markets by complying with the high quality standards.

In November 2007 the Khabarovsk oil refinery signed a number of contracts with Spanish companies for the implementation of the modernization programme, in which Tecnicas Reunidas, one of the leading international contractors for projects of this scale in the oil and gas sector, petrochemistry and power production, will take a leading role. The contract is multi-currency, with the cost of the facility construction estimated at MUSD 806.7 (based on exchange rate in November 2007, exclusive import duties and VAT).

At the completion of the planned modernisation, Alliance expects Khabarovsk oil refinery to have a nameplate capacity close to 90 thousand barrels per day and a Nelson complexity index of 9.9 at 70 thousand barrels per day level. Following the modernisation, Alliance expects to process from 70 to 90 thousand barrels of oil per day, depending on market conditions.

Alliance believes its product output will remain substantially the same by percentage and by volume during the modernisation of the Khabarovsk oil refinery.

Other investments of the Khabarovsk Oil Refinery

The Khabarovsk oil refinery investment plan for 2008 amounts to MUSD 77.91 including construction and repair of refining facilities.

Marketing and Sales

Through the merger with Alliance Oil, West Siberian´s operations now include marketing and sales of oil products in the Russian Far East. The group's estimated market share amounts to 35 per cent of the retail market and 31 per cent of the wholesale market in terms of volumes of petroleum products. A total volume of 23,661 thousand barrels of oil products was sold in 2007 (22,582 thousand barrels in 2006). The oil products are primarily supplied by the Khabarovsk oil refinery. Small volumes of oil products purchased from unaffiliated companies are also sold in the domestic market.

Domestic sales accounted for 63 per cent of total sales volumes of oil products in the Russian Far East in the first nine months of 2007, of which 79 per cent was attributable to wholesale sales and 21 per cent to retail sales. Exports sales accounted for the remaining 37 per cent of total sales volumes of oil products in the Russian Far East in the first nine months of 2007. The oil products are sold to both wholesale and retail customers through its marketing and sales subsidiaries.

The planned investment programme for 2008 for Alliance's marketing subsidiaries amounts to MUSD 36.44 including repair of existing facilities and purchase of equipment.

Wholesale Sales

Domestic wholesale sales of petroleum products in the Russian Far Eastern market is made through 24 own oil terminals or directly from the refinery. Wholesale sales amounted to 11,774 thousand barrels in 2007 (11,025 thousand barrels in 2006), accounting for 50 per cent of the total sales volumes of oil products in the Russian Far East in 2007 (49 per cent in 2006). Oil products are generally stored at Alliance's oil terminals for a period of up to 30 days before they are sold.

Generally, framework supply contracts are signed with wholesale customers. The supply contracts are usually entered into for one year and include a standard provision permitting the renewal of the contract at the request of the wholesale customer. The oil products are supplied under the federal programmes (for example, to the Russian Ministry of Defence), local oil products distribution and marketing companies, to the Russian Far East fleet and the civil aviation companies including Khabarovsk City airport, other customers, including companies operating in the gold mining, energy, construction, forest and fish sectors.

Retail Sales

Retail sales of oil products in the Russian Far Eastern market is made through the Alliance's 255 proprietary refuelling stations. Domestic retail sales were 3,424 thousand barrels of oil products in 2007 (3,166 thousand barrels in 2006), accounting for 14 per cent of Alliance's total sales volumes of petroleum products in the Russian Far East both in the 2007 and in 2006.The group estimates its retail market share in the Russian Far East at 35 per cent in terms of volumes of petroleum products sold in 2006.

The retail customers are mainly individual car owners and transportation companies. Alliance offers value added services at its refuelling stations, such as car washes, car maintenance, retail shops and kiosks. The group expects to optimise its portfolio of retail refuelling stations in the Russian Far East at approximately existing levels by reconstructing existing refuelling stations and by constructing new refuelling stations while closing underperforming stations. The aim is to substantially increase the number of refuelling stations providing non fuel services.

Export Sales

Through the marketing and sales subsidiary Alliance Oil, 8,462 thousand barrels of oil products were sold in 2007 and 8,391 thousand barrels in 2006, accounting for 36 per cent of the group's total sales volumes of oil products from the Russian Far East in 2007 (37 per cent in 2006). Primarily fuel oil, diesel and naphtha are exported.

Transportation and Logistics

Railways

The wholly owned logistics subsidiary, Alliancetransoil, is generally responsible for the transportation of crude oil and oil products by tank rail cars to and from the Khabarovsk refinery. All the tank rail cars are leased by Alliancetransoil.

Oil terminals

A rail-and-water transshipment terminal is operated in Vladivostok with a transshipment capacity of 2.5 million tonnes per annum. The Vladivostok terminal was reconstructed in 2006 and in the first half of 2007 to increase its transshipment capacity and to secure the quality of oil products transshipped. The Vladivostok terminal includes 31 storage tanks with a net volume of 129,000 cubic metres and four railroad discharge ramps that can simultaneously accommodate 56 tank rail cars.

The group has 24 oil terminals in the Russian Far East with a combined storage capacity of 448,800 cubic metres. The Khabarovsk oil terminal wharf on the Amur river is connected with light and dark oil products pipelines, which accommodate barges with capacities of up to 5,000 tonnes and the Blagoveshensk oil terminal wharf on the Amur river connected with light oil products pipelines. In accordance with Vaarwater programme recommendations, the group seeks to optimise its oil terminals network for more efficient storage and delivery of petroleum products with lower transportation costs.

Khabarovsk Refinery's Storage and Transshipment

The Khabarovsk refinery has 63 tanks to store crude oil and oil products, with a total capacity of 271,500 cubic metres, including 11 tanks for crude oil with a total capacity of 141,240 cubic metres, 43 tanks for light oil products with a total capacity of 95,289 cubic metres and nine tanks for dark oil products with a total capacity of 35,656 cubic metres. The Khabarovsk refinery facilities also include an oil products pipeline of approximately 14.8 kilometres with a daily capacity of approximately 5,000 tonnes to transport jet fuel from the refinery to the fuel depot at the Khabarovsk airport.

Corporate Governance

The Code Application

West Siberian Resources Ltd was incorporated in Bermuda in 1998 where it has its registered office. The company's shares are publicly traded, through Swedish Depositary Receipts, on the OMX Nordic Exchange Stockholm where they were listed in May 2007. The company's governance is based on the company's articles of association and bylaws, the listing agreement with the OMX Nordic Exchange Stockholm and other applicable laws and regulations. In the absence of a Bermudian corporate governance code, the implementation of the Swedish Code of Corporate Governance started in 2006, and continued throughout 2007. During the extended implementation period, WSR has developed an application of the code that also corresponds to Bermudian law and company practice.

Annual General Meeting

The annual shareholders' meeting is West Siberian's highest decision making body. A general meeting (AGM) is held annually in Stockholm, Sweden.The latest AGM was held on May 22, 2007, and the next meeting will be held on May 21 , 2008. A Special General Meeting was held in Stockholm on March 3, 2008, to approve the merger with Alliance Oil Company. The meetings are held in the Swedish language, or translated into Swedish when necessary. The AGM is open to all registered shareholders of the company who have the right to participate either in person or by proxy. At the AGM, the board, the management and the auditors are available to answer questions relating to the company and its activities. Shareholders who wish to have a certain matter included on the agenda for the AGM should send such request or proposal to the board of directors not later than 3 months prior to the AGM.

At the AGM, the managing director informs about the company's progress and annual accounts are presented for approval. The AGM also considers matters such as election and remuneration of board members, the Chairman of the board, and the auditors. Directors and auditors are elected for the period until the next AGM. Principles for appointing the nomination committee and for remuneration of management are presented for approval at the AGM.

Nomination Committee for the Annual General Meeting 2008

In line with the Swedish code of corporate governance, the principles for appointing a nomination committee and its guidelines, was presented to and approved by the shareholders at the AGM on May 22, 2007. In accordance with this resolution the nomination committee was

appointed by the four largest shareholders in the company on November 20, 2007 which were Alltech Investments Ltd, Meadowlane Holding Ltd, Repsol Exploracion S.A. and Investors Life Insurance Corp who together held approximately 42% of the shares and the votes in the company.

These four shareholders have appointed the following representatives to constitute the nomination committee for the Annual General Meeting 2008:

Christer Sandberg,
Chairman of the nomination committee representing Alltech Investments Ltd and Meadowlane Holding Ltd.

Hernán Luis Dayen,
representing Repsol Exploracion S.A.

Fred Boling,
representing Investors Life Insurance Corp.

Eric Forss,
Chairman of the board West Siberian Resources Ltd

The Nomination Committee shall present proposals for the election of the Chairman and other members of the Board of Directors, election of auditors, and proposals regarding remuneration for the board of directors and the auditors as well as related questions for adoption at the Annual Shareholders' Meeting. The nomination committee shall complete its tasks and consider the independence of the Directors as set out in the Swedish Code of Corporate Governance.

Composition of the Board

The company's bye-laws stipulate that the board of directors shall consist of not less than 3 and not more than 15 members. The present board of directors is composed of six directors and one alternate director, all elected at the AGM in May 2007. Four directors are independent in relation to the company and the management and four directors are independent in relation to the major owners. The directors represent competence and experience from the oil business, several other industries and corporate governance. The directors are citizens of four different countries (Sweden, Russia, USA and Spain). The managing director is a member of the board of directors. The board of directors participates in the company's global share option plan (described at page 43).

Chairman of the Board

The chairman ensures that the work of the board is pursued effectively and that the board discharges its duties. The duties of the chairman also include keeping regular contact with the managing director and function as a discussion partner and support for the managing director. The current chairman is not an employee of the company. A Swedish company associated with the current chairman has been remunerated for providing administrative and investor relations services for the company. Historically, the Chairman has been appointed by the board of directors. From the AGM 2008, the chairman will be appointed at the AGM.

Board Meetings and Procedures

The board of directors holds at least four ordinary meetings during the calendar year. The Board had 7 meetings during 2008 including telephonic board meetings. All directors attended all meetings, except for Mr. Nemesio Fernandez-Cuesta who attended 3 meetings. At meetings which Mr Fernadez-Cuesta did not attend, Mr Fernando Martinez-Fresneda attended as alternate. At each of these meetings, the following matters were addressed:

- Review and approval of the minutes from the preceding meeting
- The management report including financial report and update on state of business
- Investment proposals
- Financing
- Business-related decisions
- Reports from Audit and Remuneration Committees
- Miscellaneous issues of material importance for the company

In 2007, the activities focused on the execution, financing and follow-up of the capital programme. Several acquisition opportunities were reviewed. Financing activities included an equity offering in January 2007 and the restructuring of the company's long term debt financing later in the year. In the first half of the year, the board finalized the application and preparations for listing at the OMX Nordic Exchange Stockholm. In this process, the procedures for reporting and control were reviewed and revised reporting and communication policies were adopted. In the second half of the year, the management structure of the company was reorganized. Following a strategic review in the fourth quarter, the board approved the strategy for forward integration in the oil industry and subsequently the merger with Alliance Oil which was concluded in 2008.

The board has appointed a secretary and an assisting secretary, none of which are board members.

Annually, immediately after the AGM, the board convenes to adopt the board's rules of procedure and agree on the division of tasks. Members of the remuneration and audit committees are appointed.

Board of Directors

Eric Forss, *Chairman*

Independent in relation to the company, management and major shareholders

Mr. Forss, a Swedish citizen, was born in 1965. He has been a member of the board of directors since July 2004. Mr. Forss holds a B.Sc. degree in Finance from Babson College, Wellesley, MA, U.S.A. He has served as chief executive officer of Forssgruppen since 1998 and of S.O.G Energy AB – Svenska Oljegruppen AB – since 2005. Between 1991 and 1998, Mr. Forss served as president of Forcenergy AB, a public Swedish oil and gas corporation where he also served as Vice President between 1990 and 1991. Mr. Forss is chairman of the board of directors of D.O.Y. AB and Mediagruppen Stockholm MGS AB, as well as a member of the board of directors of Forcenergy AB and Forsinvest Aktiebolag. He is also a member of the board of directors of S.O.G. Energy and a deputy board member of Betalt och Klart i Stockholm AB and Forsinvest Fastighetskapital AB. He has also served as a director of and advisor to several public and private Swedish and international companies including oil groups Forest Oil Inc. and Forcenergy Inc.

*Holding in WSR: 1,660,000 SDRs and 1,598,000 options.**

Maxim Barski, *Director and Managing Director*

Not independent in relation to the company, management nor major shareholders

Mr. Barski, a Russian citizen, was born in 1974. Mr. Barski has been a member of the board of directors since March 2004, and the Managing Director since July 2004. Mr. Barski graduated from St. Petersburg University and also studied in the Business School of the University of California, Berkeley. Prior to becoming a member of the WSR board of directors, Mr. Barski worked as a head of the Corporate Finance Department at Gazpromenergo LLC, Vice President in the investment company Troika Dialog, and head of the Moscow office of Salford Continental, an investment fund management company. Maxim Barski is a partner at Biotek Limited since 2002 and BMG Finance since 1997.

*Holding in WSR: 217,850,208 SDRs and 13,664,000 options.***

Claes Levin, *Director*

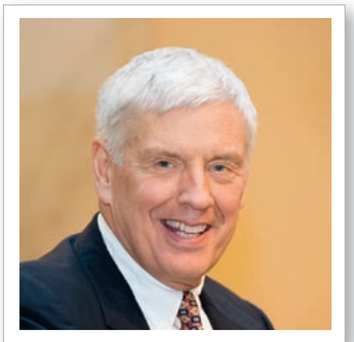
Independent in relation to the company, management and major shareholders

Mr. Levin, a Swedish citizen, was born in 1941. He has been a member of the board of directors since July 2004. Mr Levin has a law degree and a B.A. degree in economics from the University of Lund. From 1971 to 1980, Mr. Levin held various management positions with SEB. He was the managing director for Diligentia between 1980 and 1983, Reinhold Bygg AB between 1983 and 1985 and Platzer Bygg between 1986 and 1998, all listed companies. Today, Mr. Levin holds positions as chairman of several companies including Bröderna Falk AB, European Builders in Sweden AB, Europeiska Spedition AB, LEVINVEST AB, Mineralprospektering i Bergslagen AB, Sh bygg Fastigheter AB, Sh bygg Förvaltning AB, Sh bygg, sten och anläggning AB, Sh maskin i Uppsala AB, Skattebetalarnas Förening (the Confederation of Swedish Tax Payers), TITE AB, Wiking Mineral AB and Ädelfors Utvecklings AB. Mr. Levin is also member of the board of directors of Allokton AB, Fast Baltic Property Ltd, International Gold Exploration IGE AB and Topsocks AB. He is a deputy board member of Öresundsterminalen Fastighets AB.

*Holding in WSR: 1,149,368 SDRs and 1,348,000 options.**

Fred Boling, *Director*

Independent in relation to the company, management and major shareholders



Mr. Boling, a U.S. citizen, was born in 1940. He has been a member of the board of directors since July 2004. Mr. Boling holds B.Sc. and M.Sc. degrees from the Georgia Institute of Technology where he also lectured. He is currently president and director of Commonwealth Oil Refining and Wyatt Energy. He was formerly an executive with Sinclair Oil, Atlantic Richfield, BP Oil Corp., Gibbs Oil, and Astroline Oil Trading Corp. In addition to 35 years experience in the oil industry, Mr. Boling has been active in banking and was president of Security National Bank, a Director of Bank of New England and a director of Pacific National Bank, Massachusetts.

Holding in WSR: 1,600,000 SDRs and 1,348,000 options.

Oleg Fomenko, *Director*

Not Independent in relation to the company and management

Mr. Fomenko, a Russian citizen, was born in 1964. He has been a member of the board of directors since January 2006. Mr. Fomenko graduated from the Moscow State Institute of International Relations and completed a post graduate degree at the Institute of Oriental Studies of the Russian Academy of Sciences. He has served as Commercial Director for Sales of Oil and Oil Products in 2006 and 2007. Between 1989 and 1992 he was Assistant Director at JV Kontinentalinvest, and between 1994 and 2004 he was Commercial Director at JSC Crudex OY in Finland. He is member of the board of directors JSC Crudex OY. Since 2004, Mr. Fomenko has held the position of Director for the Management Sciences Center for Fuel-Energy and Extractive Industry at the International Research Institute for Management Sciences.

*Holding in WSR: 32,495,209 SDRs and 5,705,000 options.****

Nemesio Fernández-Cuesta, *Director*

Independent in relation to the company and, management. Not independent in relation to major shareholders

Mr. Fernandez-Cuesta, a Spanish citizen, was born in 1957. He has been a member of the board of directors since May 2006. Mr. Fernández-Cuesta holds a degree in economics and business administration from the Autonomous University of Madrid. He is currently the Executive Director of Upstream at Repsol YPF. Mr.

Fernández-Cuesta has held various management positions at Repsol YPF since its creation in 1989 and has served as the Secretary of state for energy and mineral resources in the Spanish Ministry of Industry and Energy and as President of Prensa Espanõla. Mr. Fernández -Cuesta is also vice chairman of the board of directors of Repsol-Gas Natural Lng, S.L. as well as member of the board of directors of Gas Natural.

Holding in WSR: 0 SDRs and 0 options.

Fernando Martinez-Fresneda,
Alternate Director for Nemesio Fernandez-Cuesta
Independent in relation to the company and management. Not independent in relation to major shareholders

Mr. Fernando Martinez-Fresneda, a Spanish citizen, was born in 1951. Mr. Martinez-Fresneda is a Mining Engineer from the ETSIM, Mining Engineer School at the Politechnic University of Madrid and has a PDD in Business Administration from the INALDE in Bogotá. He is currently the Managing Director of Repsol YPF's office and operations in the Russian Federation. Prior to his current position, Mr. Martínez-Fresneda was Petroleos Sudamericanos' General Manager in Ecuador. Since 1981, he has held various positions in the Repsol organization including being Repsol's General Manager in Colombia and Bolivia.

Holding in WSR: 0 SDRs and 0 options.

* Holdings including associated companies and family members
** As representative for Alltech Investment Ltd
*** As representative for Marbled Financial Holding SA

Group Management

Maxim Barski, *Director and Managing Director*
(See previous page)

Vyacheslav Pershukov, *Chief Technical Officer*

Mr. Pershukov, a Russian citizen, was born in 1958. He joined the company in January 2005. He holds a doctorate in Thermal Physics from the Krzhizhanovsky Institute and has received degrees from several Russian and international universities, including Moscow State University. Before joining the company Mr. Pershukov held a senior management position in Rosprom and a number of high level positions at YUKOS EP, most recently as an Executive Vice President.

Holding in WSR: 200,000 SDRs and 7,795,000 options.

Ekaterina Sapozhnikova, *ACCA, Chief Financial Officer*

Ms. Sapozhnikova, a Russian citizen, was born in 1976. She joined the company in August 2004. Ms. Sapozhnikova holds a BA degree in economics from the International University in Moscow and is a Fellow of the Association of Chartered Certified Accountants. She worked for PricewaterhouseCoopers, Moscow between 1997 and 1999. Between 2000 and 2004, Ms. Sapozhnikova worked as Financial Controller in the satellite television company NTVPlus and as Finance Director in the Russian Information Agency "Novosti".

Holding in WSR: 200,000 SDRs and 6,637,000 options.

Yevgeny Vorobeichik, *President of Alliance Oil*
Yevgeny Vorobeichik, a Russian citizen, was born in 1958. He has served as president of Alliance Oil since July 2006. Mr. Vorobeichik graduated from the Kuibyshev Polytechnic Institute in 1980 after majoring in chemical technologies related to oil and gas. He won the honorary title of a Merited Oil Industry Worker in 1997. Mr. Vorobeichik spent more than 15 years with the Kuibyshev Oil Refinery, working his way up from an operator and the supervisor of an installation to Deputy Head of the Production and Sales Office. Between 1996 and 1998, Mr. Vorobeichik headed the Petroleum and Petroleum product Sales Department at Sidanco. He has been with Alliance since 1999, serving first as a vice president and then president of Alliance Oil. From 2002 to July 2006, he served as the First Vice President of Alliance Oil.
Holding in WSR: 0 SDRs and 0 options.

Rustam Khasanov, *VTK and Alexandrov Refinery General Director*
Mr. Khasanov, a Russian citizen, was born in 1971. He joined VTK as a General Director in January 2006. Mr. Khasanov graduated from the Tyumen State Oil and Gas University and completed a postgraduate degree at the Academy of National Economy of the Government of Russian Federation. Between 1997 and May 2004 he progressed from Production Department Supervisor to the First Deputy Managing Director at several production sites of YUKOS. Between June and December 2005 Mr. Khasanov was the Chief of Surface Equipment and Pipelines Department at Rosneft.
Holding in WSR: 0 SDRs and 1,750,000 options.

Alexander Ivanov, *Pechoraneft General Director*
Mr. Ivanov, a Russian citizen, was born in 1966. He joined Pechoraneft as a General Director in October 2007. Mr. Ivanov holds a degree in Oil & Gas Field Geology and Exploration (1992) and Oil & Gas Field Development (2002) from the Tomsk Polytechnic University. Mr. Ivanov has over 15 years experience in oil and gas industry and has held senior management positions with OAO Tomskneft VNK, Gasprom subsidiaries and Russneft.
Holding in WSR: 0 SDRs and 0 options.

Alexander Karataev, *VTK Chief Engineer and Khvoinoye General Director*
Mr Karataev, a Russian citizen, was born in 1961. He joined VTK as Chief Engineer in January 2004 and has also served as General Director of Khvonoye since March 2005. Mr. Karataev holds a degree in Oil & Gas Field Development from the Tomsk Polytechnic Institute. He has over 20 years experience in oil and gas industry and has held senior management positions with OAO Tomskneft VNK, OAO Tomskneftegazgeologia and ZAO Archinskoe.
Holding in WSR: 0 SDRs and 1,150,000 options.

Erkin Khasanov, *Saneco General Director*
Mr. Khasanov, a Russian citizen, was born in 1964. He joined Saneco in May 2007. Mr. Khasanov has over 22 years of experience in oil and gas industry. Mr. Khasanov holds a degree in Oil and Gas Fields development from the Kuybishev Polytechnic Univercity, and a degree in Oil and Gas Business Management from the Academy of National Economy of the Government of Russian Federation. Between 1999 and 2006 Mr. Khasanov held senior management positions with the subsidiaries of OAO Tyumenneftegas, YUKOS and OAO TNK-BP.
Holding in WSR: 0 SDRs and 1,000,000 options.

Auditors

Klas Brand, born 1956. Authorised Public Accountant. Member of FAR SRS. Company auditor since 1998. PricewaterhouseCoopers AB, Göteborg, Sweden.

Johan Rippe, born 1968. Authorised Public Accountant. Member of FAR SRS. Company auditor since 2006. PricewaterhouseCoopers AB, Göteborg, Sweden.

The address to PricewaterhouseCoopers AB is: Lilla Bommen 2, 405 32 Göteborg, Sweden.
The auditors have not reviewed the Corporate Governance Report.

Board Committees

Remuneration Committee

Members: *Claes Levin (Chairman), Fred Boling, and Eric Forss*

The Remuneration Committee establishes principles and makes recommendations to the board for executive remuneration and contracts, determines remuneration packages and manages the company's long-term incentive plan.

The remuneration committee had 4 meetings during 2007 including telephonic committee meetings. All members were present at all meetings.

Audit Committee

Members: *Fred Boling (Chairman) and Claes Levin*

The Audit Committee performs duties customary for best practice corporate governance. This includes reviewing drafts of interim reports, preliminary full year financial reports, audit fees and making recommendations to the nomination committee on the election of external auditors and supervision of the internal reporting and controlling functions.

The audit committee had 4 meetings during 2007 including telephonic committee meetings, including 2 meetings with the auditors. All members were present at all meetings.

Remuneration and Terms of Employment

Remuneration for 2007 and individual terms of employment are presented in Note 25 to the financial statements.

From 2006, the company has adopted the following principles for executive remuneration, which were approved by the shareholders at the AGM in May 2007, and has entered into revised employment agreements with management. The executive remuneration consists of a base salary, an annual bonus and participation in the company's long-term incentive plan. The annual bonus is individually capped at 50-100 per cent of the base salary and is based on the company's performance related to the annual budget. Annual option grants are based on the employee's total compensation and the value of granted options shall amount to 100- 200 per cent of annual compensation. Notice periods are not to exceed 12 months, during which the employee is entitled to full compensation.

Global Share Option Plan

At the Extraordinary General Meeting in the company on November 14, 2000, it was resolved to adopt a Global Share Option Plan (the "Option Plan"). The amended Option plan was amended adopted on January 31, 2006. The Option Plan allows for managers and directors of the group (eligible employees) to be granted call options each entitling the holder to acquire one depository receipt in the company. The Option Plan is administered by the remuneration committee which has been authorized, from time to time, to make and vary such regulations for the implementation and administration of the Option Plans as it deems fit.

The total number of shares which may be allocated under the Option Plan over 10 years, shall not exceed 10 per cent of the ordinary share capital of the company in issue.

On the date of adoption of the Option Plan and simultaneously with adoption, option grants with an aggregate number of options corresponding to 5 per cent of the outstanding shares of the company at the time of adoption and annual grants of up to 1 per cent of the outstanding shares thereafter were authorized.

In connection with option grants, the remuneration committee determines what performance conditions have to be satisfied for the options to become exercisable. Initial grants are determined based on the employee's position in the company. Annual grants are limited to 1 per cent of the share capital per year for five years. Annual option grants are based on the employee's total compensation for the current year and the value of granted options shall amount to 100- 200 per cent of annual compensation. As of December 31, 2007 the total number of outstanding options amounted to 66,455,000. Exercise prices range from SEK 5.55 to SEK 7.00. All options are exercisable after 3 years subject to certain non-market conditions and expire in 5 years from the date of grant. (For details of the option grants, see Note 19 to the financial statements.)

Internal Control

The objective of the internal control systems is to establish that operations of WSR are conducted efficiently. The purpose is to ensure that the financial reporting is trustworthy and compliant with laws and regulations. It is the board of directors who has the overall responsibility that the internal control system is efficient.

The board of WSR has delegated the responsibility for internal control to the managing director. Furthermore, every employee of the company has a responsibility of ensuring that the work conducted is in line with the company's policies and guidelines as well as with external laws and regulations.

In order to ensure the quality of the financial reporting, the board of directors has established a specific instruction on what type of information that should be submitted to the board. Besides the quarterly reports that are made public, the board reviews wide-ranging financial information including reports for all subsidiaries in the group. Through its audit committee, the board also reviews the accounting principles and practices applied by the group.

WSR's external auditors report potential observations to the audit committee. The auditors report to the audit committee on a regular basis and to the board once a year, or more often if so necessary.

In 2007, the internal control and reporting structure was reviewed in connection with the application for listing on the OMX Nordic Exchange Stockholm. In connection with this, this structure and revised reporting and communication policies were reviewed by external auditors appointed by the OMX Nordic Exchange Stockholm.

Deviations from the code

West Siberian Resources has chosen to deviate from the following Clauses of the Code:

Clause 2.2.7

Directors are not to participate in share or share-price incentive schemes aimed at company management or other employees.

Explanation of the deviation:

In 2006 and 2007, prior to the listing at the OMX Nordic Exchange Stockholm, stock options were issued to directors in accordance with the company's shareholder approved Option Plan that was adopted in 2006.

Other requirements of the Code

West Siberian Resources believes that it in all other respects is meeting the requirements of the Code.

Corporate Responsibility

The operations are subject to the health, safety and environmental risks inherent in the oil industry. These risks concern our employees as well as society at large and are regulated by complex laws and government instructions. These laws govern, among other things, the composition of emissions discharged into the atmosphere, water use and wastewater discharge and discharges to the sea, the use, handling and disposal of hazardous substances and waste, soil and groundwater contamination, land reclamation and employee health and safety.

After the merger with Alliance Oil, WSR has more than 6,500 employees and 29,000 shareholders, and strongly realizes the company's social responsibility to interact with employees, shareholders, local communities and society in a proper manner.

Russian Federal Environmental Legislation is far-reaching, especially for oil companies. Each of the activities performed by an oil and gas developer requires the preparation of an environmental impact assessment, which is approved and monitored by the local environmental authorities in each of WSR's operating regions. There are frequent environmental inspections of oil fields, roads and pipelines. Failure to comply fully with environmental legislation may result in warnings, fines, or, in extreme cases, the closing down of the operations of the oil company. In 2007, some violations of current legislation were made and have been promptly corrected. In connection with these minor violations penalties were assessed and paid.

The company did not have a significant oil spill or other environmental incident during the financial year ended December 31, 2007 and the company is not aware of any claims or penalties from Russian domestic environmental authorities that have not been corrected and/or settled.

Every unit within WSR has adopted health, safety, environmental and social (HSES) policy that meets Russian domestic requirements and complies with the international standards. These aspects of the operations are managed at each of the operating units. Each subsidiary has a special HSES department, represented by 3-4 employees. The units report to the senior management in Moscow. Each of the operating units has individual HSES Management System in place. Employees undergo an obligatory HSES instruction course. In each operating unit there is an Instruction Manual which is to be adhered by personnel staff.

Case study

WSR's HSES-work in the Tomsk Region

VTK employs more than 450 people in the Tomsk Region, and all employees are from the region. Altogether more than 300 employees are directly involved in production activities. There are two shifts (21 days) of 100 employees each working on the oil fields, and these shift employees are flown in by helicopter and accommodated in two new well-constructed hostels on site. These facilities include medical facilities and a modern canteen. Remuneration paid is above average and competitive for the region, and comprehensive employment contracts include provision for medical insurance.

WSR is operating its four oil fields in the Tomsk Region through the subsidiary VTK. For the development of the fields the regional environmental authorities approved an Environmental Management Plan ("EMP") which will minimize the impacts of the development project. The EMP includes the following provisions: (i) boundary limits for development (construction and development need to be completed within these boundaries); (ii) prohibited access to unauthorized vehicles on site; (iii) filling of oil tanks only in the fuel depot area; (iv) cutting of trees and vegetation only during the winter season; (v) re-vegetation of land used temporarily during construction of facilities to its original state; and (vi) establishment and implementation of a waste inventory with treatment options.

The oil treatment facility was completed in 2006 and was fully certified by the regional authorities. Before being pump in to the pipeline, treated oil is first stored in tank farms within the field. The tanks have a concrete secondary containment which is reinforced with impermeable material. The associated water generated from the oil treatment is re-injected in the field. Relatively low volumes of associated gas is used for power generation (currently 48 per cent of it is utilized and the goal of VTK is to use 90 per cent in 2008). VTK has purchased four generators for this purpose with a capacity of 1 MW each.

Production water is treated at the waste water treatment facilities. The field has two existing sewage systems that collect rain/storm water which is discharged into the storage tanks and then transported to the wastewater treatment facilities. Domestic water is also being treated at the waste water treatment facilities.

Ground water is monitored by means of monitoring wells, and their supervision is carried out by the regional environmental authorities during their periodic inspections of the site. Domestic solid waste is transported to a sanitary landfill on-site which is operated and maintained by VTK. Hazardous waste is collected by a specialized and authorized company for treatment and disposal.

Air emissions from the oil treatment facilities are monitored by WSR as well as by the regional authorities. The Maximum Allowable Concentrations ("MAC") were based on the development project. To date, the field has not breached any of the established MAC.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Financial Statements 2007

Income Statement

(Expressed in USD thousand)	Note	Group			Parent company		
		Jan 1, 2007 - Dec 31, 2007	Jan 1, 2006 - Dec 31, 2006	Jan 1, 2005 - Dec 31, 2005	Jan 1, 2007 - Dec 31, 2007	Jan 1, 2006 - Dec 31, 2006	Jan 1, 2005 - Dec 31, 2005
Revenue							
Revenue from sales of oil and gas	3	371 696	237 980	73 544	-	-	-
Revenue from sales of oil products	3	5 410	5 369	4 857	-	-	-
Other income	27	3 228	1 861	780	4 838	4 204	890
		380 334	**245 210**	**79 181**	**4 838**	**4 204**	**890**
Cost of sales							
Production costs	3,4	-198 338	-127 364	-41 170	-	-	-
Depletion and depreciation	9–11	-77 704	-59 846	-14 036	-	-	-
Impairment of oil and gas properties	9	-10 480	-	-	-	-	-
Investment write-off	13	-	-	-85	-1 251	-	-
Gross profit		**93 812**	**58 000**	**23 890**	**3 587**	**4 204**	**890**
Selling expenses		-37 601	-21 568	-5 842			
Administration expenses	5	-22 833	-14 361	-5 530	-15 707	-13 341	-6 384
Gain on disposal of shares in subsidiaries	12	-	5 843	-	-	-	-
Other operating expenses		-663	-289	-912	-	-	-
Operating income/(loss)	3	**32 715**	**27 625**	**11 606**	**-12 120**	**-9 137**	**-5 494**
Interest income		717	481	305	34 729	29 489	8 654
Interest expense	6	-14 890	-13 798	-6 472	-22 318	-13 145	-2 970
Other financial expenses	21,23	-1 359	-1 551	-656	-2 035	-1 401	-567
Currency exchange gains/(losses), net	28	24 528	21 754	-3 741	-594	-125	-649
Result before tax		**41 711**	**34 511**	**1 042**	**-2 338**	**5 681**	**-1 026**
Tax	7	-11 820	-4 286	-811	-	-	-
Result for the period		**29 891**	**30 225**	**231**	**-2 338**	**5 681**	**-1 026**
Attributable to:							
Equity holders of the parent		**29 906**	**30 228**	**232**	**-2 338**	**5 681**	**-1 026**
Minority interests	20	**-15**	**-3**	**-1**	**-**	**-**	**-**
Earnings per share (USD)	8	0.03	0.03	0.00	-	0.01	0.00
Diluted earnings per share (USD)	8	0.03	0.03	0.00	-	0.01	0.00

Balance Sheet

(Expressed in USD thousand)	Note	Group			Parent company		
		Dec 31, 2007	Dec 31, 2006	Dec 31, 2005	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005
NON-CURRENT ASSETS							
Tangible and intangible assets							
Oil and gas properties	9	1 045 879	864 465	378 982	-	-	-
Refining properties	10	2 550	2 346	1 430	-	-	-
Land		13	12	-	-	-	-
Goodwill	12	612	536	501	-	-	-
Other intangible assets		1 158	311	82	58	-	-
Office equipment	11	3 306	2 500	1 272	91	76	5
		1 053 518	**870 170**	**382 267**	**149**	**76**	**5**
Financial assets							
Shares in subsidiaries	12	-	-	-	437 505	405 541	109 491
Deferred tax asset	7	1 570	3 587	1 126	-	-	-
Receivables from group companies	15	-	-	-	343 175	314 396	170 559
Other financial assets	14	1 676	1 081	4 214	-	61	60
		3 246	**4 668**	**5 340**	**780 680**	**719 998**	**280 110**
CURRENT ASSETS							
Inventories	16	12 380	9 388	4 487	-	-	-
Trade and other current receivables	17	57 284	49 583	31 982	122	146	70
Current tax asset		890	4 263	590	-	-	-
Restricted cash and bank	18	-	-	151	-	-	151
Cash and bank		6 500	32 134	1 032	633	9 387	579
		77 054	**95 368**	**38 242**	**755**	**9 533**	**800**
TOTAL ASSETS		**1 133 818**	**970 206**	**425 849**	**781 584**	**729 607**	**280 915**
SHAREHOLDERS' EQUITY							
Share capital	19	59 451	54 951	39 626	59 451	54 951	39 626
Other paid in capital	19	451 669	378 385	124 843	451 669	378 385	124 843
Other reserves		56 613	24 637	-23	-	-	-
Retained earnings		48 733	13 536	9 332	26 812	16 162	13 216
Net result		29 906	30 228	232	-2 338	5 681	-1 026
		646 372	**501 737**	**174 010**	**535 594**	**455 179**	**176 659**
Minority interest	20	295	310	313	-	-	-
		646 667	**502 047**	**174 323**	**535 594**	**455 179**	**176 659**
NON-CURRENT LIABILITIES							
Long-term borrowings	23	235 875	-	2 779	235 875	-	-
Deferred tax liability	7	130 128	128 581	38 679	-	-	-
Provision for site restoration costs	22	11 963	6 620	9 762	-	-	-
Other non-current liabilities	24	62	424	532	-	-	-
		378 028	**135 625**	**51 752**	**235 875**	**-**	**-**
CURRENT LIABILITIES							
Short-term borrowings	23	41 130	266 074	173 586	546	245 374	101 771
Trade payables		31 117	24 936	14 169	-	-	-
Accrued expenses		9 759	4 764	3 077	8 578	3 421	2 381
Current tax liability		1 282	-	114	-	-	-
Other taxes payable		25 779	11 308	6 773	984	531	-
Other current liabilities	12,24	56	25 452	2 055	7	25 102	104
		109 123	**332 534**	**199 774**	**10 114**	**274 428**	**104 256**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**1 133 818**	**970 206**	**425 849**	**781 584**	**729 607**	**280 915**
PLEDGED ASSETS	23	500 000	270 625	175 436	500 000	270 625	67 000
CONTINGENT LIABILITIES	26	None	2 214	1 878	None	None	None

Statement of Cash Flow

(Expressed in USD thousand)	Note	Group			Parent company		
		Jan 1, 2007 - Dec 31, 2007	Jan 1, 2006 - Dec 31, 2006	Jan 1, 2005 - Dec 31, 2005	Jan 1, 2007 - Dec 31, 2007	Jan 1, 2006 - Dec 31, 2006	Jan 1, 2005 - Dec 31, 2005
Cash flow from/used in operations							
Operating income/(loss)		32 715	27 625	11 606	-12 120	-9 137	-5 494
Adjustment for:							
Interest received		717	481	305	274	2 058	261
Interest paid	21	-27 975	-15 225	-3 191	-26 257	-11 406	-366
Current tax paid	7	-10 652	-16 543	-2 888	-	-	-
Depletion and depreciation	9,10,11	77 704	59 846	14 036	56	21	5
(Gain)/Loss on disposal of assets	12	-817	-5 299	378	1	-	2
Impairment of oil and gas properties	9	10 480	-	-	-	-	-
Investment write-off	13	-	-	85	1 251	-	-
Other non-cash items		4 954	3 970	1 709	-1 107	-1 088	-
Operating cash flow before changes in working capital		**87 126**	**54 855**	**22 040**	**-37 902**	**-19 552**	**-5 592**
Changes in working capital							
Change in inventories	16	-2 992	3 703	-303	-	-	-
Change in trade and other current receivables	17	-5 457	2 005	-16 321	30	-77	-21
Change in trade payables and accrued expenses		21 696	-3 337	6 247	192	343	1 749
Change in other current liabilities		-395	388	9	-95	-2	-4
Total cash flow from/used in operations		**99 978**	**57 614**	**11 672**	**-37 775**	**-19 288**	**-3 868**
Cash flow used for investments							
Investment in shares in subsidiaries /Contributions to subsidiaries	12	-25 027	-152 752	-123 052	-57 391	-153 601	-124 684
Disposal of shares in subsidiaries	12	-	6 791	-	-	-	-
Investment in oil and gas properties	9	-196 497	-112 672	-108 521	-	-	-
Investment in refining properties	10	-244	-332	-1 143	-	-	-
Investment in office and other assets	11	-59	-91	-382	-130	-91	-1
Change in other financial assets	13	-	-	-85	-	-	-
Total cash flow used for investments		**-221 827**	**-259 056**	**-233 183**	**-57 521**	**-153 692**	**-124 685**
Cash flow from financing							
Proceeds from share issues (net of issue costs)	19	77 827	153 046	104 352	77 827	153 046	104 351
Change in intercompany loan	15	-	-	-	10 968	-111 864	-70 073
Proceeds from borrowings	23	194 043	244 964	132 079	8 333	140 462	103 150
Repayment of borrowings	23	-175 070	-165 610	-12 661	-10 000	-	-4 500
Convertible debenture repayment	21	-	-	-2 851	-	-	-2 851
Total cash flow from financing		**96 800**	**232 400**	**220 919**	**87 128**	**181 644**	**130 077**
Effect of exchange rate changes on cash and cash equivalents		-585	-7	-870	-586	-7	-963
Change in cash and bank		**-25 634**	**30 951**	**-1 462**	**-8 754**	**8 657**	**561**
Cash and bank at beginning of period	18	32 134	1 183	2 645	9 387	730	169
Cash and bank at end of period	18	**6 500**	**32 134**	**1 183**	**633**	**9 387**	**730**

Statement of Changes in Equity – Group

(Expressed in USD thousands)	Attributable to equity holders of the parent company					Minority interest	Total equity
	Share capital	Other paid in capital	Other reserves	Retained earnings	Total		
Equity at Dec 31, 2004	**21 452**	**39 505**	**851**	**8 492**	**70 300**	**-**	**70 300**
Translation difference for the period	-	-	-874	-	-874	-	-874
Result for the period Jan 1, 2005 – Dec 31, 2005	-	-	-	232	232	-1	231
Total recognised income and expense for 2005	-	-	-874	232	-642	-1	-643
Rights Issue / Private Placement (Note 19)	18 174	86 178	-	-	104 352	-	104 352
Convertible debenture equity component (Note 21)	-	-840	-	840	-	-	-
Acquisition of minority interest (Note 20)	-	-	-	-	-	314	314
Equity at Dec 31, 2005	**39 626**	**124 843**	**-23**	**9 564**	**174 010**	**313**	**174 323**
Translation difference for the period	-	-	24 660	-	24 660	-	24 660
Result for the period Jan 1, 2006 – Dec 31, 2006	-	-	-	30 228	30 228	-3	30 225
Total recognised income and expense for 2006	-	-	24 660	30 228	54 888	-3	54 885
Private Placement and Issuance of shares to Saneco shareholders (Note 19)	15 325	253 542	-	-	268 867	-	268 867
Share option plan (Note 19)	-	-	-	3 972	3 972	-	3 972
Equity at Dec 31, 2006	**54 951**	**378 385**	**24 637**	**43 764**	**501 737**	**310**	**502 047**
Translation difference for the period	-	-	31 976	-	31 976	-	31 976
Result for the period Jan 1, 2007 – Dec 31, 2007	-	-	-	29 906	29 906	-15	29 891
Total recognised income and expense for 2007	-	-	31 976	29 906	61 882	-15	61 867
Private Placement (Notes 19)	4 500	73 284	-	14	77 798	-	77 798
Share option plan (Note 19)	-	-	-	4 955	4 955	-	4 955
Equity at Dec 31, 2007	**59 451**	**451 669**	**56 613**	**78 639**	**646 372**	**295**	**646 667**

Statement of Changes in Equity – Parent Company

(Expressed in USD thousands)	**Attributable to equity holders of the parent company**					**Minority interest**	**Total equity**
	Share capital	Other paid in capital	Other reserves	Retained earnings	Total		
Equity at Dec 31, 2004	**21 452**	**39 505**	**-**	**12 376**	**73 333**	**-**	**73 333**
Result for the period Jan 1, 2005 – Dec 31, 2005	-	-	-	-1 026	-1 026	-	-1 026
Total recognised income and expense for 2005	-	-	-	-1 026	-1 026	-	-1 026
Rights Issue / Private Placement (Note 19)	18 174	86 178	-	-	104 352	-	104 352
Convertible debenture equity component (Note 21)	-	-840	-	840	-	-	-
Equity at Dec 31, 2005	**39 626**	**124 843**	**-**	**12 190**	**176 659**	**-**	**176 659**
Result for the period Jan 1, 2006 – Dec 31, 2006	-	-	-	5 681	5 681	-	5 681
Total recognised income and expense for 2006	-	-	-	5 681	5 681	-	5 681
Private Placement and Issuance of shares to Saneco shareholders (Notes 19)	15 325	253 542	-	-	268 867	-	268 867
Share option plan (Note 19)	-	-	-	3 972	3 972	-	3 972
Equity at Dec 31, 2006	**54 951**	**378 385**	**-**	**21 843**	**455 179**	**-**	**455 179**
Result for the period Jan 1, 2007 – Dec 31, 2007	-	-	-	-2 338	-2 338	-	-2 338
Total recognised income and expense for 2007	-	-	-	-2 338	-2 338	-	-2 338
Private Placement (Notes 19)	4 500	73 284	-	14	77 798	-	77 798
Share option plan (Note 19)	-	-	-	4 955	4 955	-	4 955
Equity at Dec 31, 2007	**59 451**	**451 669**	**-**	**24 474**	**535 594**	**-**	**535 594**

Key Financial and Operating Ratios

GROUP	Jan 1, 2007 - Dec 31, 2007	Jan 1, 2006 - Dec 31, 2006	Jan 1, 2005 - Dec 31, 2005
Financial ratios			
EBITDA [1]	120 899	81 628	25 727
Return on shareholders' equity [2]	5%	6%	0%
Return on capital employed [3]	7%	9%	4%
Debt/equity ratio [4]	45%	54%	107%
Equity ratio [5]	57%	52%	41%
Risk-bearing capital [6]	69%	65%	50%
Interest-coverage ratio [7]	3,57	3,25	1,15
Weighted average number of shares for the financial period [8,9,10,11,12,13,14]	1 186 447 178	1 060 073 994	635 615 586
Weighted average number of shares for the financial period (diluted) [8,9,10,11,12,13,14]	1 186 447 178	1 064 214 168	635 615 586
Number of shares at financial period end [8,9,10,11,12,13,14]	1 189 027 312	1 099 027 312	792 527 312
Operating ratios			
Production volume, barrels	10 637 650	8 010 855	2 976 312
Revenue per barrel sold, USD/barrel	35.30	30.39	26.38
Export (excluding export duty)	40.29	32.08	29.09
Export to CIS countries	38.75	35.10	34.08
Domestic	31.70	28.02	24.00
Operating costs per barrel produced, USD/barrel	25.38	22.97	17.62
Production costs (excluding production and other taxes and refining costs)	4.06	3.99	3.61
Production and other taxes	14.03	11.52	9.29
Depletion and depreciation	7.29	7.46	4.72

Key financial ratio definitions

1. Earnings before interest, tax, depreciation and amortisation is defined as the Group's operating income plus depletion and depreciation, impairment of oil and gas properties and minus gain on disposal of shares in subsidiaries.

2. Return on shareholders' equity is defined as the Group's net result divided by the shareholders' equity at the end of the financial period.

3. Return on capital employed is defined as the Group's net result after financial items, plus interest expenses, plus/minus currency exchange differences on financial loans, divided by average total capital employed (the average total assets less non-interest bearing liabilities over the financial period).

4. Debt/equity ratio is defined as the Group's interest-bearing liabilities in relation to shareholders' equity.

5. Equity ratio is defined as the Group's shareholders' equity, plus minority interest, in relation to total assets.

6. The percentage of risk-bearing capital is defined as the total sum of shareholders' equity, plus minority interest and deferred tax liabilities, divided by total assets.

7. Interest-coverage ratio is defined as the Group's net result after financial items, plus interest expenses, plus/minus currency exchange differences on financial loans, divided by interest expenses.

8. Two issues of convertible debentures were completed in late May 2002. The conversion price was SEK 6.70 per convertible debenture. The term of the convertible debentures was 3 years and matured on May 31, 2005. On February 17, 2004 by way of the Issue Through Set-off SEK 150,165,272 of convertible debentures were converted into 75,082,636 shares at the conversion price of SEK 2 after which the number of shares increased to 107,262,625. After the conversion of the outstanding convertible debentures the number of shares would increase by 1,367,312. The conversion price of SEK 6.70 was higher than the average market price of the share over the financial period. Therefore, the non-converted part of the convertible debentures did not have an effect on the average number of shares when calculated on a fully diluted basis. The non-converted part of the convertible debentures was redeemed on May 31, 2005.

9. On March 26, 2004 the Group completed the preferential right issue to existing shareholders and debenture holders after which the number of shares increased by 321,787,875 from 107,262,626 to 429,050,500.

10. On April 27, 2005 the Group completed the preferential right issue to existing shareholders after which the number of shares increased by 257,430,300 from 429,050,500 to 686,480,800.

11. On September 14, 2005 the Group completed the private placement after which the number of shares increased by 106,046,512 from 686,480,800 to 792,527,312.

12. On February 10, 2006 the Group completed the private placement after which the number of shares increased by 190,000,000 from 792,527,312 to 982,527,312.

13. On February 17, 2006 the Group issued 116,500,000 shares to former Saneco shareholders after which the number of shares increased from 982,527,312 to 1,099,027,312.

14. On January 19, 2007 the Group completed the private placement after which the number of shares increased by 90,000,000 shares from 1,099,027,312 to 1,189,027,312.

15. As of December 31, 2007 66,455,000 options were outstanding with the right to subscribe for 1 share of common stock at exercise prices ranging from SEK 5.55 to SEK 7.00 which have an effect on the average number of shares when calculated on a diluted basis.

Notes

Expressed in USD thousand unless indicated otherwise

Note 1 General

Incorporation

West Siberian Resources Limited (previously Vostok Oil Limited) was incorporated in Bermuda on September 1, 1998, as a tax exempted limited liability private company, and is domiciled in the same country. Vostok Oil (Cyprus) Limited, owned 100% by West Siberian Resources Limited, was incorporated in Cyprus on August 7, 1998, as a private limited liability company with offshore status. Vostok Oil (Cyprus) Limited was registered on December 6, 1999, as the 80% owner of Open Joint Stock Company (OAO) Vostochnaya Transnatsionalnaya Kompaniya ("VTK"). On June 30, 2004 the remaining 20% of the shares of VTK were transferred into ownership of Vostok Oil (Cyprus) Limited as a result of purchase of the shares from a previous holder of the shares. As of December 31, 2007 West Siberian Resources Limited through its subsidiary Vostok Oil (Cyprus) Limited holds 100% of the shares in VTK.

On December 30, 2002 Norbreck Investments Limited was incorporated in Cyprus. Vostok Oil (Cyprus) Limited was registered as a beneficiary of 60% of the shares of Norbreck Investments Limited. The First Capital Bank owns 40% of the shares of Norbreck Investments Limited. The initial purpose of Norbreck Investments Limited was to market the crude oil produced by West Siberian Resources Group in cooperation with the First Capital Bank, but such activities have not commenced. As of December 31, 2007 Norbreck Investments Limited was under liquidation process.

On August 12, 2004 O&G Credit Agency Limited was incorporated in Cyprus. On November 11, 2004 West Siberian Resources Limited was registered as a holder of 100% of the shares of O&G Credit Agency Limited. O&G Credit Agency Limited was incorporated with the purpose of creating a more transparent and tax efficient corporate structure facilitating tax savings on interest payments made within intra-group loans.

On March 16, 2005 and March 25, 2005 West Siberian Resources Limited was registered as a holder of 100% of the participatory interest in Russian limited liability companies (OOO) Khvoinoye ("Khvoinoye") and "Alexandrovskiy Neftepererabatyvajuschiy Zavod" ("Alexandrov Refinery"), respectively, located in the Tomsk region of the Russian Federation. Currently Khvoinoye holds a license for the Khvoinoye oil field in the Tomsk region and licenses for the North Kharyaga, Lek-Kharyaga and Kolvinskoye oil fields in the Timano-Pechora region.

On August 9, 2005 a Russian limited liability company (OOO) "Semiluzhinskiy Neftepererabatyvajuschiy Zavod" ("SNPZ") was incorporated in Russia. VTK and Khvoinoye were registered as holders of 99% and 1%, respectively, of the participatory interest in SNPZ. SNPZ was incorporated in the Tomsk region with the purpose of refining the crude oil produced by VTK.

On October 7, 2005 West Siberian Resources Limited was registered as a holder of 100% of the participatory interest in a Russian limited liability company (OOO) Nikol ("Nikol") which initially held 99.729% of the shares of Open Joint Stock Company (OAO) Pechoraneft ("Pechoraneft"). Pechoraneft holds a license for the Middle Kharyaga oil field in the Timano-Pechora region of the Russian Federation. As of December 31, 2007 Nikol's share in Pechoraneft was amounted to 99.66%.

On October 20, 2005 West Siberian Resources Limited was registered as a holder of 100% of the participatory interest in a Russian limited liability company (OOO) "Nenetsko-Belarusskaya Neftyanaya Kompaniya" ("NBNK") which held an exploration license for an undeveloped Liginski Block oil field nearby to the Middle Kharyaga oil field. As of December 31, 2007 NBNK was under liquidation process.

On February 17, 2006 West Siberian Resources Limited was registered as a holder of 100% of the shares of Closed Joint Stock Company (ZAO) Saneco ("Saneco"). Saneco holds the production and exploration licenses for several oil fields in the Samara region of the Russian Federation.

On March 24, 2006 a new entity, Russian limited liability company (OOO) "Pechora Exploration" ("Pechora Exploration"), was created based on the shareholders agreement between the WSR subsidiaries Nikol and NBNK. In the end of April 2006 WSR Ltd bought out its share from NBNK and was approved by the Federal Antimonopoly Committee of the Russia Federation as the 50% owner of the shares of Pechora Exploration. The purpose of the creation of Pechora Exploration and such restructuring within the Group was to concentrate the Group's exploration activity performance in the Timano-Pechora region through one entity.

On November 2, 2006 West Siberian Resources Limited was registered as a holder of 100% of the shares of Closed Joint Stock Company (ZAO) Northoil ("Northoil"). Initially Northoil held a license for the Kolvinskoye oil field in the Timano-Pechora region of the Russian Federation but in December 2007 the license was transferred to Khvoinoye.

On March 27, 2007 a new entity, Russian limited liability company (OOO) "West Siberian Resources Invest" ("WSR Invest"), was incorporated. Since 2008 WSR Invest is acting as a management company for Russian operating subsidiaries.

Note 2 Accounting principles

Basis of preparation

The consolidated and parent company financial statements are prepared in accordance with International Financial Reporting Standards, IFRS, and under the historical cost convention.

The accounting policies used in the preparation of the consolidated and parent company financial statements are consistent with those used in the annual financial statements for the year ended December 31, 2006, except for what is described in the section "New accounting developments". The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge and current events and actions, actual results ultimately may differ from those estimates.

Principles of consolidation

The consolidated financial statements include the accounts of the parent company and each of those companies in which it owns, directly or indirectly, shares representing more than 50% of the voting rights or otherwise has the sole right to exercise control over the operations. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The consolidated financial statements are prepared using the purchase method of accounting. The cost of an acquisition is measured as the fair value of the consideration provided or liabilities incurred or assumed at the date of acquisition plus costs directly attributable to the acquisition. In addition to the parent company equity, only changes in subsidiary equity arising after acquisition are included in the Group equity.

The amount of the purchase consideration above the fair values of assets acquired and liabilities assumed is recognised as goodwill. Goodwill is not amortised but instead tested for impairment annually. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented within shareholders' equity.

All intercompany profits, transactions and balances are eliminated on consolidation.

Accounting for investments in associated companies

An investment in an associated company is an investment in a company where the Group holding represents at least 20%, but no more than 50% of the votes and over which the Group exercises significant influence. Such investments are accounted for in accordance with the equity method. The Group's share in the associated company's income for the financial year is accounted for as participations in associated companies in the income statement.

Shares in subsidiaries

Shares in subsidiary companies are accounted for at acquisition cost in the parent company. Provisions are made for impairments that are other than temporary.

Intangible assets

Intangible assets other than goodwill with an estimated useful life are amortised on a straight-line basis over their estimated useful lives (for periods up to 20 years).

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 to 5 years).

Costs associated with developing and maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Computer software development costs recognized as assets are amortised over their estimated useful lives (not exceeding 3 years).

Foreign currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated and parent financial statements are presented in USD, which is the parent company's functional and presentation currency.

The balance sheet and income statement of the Russian subsidiary companies are translated using the current rate method. All assets and liabilities of the subsidiaries are translated at the balance sheet date rates of exchange, whereas the income statements are translated at the average rate of exchange for the period.

Monetary assets and liabilities denominated in foreign currencies are translated at rates of exchange prevailing at the balance sheet date. The balance sheet rates of exchange used regarding the Russian Rouble (RUR) to the USD at December 31, 2007, 2006 and 2005 were RUR 24.55, RUR 26.33 and RUR 28.78 to USD 1.00, respectively. The translation differences, which arise, are taken directly to shareholders' equity. Transactions in foreign currencies are translated at exchange rates prevailing at the transaction date. Exchange differences are included in the income statement.

Taxes

a) Corporate tax

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

b) Value added tax

From January 1, 2006, output value added tax related to sales performed after January 1, 2006 is charged on an accrual basis when goods (works, services, property rights) are shipped (transferred) to buyers. Export sales are subject to VAT at a zero VAT rate provided certain documentary requirements are met according to the Russian Tax Code. In addition, according to the VAT transition rules output VAT on sales of goods (works, services) performed before January 1, 2006 is calculated upon collection of receivables from customers. Input VAT is recoverable against VAT charged when the goods (works, services, property rights) purchased after January 1, 2006 are posted to the accounts. VAT is recoverable on the basis of VAT invoices issued in compliance with the requirements of the Russian Tax Code. Input VAT related to export sales may be recovered once the export confirmation documents are approved by the tax authorities. The procedure for the recovery of input VAT depends on whether the subsequent sale of goods (services, property rights) is made to the export or domestic market. According to the VAT transition rules in 2006 input VAT in respect of accounts payable booked before January 1, 2006 is recoverable upon payment for the purchases.

c) Deferred income tax

Deferred income tax is provided in full, at rates applicable at the balance sheet date, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depletion and depreciation on property, plant and equipment, provisions, fair value adjustments to long-term items, and expenses charged to the income statement before they become deductible for tax purposes.

Deferred tax assets attributable to temporary differences, unused tax losses and credits are recognised to the extent that it is probable that future taxable profits or temporary differences will be available against which they can be utilised.

Deferred income tax assets and liabilities are off set when the Company has a legally enforceable right to set off current tax assets against current liabilities, when deferred tax balances relate to the same regulatory body, and when they relate to the same taxable entity.

Oil and gas operations

a) Accounting for costs of exploration, appraisal and development

Expenditures for oil and gas properties are accounted for at historic cost less depletion and impairment if applicable. All costs for acquiring concessions, licenses and for the exploration and evaluation, survey, drilling and development of such interests are capitalised on a field area cost centre basis. Exploration and evaluation expenditures may include costs of license acquisition, technical services and studies, seismic research, exploration drilling and testing, but do not include costs incurred prior to having obtained the legal rights to explore an area, which are expensed directly to the income statement as they are incurred.

Depletion is determined by adding anticipated future capital costs for the development of the proved and probable reserves determined at the balance sheet date price levels to net capitalised costs to reporting date. This total is depleted based on the year's production in relation to estimated total proved and probable reserves of oil and gas in accordance with the unit of production method. Depletion of a field area is charged to the income statement when production has commenced. Exploration and evaluation assets related to each exploration license are not depleted and carried forward until existence (or otherwise) of commercial reserves has been determined.

Proved reserves are those volumes of petroleum which, by analysis of geological and engineering data, are estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods and governmental regulations. Proved reserves can be categorised as developed or undeveloped. When deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimates.

Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable, under current economic conditions, operating methods and government regulations. In this context, when probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

b) Revenue recognition

Revenues from sale of oil and gas and oil products are recognised in the income statement when oil and gas and oil products are shipped from the Company to customers and accounted for when the major risks and benefits are passed to the buyer.

Until quantities of proven and probable reserves were determined and commercial production commenced incidental revenues from production of oil and gas were off set against capitalised costs of the related cost centre.

c) Sales related taxes

Operating income is recorded net of sales related taxes in the income statement.

d) Impairment tests

Impairment tests are performed when there are indications that the book value exceeds the recoverable amount. Impairment tests are then carried out to determine that the net book amount of capitalised costs within each field area cost centre less any provision for site restoration costs exceed the anticipated future net revenue or fair value less costs to sell from oil and gas reserves attributable to the related field areas. Capitalised costs cannot be carried within a field area cost centre unless those costs can be supported by future cash flows from that field or fair value lest costs to sell the assets.

An impairment charge is recorded, where the net book amount, according to the above, exceeds the estimated future discounted net cash flows using prices and cost levels used by the Group management in their internal forecasting or fair value of the assets. If there are no plans to continue with a field specific exploration programme, all future costs will be expensed at the time the decision is made.

e) Provision for site restoration costs

On fields where the Group is required to contribute to site restoration costs, a provision is recorded to recognise the commitments. At the date of acquisition of the field or at first production, an asset is created to represent the discounted value of the anticipated site restoration liability and depleted over the life of the field on a unit of production basis. The corresponding accounting entry to the oil and gas properties recognises the discounted value of the future liability.

The discount applied to the anticipated site restoration liability is subsequently released over the life of the field and is charged to financial expenses.

f) Effects of changes in estimates

The effects of changes in estimated costs and commercial reserves or other factors affecting unit of production calculations for depletion and site restoration costs do not give rise to prior year adjustments and are dealt with prospectively over the estimated remaining commercial reserves of each field.

g) Interest

Interest on borrowings to finance the acquisition of producing oil and gas properties was charged to the income as incurred. Interest on borrowings to finance fields under development was capitalised within oil and gas properties until significant commercial production commenced.

Property, plant and equipment other than oil and gas assets

Property, plant and equipment other than oil and gas assets comprise land, refinery and office equipment. These assets other than oil and gas assets are stated at historical cost less accumulated depreciation and any provision for impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives ranging from 3-8 years for office equipment to 20-25 years for refinery.

Inventory

Inventories of hydrocarbons and consumable well supplies are initially stated at the lower of cost and net realisable value, cost being determined on a first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provision is made for obsolete or slow-moving items where appropriate.

Financial instruments

Under IAS 39 financial asset and liabilities are categorised based on intent with the investment. The following categories of financial assets and liabilities are available: "Fair value through profit or loss" (marked to market), "Held to maturity" (valued at amortised cost), "Available for sale" (marked to market) and "loans and receivables" (valued at amortised cost). The Group only has financial assets in the loans and receivables category, which are valued at amortised cost.

Trade receivables

Trade receivables are valued in the loans and receivables category and recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Cash and cash equivalents

Cash and bank balances include cash in hand, deposits held at call with banks and other highly liquid investments with original maturity of three months or less.

Borrowings

Borrowings are recognised initially at the fair value of the proceeds received/given, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense/income, respectively, over the period of the borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Leases

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments, less accumulated depreciation and impairment losses. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Share based payments and bonus plans

The Group operates the global share option plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of non-market vesting conditions. Non-market vesting conditions are instead included in assumptions about the number of options that are expected to vest. At the balance sheet date, the Company revises its estimates of the number of options that are expected to vest. The Company recognises the impact of the revision to original estimates in the income statement with a corresponding entry to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The Group recognises a liability and an expense for bonuses. The Group recognises a provision for bonuses where contractually obliged.

New accounting developments

In preparing the Group consolidated financial statements for the financial year ended December 31, 2007 a number of standards and interpretations were published but have as yet not become effective. The following is a preliminary assessment of the effect implementation of these standards and statements could have on the Group's financial statements.

1) IAS 1 (Amendment) "Presentation of Financial statements"

The amendment became effective on January 1, 2009. These amendments mainly mean changes to the structure and content of the financial reports. Consequently the Group's future presentation of the financial reports will be affected by the introduction of this standard.

2) IAS 23 (Amendment) "Borrowing Costs"

The amendment becomes effective on January 1, 2009. The amendment to the standard is still subject to endorsement by the European Union. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of the asset. The option of immediately expensing those borrowing costs will be removed. The Group applies IAS 23 (Amendment) from January 1, 2007 for the existing qualifying assets.

3) IFRS 8 "Operating segments"

The standard becomes effective on January 1, 2009 and applies for the fiscal years beginning on that date. The standard addresses the distribution of the company's operations in different segments. In accordance with the standard, the company shall adopt an approach based on the internal reporting structure and determine the reportable segments based on this structure. The company does not expect the adoption of IFRS 8 to result in any change in the number of segments.

4) IFRIC 11 "IFRS 2 Group and Treasury Share Transactions"

The interpretation becomes effective on March 1, 2007 and applies to fiscal years beginning after that date. The interpretation clarifies treatment regarding classification of share-based payments in which the company repurchases shares to settle its undertaking and reporting of options programs in subsidiaries that apply IFRS. The Group will apply IFRIC 11 as of January 1, 2008, but this is not expected to have any impact on the Group's financial statements.

5) IFRIC 12 "Service Concession Arrangements"

The interpretation becomes effective on January 1, 2008 and applies to fiscal years beginning after that date. IFRIC 12 addresses arrangements in which a private company shall establish an infrastructure to provide public service for a specified period. The company is paid for this service during the term of the contract. The Group will apply IFRIC 12 as of January 1, 2008, but this is not expected to have any impact on the Group's financial statements.

6) IFRIC 13 "Customer Loyalty Programmes"

The interpretation becomes effective on July 1, 2008. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated to the group's operations because none of the Group's subsidiaries operate any loyalty programmes.

7) IFRIC 14 "IAS 19 - The Limit of a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction"

The interpretation became effective on January 1, 2008. IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The group will apply IFRIC 14 from January 1, 2008 but it is not expected to have any impact on the Group's accounts.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

a) Impairment of oil and gas properties

At each balance sheet date the Group assesses whether there is any indication that the recoverable amount of the Group's oil and gas properties has declined below the carrying value. The recoverable amount is the higher of oil and gas properties' fair value less costs to sell and their value in use. When such decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the consolidated Group's income statement in the period in which the reduction is identified. If conditions change and management determines that the oil and gas properties' value has increased, the impairment provision will be fully or partially reversed.

b) Site restoration costs

On fields where the Group is required to contribute to site restoration costs, a provision is recorded to recognise the commitments. The Group performs analysis and estimates in order to determine the probability, timing and amount involved with probable required outflow of resources. Estimating the amounts and timing of those site restoration obligations that should be recorded requires significant judgment. The judgment is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Liabilities for site restoration costs are subject to change because of change in laws and regulations, and their interpretation.

Estimated restoration costs, for which disbursements are determined to be probable, are recognised as a provision in the Group's financial statements. When the final determination of such obligation amounts differs from the recognised provisions, the Group's income statement is impacted.

c) Reserves

The total proved and probable oil and gas reserves are depleted on a unit of production basis at a rate calculated by reference to proved and probable commercial reserves and incorporating the anticipated future capital cost for the development of those reserves. Commercial reserves are determined using estimates of oil in place, recovery factors and future oil prices. Anticipated future development costs are estimated using assumptions as to number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

Note 3 Segment information

Since 2005 West Siberian Resources produces crude oil and oil products. As a consequence, there are two business segments. As the pricing for export, CIS and domestic crude oil sales varies, management also reviews and evaluates the business on a geographical basis. As a result three secondary segments are identified.

Sales of crude oil and oil products to Russia are categorised as domestic; sale of crude oil to countries outside Russia is categorised as export; sale of crude oil to CIS countries is categorized as export to CIS countries. During the financial years ended December 31, 2007, 2006 and 2005 there was no sale of oil products to countries outside Russia.

Segment revenue is the revenue reported in the Group's income statement that is directly attributable to a segment and the relevant portion of the Group's revenue that can be allocated on a reasonable basis to a segment, whether from sales to external customers or from transactions with other segments of the Group. The segment revenue does not include interest, including interest earned on advances or loans to other segments of the Group.

Segment expense is the expense resulting from the operating activity of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments of the Group. The segment expense does not include interest, including interest incurred on advances or loans from other segments, general and administrative expenses and income tax expense.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets do not include income tax assets. Segment assets are determined after deducting related provision that are reported as direct off sets in the Group's balance sheet. Segment liabilities do not include income tax liabilities.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Oil companies in Russia are legally guaranteed a 30% export allowance. As a result of their export agent's effective performance and purchase of additional export quota VTK, Pechoraneft and Saneco were successful in achieving overall export rate of 48%, 40% and 43% during the financial years ended December 31, 2007, 2006 and 2005.

	Crude oil			Oil products	Group
	Export	CIS	Russia	Russia	
12 months ended December 31, 2007					
Total segment revenue	64 614	132 596	180 563	9 397	387 170
Inter-segment revenue	-	-	-6 077	-3 987	-10 064
Segment revenue	64 614	132 596	174 486	5 410	377 106
Segment result	15 000	19 207	26 805	2 451	63 463
Unallocated items					-30 748
Operating income					32 715
Net financial items					8 996
Result before tax					41 711
Tax					-11 820
Result for the period					29 891
12 months ended December 31, 2006					
Total segment revenue	36 451	68 960	140 215	7 677	253 303
Inter-segment revenue	-	-	-7 646	-2 308	-9 954
Segment revenue	36 451	68 960	132 569	5 369	243 349
Segment result	5 552	11 057	15 126	3 557	35 292
Unallocated items					-7 667
Operating income					27 625
Net financial items					6 886
Result before tax					34 511
Tax					-4 286
Result for the period					30 225
12 months ended December 31, 2005					
Total segment revenue	31 219	3 794	45 551	7 115	87 679
Inter-segment revenue	-	-	-7 020	-2 258	-9 278
Segment revenue	31 219	3 794	38 531	4 857	78 401
Segment result	5 163	2 120	9 498	622	17 403
Unallocated items					-5 797
Operating income					11 606
Net financial items					-10 564
Result before tax					1 042
Tax					-811
Result for the period					231

	Crude oil			Oil products	Group
	Export	CIS	Russia	Russia	
December 31, 2007					
Segment assets	284 836	290 434	542 803	3 495	1 121 568
Unallocated assets					12 250
Total assets					1 133 818
Segment liabilities	16 545	41 771	61 710	577	120 603
Unallocated liabilities					366 548
Total liabilities					357 023
Other segment disclosures					
Capital expenditures	29 915	63 827	102 669	332	196 742
Depletion and depreciation	11 030	33 129	32 730	101	76 990
December 31, 2006					
Segment assets	134 429	232 444	559 643	3 803	930 319
Unallocated assets					39 887
Total assets					970 206
Segment liabilities	10 722	18 540	44 638	275	74 175
Unallocated liabilities					393 984
Total liabilities					487 151
Other segment disclosures					
Capital expenditures	16 348	28 267	68 057	331	113 004
Depletion and depreciation	8 620	14 905	35 886	101	59 512
December 31, 2005					
Segment assets	163 608	17 309	233 213	3 423	417 553
Unallocated assets					8 296
Total assets					425 849
Segment liabilities	14 178	1 500	20 209	594	36 481
Unallocated liabilities					215 045
Total liabilities					251 526
Other segment disclosures					
Capital expenditures	42 873	4 536	61 112	1 143	109 664
Depletion and depreciation	5 517	583	7 864	58	14 022

Note 4 Production costs

	Group		
	Jan 1, 2007 - Dec 31, 2007	Jan 1, 2006 - Dec 31, 2006	Jan 1, 2005 - Dec 31, 2005
Production tax	138 726	88 953	26 525
Wages and salaries including social charges	20 914	16 121	6 045
Other taxes	5 742	3 293	1 139
Repairs and maintenance	4 915	3 244	1 030
License payments*	4 748	-	-
Rentals	3 911	2 500	527
Cost of oil purchased for re-sale	3 704	1 022	1 189
Materials	2 820	2 047	787
Transportation (other than Transneft charges)	1 969	1 560	1 023
Cost of crude oil for refining	1 099	1 060	748
Third party goods and services	304	705	671
Well services and workovers	278	1 061	1 202
Other	9 208	5 798	284
	198 338	127 364	41 170

* For more information on license payments refer to the Note 26.

Note 5 Administration expenses

	Group			Parent company		
	Jan 1, 2007 - Dec 31, 2007	Jan 1, 2006 - Dec 31, 2006	Jan 1, 2005 - Dec 31, 2005	Jan 1, 2007 - Dec 31, 2007	Jan 1, 2006 - Dec 31, 2006	Jan 1, 2005 - Dec 31, 2005
Staff costs including social charges	3 409	1 934	715	3 314	1 934	715
Annual bonus	872	899	2 259	872	899	2 259
Share options	4 955	3 972	-	4 184	3 454	-
Other general and administrative expenses	13 597	7 556	2 556	7 337	7 054	3 410
	22 833	14 361	5 530	15 707	13 341	6 384

The total bonus for the financial year ended December 31, 2006 amounted to 1,949 out of which 899 was expensed and 1,050 representing acquisition related costs to WSR development team was capitalised.
For more detailed information on share options refer to Notes 19 and 25.

During the financial years ended December 31, 2006 and 2005 the parent company incurred costs amounted to 2,500 and 1,500 related to two licenses acquired by Khvoinoye which were capitalised at consolidation level and included in the balance sheet line "Oil and gas properties".

PricewaterhouseCoopers, the Group auditors, and other audit firms have during the financial years ended December 31, 2007, 2006 and 2005 received remuneration for work accomplished according to the following:

	Group			Parent company		
	Jan 1, 2007 - Dec 31, 2007	Jan 1, 2006 - Dec 31, 2006	Jan 1, 2005 - Dec 31, 2005	Jan 1, 2007 - Dec 31, 2007	Jan 1, 2006 - Dec 31, 2006	Jan 1, 2005 - Dec 31, 2005
PricewaterhouseCoopers – auditing	892	862	380	892	839	360
PricewaterhouseCoopers – other	63	4	11	63	-	10
Baker Tilly Russaudit - auditing	149	115	24	-	-	-
Partner-audit - auditing	10	44	24	-	-	-
Tairs-audit - auditing	-	-	10	-	-	-
	1 114	1 025	449	955	839	370

Note 6 Interest expense

	Group			Parent company		
	Jan 1, 2007 - Dec 31, 2007	Jan 1, 2006 - Dec 31, 2006	Jan 1, 2005 - Dec 31, 2005	Jan 1, 2007 - Dec 31, 2007	Jan 1, 2006 - Dec 31, 2006	Jan 1, 2005 - Dec 31, 2005
BNP Paribas MUSD 250	12 036	9 153	2 746	22 318	13 060	2 746
BNP Paribas MUSD 20	-	308	1 127	-	-	-
Unwinding of discount on site restoration costs	1 237	1 335	344	-	-	-
International Moscow Bank	1 140	1 716	241	-	-	-
Interest expense on finance lease	75	120	29	-	-	-
Grand Invest Bank	38	186	290	-	-	-
Vnesheconombank	-	626	1 233	-	-	-
Convertible debentures	-	-	122	-	-	122
Interest on other loans	364	354	340	-	85	102
	14 890	13 798	6 472	22 318	13 145	2 970

Note 7 Taxes

The parent company West Siberian Resources Limited domiciled in Bermuda is exempt from profit tax.

The profit of Cypriot subsidiaries, Vostok Oil (Cyprus) Limited and O&G Credit Agency Limited, as adjusted for tax purposes, is subject to Cypriot income tax at the rate of 10%. On taxable profits above current year profit of MCYP 1 an additional tax of 5% is imposed.

The profit of Russian subsidiaries, VTK, Khvoinoye, Alexandrov Refinery, SNPZ, Nikol, Pechoraneft, NBNK, Saneco, Pechora Exploration, Northoil and WSR Invest, as adjusted for tax purposes, is subject to Russian income tax at the rate of 24%.

Deferred tax asset is recognised for unused tax losses in some of the Group subsidiaries, which are expected to be utilised within the ten years expiration period in Russia.

	Jan 1, 2007 - Dec 31, 2007	Jan 1, 2006 - Dec 31, 2006	Jan 1, 2005 - Dec 31, 2005
Current tax	-15 527	-13 236	-1 865
Deferred tax	3 707	8 950	1 054
Total tax charge for the period	-11 820	-4 286	-811

The tax on the Group's result before tax differs from the theoretical amount that would have arisen using the tax rate of the home country of the Company as follows:

	Jan 1, 2007 - Dec 31, 2007	Jan 1, 2006 - Dec 31, 2006	Jan 1, 2005 - Dec 31, 2005
Result before tax	41 711	34 511	1 042
Tax parent company (0%)	-	-	-
Tax Cyprus (10%)	-1 040	-110	-114
Tax Russia (24%)	-14 487	-13 127	-1 751
Tax effect on temporary differences related to capitalised costs (24%)	2 647	7 277	705
Tax effect on temporary differences related to capitalised costs (10%)	-	-	-
Tax effect on temporary deductible differences (24%)	479	-1 029	-274
Tax effect on temporary deductible differences (10%)	-	-	-
Tax effect on tax losses carried forward, Russia	581	2 963	363
Tax effect on tax losses carried forward, Cyprus	-	-260	260
Total tax charge for the period	-11 820	-4 286	-811
Effective tax rate for the Group	-28%	-12%	-78%

For the financial years ended December 31, 2007, 2006 and 2005 the effective tax rate was calculated as 28%, 12% and 78%, respectively. The increase of the effective tax rate in 2007 comparing to 2006 was caused by the increase of tax losses carried forward in Russian Group's subsidiaries and the change in the profitability of the Group's subsidiaries in the respective countries.

The gross movement on the deferred income tax account is as follows:

	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005
Net deferred tax liability in the beginning of the year	124 994	37 553	7 268
Acquisition of subsidiary	-	90 720	31 935
Income statement charge	-3 707	-8 950	-1 054
Currency exchange gains/(losses)	7 271	5 671	-596
Net deferred tax liability in the end of the year	128 558	124 994	37 553

The deferred tax assets and liabilities for each temporary difference recognised in the Group's balance sheet are as follows:

	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005
Deferred tax liabilities			
Property, plant and equipment	134 837	29 601	40 188
Inventories	719	68	207
Trade and other receivables	281	148	-
Deferred tax assets			
Property, plant and equipment	-896	-337	-425
Inventories	-279	-52	-66
Trade and other receivables	-375	-326	-1 088
Provisions	-839	-342	-531
Trade and other payables	-673	-539	-111
Tax loss carry-forwards	-4 217	-3 627	-621
Net deferred tax liability	128 558	124 994	37 553

Note 8 Earnings per share

Basic earnings per share have been calculated by dividing the net result for the financial period by the weighted average number of issued shares, 1,186,447,178, 1,060,073,994 and 635,615,586, respectively, for the financial years ended December 31, 2007, 2006 and 2005.

Diluted earnings per share have been calculated by dividing the net result for the financial period by the diluted weighted average number of shares, 1,186,447,178, 1,064,214,168 and 635,615,586, respectively, for the financial years ended December 31, 2007, 2006 and 2005.

	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005
Weighted average number of ordinary shares issued	1 186 447 178	1 060 073 994	635 615 586
Adjustment for dilutive effect of incentive options	-	4 140 174	-
Weighted average number of ordinary shares for diluted earnings per share	1 186 447 178	1 064 214 168	635 615 586

Note 9 Oil and gas properties

Expenditures for oil and gas properties are accounted for at historic cost less depletion and impairment if applicable. Depletion of a field area is charged once commercial production commences.

	Group		
	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005
Cost centres with production	836 218	579 896	302 543
Cost centres without production	209 661	284 569	76 438
	1 045 879	864 465	378 982
Opening balance of net book value	864 465	378 982	74 551
Tomsk region	133 823	116 435	74 551
Timano-Pechora region	460 938	262 547	-
Volga-Urals region	269 704	-	-
Additions	197 692	102 811	110 366
Disposals	-716	-2 388	-112
Additions through business combinations	-	395 488	209 692
Site restoration costs capitalised	4 013	-4 009	2 621
Currency exchange gains/(losses)	67 794	52 992	-4 173
Depletion of oil and gas properties	-76 889	-59 411	-13 964
Impairment of oil and gas properties	-10 480	-	-
Closing balance of net book value	1 045 879	864 465	378 982
Tomsk region	194 138	133 823	116 435
Timano-Pechora region	556 664	460 938	262 547
Volga-Urals region	295 077	269 704	-

Exploration and evaluation assets, which mainly comprise capitalised exploration drilling costs and geological studies and seismic researches related to the exploration license oil fields and prospects, were classified as follows:

	Group		
	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005
Opening balance	119 802	8 200	-
Tomsk region	1 871	1 698	-
Timano-Pechora region	12 174	6 502	-
Volga-Urals region	105 757	-	-
Transfers to oil and gas properties and additions	-85 861	-8 630	1 698
Additions through business combinations	-	111 204	6 545
Impairment charge	-10 480	-	-
Site restoration costs capitalised	-488	533	-
Currency exchange gains/(losses)	4 643	8 495	-43
Closing balance	27 616	119 802	8 200
Tomsk region	-	1 871	1 698
Timano-Pechora region	-	12 174	6 502
Volga-Urals region	27 616	105 757	-

In the income statement line "Depletion and depreciation" the depletion charges for oil and gas properties were included amounting to 76,889, 59,411 and 13,964 for the financial years ended December 31, 2007, 2006 and 2005.

Since 2005, WSR has commissioned DeGolyer and MacNaughton (D&M) for the Company's Petroleum Resources Management System (PRMS, earlier referred to as Society of Petroleum Engineers (SPE)) classification of recoverable reserves. In the fourth quarter of 2005, this resulted in an increased depletion rate per barrel (USD 8.17) of oil produced as D&M estimates of future capital expenditures significantly exceeded WSR's internally planned investments. Based on D&M's 2006 estimates of reserves and future capital expenditures this difference with the Company's internal estimates was reduced. Consequently, the depletion rate was reduced to USD 7.13 per barrel from the fourth quarter of 2006. In 2007, D&M estimates of future capital expenditures increased significantly to reflect the devaluation of the US dollar, inflation and higher expected future drilling costs. For the financial years ended December 31, 2007, 2006 and 2005 the average depletion rate was USD 7.29, USD 7.46 and USD 4.72.

In November 2005 the licenses for two fields in the Timano-Pechora region of Russia were granted to WSR through Khvoinoye. The total consideration for the licenses amounted to MUSD 67 paid in December 2005.

An impairment charge of 10,480 was recorded in the income statement in the financial year ended December 31, 2007 to reflect the abandonment of the Liginski Block in the Timano-Pechora region for which the license expired in December 2007. WSR did not seek to extend the exploration license following an unsuccessful exploration test in 2006 and subsequent technical evaluations.

During the financial year ended December 31, 2005 no borrowing costs were capitalised in oil and gas properties. For the financial years ended December 31, 2007 and 2006 the borrowing costs amounted to 11,153 and 4,382 were capitalised in oil and gas properties. The amount of capitalised borrowing costs represented the interest and other borrowing costs related to BNP Paribas loans obtained for acquisition of the North Kharyaga and Lek-Kharyaga oil field at the end of 2005 and the Kolvinskoye oil field at the end of 2006. Once the production has commenced on the North Kharyaga and Lek-Kharyaga oil fields the corresponding borrowing costs were expensed.

Note 10 Refining properties

	Group		
	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005
Cost			
Opening cost	2 505	1 488	-
Additions through business combinations	-	-	819
Additions	122	867	710
Disposals	-4	-7	-
Currency exchange gains/(losses)	187	157	-41
Closing cost	2 810	2 505	1 488
Depreciation			
Opening accumulated depreciation	-159	-58	-
Depreciation	-101	-101	-58
Closing accumulated depreciation	-260	-159	-58
Closing balance of net book value	2 550	2 346	1 430

The depreciation costs for the refining properties for the financial year ended December 31, 2007, 2006 and 2005 were included in the income statement line "Depletion and depreciation".

During the financial years ended December 31, 2007, 2006 and 2005 no borrowing costs were capitalised in refining properties.

Note 11 Office equipment

	Group			Parent company		
	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005
Cost						
Opening cost	3 062	1 520	453	116	24	26
Additions through business combinations	-	304	698	–	–	–
Additions	1 992	1 541	486	54	94	1
Disposals	-639	-492	-95	-3	-2	-3
Currency exchange gains/(losses)	269	189	-22	–	–	–
Closing cost	4 685	3 062	1 520	167	116	24
Depreciation						
Opening accumulated depreciation	-562	-248	-120	-40	-19	-15
Depreciation	-714	-334	-13	-36	-21	-4
Currency exchange gains/(losses)	-102	20	-115	-	-	-
Closing accumulated depreciation	-1 379	-562	-248	-76	-40	-19
Closing balance of net book value	3 306	2 500	1 272	91	76	5

The depreciation costs for the office equipment for the financial year ended December 31, 2007, 2006 and 2005 were included in the income statement line "Depletion and depreciation".

Note 12 Shares in subsidiaries

	Country	Percentage of capital and votes (%)
Vostok Oil (Cyprus) Ltd	Cyprus	100,00
O&G Credit Agency Ltd	Cyprus	100,00
Norbreck Investments Ltd	Cyprus	60,00
VTK	Russia	100,00
Khvoinoye	Russia	100,00
Alexandrov Refinery	Russia	100,00
SNPZ	Russia	100,00
Nikol	Russia	100,00
Pechoraneft	Russia	99,66
NBNK	Russia	100,00
Saneco	Russia	100,00
Pechora Exploration	Russia	100,00
Northoil	Russia	100,00
WSR Invest	Russia	100,00

West Siberian Resources Limited was registered as owner of the subsidiary Vostok Oil (Cyprus) Limited on August 1, 2000 through a transfer of the ownership from Vostok Nafta Investment Limited to West Siberian Resources Limited. Vostok Oil (Cyprus) Limited acquired the Russian company VTK, equivalent to 80% of the capital and votes, on December 6, 1999 for MUSD 7. On June 30, 2004, the remaining 20% of the shares of VTK were transferred into ownership of Vostok Oil (Cyprus) Limited as a result of purchase of the shares from a previous holder of the shares. As of December 31, 2007 West Siberian Resources Limited through its subsidiary Vostok Oil (Cyprus) Limited holds 100% of the shares in VTK.

On August 12, 2004 O&G Credit Agency Limited was incorporated in Cyprus. On November 11, 2004 West Siberian Resources Limited was registered as a holder of 100% of the shares of O&G Credit Agency Limited.

In December 2004 West Siberian Resources Limited concluded a share purchase agreement for acquisition of 100% of Khvoinoye and Alexandrov Refinery. On March 4, 2005 the acquisition has been formally approved by the Anti-Monopoly Committee of the Russian Federation. On March 16, 2005 and March 25, 2005 West Siberian Resources Limited was registered as a holder of 100% of the participatory interest in Khvoinoye and Alexandrov Refinery, respectively. The total consideration for the shares acquired was MUSD 9, out of which MUSD 4.5 was paid in late December 2004 from operating cash flows. The remaining MUSD 4.5 was paid in February 2005 from the loan received from Alltech Investments Limited, one of the major shareholders of West Siberian Resources Limited. During the financial year ended December 31, 2007 the parent company made contributions amounted to 23,639 to the Khvoinoye's share capital for financing capital expenditures.

On August 9, 2005 SNPZ was incorporated in Russia. VTK and Khvoinoye were registered as holders of 99% and 1%, respectively, of the participatory interest in SNPZ.

In September 2005 West Siberian Resources Limited completed the acquisition of Nikol. Nikol initially owned 99.729% of the shares of Pechoraneft holding a production license to operate the Middle Kharyaga oil field in the Timano-Pechora region of the Russian Federation. On September 5, 2005 the Anti-Monopoloy Committee of the Russian Federation formally approved the acquisition. On October 7, 2005 West Siberian Resources Limited was registered as a holder of 100% of the participatory interest in Nikol. The total consideration for the shares acquired was 115,170 including acquisition costs amounted to 1,610. The advance payment of 15,000 was made in July 2005 and the remaining consid-eration was paid in September 2005 at completion. As of December 31, 2007 Nikol's share was equal to 99.66%. During the financial year ended December 31, 2007 the parent company made contributions amounted to 2,980 to the Nikol's share capital.

In September 2005 West Siberian Resources Limited completed the acquisition of 100% of the participatory interest in NBNK holding an exploration license for an undeveloped oil field nearby to the Middle Kharyaga oil field. On September 5, 2005 the Anti-Monopoloy Committee of the Russian Federation formally approved the acquisition. On October 20, 2005 West Siberian Resources Limited was registered as a holder of 100% of the participatory interest in NBNK. The acquisition price amounted to 5,124 including existing debt. Debt in the amount of 4,595 was assumed and the remaining consideration was paid at completion. During the financial year ended December 31, 2007 the parent company made contributions amounted to 721 to the NBNK's share capital. As of December 31, 2007 NBNK was under liquidation therefore in the parent company's accounts the investment provision was recorded amounted to 1,251.

On January 23, 2006 the share purchase agreement was signed for the acquisition of Saneco. In accordance with the share purchase agreement the total purchase price of MUSD 140 should be paid by a maximum MUSD 70 in cash (including assumption of debt if any) and MUSD 70 in the form of 116,500,000 West Siberian shares valued at SEK 4.74 per share. On February 17, 2006, when the acquisition was completed, the share price was SEK 7.85 and the fair value of 116,500,000 shares was 115,821. Up to December 31, 2007 WSR paid 63,582 with assumed debt of 7,538 to the sellers. The acquisition costs paid up to December 31, 2007 amounted to 1,120. The assumed debt included dividends payable to former shareholders amounted to 4,038, the loan payable to NOMOS bank amounted to 957 and other current liabilities. These liabilities were repaid in full as of December 31, 2006 and were included in the cash flow statement lines "Repayment of borrowings" and "Total cash flow from operations".

On March 24, 2006 a new entity, Pechora Exploration, was incorporated in Russia based on the shareholders agreement between the WSR subsidiaries Nikol and NBNK. In the end of April 2006 WSR Ltd bought out its share from NBNK and was approved by the Federal Antimonop-oly Committee of the Russia Federation as the 50% owner of the shares of Pechora Exploration. The purpose of the incorporation of Pechora Exploration and such restructuring within the Group was to concentrate the Group's exploration activity performance in the Timano-Pechora region through one entity. In June 2006 the exploration license for the Liginski block was transferred from NBNK to Pechora Exploration. In December 2007 the exploration license for the Liginski block expired. For more information refer to the Note 9. During the financial year ended December 31, 2007 the parent company made contributions amounted to 5,048 to the Pechora Exploration's share capital.

On November 2, 2006 the share purchase agreement was signed for the acquisition of Northoil holding the license to produce hydrocarbons from the Kolvinskoye field in the Timano-Pechora region. In accordance with the share purchase agreement the total purchase price of MUSD 115 should be paid in cash out of which MUSD 90 was paid at completion and MUSD 25 was paid in January 2007. The acquisition costs amounted to 1,095 out of which 1,050 represented an acquisition related bonus to the WSR business development team.

On March 27, 2007 a new entity, WSR Invest, was incorporated in Russia. Since 2008 WSR Invest is acting as a management company for Russian Group's operating subsidiaries.

The fair values of assets and liabilities of the Group's subsidiaries acquired during the financial years ended December 31, 2006 and 2005 are presented in the table below.

The goodwill amounting to 322 recognised as a result of the acquisition of the Alexandrov Refinery represented the excess of the considera-tion paid and related costs of acquisition over the Group's interest in the net fair value of the Alexandrov Refinery's recognised assets and liabilities. As of December 31, 2007 the goodwill was increased for the amount of translation difference to 364.

	Khvoinoe	Alexandrov Refinery	Pechoraneft	NBNK	Saneco	Northoil
Date of acquisition	Jan 1, 2005	Jan 1, 2005	Sep 1, 2005	Sep 1, 2005	Feb 17, 2006	Nov 2, 2006
Percentage of share capital acquired	100,00%	100,00%	99,73%	100,00%	100,00%	100,00%
Oil and gas properties	11 394	-	192 366	6 187	242 489	152 598
Refining properties	-	819	-	-	-	-
Land	-	-	-	-	11	-
Intangible assets	-	-	73	-	305	
Office equipment	-	17	671	10	3	-
Deferred tax asset	-	-	-	96	-	-
Other financial fixed assets	-	-	14 088	962	1 222	-
Inventories	48	94	1 475	141	1 667	-
Trade and other current receivables	310	146	19 377	165	3 369	92
Cash and bank	5	2	1 796	39	847	1
Long-term borrowings	-	-	-39 083	-	-	
Provision for site restoration costs	-42	-	-5 294	-	-1 264	-
Deferred tax liability	-2 499	-26	-28 952	-247	-52 797	-36 520
Other long-term liabilities	-	-	-1 232	-	-	-
Short-term borrowings	-	-4	-11 771	-1 189	-957	-
Trade payables	-1 069	-162	-12 735	-1 030	-3 559	-76
Accrued expenses	-96	-156	-4 217	-8	-7 888	-
Other current liabilities	-1	-2	-11 259	-2	-4 044	-
Net assets at acquisition date	8 050	728	115 303	5 124	179 404	116 095
Minority interest	-	-	312	-	-	-
Net assets acquired	8 050	728	114 991	5 124	179 404	116 095
Consideration	8 050	1 050	115 205	5 124	179 404	116 095
Goodwill	-	-322	-214	-	-	-
Cash paid by the Company	8 050	1 050	115 170	5 124	63 582	90 045
Less cash of acquired subsidiary	-5	-2	-1 796	-39	-847	-1
Cash flow on acquisition, net of cash acquired	8 045	1 048	113 374	5 085	62 735	90 044
Profit (loss) since the acquisition date	-1 276	168	-217	-53	8 495	-14
Revenue for 12 months 2005 or 2006 as though the acquisition had been January 1, 2005 or 2006	4 754	6 467	67 078	-	88 403	-
Profit (loss) for 12 months 2005 or 2006 as though the acquisition had been January 1, 2005 or 2006	-1 276	168	4 082	-53	5 893	-14

The goodwill amounting to 179 initially recognised as a result of the acquisition of Pechoraneft represented the fair value of the assembled workforce (only related to the fair value of top management) that was determined as savings on payments to recruiting agencies to hire the acquired subsidiary's management. During the financial year ended December 31, 2006 as a result of the increase of the purchase considera-tion for the amount of additional acquisition costs the amount of recognised goodwill was increased up to 214. As of December 31, 2007 the goodwill was increased for the amount of translation difference to 248.

In August 2006 the share sale agreement was signed for the sale of 100% of CJSC "Reimpex-Samara-Neftepromysel" ("Reimpex"), Saneco's subsidiary. In accordance with the share sale agreement the total sales price should be paid by 8,515 in cash and 476 by assumption of debt. The selling costs amounted to 2,200 were incurred. In September 2006 the deal was closed and as of December 31, 2006 the Company received 6,791 net of selling costs included in the cash flow statement line "Disposal of shares in subsidiaries". Since the net assets of Reimpex as of the disposal date amounted to 948 the Company recognized a gain on disposal of 5,843 included in the income statement line "Gain on disposal of shares in subsidiaries". The income statement of Reimpex for the twelve months ended December 31, 2006 is not presented due to absence of operations during the period.

In accordance with the BNP Paribas MUSD 20 loan facility VTK could not make transfers to its parent company, Vostok Oil (Cyprus) Limited, or other Group companies in the form of cash dividends or intercompany loan repayments during the loan facility period. Since in February 2006 this loan facility was repaid in full (refer to the Note 23 for details), as of the date of the issuance of the annual report this restriction does not exist.

Note 13 Investments in associated companies

Vostok Oil (Cyprus) Ltd owned 50% of the equity and votes in Tomskzapadneft. The remaining 50% of the equity and votes in Tomskzapadneft was owned by the Russian company Tomsk Oil & Gas Company. Tomskzapadneft was formed during West Siberian Resources Ltd's financial year ended September 30, 2000.

In accordance with the Group's policy on accounting for investments in associated companies, the carrying value of the investment in Tomskzapadneft was reduced for West Siberian Resources's share of the losses of Tomskzapadneft. The share of losses for the year ended September 30, 2001 exceeded the carrying value as at September 30, 2000. Therefore the carrying value was reduced to nil as at September 30, 2001.

During the financial year ended December 31, 2005 West Siberian Resources Ltd made a further loan to Tomskzapadneft of 85 for operating needs. In August 2005 the expired license owned by Tomskzapadneft was refused for prolongation. As a result the loan receivable from Tomskzapadneft was written off as non-recoverable and included in the income statement line "Investment write-off". During the financial years ended December 31, 2007 and 2006 Tomskzapadneft was under liquidation and on January 15, 2008 Tomskzapadneft was liquidated based on the Russian statutory authorities' approval.

Note 14 Other financial fixed assets

	Group			Parent company		
	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005
VAT recoverable	1 676	1 020	4 154	-	-	-
Other financial fixed assets	-	61	60	-	61	60
	1 676	1 081	4 214	-	61	60

Management considers VAT recoverable related to the assets under construction located in the regions with operations as non-current since it is unlikely to be recovered in the whole amount within the twelve months after the reporting date.

Note 15 Receivables from group companies

As of December 31, 2007, the loan receivable by the parent company from Vostok Oil (Cyprus) Limited amounted to 30,381 and from O&G Credit Agency Limited amounted to 305,983 including interest accrued. The remaining amount receivable of 1,908, 1,904 and 2,999 related to the personnel services provided to VTK, Pechoraneft and Saneco, respectively (see details in the Note 27).

Note 16 Inventories

	Group		
	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005
Hydrocarbon stocks	3 727	2 397	1 529
Oil product stocks	883	1 152	833
Drilling equipment and consumable materials	7 770	5 839	2 125
	12 380	9 388	4 487

Note 17 Trade and other current receivables

	Group			Parent company		
	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005
Trade accounts receivable - gross	17 573	5 134	10 759	–	–	–
Less: Provision for impairment of trade accounts receivable	-1 053	-886	-1 024	–	–	–
Trade accounts receivable - net	16 520	4 248	9 735	–	–	–
VAT & other tax receivables	18 123	19 597	16 248	–	–	–
Other current receivables - gross	22 721	26 162	8 310	122	146	70
Less: Provision for impairment of other accounts receivable	-80	-424	-2 311	–	–	–
Other current receivables - net	22 641	25 738	5 999	122	146	70
	57 284	49 583	31 982	122	146	70

The movements in the provision for impairment of trade and other current accounts receivable are presented below:

	Dec 31, 2007	**Dec 31, 2006**	**Dec 31, 2005**
Provision for impairment of trade & other current accounts receivable:			
Opening balance	-1 310	-3 335	-123
Provision accrued at acquisition of subsidiaries	-	-101	-3 367
Accrual of provision	-30	-295	-173
Release of provision	355	372	53
Write-off of provision	-	1 908	0
Currency exchange gains/(losses)	-148	141	275
Closing balance	-1 133	-1 310	-3 335

The Group has the overdue balances of trade and other current accounts receivable as of December 31, 2007 for which no provision for impairment has been created as the management considers such balances as recoverable. The overdue balances of trade and other current accounts receivable are presented below:

	More than 30 days	More than 60 days	More than 180 days
Overdue trade receivables	3 843	3 510	1 486
Overdue other receivables	4 947	3 991	2 078
	8 790	7 501	3 564

Note 18 Restricted cash

WSR had a Reserve Account with BNP Paribas the balance on which starting from July 2005 served as a security for interest and principal payments of each following interest period in accordance with BNP Paribas MUSD 20 loan facility. As of December 31, 2005 the balance on the Reserve Account amounted to 151. Upon the repayment of the MUSD 20 loan to BNP Paribas in February 2006 the restricted cash was released. As at December 31, 2007 and 2006 there were no restricted cash.

Note 19 Share capital and other paid in capital

Group and Parent Company	Increase in number of shares held	Par value per share (USD)	Increase in share capital	Other paid in capital
Formation of Company – Sep 1998	12 000	1.00	12	-
Share split 4:1 – Nov 2000	36 000	0.25	-	-
New share issue – Dec 2000	30 904 664	0.25	7 726	8 250
New share issue – Jan 2001	1 227 325	0.25	307	347
Share issue costs – Dec 2000/Jan 2001	-	-	-	-1 057
Reduction of share capital - Feb 2004	-	0.05	-6 436	6 436
Issue through set-off - Feb 2004	75 082 636	0.05	3 754	14 502
Preferential subscription rights issue - Mar 2004	321 787 875	0.05	16 089	13 380
Preferential subscription rights issue costs - Mar 2004	-	-	-	-3 193
Preferential subscription rights issue - Apr 2005	257 430 300	0.05	12 872	36 128
Preferential subscription rights issue costs - Apr 2005	-	-	-	-1 611
Private placement - Sep 2005	106 046 512	0.05	5 302	54 698
Private placement issue costs - Sep 2005	-	-	-	-3 037
Private placement - Feb 2006	306 500 000	0.05	15 325	262 900
Private placement issue costs - Feb 2006	-	–	-	-9 358
Private placement - Jan 2007	90 000 000	0.05	4 500	75 856
Private placement issue costs - Jan 2007	-	–	-	-2 572
	1 189 027 312	0.05	59 451	451 669

As of December 31, 2007 the authorised number of shares was 1,500,000,000 of which 1,189,027,312 were issued. Share issue costs associated with the issuance of new equity are treated as a direct reduction of proceeds. Other paid in capital is defined as the difference between the net proceeds from the issue of share capital and the par value of that share capital. Each ordinary share carries one vote.

On April 27, 2005 the equity offering was completed with preferential rights for shareholders. The rights issue proceeds of 47,389 net of right issue costs were included in the cash flow statement line "Proceeds from share issues (net of issue costs)" for the financial year ended December 31, 2005.

On September 14, 2005 the share private placement was completed with total proceeds of 60,000. The amount of 56,963 net of placement costs was included in the cash flow statement line "Proceeds from share issues (net of issue costs)" for the financial year ended December 31, 2005.

On January 23, 2006 the share purchase agreement was signed for the acquisition of Saneco. In accordance with the share purchase agreement the total purchase price of MUSD 140 should be paid by a maximum MUSD 70 in cash (including assumption of debt if any) and MUSD 70 in the form of 116,500,000 West Siberian shares valued at SEK 4.74 per share. On February 17, 2006, when the acquisition was completed, the share price was SEK 7.85 and the fair value of 116,500,000 shares was 115,821.

In February 2006 a private placement of common shares raising MUSD 162.40 (before placement costs) was completed. Institutional investors subscribed for 80,097,268 new shares/depositary receipts with a subscription price of SEK 7.25. 109,902,732 shares were issued to Repsol YPF at SEK 6.13 (10% of enlarged share capital at the date of the placement). The net proceeds net of placement costs amounted to 153,046 were included in the cash flow statement line "Proceeds from share issues (net of issue costs)" for the financial year ended December 31, 2006.

In January 2007 a private placement of common shares raising 80,357 (before placement costs) was completed. Institutional investors subscribed for 90,000,000 new shares/depositary receipts with a subscription price of SEK 6.25. The net proceeds net of placement costs amounted to 77,827 were included in the cash flow statement line "Proceeds from share issues (net of issue costs)" for the financial year ended December 31, 2007.

In January 2001 665,000 incentive options were issued based on approvals given at shareholders' meetings. Each option entitled the holder to subscribe for one new share in West Siberian Resources Ltd for a price of SEK 6. These options could only be exercised between January 13, 2003 and January 23, 2003 but they expired unexercised.

Since January 31, 2006 the Group has followed the WSR Global Share Option Plan under which the share options are granted to directors and selected management. Each option gives the right to subscribe for one share of common stock at the exercise price equal to the market price of the shares on the date of the grant. All options are exercisable after 3 years subject to certain non-market conditions such as the Company's and individual performance and expire in 5 years from issuance. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period of 3 years is determined by reference to the fair value of the options granted excluding the impact of any non-market vesting conditions. For the financial year ended December 31, 2007 and for the period January 31, 2006 – December 31, 2006 the share option charges amounted to 4,955 and 3,972 increased the Group's income statement line "Administration expenses" and correspondingly the retained earnings.

Movements in the number of share options outstanding as of December 31, 2007 and 2006 and their related weighted average exercise prices were as follows:

	2007		2006	
	Average exercise price in SEK per share	No. of options	Average exercise price in SEK per share	No. of options
At 1 January	6.22	38 499 000	-	-
Granted/corrected during the period	6.15	31 281 000	6.22	40 149 000
Forfeited during the period	5.97	- 3 325 000	6.13	- 1 650 000
At 31 December	6.21	66 455 000	6.22	38 499 000

As of December 31, 2007 and 2006 there were no exercisable options.

Share options outstanding as of December 31, 2007 and 2006 have the following expiry dates and exercise prices:

Grant date	Expiry date	Exercise price in SEK per share	No. of options outstanding	
			Dec 31, 2007	Dec 31, 2006
January 31, 2006	January 31, 2011	6.13	36 774 000	34 374 000
April 10, 2006	April 10, 2011	7.00	4 500 000	4 125 000
February 28, 2007	February 28, 2012	6.20	24 181 000	-
May 22, 2007	May 22, 2012	5.55	1 000 000	-
			66 455 000	38 499 000

The weighted average fair value of options granted determined using the Black-Scholes valuation model was SEK 2.50 per option for the options granted as of January 31, 2006, SEK 3.01 for the options granted to new employees on April 10, 2006, SEK 1.92 for the options granted on February 28, 2007 and SEK 1.72 for the options granted on May 22, 2007. The significant inputs into the model were reference share prices at the grant dates and the exercise prices as shown above, volatility of 37%, no dividend yield, an expected option life of 5 years, and annual risk-free interest rate of 5%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last 3 years.

For further changes in the share capital, other paid in capital and options granted refer to Note 30.

Note 20 Minority interest

The minority interest recognised in the financial years ended December 31, 2007, 2006 and 2005 refers to 0.3400%, 0.2014% and 0.271% of the shares of Pechoraneft owned by individuals.

Note 21 Convertible debentures

The Company issued convertible debentures during the financial year ended September 30, 2002. The proceeds amounted to an equivalent of MUSD 17.6 in SEK. The debentures carried an interest of 10% and matured in May 2005. The convertible debenture consisted of a loan component and an equity component. The equity component representing the value of the conversion option was valued at fair value and the remainder of the proceeds were allocated to the loan component in accordance with IAS 32 "Financial instruments: Disclosures and presentation". Costs associated with the offering of convertible debentures were proportionally allocated to the equity component and the loan component. The difference between the accounted loan component and the nominal loan amount that fallen due for payment on May 31, 2005 was evenly charged using the effective yield method to the income statement as other financial expenses. These costs amounted to 193 for the financial years ended December 31, 2005.

By way of the Issue through set-off, which was completed on February 17, 2004, SEK 150,165,272 of the Company's loan pursuant to the convertible debentures was converted against the issuing of 75,082,636 shares. This meant that after the completed Issue Through Set-off there were 1,367,312 outstanding convertible debentures, with an aggregate amount of SEK 20,509,693. On May 31, 2005 the convertible debentures principal of 2,851 and interest accrued of 264 were fully repaid and included in the cash flow statement lines "Convertible debentures repayment" and "Interest paid".

Note 22 Provision for site restoration costs

A provision is made to recognise the commitment for site restoration costs on oil and gas fields. The provision was recognised at first production or at the date of acquisition at the present value of the future commitment.

	Group		
	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005
Opening balance	6 620	9 762	1 611
Additions and disposals, including:	5 343	-3 142	8 151
- unwinding costs	1 237	1 335	402
- new provisions	1 071	2 573	1 959
- additions through business combinations	-	1 264	5 336
- changes in estimates	84	229	667
- changes in discount rate	2 175	-9 358	-160
- currency exchange gains/(losses)	776	815	-53
Closing balance	11 963	6 620	9 762

Note 23 Borrowings and pledged assets

Initially, the borrowings are recognised at the fair value of the proceeds received, net of transaction costs incurred. In subsequent periods, the borrowings are stated at amortised cost using the effective yield method; any difference between fair value of the proceeds, net of transaction costs, and the redemption amount is evenly charged to the income statement as other financial expense over the period of these borrowings. These charges amounted to 1,359, 1,551 and 463 for the financial years ended December 31, 2007, 2006 and 2005. For fixed rate borrowings, current market rates were similar to the rates applicable to West Siberian Resources Limited. As a result the fair value of such loans differed from their book value with insignificant amount.

The summary of the bank borrowings' principal amounts payable as of December 31, 2007 and related pledged assets and covenants is presented in the table below.

<table>
<tr><th rowspan="2">Borrower</th><th rowspan="2">Creditor</th><th rowspan="2">Denominated in</th><th rowspan="2">Outstand-ing amount, TUSD</th><th rowspan="2">Maturity</th><th rowspan="2">Interest rate</th><th colspan="3">Pledged assets and covenants</th></tr>
<tr><th>Amount of pledge</th><th>Description of pledged assets/ covenants</th><th>Location of pledged assets</th></tr>
<tr><td colspan="9">Long-term borrowings</td></tr>
<tr><td rowspan="2">West Siberian Resources Ltd</td><td rowspan="2">Syndicate of banks</td><td rowspan="2">USD</td><td>200 000</td><td>18.12.2013</td><td>3.25% + LIBOR</td><td rowspan="2">500 000</td><td rowspan="2">100% of shares of Vostok Oil (Cyprus) Ltd, VTK, Khvoinoye, Nikol, Pechoraneft, Saneco, Pechoraneft, VTK and Saneco Guarantee, financial ratio covenants</td><td rowspan="2">Moscow Depository "R.O.S.T."; Registrar of companies in Bermuda and Cyprus</td></tr>
<tr><td>40 000</td><td>18.12.2013</td><td>3.75% + LIBOR</td></tr>
<tr><td colspan="3">TOTAL</td><td>240 000</td><td colspan="2"></td><td>500 000</td><td colspan="2"></td></tr>
</table>

Borrower	Creditor	Denominated in	Outstanding amount, TUSD	Maturity	Interest rate	Pledged assets and covenants: Amount of pledge	Description of pledged assets/ covenants	Location of pledged assets
Short-term borrowings								
Pechoraneft	Unicredit Bank (previously International Moscow Bank)	USD	6 082	10.01.2008	3.5% + LIBOR	-	-	-
Saneco	Unicredit Bank (previously International Moscow Bank)	USD	10 000	20.05.2008	3.5% + LIBOR	-	-	-
			4 030	11.06.2008				
			5 970	23.05.2008				
	Raiffeisen Bank Austria	USD	4 070	14.04.2008	3.5% + LIBOR	-	-	-
VTK	Unicredit Bank (previously International Moscow Bank)	USD	10 000	13.02.2008	3.5% + LIBOR	-	-	-
TOTAL			**40 152**					

In December 2007 a loan facility for up to MUSD 350 was signed with a syndicate of banks out of which MUSD 240 was disbursed to refinance a previous bridge facility expiring in March 2008. An additional MUSD 60 was disbursed in February 2008.

The balance sheet line "Long-term borrowings" as of December 31, 2007 included the amount of 6 year loan facility payable to a syndicate of banks amounted to 240,000 reduced for the amount of arrangement, underwriting, coordination and other fees of 4,125 payable to the syndicate of banks. The interest expense payable to the syndicate of banks as of December 31, 2007 amounted to 546 included in the balance sheet line "Short-term borrowings".

The expected cash flows including proceeds from and repayment of loan principal and payment of interest related to the long-term loan facility payable to the syndicate of banks are presented below. The interest payments were based on the interest rate effective as of December 31, 2007.

	2008	2009-2010	2011-2013
Proceeds from/ Repayment of loan facility	60 000	- 120 000	- 180 000
Payment of interest	- 23 127	- 46 253	- 69 380
	36 873	**- 166 253**	**- 249 380**

The summary of the bank borrowings' principal amounts payable as of December 31, 2006 and related pledged assets and covenants is presented in the table below.

Borrower	Creditor	Denominated in	Outstanding amount, TUSD	Maturity	Interest rate	Pledged assets and covenants		
						Amount of pledge	Description of pledged assets /covenants	Location of pledged assets
Short-term borrowing								
West Siberian Resources Ltd	BNP Paribas	USD	241 667	16.09.2007	3.5% + LIBOR	270 625	100% of shares of Vostok Oil (Cyprus) Ltd, VTK, Khvoinoye, Nikol, Pechoraneft, Saneco and Northoil, Nikol Share Purchase Agreement Assignment, Pechoraneft, VTK and Saneco Guarantee, financial ratios covenant	Moscow Depository "R.O.S.T."; Registrar of companies in Bermuda and Cyprus
Pechoraneft	International Moscow Bank	USD	20 000	30.09.2007	3.5% + LIBOR	-	-	-
TOTAL			**261 667**			**270 625**	-	-

The loan amounted to MUSD 20 payable to International Moscow Bank as of December 31, 2006 was repaid in full in January 2007 from the private placement proceeds.

The summary of the bank borrowings' principal amounts payable as of December 31, 2005 and related pledged assets and covenants is presented in the table below.

Borrower	Creditor	Denominated in	Outstanding amount, TUSD	Maturity	Interest rate	Pledged assets and covenants		
						Amount of pledge	Description of pledged assets /covenants	Location of pledged assets
Long-term borrowing								
Khvoinoye	Grand Invest Bank, Moscow	RUR	2 779	08.06.2007	14.5%	1 614	Producing well No 4	Khvoinoye oil field, Alexandrovsky district, Tomsk region
TOTAL			**2 779**			**1 614**		

Borrower	Creditor	Denominated in	Outstanding amount TUSD	Maturity	Interest rate	Pledged assets and covenants		
						Amount of pledge	Description of pledged assets /covenants	Location of pledged assets
Short-term borrowings								
Alexandrov Refinery	Uralsib Bank (Tomsk branch)	RUR	695	07.07.2006	14.5%	1 249	Refining properties and equipment	Tomsk Region, Alexandrovsky district
Pechoraneft	International Moscow Bank, Moscow	USD	10 000	28.02.2006	4.4% + LIBOR	10 000	17,18% of shares of Pechoraneft owned by Nikol	Central Moscow Depositary, Russia
						750	Crude oil in stock	Middle - Khariaga oil field, Timano-Pechora region, Russia
						1 367	Oil and gas equipment	
Pechoraneft	Vneshekonombank, Moscow	USD	17 000	28.02.2006	9.5%	33 946	26% of shares of Pechoraneft; guarantees of Petro-Russo (AER) Holdings Company Ltd, NBNK and Khariaga LLC	Central Moscow Depositary, Russia
Pechoraneft	Vneshekonombank, Moscow	USD	23 000	28.02.2006	9.50%	26 112	20% of shares of Pechoraneft; guarantees of Petro-Russo (AER) Holdings Company Ltd	Central Moscow Depositary, Russia
						8 982	Terminal "Khariaga" including measuring unit, pipeline connecting Middle-Khariaga and trunk pipeline of Transneft, producing wells 28, 141, 142, rights under land rent agreement	Middle - Khariaga oil field, Timano-Pechora region, Russia
VTK	BNP PARIBAS SA	USD	20 000	28.02.2006	4.75% + LIBOR	24 416	Pipeline connecting Middle-Nyurola oil field and Transneft pipeline, producing wells Nos. 45, 41, G-1, G-2, G-3, 125, 130, 131, 129, 128, 136, 127; export revenue assignment, export obligations at minimum of 7,000 tons of crude oil per month; guarantees of West Siberian Resources Ltd and	Middle-Nyurola oil field, Tomsk region, Russia
West Siberian Resources Ltd	BNP Paribas	USD	100 000	16.09.2006	9.0% + LIBOR	67 000	100% of shares of Vostok Oil (Cyprus) Ltd, VTK, Khvoinoye, Nikol and Pechoraneft, Nikol Share Purchase Agreement Assignment, Pechoraneft export revenue assignment, export obligations at minimum of 7,000 tons of crude oil per month, Pechoraneft and VTK Guarantee, financial ratios covenant	Moscow Depository "R.O.S.T.", Registrar of companies in Bermuda and Cyprus
TOTAL			**170 695**			**173 822**		

As of December 31, 2005 the long-term borrowings of MUSD 20 payable to BNP Paribas and MUSD 40 payable to Vneshekonombank were classified as short-term since these borrowings were repaid in full in February 2006 from the private placement proceeds received and the corresponding pledges were released.

For capitalised borrowing costs refer to Notes 9 and 10.

Note 24 Finance lease

As of December 31, 2007, 2006 and 2005 the balance sheet lines "Other non-current liabilities" and "Short-term borrowings" included the finance lease obligations payable to Caterpillar Financial for diesel and gas generators as presented in the table below:

	Group		
	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005
Finance lease obligations due for payment:			
Less than one year	314	672	1 014
Between one and five years	62	424	532
	376	1 096	1 546

	Group		
	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005
Finance lease liabilities – minimum lease payments:			
Less than 1 year	357	800	1 099
Between one and five years	81	507	576
	438	1 307	1 675
Future finance charges on finance leases	-62	-211	-129
Present value of finance leaseliabilities	376	1 096	1 546

The net carrying amount of the leased assets as of December 31, 2007, 2006 and 2005 amounted to 2,791, 2,758 and 2,697, respectively.

Note 25 Personnel costs

	Group			Parent company		
	Jan 1, 2007 - Dec 31, 2007	Jan 1, 2006 - Dec 31, 2006	Jan 1, 2005 - Dec 31, 2005	Jan 1, 2007 - Dec 31, 2007	Jan 1, 2006 - Dec 31, 2006	Jan 1, 2005 - Dec 31, 2005
Salaries and remuneration (including social costs, annual bonus and share options granted) to the Members of the Board of Directors and the Managing Director*	3 439	2 216	1 315	3 439	2 216	1 315
Salaries to other employees (including social costs, annual bonus and share options granted)	26 600	16 854	7 634	4 914	4 291	1 794
	30 039	19 070	8 949	8 353	6 507	3 109

* A specification of the salaries and remuneration to the Management and the Board of Directors follows below.

The personnel costs for the financial years ended December 31, 2007, 2006 and 2005 are included in the income statement lines "Production costs" and "Administration expenses".

As per employment contracts effective in the financial year ended December 31, 2007 the Managing Director had the right to receive 3 months' full salary if his employment was terminated at the Company's request. Should he himself decide to leave the Company, he must give 3 months' notice. The various employment agreements of the Group contained clauses on severance pay amounting to 3–12 months of full salary depending on the position of the individual employees. Since January 1, 2008 the employment contracts were revised with notice periods not exceeding 3 months.

The Managing Director and other management of the Company received during the financial year ended December 31, 2007 the following remuneration including salaries, annual bonus (related to 2006) and share options granted:

Management	Salary	Bonus	Share options	Total remuneration
Managing Director	420	260	1 462	2 142
Other management	1 050	1 355	2 503	4 908
	1 470	1 615	3 965	7 050

The Group has no pension commitments beyond the state pension contributions that are mandatory for employees in Russia. The above mentioned bonus payments made in the financial year ended December 31, 2007 were expensed in the financial year ended December 31, 2006. The bonus accruals for the financial year ended December 31, 2007 were based on the company's financial performance related to the annual budget and calculated as 20–60% of the base salary depending on the position of the individual employees. The total bonus accrual for the financial year ended December 31, 2007 amounted to 872 to be paid in 2008 after issuance of the annual report.

During the financial year ended December 31, 2007 the board fees were paid and the share options were granted to the Board of Directors as presented in the table below.

Board of Directors	Board fee	Share options	Total remuneration
Chairman of the Board	96	155	251
Other Board members	144	291	435
	240	446	686

The average number of employees during the reporting years ended December 31, 2007, 2006 and 2005 for the West Siberian Resources Limited Group was 1,242, 1,061 and 672, respectively, where of 977, 838 and 534, respectively, were men.

Note 26 Contingent liabilities

On December 26, 2005 Administration of the Nenetsk Autonomous Area ("Nenetsk") brought a claim to the Arbitrazh court of the Arkhangeslk Region requiring Pechoraneft to repay an amount of USD 1,878,200. Nenetsk alleges Pechoraneft owes this amount under the Agreement on Social-Economic Cooperation dated October 26, 2001 between Nenetsk and Pechoraneft pursuant to the conditions of the licensing agreement related to the license granted to Pechoraneft. According to these arrangements, Pechoraneft was obliged to pay USD 1,000,000 to the special-purpose budget fund of the Nenetsk Autonomous Area and pay USD 3.5 from each ton of oil produced (about USD 0.47 per barrel produced) starting from the first quarter of 2002. However, when the relevant licence was reissued to Pechoraneft, the licensing agreement did not provide for such obligation. WSR initially took the position that the obligations under the previous arrangement were no longer valid.

During 2006 several court sittings were held on the above matter and two of them were won by Pechoraneft. The third instance expedited the cause for reconsideration. In April 2007 the first instance reconsidered the case and the case was won by Pechoraneft. In July 2007 the second instance reconsidered the case and the case was failed by Pechoraneft.

As of December 31, 2006 the total amount of contingent liabilities was increased up to 2,124 due to the additional fines claimed by the Nenetsk.

Following the significant oil production increase in the Timano-Pechora region, the Group's social responsibilities in the region are increasing. WSR decided to maintain peaceful relationships with the regional authorities including the Administration of the Nenetsk Autonomous Area and not to further proceed with the court consideration and therefore settle the amount the Nenetsk claimed to the court. By that WSR agreed to pay USD 3.5 from each ton produced (USD 0.47 per barrel produced) from the Middle Kharyaga oil field for the subsequent periods. In the financial year ended December 31, 2007 the charge of 4,748 was recorded in the income statement out of which 2,124 related to the period March 31, 2004 to September 30, 2005 and the remaining 2,624 related to the period from October 1, 2005 till December 31, 2007. The amount of 2,124 claimed by the Nenetsk was settled by Pechoraneft in September 2007. In January 2008 the total 2007 charge of 1,004 was settled in full. The remaining liability of 1,620 was settled on March 1, 2008 as agreed between WSR and the Nenetsk.

Note 27 Related party transactions

Relationship between West Siberian Resources Limited and VTK

During the financial years ended December 31, 2007, 2006 and 2005 West Siberian Resources Limited provided key personnel to VTK. The total charge for the personnel services provided during the financial years ended December 31, 2007, 2006 and 2005 amounted to 1,617, 1,343 and 484, respectively, and were included in the income statement line "Other income" of the parent company. The accounts receivable as of December 31, 2007, 2006 and 2005 amounted to 1,908, 1,179 and 185, respectively, for the personnel services provided which were included in the balance sheet line "Receivable from group companies" of the parent company.

Relationship between West Siberian Resources Limited and Pechoraneft

Since October 2005 West Siberian Resources Limited provided key personnel to Pechoraneft. The total charges for the personnel services provided during the financial years ended December 31, 2007, 2006 and 2005 amounted to 1,611, 1,342 and 177, respectively, and were included in the income statement line "Other income" of the parent company. The accounts receivable as of December 31, 2007, 2006 and 2005 amounted to 1,904, 1,095 and 177, respectively, for the personnel services provided which were included in the balance sheet line "Receivable from group companies" of the parent company.

Relationship between West Siberian Resources Limited and Saneco

Since March 2006 West Siberian Resources Limited provided key personnel to Saneco. The total charges for the personnel services provided during the financial year ended December 31, 2007 and 2006 amounted to 1,611 and 1,328 and were included in the income statement line "Other income" of the parent company. The accounts receivable as of December 31, 2007 and 2006 amounted to 2,999 and 1,567 for the personnel services provided which were included in the balance sheet line "Receivable from group companies" of the parent company.

Relationship to Alltech Investments Limited

Since July 2004 VTK has rented office premises from Alltech Investments Limited. The rent expenses for the financial years ended December 31, 2007, 2006 and 2005 amounted to 267, 154 and 51, respectively, and were included in the income statement line "Administration expenses". As of December 31, 2007, 2006 and 2005 the liability to Alltech Investments Limited for the rented office amounted to 27, 23 and 20 which were included in the balance sheet line "Accrued expenses".

Since October 2005 Pechoraneft has rented office premises from Alltech Investments Limited. The rent expenses for the financial years ended December 31, 2007, 2006 and 2005 amounted to 274, 174 and 10, respectively, and were included in the income statement line "Administration expenses". As of December 31, 2007, 2006 and 2005 the liabilities to Alltech Investments Limited for the rented office amounted to 26, 24 and 10, respectively, which were included in the balance sheet line "Accrued expenses".

Since April 2006 Saneco has rented an office on the premises of Alltech Investments Limited. The rent expenses for the financial year ended December 31, 2007 and 2006 amounted to 266 and 107 and were included in the income statement line "Administration expenses". As of December 31, 2007 and 2006 the liability to Alltech Investments Limited for the rented office amounted to 29 and 24 which were included in the balance sheet line "Accrued expenses".

During the financial year ended December 31, 2005 Alltech Investments Limited rendered legal services to WSR in relation to the acquisition of Pechoraneft amounted to 50. As of December 31, 2005 there was no balance payable for these services.

Relationship to S.O.G. Energy AB

Since January 2005 West Siberian Resources Limited has been provided with administrative and investor relations services by S.O.G. Energy AB. The administrative and investor relations expenses for the financial years ended December 31, 2007, 2006 and 2005 amounted to 240, 157 and 79, respectively, which were included in the income statement line "Administration expenses". As of December 31, 2007, 2006 and 2005 there were no liabilities to S.O.G. Energy AB.

Relationship to Repsol Exploración S.A.

Since June 2006 West Siberian Resources Limited has been provided with the technical personnel seconded by Repsol Exploración S.A. In accordance with the secondment agreement the compensation payable by WSR in relation to the seconded personnel corresponds to the salary and other remuneration and other costs, including taxes, incurred by Repsol Exploración S.A. in relation to the seconded personnel. For the financial year ended December 31, 2007 and 2006 the total charges for the seconded personnel amounted to 536 and 189 and included in the income statement line "Administration expenses". As of December 31, 2007 and 2006 the liability for the seconded personnel amounted to 366 and 189.

During the financial year ended December 31, 2006 Repsol Exploración S.A. recharged to West Siberian Resources Limited the consulting costs incurred in connection of some exploration projects under joint review amounted to 16 included in the income statement line "Administration expenses". As of December 31, 2006 the liability for the recharged consulting costs amounted to 16.

Note 28 Handling of currency risks and interest rate risks

Currency risk

USD is the Company's functional currency. Therefore the Company holds liquid funds in USD.

The proceeds from the rights issues and private placements during the financial years ended December 31, 2007, 2006 and 2005 were received in SEK and converted into USD upon receipt. As of December 31, 2007, 2006 and 2005 out of total liquid funds of 6,500, 32,134 and 1,032, respectively, 154, 130 and 37, respectively, were held in SEK.

During the financial years ended December 31, 2007, 2006 and 2005 there were no hedging agreements in place for currency exposure.

In the future, when sale of oil is increased, the use of different forms of hedging policies will be evaluated.

The balance sheet and income statement of the Russian subsidiary companies are translated using the current rate method. All assets and liabilities of the subsidiaries are translated at the balance sheet date rates of exchange, whereas the income statements are translated at the average rate of exchange for the period.

The currency exchange differences included in the income statement for the financial years ended December 31, 2007 and 2006 mainly represented the currency exchange rate gains resulted from the substantial devaluation of the US Dollar against the Russian Ruble and were derived from recalculating inter-company loans of the subsidiaries.

Interest rate risk

During the financial years ended December 31, 2007, 2006 and 2005 the majority of the Group's borrowings were at floating interest rates. As a result the Group has increased its exposure to changes in market interest rates.

The weighted average effective interest rates at the balance sheet date were as follows:

	Group			Parent company		
	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005
Weighted average interest rate	9%	11%	11%	9%	11%	13%

A change in interest rates with 50 basis points will effect interest expenses with 941.

Note 29 Risks and uncertainties

The Group faces a number of risks and uncertainties in its operations, which may have a negative impact on the assets of the Group. Such risks include for example, but not limited to:

- Oil price risk: The major part of the Company's sales revenues are generated by crude oil. The price of crude oil is extremely volatile.
- Safety, fire-safety and environmental risks: The operations undertaken by the Group companies involve many potentially dangerous components. Equipment can break down injuring employees or pipelines could develop leaks thus creating environmental damage.
- Project and financial risk: West Siberian Resources Ltd is in a growth phase of its development and therefore requires continued high levels of capital expenditure. This capital expenditure cannot be provided from internally generated revenues only. The Company growth therefore remains dependent on the provision and acquisition of new external funds.
- Legal risk: The legal system in Russia is not fully developed and cannot be compared with the legal system in the West. It is also subject to constant changes, sometimes with retroactive effect. This fact could imply negative consequences to the companies of the West Siberian Resources Group.
- Political risk: Certain aspects of the Group companies' operations require the consent or favourable decisions of Russian federal, regional or local governmental bodies.
- Third party risk: The Group can from time to time be dependent on services, access to facilities and construction assistance contributed from third parties in order to fulfil its operative plans. This dependence on third parties could negatively impact the Group's revenues and timely implementation of operating plans.
- Tax risk: Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As at December 31, 2007 management believes that its interpretation of the relevant legislation is appropriate

and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount is accrued for in the financial statements.

- Geological risk: All estimates of recoverable oil reserves are based on probability. Consequently, there is no guarantee that estimated oil reserves will be unchanged over time.
- Credit risk: This risk arises from cash and cash equivalents and deposits with banks. Credit risk is assessed as moderate for the Group as the Group's subsidiaries establish accounts with reputable banks and seldom make long-term deposits. There is no credit risk exposure related to customers as the Group's sales are made on a prepayment basis.
- Liquidity risk: The Group is dependent on financial markets for financing its capital investment programs. The Group may utilize almost all types of financial instruments but recent volatility in global financial markets made majority of them either non accessible or costly. In order to mitigate exposure to the credit risk the Group's liquidity management pursues prudent policy towards leverage ratio being within 3 : 1 (Net Debt : EBITDA) planning the Group's capital investment expenditures to be in line with available funding. The Group's committed bank facilities cover short-term liquidity gaps.
- Capital risk: The goal is to safeguard the Group's ability to continue as a going concern in order to provide return to shareholders and reduce the cost of capital maintaining a reasonable gearing ratio of 1:1 (Net Debt : Equity). The Group's substantial capital investments will be financed through a combination of debt and equity in order not to fall out of the range.

The Group tries to mitigate these risks by ascertaining the relevant competence of the board of directors and company management. Therefore, the Company tries to plan ahead and to take necessary and appropriate action in order to mitigate and handle such risks.

Additionally the Company from time to time obtains advice from various specialists.

Note 30 Significant events after the end of the period

On 17 February 2008, West Siberian and Alliance Group announced that they had signed an agreement to create a leading independent, fully integrated oil company operating in Russia and Kazakhstan, listed on the OMX Nordic Exchange Stockholm. The combined group has proven and probable oil reserves of 489 million barrels, production of close to 51,000 barrels per day, refining capacity of 70,000 barrels per day, a network of 255 gas stations and 24 wholesale oil terminals. The transaction will have a substantial positive impact on WSR´s revenue, EBITDA and earnings.

Under the Contribution Agreement, Alliance Oil Shareholders contributed the entire share capital of Alliance Oil to WSR in exchange for WSR issuing to Alliance Oil shareholders 1,783,540,968 ordinary shares. Warrants to subscribe for 99,682,500 ordinary shares at an exercise price of SEK 6.21 per share were also issued as part of the merger. Accordingly, members of the Bazhaev family, who currently control Alliance Oil, became the largest shareholders in the combined group ultimately holding 60 per cent of the fully diluted share capital post completion of the merger.

The merger was approved by WSR's current shareholders in a Special General Meeting of WSR on March 3, 2008. The parties received relevant anti-monopoly approvals. The merger was completed on April 10, 2008.

After the successful completion of the merger the financial statements will be prepared using the accounting model prescribed by IFRS 3 Business combination for "reversed acquisitions" since the shareholders of Alliance own 60% of WSR following the transaction. This accounting treatment requires Alliance to be treated as the accounting acquirer for the consolidated financial information and WSR being presented as the acquiree. As a consequence, the assets and liabilities of WSR, being the legal parent, should be recorded at fair value initially in the consolidated financial statements. The assets and liabilities of the legal subsidiary, Alliance Oil, should be recognized and measured in the combined financial statements at their pre-combination carrying amounts. WSR as the legal parent continue to be presented as parent company in future financial reports.

As of the date of the issuance of the annual report the fair values to be used in the future financial statements have not been determined. As a result the merger cannot be completely disclosed in accordance with the requirements of IFRS 3 "Business combinations".

In April 2008 a private placement of 258 million of common shares raising MSEK 1,006 (MUSD 170 before placement costs) was completed.

Note 31 Adoption of the annual report

The annual report has been submitted by the Board of Directors on April 29, 2008. The balance sheet and profit and loss accounts are to be adopted by the Company's shareholders at the annual general meeting on May 21, 2008.

Independent Auditors' Report

To the shareholders of West Siberian Resources Ltd

We have audited the accompanying consolidated and parent company financial statements of West Siberian Resources Ltd, appearing on pages 51–94, which comprise balance sheets as at December 31, 2007, and income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of West Siberian Resources Ltd, the parent company and West Siberian Resources Ltd and its subsidiaries, the Group, as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Gothenburg, April 29, 2008

PricewaterhouseCoopers AB

Klas Brand
Authorised Public Accountant

Johan Rippe
Authorised Public Accountant

Supplemental information

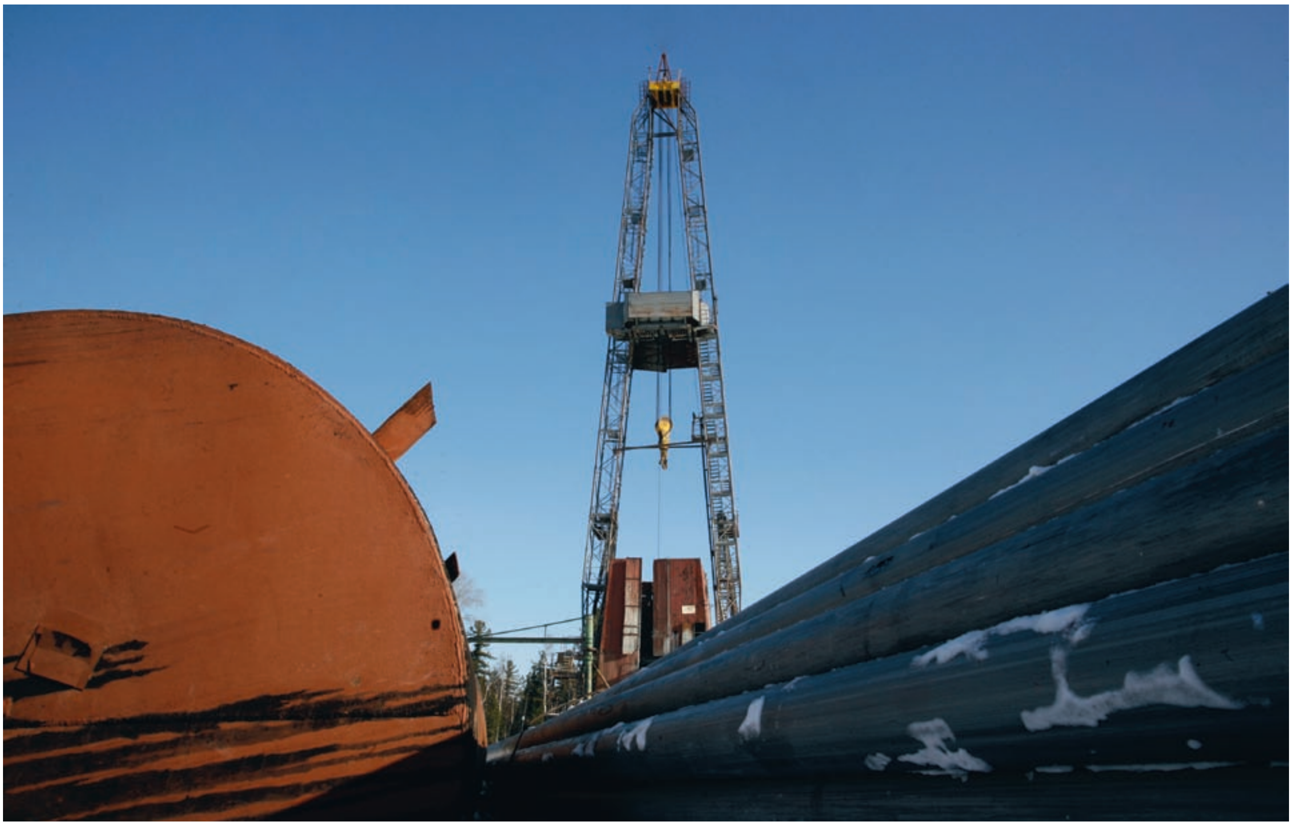
Reserve quantity information (Unaudited)

Proven and probable oil reserves	**Total**	**Tomsk region**	**Timano-Pechora region**	**Volga-Urals region**
	TBBL	TBBL	TBBL	TBBL
As of January 1, 2005	75 680	75 680	-	-
Changes during the year				
-acquisitions	112 351	18 000	94 351	-
-revisions	-36 177	-36 177	-	-
-extensions and discoveries	1 490	-	1 490	-
-production	-2 976	-2 002	-974	-
Total changes for the period	74 688	-20 179	94 867	-
As of December 31, 2005	150 368	55 501	94 867	-
Changes during the year				
-acquisitions	144 750	-	122 227	22 523
-disposals	-1 698	-	-	-1 698
-revisions	18 276	12 651	-326	5 951
-extensions and discoveries	3 121	-	-	3 121
-production	-8 011	-2 757	-2 843	-2 411
Total changes for the period	156 438	9 894	119 058	27 486
As of December 31, 2006	306 806	65 395	213 925	27 486
Changes during the year				
-acquisitions	-	-	-	-
-disposals	-	-	-	-
-revisions	64 083	7 867	50 152	6 064
-extensions and discoveries	759	-	-	759
-production	-10 638	-3 545	-3 344	-3 749
Total changes for the period	54 204	4 322	46 808	3 074
As of December 31, 2007	361 010	69 717	260 733	30 560

The balances of proved and probable oil reserves as of January 1, 2005 in the Tomsk region included the proven and probable oil reserves of the Middle Nyurola oil field evaluated by an independent UK based petroleum consulting firm RPS-Troy Ikoda using probabilistic evaluation methods and the oil reserves of the Kluchevskoye and Puglalymskoye oil fields evaluated by the Russian government's official reserve agency, GKZ, under Russian classification.

The line 'Acquisitions' for the financial year ended December 31, 2005 for the Tomsk region included the oil reserves of the Khvoinoye oil field acquired in early 2005 evaluated by the Russian government's official reserve agency, GKZ, under Russian classification. The line 'Acquisitions' for the financial year ended December 31, 2005 for the Timano-Pechora region included the oil reserves of the Middle Kharyaga, North and Lek-Kharyaga oil fields acquired during the financial year ended December 31, 2005 evaluated by DeGolyer and MacNaughton (D&M), a leading international petroleum consulting firm, under PRMS classification.

The line 'Acquisitions' for the financial year ended December 31, 2006 for the Timano-Pechora region included the oil reserves of the Kolv-inskoye oil field acquired during the financial year ended December 31, 2006 evaluated by D&M under PRMS classification. The line 'Acquisitions' for the financial year ended December 31, 2006 for the Volga-Urals region included the oil reserves of Novo Kievskoye, Kochevnenskoye, West-Kochevnenskoye, Solnechnoye



and Emelyanovskoye oil fields acquired during the financial year ended December 31, 2006 evaluated by D&M under PRMS classification.

The line 'Disposals' for the financial year ended December 31, 2006 for the Volgo-Urals region included the oil reserves of Emelya-novskoye oil field disposed of during the financial year ended December 31, 2006.

The 'Revisions' and 'Extensions and discoveries' lines in the above table included the effect of the oil reserves estimates revision made for the oil fields owned by West Siberian Resources Group in the Tomsk, Timano-Pechora and Volgo-Urals regions by D&M during the financial years ended December 31, 2005, 2006 and 2007.

The 'Production' line for the financial year ended December 31, 2005 in the above table included volumes of crude oil produced by VTK and Khvoinoye during the twelve months ended December 31, 2005 and by Pechoraneft during the four months ended December 31, 2005. The 'Production' line for the financial year ended December 31, 2006 in the above table included volumes of crude oil produced by VTK, Khvoinoye and Pechoraneft during the twelve months ended December 31, 2005 and by Saneco during the period from February 17, 2006 to December 31, 2006. The 'Production' line for the financial year ended December 31, 2007 in the above table included volumes of crude oil produced by VTK, Khvoinoye, Pechoraneft and Saneco during the twelve months ended December 31, 2007.

This report, for the financial year from January 1, 2007 to December 31, 2007 is submitted by the Board of Directors and the Managing Director of West Siberian Resources Ltd. The Group's retained earnings amount to TUSD 78,639. The Board and the Managing Director propose that the retained earnings in the Parent company of TUSD 24,474, out of which the net loss for the financial year ended December 31, 2007 amounted to TUSD 2,338, be carried forward and that no dividend be paid for the financial year ended December 31, 2007.

The Board of Directors and the Managing Director declare that the consolidated financial statements have been prepared in accordance with IFRS and give a true and fair view of the Group's financial position and results of operations, and that the financial statements of the parent company have been prepared in accordance with IFRS and give a true and fair view of the parent company's financial position and results of operations.

The Statutory Corporate Governance and the other parts of the Annual Report of the Group and the parent company provides a fair review of the development of the Group's and the parent company's operations, financial position and results of operations and describes material risks and uncertainties facing the parent company and the companies included in the Group.

Stockholm, April 29, 2008

Eric Forss
Chairman

Maxim Barski
Director and Managing Director

Claes Levin
Director

Fred Boling
Director

Oleg Fomenko
Director

Nemesio Fernandez-Cuesta
Director

Abbreviations and Terms Used

Alexandrov Refinery	OOO Alexandrovsky Neftepererabatyvajuschi Zavod
Brent	Term referring to oil produced in the North Sea
controllable costs	Costs associated with production, including but not limited to, supplies, electricity, salaries, lifting, materials, technologies and chemicals, but not including tax, specifically the Mineral Resources Extraction Tax
D&M	DeGolyer and McNaughton, independent petroleum engineering consulting firm
ESPO Pipeline	Eastern Siberia - Pacific Ocean pipeline
GKZ	The State Commission for Mineral Reserves in Russia
Licence area	The particular subsoil plot specified in the subsoil licence issued by the applicable Russian federal authority, which the licence holder has the right to use for the purpose and on the terms specified in the subsoil licence. A licence area may contain one or more fields or may encompass only a portion of a field
Khvoinoye	OOO Khvoinoye
LIBOR	The London Inter-Bank Offering Rate
MSEK	Million Swedish kronor
MUSD	Million US dollar
NBNK	OOO Nenetsko-Belarusskaya Neftyanaya Kompaniya
Nikol	OOO Nikol
Northoil	ZAO Northoil
Pechoraneft	OAO Pechoraneft
Pechora Exploration	OOO Pechora Exploration
Recoverable reserves	An estimation of the amount of exploitable reserves held by the oil company concerned
Samara	The Samara area of the Volga-Urals region
Saneco	ZAO Saneco
Siberian Light	Russian oil grade
SNPZ	OOO Semiluzhinksiy Neftepererabatyvajuschi Zavod
TUSD	Thousand US dollar
VPC	Swedish Securities Register Center, Värdepapperscentralen AB
VTK	OAO Vostochnaya Transnationalnaya Kompaniya
WSR	West Siberian Resources Limited and its consolidated Subsidiaries
WSR Invest	OOO West Siberian Resources Invest
Conversion factors	1 ton of oil = 7.6 barrels of oil
	1 ton of condensate = 8.5 barrels of condensate

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