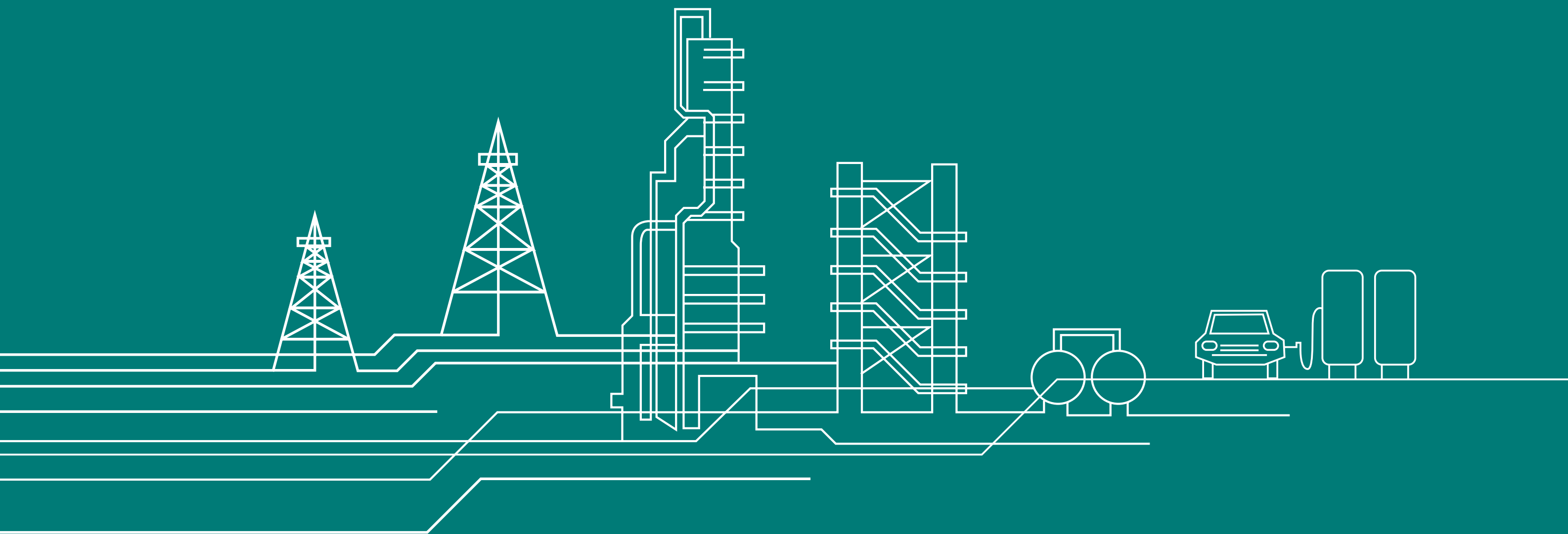

ALLIANCE
OIL COMPANY

Annual General Meeting

The company's Annual General Meeting ("AGM") will be held on May 27, 2010 at 4 pm at the Stockholm Concert Hall (The Grünewald Hall), in Stockholm, Sweden. To attend the AGM, please see Alliance Oil Company's website at www.allianceoilco.com for more information.



Alliance Oil Company Ltd is a leading midcap vertically integrated oil company operating in Russia and Kazakhstan...
(page 6–7)

...with diversified high quality upstream assets providing the basis for long-term growth...
(page 9–14)

...and a strategically located refinery in Khabarovsk undergoing modernisation to become the most complex Russian refinery with improved efficiency delivering better quality oil products...
(page 15–19)

...that serves the largest retail and wholesale oil product network – the leading brand in the Russian Far East...
(page 20)

...enabling the group to pursue sustainable growth with financial stability and profitability...
(Financial statements 2009)

…while adhering to the international best practice in corporate governance...
(Corporate Governance report 2009)

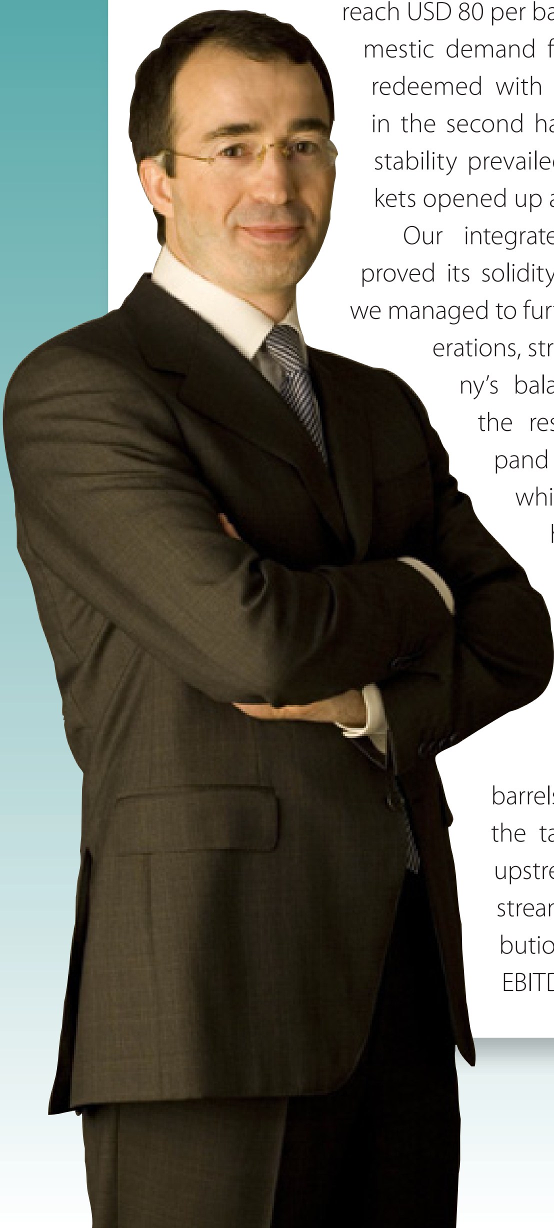
...being socially responsible and promoting high health, safety and environmental protection standards...
(CSR report 2009)

…to return maximum value to our shareholders!

Dear Shareholders

Recovering markets and improved performance

In 2009 global uncertainty and instability provided a challenging operating environment which gradually improved and stabilized during the year. Crude oil and oil product markets recovered, both internationally and domestically. Crude oil prices started the year close to USD 40 per barrel and gradually improved to reach USD 80 per barrel by year end. Domestic demand for oil products also redeemed with significant increases in the second half of the year. Fiscal stability prevailed and financial markets opened up again.



Our integrated business model proved its solidity and consistency as we managed to further improve our operations, strengthen the company's balance sheet, increase the reserve base and expand the retail network while achieving the highest result in the company's history. The company produced 16.0 million barrels of crude oil and refined 21.8 million barrels and fully achieved the targets for 2009. The upstream and the downstream segments' contributions to consolidated EBITDA were balanced.

Organic development of upstream and downstream segments

In the upstream segment, the company was able to demonstrate its flexibility in managing its operational and capital expenditures. We were able to limit our capital expenditures in the first half of the year reacting to the severe market conditions, and responded promptly by increasing our drilling activity as the environment subsequently changed for the better.

With a strong focus on the organic development, the company's proved and probable reserves increased from the impressive exploration activity replacing 342 per cent of its annual 2009 production and bringing its 2P reserve base to 526 million barrels. Most of the growth was delivered by the Lek-Kharyaga field in the Timano-Pechora region, where new productive formations were discovered at deeper levels than current production. These reserve additions and the improved oil price environment allowed us to reverse impairment charges of MUSD 175 from last year with a corresponding increase in the result before tax. The company was also awarded a 25 year exploration and production license for the Gusikhinsky license area in the Volga-Urals region with prospective resources of 68 million barrels supporting its exploration potential onwards.

In the downstream segment, the company continued the modernization of the Khabarovsk Oil Refinery successfully launching a new water treatment unit and new premium class gasoline tanks. We have further expanded our retail network by acquiring a number of outlets in the Amur and Khabarovsk regions of the Russian Far East. The company now operates a total of 261 retail stations and 16 wholesale terminals under its highly recognized Alliance Oil Company brand.

Strengthened financial position

We continued to proactively address our financial needs and further improved the company's liquidity. Alliance Oil Company was one of the first CIS issuers to successfully raise MUSD 390 through an equity and a convertible bond placement in June and July 2009. In December, the Supervisory Board of the Russian state owned Vnesheconombank approved the bank's participation in the modernization of the Khabarovsk Oil Refinery. In the beginning of 2010, Alliance Oil Company received its first credit ratings in the company's history, B+ from S&P and B from Fitch and successfully issued MUSD 350 of five year Eurobonds.

Strategy for growth and profitability

In 2009, we established a solid operational and financial basis for implementing our plans in coming years. The company's general objective remains to be the-best-in-class independent integrated business focusing on growth and efficiency and we have set ambitious targets both for the upstream and downstream segments:

- Double crude oil production in three years
- Capitalise on significant tax benefits
- Launch the modernized refinery in 2012
- Improve operating efficiencies

In the upstream sector, we target production growth to 50,000 barrels per day this year with a total volume of 17 million barrels. The upstream capital expenditures budget has been increased to MUSD 316 and we plan to drill 74 wells, including 8 exploration wells. Our strategic priority is the Timano-Pechora region, due to the improved potential at the most lucrative Kolvinskoye and Lek-Kharyaga oil fields and the benefit of the production tax holidays in the region through 2015. Accordingly, we expect that the Timano Pechora region will account for approximately two thirds of the company's future production. This region will be our main driver towards reaching the new upstream target of 90,000 barrels per day in 2012. We expect that over 60% of our crude oil production in 2012 will be production tax exempt which will provide meaningful contributions to the upstream financial performance.

In the downstream sector, our strategy is to complete the modernization of the Khabarovsk Oil Refinery in 2012 securing better complexity, higher quality oil products, higher capacity and, as a result, better returns. The upgrade program is fully on track, and this year we expect significant progress in the modernization plan. For 2010, the company's refining target remains unchanged at 21.0 million barrels.

In the next two years, we will be making significant investments in infrastructure, drilling and the refinery modernization. The expansion will be financed from operating cash flow, cash on hand and debt sources. We expect that the fiscal environment will remain supportive of our industry while we are well positioned to weather challenges in our operating environment in order to reach our targets.

The company is committed to further promoting the high-quality HSE policy with sustained efforts at continuous recognition of its social responsibility. As always, we adhere to international best practice in corporate governance to support the company's good reputation and further enjoy strong confidence of our investors and partners.

Our vision is grow to a significantly larger company by 2012 with well-adjusted upstream and downstream volumes, outstanding operational efficiency, a strong balance sheet and sustainable long-term growth potential to return maximum value to our shareholders.

Arsen E Idrisov
Managing Director

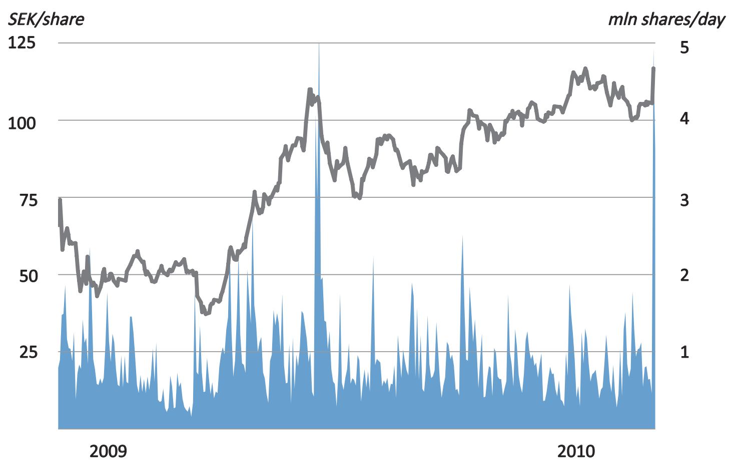
Overview of operations


ARCTIC OCEAN
East Siberian Sea
Laptev Sea
Bering Sea
Anadyr
Petropavlovsk Kamchatskiy
Magadan
Sea of Okhotsk
RUSSIAN FAR EAST
KHABAROVSK REGION
Yakutsk
Kempendyayi
Taas-Yuryakh
EASTERN SIBERIA - PACIFIC OCEAN oil pipeline
Talakan
Verkhnechonskoye
Dulisma
Ust-Ilimsk
Baykal-Amur Railway
AMUR REGION
Skoblikovo
Nikolaevsk-na-Amure
Komsomolsk
Komsomolsk-na-Amure
Khabarovsk
Vanino
Kholmsk
Yuzhno Sakhalinsk
Korsakov
JAPAN
PRIMORSK REGION
Skovorodino
Birobidzhan
Blagoveshchensk
JEWISH AUT. REGION
Achinsk
Uyar
Tayshet
Angarsk
Chita
Irkutsk
Meget
Ulan Ude
Abakan
Kyzyl
Trans-Siberian Railway
Hokang
Rudnaya Pristan
Olga
Nakhodka
Vladivostok
Primorsk
Posyet
Harbin
Datsin
Kirin
Ulan-Khoto
Chaygchun
CHINA
ULAANBAATAR
Shenyang (Mukden)
NORTH KOREA
PYONGYANG
Sea of Japan
Oil pipelines
existing pipelines
under construction
proposed pipelines
Gas pipelines
existing pipelines
under construction
proposed pipelines
Highways
Railroads

Shares and securities

The company's shares are traded as Swedish Depository Receipts (SDRs) at the NASDAQ OMX Nordic in Stockholm. SEB acts as the custodian bank. The company's convertible bonds are traded at the Luxemburg Stock Exchange and the company's Eurobonds are traded at the London Stock Exchange.

Share Price Development and Turnover



Largest Shareholders*

Name	Number of SDRs	Capital & Votes, %
CJSC Investment Company Alliance Capital	44 637 129	26.0%
Alliance Group OJSC	30 816 997	18.0%
BNP PARIBAS (SUISSE) S.A.	6 359 710	3.7%
Repsol Exploration S.A.	5 945 136	3.5%
SIX SIS AG	5 434 561	3.2%
Fjärde AP-Fonden	2 965 633	1.7%
AFA Sjukförsäkrings AB	2 680 152	1.6%
EUROCLEAR BANK S.A	2 658 016	1.5%
Avanza Pension	2 125 426	1.2%
Första AP-Fonden	1 569 696	0.9%
Subtotal 10 largest shareholders	**105 192 456**	**61.3%**
Other, approximately 43 100 shareholders	66 335 958	38.7%
Total	**171 528 414**	**100.0%**

**The 10 largest shareholders of Alliance Oil Company Ltd (as per Euroclear's data as of February 26, 2010 combined with known changes thereafter).*

UPSTREAM

Oil reserves and production

'000 bbl	Production 2009	Reserves under PRMS classification as of December 31, 2009 1P	2P	3P
Timano-Pechora region	4 725	139 406	304 917	504 081
Volga-Urals region	7 276	101 546	146 989	172 307
Tomsk region	3 555	26 424	60 606	67 586
Kazakhstan	487	7 869	13 415	13 415
Total	**16 043**	**275 245**	**525 927**	**757 389**

1P = *Proven reserves,* **2P** = *Proven and Probable reserves,* **3P** = *Proven, Probable and Possible reserves*

Upstream Operations

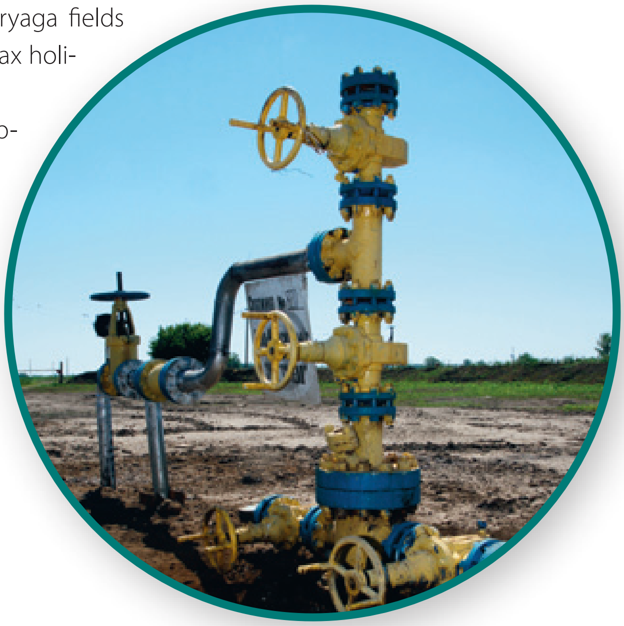
Alliance Oil Company Ltd operates in three Russian regions: Tomsk, Timano-Pechora and Volga-Urals, and in Kazakhstan. In 2009, the Group's proved and probable oil reserves (2P) increased to 525.9 million barrels as of December 31, 2009 from 487.3 million barrels as of December 31, 2008. The total crude oil production for 2009 amounted to 16.0 million barrels with an average daily production of 44,000 barrels.

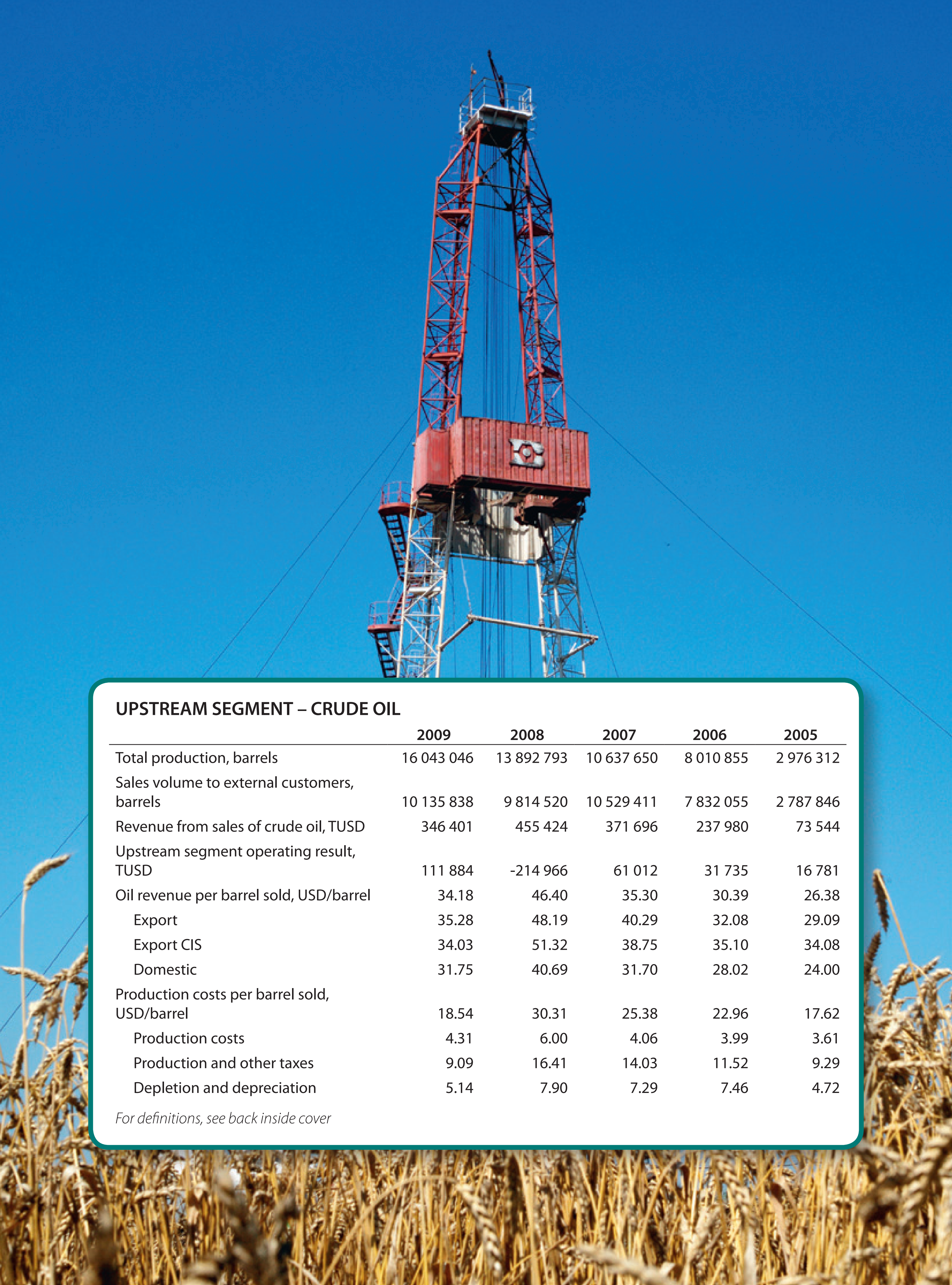
The Volga-Urals (including Kazakhstan) was the region with the highest production in 2009, 7.8 million barrels corresponding to 49 per cent of Alliance Oil's total production. About 30 per cent of the company's 2P oil reserves are located in the Volga-Urals region. The Timano-Pechora region had a production of 4.7 million barrels in 2009, corresponding to 29 per cent of the total production. The region holds about 58 per cent of the Group's oil reserves. The Tomsk region is the Group's smallest Russian region with a production of 3.6 million barrels (22 per cent of total production) and 12 per cent of the total 2P reserves in 2009.

In 2009, revenue from sales of crude oil amounted to MUSD 346.4. The upstream segment operating result was an income of MUSD 111.9 for the financial year 2009.

Alliance Oil targets to reach an upstream production of 17 million barrels in 2010 with a long-term target of reaching 90,000 barrels per day in 2012. The oil fields in the Timano-Pechora region are expected to be the key drivers in reaching these targets, where the Kolvinskoye and the Kharyaga fields benefit from the production tax holidays through 2015.

The 2010 total upstream capital expenditures are planned at MUSD 316, representing more than a fourfold increase comparing to 2009. The plans include drilling of 74 new wells, 8 of which being exploration wells.





UPSTREAM SEGMENT – CRUDE OIL

	2009	2008	2007	2006	2005
Total production, barrels	16 043 046	13 892 793	10 637 650	8 010 855	2 976 312
Sales volume to external customers, barrels	10 135 838	9 814 520	10 529 411	7 832 055	2 787 846
Revenue from sales of crude oil, TUSD	346 401	455 424	371 696	237 980	73 544
Upstream segment operating result, TUSD	111 884	-214 966	61 012	31 735	16 781
Oil revenue per barrel sold, USD/barrel	34.18	46.40	35.30	30.39	26.38
Export	35.28	48.19	40.29	32.08	29.09
Export CIS	34.03	51.32	38.75	35.10	34.08
Domestic	31.75	40.69	31.70	28.02	24.00
Production costs per barrel sold, USD/barrel	18.54	30.31	25.38	22.96	17.62
Production costs	4.31	6.00	4.06	3.99	3.61
Production and other taxes	9.09	16.41	14.03	11.52	9.29
Depletion and depreciation	5.14	7.90	7.29	7.46	4.72

For definitions, see back inside cover

Timano-Pechora

The Timano-Pechora region is located in northwestern Russia. The region holds four of Alliance Oil's oil fields: Middle Kharyaga, North Kharyaga, Lek-Kharyaga and Kolvinskoye. As of 31 December 2009, the Group had 49 production wells in the Timano-Pechora region, 45 of which were active production wells, and 8 active injection wells, as well as 11 active water supply wells and 31 inactive exploration wells. The company's proven and probable oil reserves in the region amounted to 304.9 million barrels of oil, based on DeGolyer and MacNaughton's (D&M's) estimates as of December 31, 2009. The main producing oil field is the Lek-Kharyaga oil field, which accounted for almost 60 per cent of the production in the region in 2009.

The Timano-Pechora region is planned to be the main driver of crude oil production growth in coming years and is expected to produce 5.9 million barrels of oil in 2010. The 2010 capital expenditure program for the region amounts to MUSD 243 with planned drilling of 44 wells in several fields, including 2 exploration wells. The Kolvinskoye oil field, holding 154 million barrels of 2P reserves and currently under development and not producing, will be allocated MUSD 132 of the budget to support the construction of extensive infrastructure facilities and significant drilling activity that starts in 2010. The production from the field is scheduled to start in 2011 and will qualify for the production tax holidays until the end of 2015.

Volga-Urals and Kazakhstan

The Volga-Urals oil region is located in the southern part of European Russia. Alliance Oil holds 10 oil fields in the region primarily in Samara and Tatarstan. The two major oil fields are Yelginskoye and Stepnoozerskoye. As of 31 December 2009, the Group had 295 production wells in the Volga-Urals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№ 1
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НЕ КУРИТЬ


САНЕКО
САНЕКО

region, 276 of which were active production wells, and 11 active injection wells, as well as 14 active exploration wells and 2 active water supply wells. The company's proven and probable oil reserves in the region amounted to 147.0 million barrels of oil, based on D&M's estimates as of December 31, 2009.

The Volga-Urals region is currently Alliance Oil's main producing region. Including the production in neighboring Kazakhstan, the Volga-Urals production amounted to almost 50 per cent of the total production in 2009. The Zhanatalap oil field in Kazakhstan is located in the Atyrau region on the northern shore of the Caspian Sea. About 3 per cent of the company's production and reserves are located in Kazakhstan.

In the Volga-Urals region and Kazakhstan, the production in 2010 is planned at 7.6 million barrels. The capital expenditure program amounts to MUSD 59 with planned drilling of 30 wells in several fields, including 6 exploration wells.

Tomsk

The Tomsk region is located in Western Siberia in Russia. Alliance Oil operates four oil fields in the region: Khvoinoye, Kluchevskoye, Puglalymskoye and Middle Nyurola. As of 31 December 2009, the Group had 80 production wells in the Tomsk region, 68 of which were active production wells, and 20 active injection wells, as well as 7 active water supply wells. The Group's proven and probable oil reserves in the region amounted to 60.6 million barrels of oil, based on D&M's estimates as of December 31, 2009.

The Tomsk region was the first operating region for Alliance Oil, and the company has conducted oil operations in the region for about 10 years. Today, the region holds about 12 percent of the 2P reserves and accounts for 22 per cent of the production. The oil production in the Tomsk region is expected to reach 3.6 million barrels in 2010. The capital expenditure program amounts to MUSD 14.

DOWNSTREAM

Downstream Operations

Alliance Oil's downstream business includes refining, transportation and marketing. Refining operations are conducted at the Khabarovsk Oil Refinery, which has a refining capacity of 70,000 barrels per day. In 2009, the refining volumes amounted to 21.8 million barrels of oil (approximately 59,700 barrels per day). Alliance Oil markets the refined oil products to retail customers through its own network of filling stations and to merchants through wholesale oil products terminals located in the Russian Far East. Oil products are exported through large and small third party wholesalers to the neighboring Asian markets, namely South Korea, Japan and China.

In 2007, Alliance Oil launched a significant modernisation program at the Khabarovsk Oil Refinery to widen the refinery's production processes for a higher degree of oil refining, in order to produce lighter and higher value oil products. The modernisation will also increase the refining capacity to 90,000 barrels per day. The program is planned to be completed in 2012.

In 2009, revenues from sales of oil products amounted to MUSD 1,347.3. The downstream segment operating income amounted to MUSD 194.0 for the financial year ended December 31, 2009.

Yakutsk
Kempendyayi
EASTERN SIBERIA - PACIFIC OCEAN oil pipeline
AMUR REGION
ykal-Amur Railway
Skovorodino
Blagoveshchensk
JEWISH AUT. REGION
Birobidzhan
Skoblikovo
Nikolaevsk-na-Amure
Komsomolsk
Komsomolsk-na-Amure
Khabarovsk
Khabarovsk
Vanino
Yuzhno Sakhalinsk
Kholmsk
Korsakov
JAPAN
PRIMORSK REGION
Rudnaya Pristan
Olga
Nakhodka
Vladivostok
Primorsk
Posyet
Sea of Japan
Hokang
Harbin
Tsitsihar
Datsin
Kirin
Chaygchun
Ulan-Khoto
CHINA
Chita
Trans-Siberian Railway

Refining

The Khabarovsk Oil Refinery is one of the only two major oil refineries located in the Russian Far East. It was originally constructed in 1935. From 1999 through 2009, the Khabarovsk Oil Refinery has undergone various stages of modernization to increase its primary processing capacities and comply with applicable regulations.

The Khabarovsk Oil Refinery is currently 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 by other means, primarily by rail. The Khabarovsk Oil Refinery is supported by advanced logistics infrastructures, including railway links to the Russian Railways network. Alliance currently owns more than 1,400 railcars for transportation of oil and oil products and rents additional railcars when required. In addition, the refinery is located in close proximity to the Khabarovsk oil terminal wharf on the Amur river. Alliance Oil also utilizes extensive storage facilities at the Khabarovsk Oil Refinery.

The Khabarovsk Oil Refinery currently has a Nelson complexity index, which measures the technological complexity of oil refineries and is directly correlative to a refinery's ability to produce higher-value added products, of 3.4 and a refining depth of about 61 per cent. The modernisation program currently being implemented at the refinery will increase the Nelson complexity index to 9.9, the refining depth will increase to 93 per cent and the refining capacity will increase from 70,000 to 90,000 barrels per day.


The Khabarovsk Oil Refinery product mix in 2009
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
LPG, 1%
Bitumen, 2%
Jet oil, 6%
Nafta, 8%
Diesel oil, 12%
Gasoline, 16%
Marine distillate oil, 22%
Fuel oil, 33%

Marketing and Sales

Retail Sales

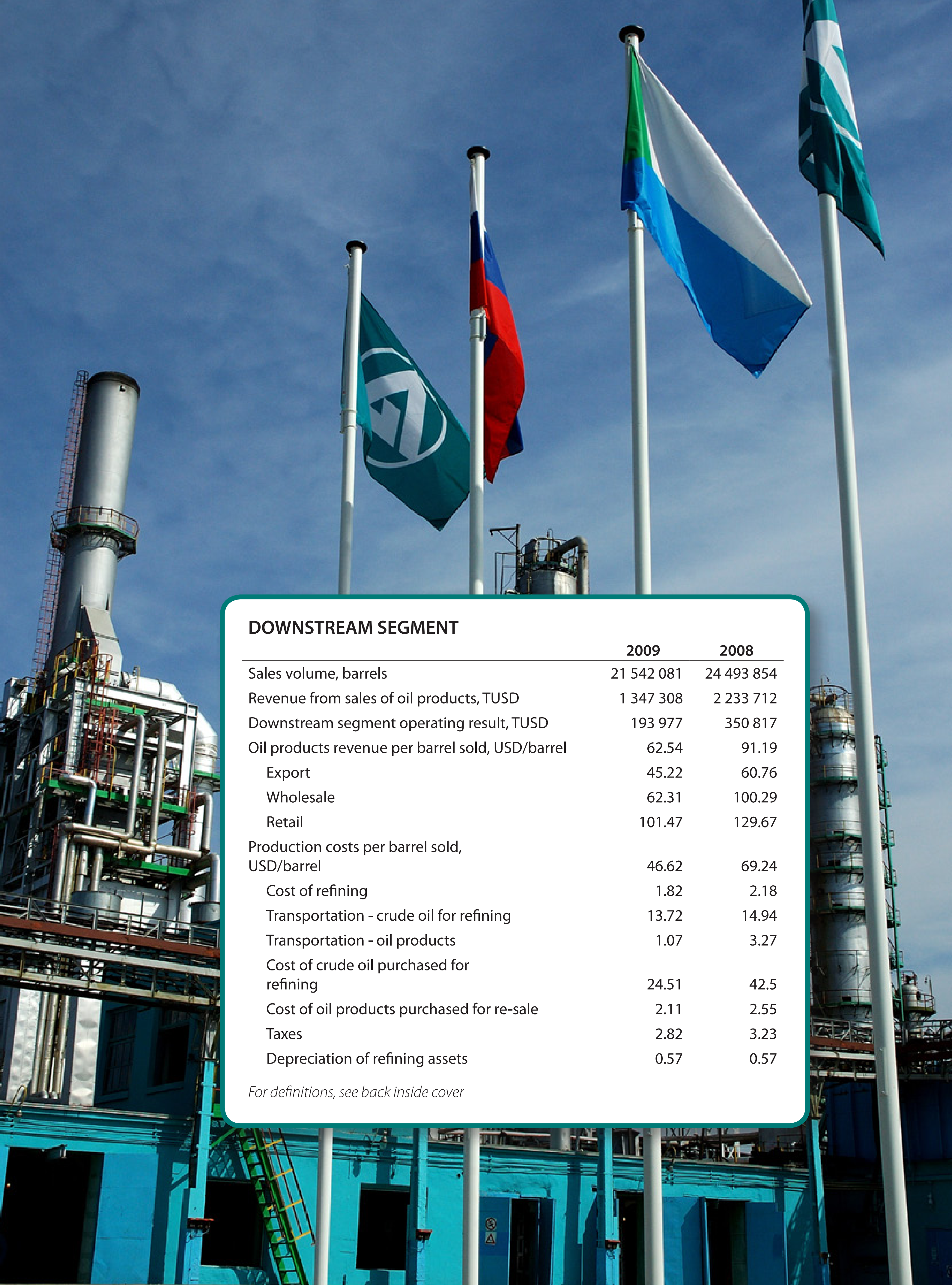
Retail sales of oil products take place through Alliance Oil's network of 261 filling stations in the Russian Far East. The Group sold 3.35 million barrels of oil products in the domestic retail market in 2009. The retail customers are mainly individual car owners and transportation companies. The filling stations also offer value-added services, such as car washes, retail shops etc. Alliance Oil is currently optimizing its portfolio of retail filling stations and seeks to substantially increase the number of filling stations providing non-fuel services.

Wholesale Sales

Small wholesale sales of oil products in the domestic Far Eastern market take place through the oil products terminals owned by Alliance Oil while large wholesale sales are shipped directly from the Khabarovsk Oil Refinery. Alliance Oil sold 10.82 million barrels in the wholesale market in 2009. Alliance Oil's wholesale customers include the federal ministries, housing and utilities enterprises, companies operating in the agricultural sector and the energy sector, companies located in the northern regions of Russia, road maintenance companies, transportation companies, and the civil aviation companies including the Khabarovsk City airport.

Export Sales

Alliance Oil exports primarily fuel oil, diesel and naphtha. In 2009, the group exported 7.38 million barrels of oil products. The primary export markets are China, South Korea and Japan.



DOWNSTREAM SEGMENT

	2009	2008
Sales volume, barrels	21 542 081	24 493 854
Revenue from sales of oil products, TUSD	1 347 308	2 233 712
Downstream segment operating result, TUSD	193 977	350 817
Oil products revenue per barrel sold, USD/barrel	62.54	91.19
Export	45.22	60.76
Wholesale	62.31	100.29
Retail	101.47	129.67
Production costs per barrel sold, USD/barrel	46.62	69.24
Cost of refining	1.82	2.18
Transportation - crude oil for refining	13.72	14.94
Transportation - oil products	1.07	3.27
Cost of crude oil purchased for refining	24.51	42.5
Cost of oil products purchased for re-sale	2.11	2.55
Taxes	2.82	3.23
Depreciation of refining assets	0.57	0.57

For definitions, see back inside cover

FINANCIAL SUMMARY

TUSD	2009	2008	2007	2006	2005
Total revenue	1 726 438	2 721 565	380 334	245 210	79 181
EBITDA	387 858	585 042	120 899	81 628	25 727
Result for the period	344 996	45 969	29 891	30 225	231
Total assets	2 727 014	2 391 795	1 133 818	970 206	425 848
Shareholders' equity	1 577 107	1 128 441	646 667	502 047	174 323
Cash flow from operations before changes in working capital	314 175	373 422	87 126	54 855	22 040
Return on shareholders' equity	21%	4%	5%	6%	0%
Return on capital employed	21%	8%	7%	9%	4%
Debt/equity ratio	45%	77%	45%	54%	107%
Equity ratio	59%	48%	57%	52%	41%
Risk bearing capital	65%	56%	69%	65%	50%
Interest coverage ratio	6.39	1.87	3.57	3.25	1.15
Debt coverage ratio	5.36	7.02	7.44	5.32	3.61

For definitions, see back inside cover

SHARE DATA *

	2009	2008	2007	2006	2005
Earnings per share for the period, USD	2.06	0.28	0.50	0.57	0.01
Earnings per share for the period (dilluted), USD	2.01	0.28	0.50	0.57	0.01
Market capitalization at the end of the period, MSEK	17 581.66	8 237.95	5 065.26	8 077.85	3 851.68
Cash flow per share, USD	0.34	-0.51	-0.43	0.58	-0.05
Cash flow per share (dilluted), USD	0.32	-0.51	-0.43	0.58	-0.05
Share price at financial period end, SEK	102.50	51.00	85.20	147.00	97.20
Number of shares at financial period end	171 528 414	161 528 414	59 451 366	54 951 366	39 626 366
Weighted average number of shares for the financial period	167 062 661	143 165 818	59 322 359	53 003 700	31 780 779
Weighted average number of shares for the financial period (dilluted)	176 818 908	143 307 666	59 322 359	53 210 708	31 780 779

* *Recalculated for reversed share split*

For definitions, see back inside cover

Corporate Governance Report 2009

Contents

The Code Application

Alliance Oil Company 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 NASDAQ OMX Nordic in Stockholm where they have been listed since May 2007. The company's governance is based on the company's articles of association and bye-laws, the listing agreement with the NASDAQ OMX Nordic 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. Since 2006, the company has developed and implemented an application of the code that also corresponds to Bermudian law and company practice. The company implements code revisions when applicable.

Annual General Meeting

The Annual General Meeting of the Shareholders ("AGM") is Alliance Oil Company's highest decision making body. The AGM is held annually in Stockholm, Sweden. The latest AGM was held on May 28, 2009, and the next meeting will be held on May 27, 2010. 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 a request or proposal to the board of directors not later than three months prior to the AGM.

At the AGM, the managing director discusses the company's progress and the 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 are approved by the AGM.

Nomination Committee for the Annual General Meeting 2010

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 28, 2009. In accordance with this resolution, the nomination committee was appointed by the four largest shareholders in the company as of November 27, 2009 which were OJSC Alliance Capital, OJSC Alliance Group, Daumier Investments Ltd and Repsol Exploracion S.A. These four shareholders appointed the following representatives to constitute the nomination committee for the Annual General Meeting 2010:

Carl Svernlöv, chairman of the nomination committee representing and OJSC Alliance Capital.

Andrei Sletov, representing OJSC Alliance Group.

Fred Boling, representing Daumier Investments Ltd.

David Haverkamp, representing Repsol Exploracion S.A.

Eric Forss, chairman of the board of Alliance Oil Company Ltd.

The Nomination Committee presents proposals for the election of the chairman and other members of the board of directors, election of auditors, and proposals regarding the remuneration of the board of directors and the auditors as well as related questions for adoption at the AGM. The nomination committee shall also complete the 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 three and not more than fifteen members. The present board of directors is composed of seven directors and no alternate director, all elected at the AGM in May 2009. Five directors are independent in relation to the company and the management and five directors are independent in relation to the major shareholders. The directors represent competence and experience from the oil business, several other industries and corporate governance. The directors are citizens of six countries (Sweden, Russia, USA, Switzerland, France 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 in Note 25 in the Financial statements 2009).

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 acting as a discussion partner and providing 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. Since 2008, the chairman has been appointed by the AGM.

Board Meetings and Procedures

The board of directors must hold at least four ordinary meetings during the calendar year.

Board Activities

The board held eleven meetings during 2009 including telephonic board meetings. All directors attended all meetings, except for Mr. Bazhaev, Mr. Idrisov and Mr. Levin who were absent at one meeting each. At each of these meetings, the following matters were addressed:

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

In 2009, the activities focused on the continued integration following the merger with OJSC "Alliance" Oil Company in 2008 and related organizational changes. In this process, the procedures for reporting and control were reviewed and revised reporting and communication policies were adopted. Following a review of operating performance, financing strategy and future capital expenditures in the fourth quarter 2008 and in response to the rapidly changing business environment, the board in early 2009 resolved to defer significant capital expenditures related to the modernization of the Khabarovsk Oil Refinery and upstream development projects. Financing activities included an equity issue in June 2009 and a convertible bond offering in July 2009 and reviews of the group's loan agreements and associated risk exposure. The debt portfolio was restructured with the aim to reduce net debt and extend the maturity profile. As the business environment improved and commodity and financial markets stabilized later in the year, the board approved more growth oriented capital expenditures programs. In December 2009, the board adopted a three year strategic plan aimed at doubling crude production and completing the modernization of the refinery. Long-term loans for the refinery's modernization and upstream capital expenditures program were approved.

The AGM 2009 adopted the board's proposals to change the corporate name from West Siberian Resources Ltd to Alliance Oil Company Ltd and to approve a reverse split of the company's shares.

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

Annually, immediately after the AGM, the board convenes to adopt the board's rules of procedure and agrees 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 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. 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 Alliance Oil Company: 83,000 SDRs and 358,850 options.**

Arsen E Idrisov, Director and Managing Director

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

Mr. Arsen E. Idrisov, a Russian citizen, was born in 1970. He has been a member of the board of directors since May 2008 and managing director since November 2008. Mr. Idrisov graduated with Honors from the Russian Economic Academy named after G. V. Plekhanov in 1993 after majoring in international economic relations. In 1992-1993 Mr. Idrisov studied in Otto Beisheim School of Management/WHU (Vallendar, Germany) and had training with Marquard & Bahls AG and with Deutsche Shell AG. Between 1993 and 1997 he held a number of senior positions in international trading business. In 1998, Mr. Idrisov was elected as general director of Alliance Capital Investment Company and joined the board of directors of Alliance Group. Since 2002, he has served as a vice-president for corporate finance at Alliance Group. Mr. Idrisov served as president/CEO of OJSC "Alliance" Oil Company from 2002 until July 2006. Within this period OJSC "Alliance" Oil Company advanced to the top 50 Russian largest companies. He has been a member of the board of directors of OJSC "Alliance" Oil Company since its establishment and has served as the chairman of its board of directors between 2006 and 2008.
*Holding in Alliance Oil Company: 86,677,048 SDRs.**

Raymond Liefooghe, Director

Independent in relation to the company, management and major shareholders

Mr. Raymond Liefooghe was born in 1942 and is a Swiss resident with Swiss and French nationalities. He has been a member of the board of directors since May 2008. Raymond Liefooghe served as a member of the board of directors of OJSC "Alliance" Oil Company between 2006 and 2008. Mr. Liefooghe graduated from the International Trade Institute in Paris in 1973. Between 1974 and 1991, Mr. Liefooghe worked in BNP New York, Montreal, Geneva and Paris. From 1992 to 2002, he worked in the United European Bank (Geneva) and in 1999 he was elected as its chief executive officer. Mr. Liefooghe founded a consulting company in 2002 that mainly worked for the BNP Paribas Group until July 2005. Between 2002 and 2005, he was the chairman of the supervisory board of BNP Paribas Bank ZAO in Moscow. Mr. Liefooghe also holds a position of Director at Diamond Capital Fund, Diamond Growth Fund, Sucafina S.A., Sucafina Ingredients SA and Metinvest International.

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, Sh-Bygg AB, Strict AB, Want AB, Variant Fastighets AB and Wiking Mineral AB. Mr. Levin is also member of the board of directors of First Baltic Property Ltd, Norrlands Industrier AB and Amok Studios AB.
*Holding in Alliance Oil Company: 58,718 SDRs and 81,850 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 over 40 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, Massa-

chusetts. Also, Mr. Boling is a director of Clear Springs Land Company and Investors Life Insurance Company.
Holding in Alliance Oil Company: 80,000 SDRs and 81,850 options.

Fernando Martinez-Fresneda, Director
Independent in relation to the company, management and major shareholders
Mr. Fernando Martinez-Fresneda, a Spanish citizen, was born in 1951. He has been a member of the board of directors since May 2009. Mr. Martinez-Fresneda is a Mining Engineer from the ETSIM, Mining Engineer School at the Polytechnic 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. Martinez-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.

Isa Bazhaev, Director
Not independent in relation to the company, management nor major shareholders
Isa Bazhaev, a Russian citizen, was born in 1962. He has been a member of the board of directors since May 2009. In 1985, Mr. Bazhaev graduated from the Grozny Oil Institute with a degree in engineering and construction. From 1993 to 2000 he was marketing director with Lia Oil SA (Switzerland) in Ukraine, and from 2000 to 2002 at Lia Oil's representative office in Russia. From 2002 to 2005 Mr. Bazhaev held the position of director of the Finance Department at Alliance Group. From April 2008 to March 2009 Mr. Bazhaev was a board member of OJSC "Alliance" Oil Company. Since 2005 he has been the vice president for Finance of Alliance-Prom and also a board member of Alliance-Prom.

Group Management

Arsen E Idrisov, Director and Managing Director
(See page 4)

Angelika Adieva, Chief Financial Officer
Ms. Angelika Adieva, a Russian citizen, was born in 1975. She joined the company in 2008. Ms. Adieva holds a Bachelor's degree in Economics from the Institute of Practical Oriental Studies in Moscow and an MBA from McCombs School of Business at the University of Texas at Austin with a concentration in Finance and specialization in Energy Finance. Her previous experience includes international oil and gas investment banking, as well as downstream and upstream project management. She started in the oil and gas industry in 1998 with Fluor Corporation. Prior to joining Alliance Oil Company Ms. Adieva most recently held a management position in the European Energy and Power Investment Banking team at Merrill Lynch International in London.

Yevgeny Vorobeichik, Chief Operating Officer
Mr. Yevgeny Vorobeichik, a Russian citizen, was born in 1958. 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 the OJSC "Alliance" Oil Company since 1999, has served as President of OJSC "Alliance" Oil Company since July 2006 and as a Vice President from 2002 to July 2006.

Oleg Makeev, CEO Upstream
Mr. Oleg Makeev, a Russian citizen, was born in 1958. Mr. Makeev graduated from the Tyumen Industrial Institute with specification in mining. Mr. Makeev has over 22 years experience in the oil and gas industry with 9 years working for Alliance Oil Company's upstream subsidiaries.

Alexander Sutyagin, CEO Downstream
Mr. Sutyagin, a Russian citizen, was born in 1958. Mr. Sutyagin graduated from the Kuibyshev Polytechnic Institute and holds a doctorate in Engineering. He has served as First

* Holdings including associated companies and family members.

Vice President and Vice President for Development and Coordination of Commercial Activity of OJSC "Alliance" Oil Company since 2006. Mr. Sutyagin has worked in the oil and gas industry since 1995.

Colin Brown, Vice-president on internal control and audit
Mr. Colin Brown, a UK citizen, was born in 1956 and joined the company in 2009. He qualified as a member of the Institute of Chartered Accountants in England and Wales with Price Waterhouse and worked for them in the UK, Nigeria, Egypt, Qatar and Dubai. Mr. Brown left Price Waterhouse to lead Arthur Andersen's oil and gas industry group for the CIS in 1996 and subsequently, the Ernst & Young oil and gas industry group for the CIS when they merged with Andersen in 2002. In 2004, Mr. Brown joined the Audit Inspection Unit of the Public Oversight Board for Accountancy (POBA), which is a subsidiary body of the Financial Reporting Council (FRC), then recently formed unified independent regulator of the accountancy profession in the UK. Mr. Brown returned to Russia in 2006, when he joined the Deloitte and Touche CIS practice as an energy and resource audit partner, audit risk leader for the CIS and member of the CIS capital markets group.

Auditor

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

The address of PricewaterhouseCoopers AB is: Lilla Bommen 2, 405 32 Göteborg, Sweden.

Board Committees

Remuneration Committee

Members: *Eric Forss (chairman), Fred Boling and Isa Bazhaev.*
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 board can delegate to the committee to approve individual employment contracts, compensation agreements and option grants within approved policies, provided any actions are reported to the board. The remuneration committee had four meetings during 2009 including telephonic committee meetings. All committee members were present at all meetings. In 2009, the committee reviewed, resolved and made recommendations to the board on compensation issues related to bonus for 2008, termination agreements and adjustments in options to reflect the reversed split. The committee also reviewed and evaluated a revised incentive program for all employees of the company, which was subsequently approved by the board. Under the program, Key Performance Indicators (KPI) are developed for all employees with the achievement of such indicators determining bonus payments. Based on the committee's recommendation, the board has initiated a review of the principles for executive remuneration which were approved by the AGM in 2008.

Audit Committee

Members: *Fred Boling (chairman), Raymond Liefooghe and Claes Levin.*
The Swedish Code of Corporate Governance provides that the board is to establish an Audit Committee consisting of at least three directors. The majority of the Audit Committee members are to be independent of the company and its executive management. At least one member of the committee is to be independent of the company's major shareholders. No board member who holds an executive management position is to be a member of the Audit Committee. The group's Audit Committee consists of three directors who are independent in relation to the Group, management and major shareholders. Accordingly, the Audit Committee has complied with these provisions as well as all other provisions of the Swedish Code of Corporate Governance relating to the Audit Committee.

The Audit Committee is responsible for ensuring the quality of the Group's financial statements, which includes considering all critical accounting policies, regulatory compliance, the Group's system of internal control and unadjusted errors brought to its attention by the external auditors. The Committee evaluates the performance of the external auditor, makes recommendations to the Nomination Committee on the appointment of the external auditor and meets with them on a regular basis to understand the scope and findings of their work and to ensure they are independent of the Group. The board delegates powers related to these matters to the Audit Committee. During the year the Committee formalized its policy on the procurement of non-audit services from the external auditor.

The Audit Committee reviews with management and, when appropriate, the external auditor the quarterly and annual financial statements before they are published. The review considers the conformity with IFRS, the reasonableness of significant estimates and judgments made in the preparation of the financial statements, as well as the quality of disclosures in the financial statements.

During 2009, the Audit Committee met eleven times, including telephonic meetings, Fred Boling and Raymond Liefooghe attended all eleven meetings, while Claes Levin attended nine meetings; the auditors attended five meetings. The main focus of the Audit Committee's work during the year centred on the impairment of assets, quality of internal controls, developing policies and procedures for the procurement of non-audit services from the external auditor and reporting and evaluating related party procedures. The Audit Committee was also involved in the establishment of the Group's Internal Audit function.

In the opinion of the Audit Committee there has been substantial progress realized in improving the financial reporting and internal controls since the merger between Alliance and West Siberian Resources. The Audit Committee is also fully supportive of the project at the Group and subsidiary level to chart the financial transaction flows and business processes to identify risks and document controls in a uniform and standardized way.

Dividend Policy

Alliance Oil'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. The dividend policy is reviewed annually.

Remuneration and Terms of Employment

Remuneration for 2009 and terms of employment are presented in Note 33 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 2008. 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 % of the base salary and is based on the company's performance based on several performance indicators, both operational and financial. Annual option grants are based on the employee's total compensation and the value of granted options shall amount to 100 %–200 % of annual compensation. Notice periods are not to exceed twelve months, during which the employee is entitled to full compensation.

Global Share Option Plan

At the Extraordinary General Meeting on November 14, 2000, it was resolved to adopt a Global Share Option Plan (the "Option Plan"). The amended Option Plan was 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 Plan as it deems fit.

The total number of shares which may be allocated under the Option Plan over 10 years shall not exceed 10 % 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 % of the outstanding shares of the company at the time of adoption and annual grants of up to 1 % 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 % 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 % of annual compensation. In 2009, the number of outstanding options and their exercise prices were adjusted to reflect the reversed split of the company's shares. As of December 31, 2009 the total number of outstanding options amounted to 2,999,050 corresponding to 2% of the outstanding shares after dilution. Exercise prices range from SEK 81.80 to SEK 140.00. All options are exercisable after 3 years subject to certain non-market conditions and expire in 5 years from the date of grant. No options were granted in 2009. The number of exercisable options as of the date of the issuance of the annual report amounted to 2,237,750 (1 % of diluted outstanding shares) out of which none have been exercised. (For details of the option grants see Note 25 in the IFRS Financial information.)

Internal Control over Financial Reporting

This section on internal control over financial reporting is prepared in accordance with the Swedish Code of Corporate Governance, section 10.5. The Group's financial reporting procedures comply with the requirements of the laws and accounting and reporting regulations of the countries of incorporation of the Group's subsidiaries, together with the International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board.

The board has the overall responsibility for establishing an effective system of internal control and risk management and has appointed the Audit Committee to assist the board in overseeing relevant policies and important accounting principles applied by the Group in financial reporting, as well as changes to these principles.

Responsibility for maintaining an effective control environment for financial reporting has been delegated to the managing director, while management at various levels has the operational responsibility within their respective areas. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements.

Management considers its internal control over financial reporting based on the Committee of Sponsoring Organisations of the Treadway Commission, or COSO, framework. As defined in the COSO framework, the components of internal control comprise control environment, risk assessment, control activities, information and communication and monitoring.

Control environment

The requirements of the laws and accounting and reporting regulations of the countries of incorporation of the Group's subsidiaries mean that they have well established processes and control activities. Statutory and management reporting is performed in cooperation with the Group's tax and legal specialists to ensure proper financial reporting to the Group level. The International Reporting Department at Group level receives the financial information from the subsidiaries and manages the reporting process to ensure the completeness and correctness of the financial reporting and its compliance with the requirements of IFRS.

The management system within the Group is based, in part, on defined roles and responsibilities, delegation of authority and an understanding of signatory and approval processes. The board has established a number of reporting requirements to assist in ensuring the effectiveness of internal control over financial reporting. These requirements include monthly, quarterly and annual reporting of financial information, comparisons with budgets and reconciliations of management accounts to IFRS statements.

In the final quarter of 2009, the board instigated a project at the Group and subsidiary level to chart the financial transaction flows and business processes to identify risks and document controls in a uniform and standardized way.

Risk assessment

As part of the work on the prospectuses for the convertible bond issue in 2009 and the Eurobond issue in March 2010, executive management carried out a detailed review of risks facing the Group. The risk of material misstatement in financial reporting relates to the recognition and measurement of assets, liabilities, revenue and cost, or insufficient disclosure. Other risks include fraud or loss or embezzlement of assets.

The Group's policies and review procedures regarding accounting and financial reporting cover material areas to support correct, complete and timely accounting reporting and disclosure. Identified risks are generally mitigated through monitoring and review procedures, segregation of duties and appropriate delegation of authority. A separate Economic Security Department within the Group is involved in the physical security of assets.

Formal documentation of the significant control activities within the accounting and reporting process commenced in the final quarter of 2009 and management are considering the implementation of a risk evaluation methodology to properly document and evaluate identified risks.

Control activities

Control activities are generally implemented in the areas that have an impact on financial reporting. The Group's business processes have financial controls regarding the approval and accounting of financial transactions, while the financial closing and reporting process has controls regarding recognition, measurement and disclosure.

Management regularly reviews and analyses the financial results of the subsidiaries including comparisons to budget, receivables, revenues, costs and cash flows. The Group also has a specialized department for external financial reporting and controls are in place to ensure reporting policies are in accordance with IFRS. The department prepares detailed reconciliations of financial information received from the subsidiaries to the consolidated financial statements and calculates and reviews key ratios and performance indicators.

Information and Communication

Subsidiaries prepare regular financial and management reports that are consolidated into financial reports setting out the Group's financial position, which are then submitted to the board for consideration.

The board, through the Audit Committee, also reviews all quarterly reports as well as the Annual Report prior to publishing. The board also requests the Audit Committee to monitor the work on internal control and financial reporting carried out by internal and external audit.

Public reporting is carried out in accordance with the Nasdaq OMX rulebook. The Group's website contains quarterly reports, the Annual Report, news and press releases. In addition, the quarterly and Annual Report submissions are supplemented by meetings and webcasts with investors and other interested parties. These meetings are generally attended by members of the Group's Executive Management.

Monitoring

The internal controls over the financial reporting process are monitored throughout the year by management. Monitoring involves both formal and informal procedures implemented by management and includes reviews of results in comparison to budgets, analytical procedures and key ratios and performance indicators. The Group's financial performance is also reviewed at each board meeting.
The committees of the board fulfill important monitoring functions regarding remuneration, borrowing, investments, customer finance, cash management, financial reporting and internal control. The Audit Committee and the board of directors review all interim and annual financial reports before they are released to the market. The Audit Committee also receives regular reports from the external auditor. The Audit Committee follows up on any recommendations made to improve or modify controls.

During the year the board determined that there was a need for a Group Internal Audit function. This decision was based on the increasing size of the Group and its increased exposure to sophisticated investor markets as the Group's external finance requirements increased. Accordingly, a Group Internal Audit function was established in the final quarter of 2009 and has been staffed with appropriately qualified and experienced personnel. The newly established Group Internal Audit function will be responsible for performing independent testing of selected controls. In addition, it is anticipated that the function will proactively propose improvements to the control environment.

Deviations from the code

Alliance Oil Company Ltd has chosen to deviate from the following Clauses of the Code:

Clause 4.2

Deputies for directors elected by the shareholders' meeting are not to be appointed.

Explanation of the deviation:

At the AGM on May 21, 2008 the shareholders unanimously voted in accordance with the proposal presented by the nomination committee to elect Mr. Fernando Martinez-Fresneda as deputy for Mr. Nemesio Fernandez-Cuesta. The shareholders of Alliance Oil Company Ltd consequently unanimously chose to deviate from this clause of the code. Mr. Martinez-Fresneda was a deputy until the AGM on May 28, 2009, when the shareholders elected him as director of the board. No new deputy for director was elected at the 2009 AGM and consequently the company is currently in compliance with this clause.

Clause 9.2

Members of the board are not to participate in share and share-price related incentive schemes designed for executive management or other employees of the company.

Explanation of the deviation:

Directors are eligible to participate in the company's shareholder approved Option Plan, which was adopted in 2006. The Options Plan was approved prior to the company's listing on Nasdaq OMX Nordic and implementation of the Code, with the intention to grant options annually for five years. Stock options were issued to directors in 2006, 2007 and 2008. No options were issued in 2009, however previously issued options to directors remained outstanding.

Other requirements of the Code

Except for the deviations above, Alliance Oil Company believes that it is meeting the requirements of the Code.

The auditors have not reviewed the Corporate Governance Report.

Corporate social responsibility 2009

Contents

The company's operations are subject to the health, safety and environmental risks inherent in the oil industry. These risks are subject to complex regulation by laws and government instructions. Such regulatory legislation governs, among other things, the composition of emissions discharged into the atmosphere, water use and wastewater discharge and discharges to the sea, air and water venting of detrimental impurities, the use, handling and disposal of hazardous substances and waste, soil and groundwater contamination, land reclamation and employee health and safety.

In addition to those government regulations, all upstream subsidiaries of the group have adopted a uniform Industrial Security Policy and downstream subsidiaries have adopted a uniform HSE Declaration (Health, Safety, Environment) that regulates industrial and environmental security and labour conditions. An integrated HSE Management System has been implemented based on standard industry regulations as well as an information sharing system within the downstream segment.

Human Resources

The company's key objective in working with personnel is to seamlessly implement the major changes taking place within the group. The major priority remains to implement unified, world-class employment standards in every region where the company operates.

The development and implementation of unified employment standards is a part of a major strategic plan to create a smooth mechanism for decision making and control through all the company's subsidiaries, while at the same time attracting and retaining talented professionals in the workforce. Alliance Oil is committed to:

- Following the principles of social partnership – respect and to treat all employees equally
- Objectively measuring the contribution of every person in the company's results
- Improve efficiency of the compensation system and create a link between compensation and the productivity of individuals and groups
- Implement and introduce effective personnel management technologies
- Constantly improve the employees knowledge and experience

The average number of employees during the reporting years ended December 31, 2009 was 6,794 compared to 7,071 for 2008. Staff numbers were optimized by reorganizing branches of the company's retail subsidiaries, and outsourcing non-core activities such as catering and cleaning. Some 73% of the workforce is working within the downstream segment while 23% is working with upstream operations. The remaining 4% is employed in the management company or in other operations.

The average age of the group's employees in 2009 was 40 years. The share of employees older than 45 decreased by 5%, and amounted to 38% at December 31, 2009. 21% of the workforce were younger than 30 years and 41% was between 30 and 45 as at December 31, 2009.

Having an equal distribution of gender is important to the group. Given the fact that oil and gas industry typically has a large majority of male employees, the existing proportion of 61% male and 39% female employees as at December 31, 2009, indicates that the company is moving to a balanced gender distribution.

Education and development of personnel

Developing staff potential is of great importance to the company. Over the course of recent years Alliance has constantly developed its personnel policies in order to support education and development of personnel. The company believes that it is essential to provide opportunities for each one of them to grow and develop both professionally and as individuals. The company uses best international practice to effectively assess the need for staff resources, to identify the most successful candidates for key management positions, and to create a reserve of qualified specialists.

The system for improving the qualifications of Alliance employees is continuously developing. Technical competences and personnel evaluation tools are being developed and implemented for people involved in core and supporting processes. Core competences have been developed to evaluate if employees fulfill their job requirements and to define possible ways of their professional development and act as a core measurement tool for personnel moves.

An internal training system targeting improvement of product knowledge and client service has also been introduced. In 2009, 2,349 people were undertaking this training. The group has internal corporate education centers, licensed to certify qualified workers.

In addition, a total of 2,352 employees participated in different forms of education in 2009, both internally and in external education centers, including 1,961 people in obligatory studies, 151 people taking professional courses, 240 people taking a qualification upgrade. Education expenditure amounted to approximately TUSD 400 in 2009.

Salary, bonus and incentive systems

The company pays its staff a competitive salary, and also uses a flexible system of incentives whose benefits depend directly on the personal achievements of the employee. The company has developed procedures to reward employees with performance bonuses, established a unified approach to paying bonuses for achieved results, strengthened the role of the line managers, and boosted motivation for staff.

The company's incentive plans aims to attract high potential and motivated labor force. Key principles of these plans are:

- Competitive salary that accounts for changing environment of the labor market and the company's capabilities
- Creation of Key Performance Indicators (KPI) linked to the bonus system
- Development of motivation competitions
- Training and development of employees

Salary

The company pays its staff competitive salaries which are determined based on monitoring of the labor market with regional and sectoral breakdown to account for inflation and production targets.

The average per employee salary in the group remained stable in 2009 and amounted to TUSD 1 per month. The average salary increased by 1%.

Bonus

In 2009 a process of evaluation of different positions and the development of a grading system commenced.

Also, in 2009, KPI measures were developed for management and key specialists. Bonus system linked to production results were further developed. The group's retail subsidiaries have established a performance management system based on individual goals connected to the company's strategy and individual development of employees following evaluation of the employees' competence. In 2010, the system will be expanded to cover upstream and refining subsidiaries as well as the group management.

Benefits

Most of the group's subsidiaries have collective agreements with the labor unions that regulate main rights and responsibilities of both the employer and the employees. The group's subsidiaries are also providing an extended list of benefits in addition to those required under Russian Law, namely:

- extra medical care and medical insurance
- improved working conditions
- support for retired workers and veterans
- sports, recreation and cultural activities
- material support for workers

In 2009, company voluntary social support payments amounted to TUSD 5,700, with the majority spent on accident insurance and voluntary healthcare insurance. A breakdown of the support payments is presented below:

Area	TUSD	%
Voluntary healthcare insurance	1,660	29%
Accident insurance	1,760	31%
Social sphere and living conditions spendings	970	17%
Pensioners, veterans and children spendings	600	10%
Celebrations and ceremonies	470	8%
Material support	140	3%
Other	100	2%

One of the company's priorities within human resources remains employee insurance. The workforce is covered both by obligatory social insurance and voluntary medical insurance. The collective voluntary medical insurance programme includes polyclinic, dental, hospital service and rehabilitation treatment. In 2009, TUSD 1,660 were spent on this program.

As a part of health and recreation activities support, in 2009 the company provided subsidies to 113 employees and 275 employee children.
The type and scale of subsidies differ within the group's subsidiaries. Typical benefits include among others free food, extra payments for maternity leave and compensation of travel costs.

As a part of the motivation programme, the company has in 2009 undertaken a "Best in Profession" contest and "Best Retail Outlet" contest to indicate the most efficient employees and working groups within the company.

The company is active in promoting its employees for state, ministry, professional and corporate awards. In 2009, 288 people were rewarded for achievements and dedicated lifelong work, including 17 employees by federal and ministry awards, 8 by regional and municipal awards and 263 by corporate awards of the group.

Veterans and disabled support

The company pays great attention to the war veterans and pensioners with lengthy service to the company. Special bonuses are paid for the Victory Day, National Oil Day and extra payments are made to their state pension entitlement. A one-time material support subsidy is also paid selectively.

Alliance Oil supports its disabled employees through education and training, and by creating new positions for them.

The environment and occupational health and safety (HSE)

Alliance has a unified system at its subsidiaries for managing environmental protection and occupational and industrial health and safety, developed on the basis of a Declaration defining the company policy on industrial and environmental safety and workforce protection. The following goals were identified as priorities for the company and its subsidiaries.

- to ensure absolute priority of the company's employees health and life and health and life of population in the areas of company's businesses and priority of environmental factors over political and economic factors
- to minimize the environmental impact of the company's operational facilities
- to use natural resources in an efficient manner
- to achieve and to maintain an advanced scientific and technical level of HSE protection to ensure industrial and environmental safety and workforce protection
- to ensure that the company's activity in the sphere of industrial and environmental safety and workforce protection complies with Russian and international standards

Organisation

All subsidiaries depending on the size of the entity have HSE functions or HSE specialists, operating according to the Department Provisions, Job Descriptions, Operational Control Provisions, effective legislation, standards and rules. The group has developed a reporting system according to which the subsidiaries should report on:

- Accidents, emergencies or incidents that have occurred immediately by phone, and within an hour in writing. An Investigation Report is submitted following any investigation;
- quarterly updates on the implementation progress of the HSE annual plan;
- annual statistical required by the State

Environmental protection

Alliance regards minimising environmental impact as an integral part of running the business efficiently. All management decisions are carefully analysed for possible negative consequences to the environment.

All the group's business units have environment impact standards, licenses and permissions. Compliance with environment impact standards and license requirements is monitored according to the schedules developed by supervising authorities.

Contamination emissions change depending on the operating throughput. Subsidiary companies are consistently implementing activities to reduce their environmental impact.

Total environmental spending in 2009 amounted to TUSD 10,470, including investments in environmental assets of TUSD 2,580. The main activities during 2009 included:

- implementation of the first phase of the sanitised protection area (SPA) for the border around the Khabarovsk Refinery and Khabarovsk oil depot. The first stage includes development of the SPA design projects within the border, including the residential block, and approval of the SPA design border line. The SPA engineering design project for the Vladivostok oil depot is in the process of development;
- completion of construction of the first phase of the chemical water treatment facilities at the Khabarovsk Refinery;
- commencement of construction of industrial storm wastewater treatment facilities at the Vladivostok oil depot and Khabarovsk Refinery, together with engineering design of treatment facilities in Ussuriiskaya and Sysoevskaya oil depots;
- completion of the engineering design of an oil products vapour recovery unit at the oil products loading rack in Khabarovsk oil depot;
- completion of landfill engineering design for solid waste and industrial waste in the scope of OJSC "Pechoraneft" Kolvinskoe oil field infrastructure.

In addition, the company is implementing several measures in close cooperation with the municipal and regional authorities at the Khabarovsk Refinery, to protect the environment.

In the upstream segment, a set of measures was implemented in 2009 to introduce electrochemical protection of surface pipelines to better secure them against oil leakages. The company uses an ongoing monitoring system with special focus on water objects and gradually increases the number of ecological control posts.

Water use by the company

Indicator	Unit	2009	2008
Water used, total	'000 m^3	4,135	4,513
External sources, total *	'000 m^3	4,078	4,137
Including			
Surface sources (rivers)	'000 m^3	3,058	3,061
Underground sources	'000 m^3	1,020	1,059
Recycled water	'000 m^3	31,732	31,658
Recycled water in sequential use	'000 m^3	614	614
Discharge to rivers	'000 m^3	160	158
Discharge to surface, total	'000 m^3	150	200

** includes surface sources, undeground sources and municipal supplies*

Potable water consumed from municipal suppliers represents approximately 1.5% of the company's total water consumption.

Water treatment facilities with specific required capacity are installed at all of the company's production assets: the Khabarovsk refinery has a sewage water treatment system with 600 m^3/h capacity, oil product wholesale terminals and retail stations have systems with up to 50 m^3/h and 10 m^3/h capacity, respectively.

Emissions

Indicator	Unit	2009	2008
Total emission	'000 tn	12.9	15.6
Including			
Solid	'000 tn	0.4	0.5
Liquids and gas	'000 tn	12.5	15.1
Including			
Sulphur oxides	'000 tn	2.3	2.4
Carbon oxides	'000 tn	4.3	4.9
Nitrogen oxides	'000 tn	0.6	1.2
Hydrocarbons excluding VOC *	'000 tn	2.5	3.9
VOC	'000 tn	2.8	2.7

** volatile organic compounds*

In 2009, the company had no pollution accidents.

Work force protection

Every year Alliance companies develop comprehensive technical plans. The plans are meant to improve working conditions, work force protection, health and domestic provisions for workers, prevent accidents in the workplace and work-related diseases, and reduce the number of accidents and incidents.

Alliance Oil spent approximately TUSD 2,870 on work force protection in 2009.

The company sources high-quality and prompt domestic health and preventive medicine services for employees, providing them with special clothing and footwear, individual protection gear and personal hygiene products.

Alliance pays particular attention to teaching safe working methods and techniques and first-aid skills for use in case of any accidents. The company also certifies positions for accident prevention and avoidance and provide regular medical examinations. The company provides compulsory employee insurance against industrial accidents and work-related diseases, and also guarantees the right to special pensions for workers who worked under harmful or dangerous conditions.

The company pays serious attention to employee training in safety. In 2009, 1,117 employees were participating in education, professional upgrade or other training regarding safety, including compulsory regular training and assessment on safety and security, fire protection trainings, hazardous liquids trainings and other.

The number of incidents and accidents has been constantly reduced over the last years. In 2009, there were no industrial breakdowns. However, a total of 6 accidents occurred in the group including one lethal. The main reasons for accidents and incidents indentified are:

- Mistakes made by an injured person;
- Breach of operational instruction;
- Not using personal safety devices;
- Inadequate power supply by municipal power station.

HSE activities in 2010

The company continuously modernises its technical equipment in order to reduce the impact of production processes on the environment. Independent audits are regularly conducted to assess the ecological state of industrial infrastructure sites, and indentify possible issues that may inflict damage on the environment, the health of the workforce, or the population. The company takes significant preventive measures and cooperates closely with local and Federal supervisory authorities to protect the environment. The scope of main HSE activities in 2010 will include:

- Certification of the integrated management system to comply with international standards ISO 9001, ISO 14001, OSHAS 18001;
- Optimization of providing employees with personal safety devices (PSD) and continued development of corporate PSD provision standard and regulations;
- development of an engineering design project to recover soil contamination;
- construction of gathering facilities and hydrocarbon gases recovery units in the intermediate truck fleets of the Khabarovsk Refinery and the Khabarovsk oil depot;
- engineering design of associated petroleum gas recovery facilities by upstream companies;
- engineering, reconstruction and construction of industrial storm wastewater facilities;
- extension of design project development and implementation of SPA in the Company's operational units.

Social policy and charity

The company's aim in implementing its sponsorship and charitable projects is to stimulate the economic and social development of the regions where the company operates, to improve the business climate and to nurture continuing dialogue between business and society. Alliance's charitable projects are intended to contribute to quality of life and higher level of culture and education, in addition to promoting the physical, moral and spiritual health of society.

Alliance is aware that, by contributing to a favourable social climate in our operating regions and establishing a positive dialogue with local communities, the company achieves faster growth and improves business development.

Alliance chooses sponsorship projects and charitable programmes that are of high priority for the regional development. One of the most important areas is restoration and maintenance of social infrastructure. The company's enterprises are financing the repair and renovation of cultural, healthcare and educational facilities. The group pays particular attention to historical sites and areas of great cultural significance. In addition, the group regularly provides help to local authorities to maintain streets, roads and public spaces. Hundreds of families have received decent housing thanks to Alliance's support.

The company also places a high priority on sponsoring the development of sport. Alliance is a long-term partner of the "Neftyanik" and "Samorodok" (Khabarovsk), the "Tom" (Tomsk), and the "Lutch-Energia" (Vladivostok) Premier League sports clubs. In addition, the company provides support to sports clubs and municipal sports groups, and also for the development of sport for children and young people.

Alliance pays a great deal of attention to projects supporting spiritual and cultural development in the regions. Groups that have received targeted charitable assistance from the company's enterprises include the Russian Children's Fund and "Zia" children's folk ensemble. Alliance is also assisting municipal cultural institutions, such as children's and amateur theatres, and local museums. The company also funded the publishing of educational books.

Where possible, support is provided to various religious faiths as the company considers that this is important in fostering spiritual and moral values in society.

Alliance is engaged in a number of charitable projects to develop science and education. The company is providing assistance to conduct the Intellectual Olympics for children and scientific competitions. Considerable funds are being placed into providing material and technical support to schools and colleges, and supplying class room and laboratory equipment.

The company backed children's homes, the veterans, religious institutions (including all the major Russia's religions) and ecological monitoring.

While implementing a strategy of social responsibility in the regions where the company is operating, Alliance pays close attention to the development of local communities by assisting youth organisations, veterans' councils, municipal administrations and local self-government authorities. Festivals are held regularly with Alliance support at district and municipal levels to celebrate significant holidays for the country, city or region.

A total of TUSD 25,140 was invested in social responsibility in 2009, including TUSD 13,253 donated to the Zia Bazhaev Charity Fund, TUSD 6,800 sponsored to sports development, and TUSD 2,540 of grant-in-aid (by sponsoring agreements signed with the local authorities). The grant-in-aid included the construction of an ambulance station.

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Income Statement

(Expressed in USD thousand)	Note	Group Jan 1, 2009 - Dec 31, 2009	Group Jan 1, 2008 - Dec 31, 2008	Parent company Jan 1, 2009 - Dec 31, 2009	Parent company Jan 1, 2008 - Dec 31, 2008
Revenue					
Revenue from sales of crude oil	4	346 401	455 424	-	-
Revenue from sales of oil products	4	1 347 308	2 233 712	-	-
Other income		32 729	32 429	-	-
		1 726 438	**2 721 565**	**-**	**-**
Cost of sales					
Production costs - crude oil	5	-218 702	-320 201	-	-
Production costs - oil products	6	-842 399	-1 516 209	-	-
Cost of other sales		-25 422	-11 780	-	-
Depletion and depreciation	4,12	-95 202	-120 872	-	-
Impairment of oil and gas properties (reversal /(charge))	12	170 312	-316 849	-	-
Impairment of goodwill	14	-	-208	-	-
Gross profit		**715 025**	**435 446**	**-**	**-**
Selling expenses	7	-177 275	-199 018	-	-
Administration expenses	8	-59 921	-69 348	-16 194	-17 405
Depreciation of marketing and other non-production assets	4,12	-12 355	-11 262	-	-
Other operating expenses, net		-12 730	-19 967	-	-
Gain on disposal of shares in subsidiaries	16	905	-	-	-
Operating income/(loss)		**453 649**	**135 851**	**-16 194**	**-17 405**
Share of result of associate		-16	-	-	-
Interest income		8 924	18 578	35 777	38 769
Interest expense	9	-40 522	-47 063	-19 798	-21 195
Other financial expenses	9	-2 577	-2 836	-3 433	-701
Currency exchange (losses)/gains, net		-1 391	-25 749	1 404	-11 775
Result before tax		**418 067**	**78 781**	**-2 244**	**-12 307**
Income tax expense	10	-73 071	-32 812	-	-
Result for the year		**344 996**	**45 969**	**-2 244**	**-12 307**
Attributable to:					
Owners of the Company		343 754	40 566	-2 244	-12 307
Non-controlling interests		1 242	5 403	-	-
Earnings per share:					
Basic (USD per share)	11	2.06	0.28	-0.00	-0.00
Diluted (USD per share)	11	2.01	0.28	-0.00	-0.00

Statement of Comprehensive Income

(Expressed in USD thousand)	Note	Group Jan 1, 2009 - Dec 31, 2009	Group Jan 1, 2008 - Dec 31, 2008	Parent company Jan 1, 2009 - Dec 31, 2009	Parent company Jan 1, 2008 - Dec 31, 2008
Result for the year		**344 996**	**45 969**	**-2 244**	**-12 307**
Other comprehensive income					
Exchange differences on translating foreign operations		-44 420	-389 051	-	-
Income tax relating to components of other comprehensive income		7 261	-9 245	-	-
Other comprehensive income for the year, net of tax		-37 159	-398 296	-	-
Total comprehensive income for the year		**307 837**	**-352 327**	**-2 244**	**-12 307**
Attributable to:					
Owners of the Company		306 465	-357 976	-2 244	-12 307
Non-controlling interests		1 372	5 649	-	-

Statement of Financial Position

(Expressed in USD thousand)	Note	Group Dec 31, 2009	Group Dec 31, 2008	Parent company Dec 31, 2009	Parent company Dec 31, 2008
NON-CURRENT ASSETS					
Property, plant and equipment	12, 13	1 957 324	1 742 800	8	44
Intangible assets		5 936	8 554	10	34
Goodwill	14	11 818	11 242	-	-
Shares in subsidiaries	15	-	-	1 847 817	1 850 646
Other accounts receivable from group companies	35	-	-	646 319	541 193
Other non-current assets	17	613	2 329	-	-
Deferred tax assets	10	22 754	38 443	-	-
		1 998 445	**1 803 368**	**2 494 154**	**2 391 917**
CURRENT ASSETS					
Inventories	18	115 781	83 948	-	-
Trade accounts receivable	19	23 034	31 192	-	-
Value added tax and other taxes receivable	20	100 465	67 355	-	-
Income tax receivable	10	11 542	30 905	-	-
Advances paid and prepaid expenses	21	61 833	35 418	3 684	117
Other accounts receivable	22	6 921	3 050	-	-
Other financial assets	23	16 923	1 192	-	-
Restricted cash	24	55 692	42 101	-	-
Cash and cash equivalents	24	336 378	293 266	86 847	1 305
		728 569	**588 427**	**90 531**	**1 422**
TOTAL ASSETS		**2 727 014**	**2 391 795**	**2 584 685**	**2 393 339**
SHAREHOLDERS' EQUITY					
Share capital	25	171 528	161 528	171 528	161 528
Other paid in capital	25	1 105 848	997 181	2 023 654	1 914 979
Other reserves		-316 913	-304 840	22 271	-
Retained earnings		272 890	234 006	19 975	30 966
Result for the year		343 754	40 566	-2 244	-12 307
		1 577 107	**1 128 441**	**2 235 184**	**2 095 166**
Non-controlling interest		29 651	29 235	-	-
		1 606 758	**1 157 676**	**2 235 184**	**2 095 166**
NON-CURRENT LIABILITIES					
Loans and borrowings	27	364 659	234 163	307 512	180 000
Deferred tax liabilities	10	160 196	171 847	-	-
Financial lease liabilities	28	-	6 888	-	-
Provision for decommissioning and site restoration costs	26	11 872	13 695	-	-
Other liabilities		-	2 122	-	-
		536 727	**428 715**	**307 512**	**180 000**
CURRENT LIABILITIES					
Loans and borrowings	27	345 489	629 450	36 913	115 824
Financial lease liabilities	28	-	3 800	-	-
Trade and other accounts payable	29	40 183	62 483	3 821	12
Advances received	30	125 602	58 546	-	-
Accrued expenses	31	21 212	18 068	1 255	2 337
Income tax payable	10	2 084	7 169	-	-
Other taxes payable	32	48 959	25 888	-	-
		583 529	**805 404**	**41 989**	**118 173**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**2 727 014**	**2 391 795**	**2 584 685**	**2 393 339**

Statement of Cash Flows

(Expressed in USD thousand)	Note	**Group** Jan 1, 2009 - Dec 31, 2009	Group Jan 1, 2008 - Dec 31, 2008	**Parent company** Jan 1, 2009 - Dec 31, 2009	Parent company Jan 1, 2008 - Dec 31, 2008
Operating activities					
Operating income/(loss)		453 649	135 851	-16 194	-17 405
Adjustments for:					
Interest paid	27	-35 152	-48 128	-14 082	-21 250
Income tax paid	10	-44 332	-169 374	-	-
Depletion and depreciation	12	107 557	132 134	60	72
Loss on disposal of assets		2 404	3 862	-	-
Impairment of oil and gas properties (reversal)/charge	12	-170 312	316 849	-	-
Impairment of goodwill	14	-	208	-	-
Other non-cash items		361	2 021	465	5 611
Operating cash flow before changes in working capital		**314 175**	**373 423**	**-29 751**	**-32 972**
Changes in working capital					
(Increase)/decrease in inventories	18	-32 321	20 715	-	-
(Increase)/decrease in accounts receivable	19-23	-63 104	57 721	-	5
Increase /(decrease) in accounts payable	29-32	96 605	-144 884	2 727	-8 342
Total cash flow from/(used in) operations		**315 355**	**306 975**	**-27 024**	**-41 309**
Investing activities					
Investment in oil and gas properties	12	-94 741	-177 983	-	-
Investment in refining properties	12	-83 411	-317 688	-	-
Investment in marketing and other non-production assets	12	-27 966	-19 582	-	-
Interest capitalised and paid	27	-28 842	-34 481		
Investment in shares in subsidiaries	15	-2 156	-8 905	-	-12 166
Proceeds from disposal of shares in subsidiaries/related parties	16	3 397	73 451	-	-
Proceeds from disposal of assets		3 011	4 924	-	-
Interest received		7 949	18 212		
Change in intercompany loans drawn down		-	-	-67 956	-169 949
Non-interest bearing loans provided to related parties	23	-	-2 326	-	-
Proceeds from repayment of non-interest bearing loans by related parties	23	47	113 998	-	-
Loans provided to third parties	23	-15 322	-1 058	-	-
Proceeds from other investing activities		246	-	56	97
Total cash flow used for investments		**-237 788**	**-351 438**	**-67 900**	**-182 018**
Financing activities					
Proceeds from convertible bonds, net of issue costs	27	257 782	-	257 782	-
Proceeds from share issue, net of issue costs	25	118 675	165 154	118 675	165 470
Proceeds from loans and borrowings	27	341 893	757 606	-	60 000
Repayment of loans and borrowings	27	-725 014	-690 589	-196 000	-
Finance lease payments	28	-11 926	-5 725	-	-
Dividends paid to shareholders by subsidiaries	35	-60	-193 248	-	-
Cash contribution from non-controlling shareholders to share capital of subsidiaries		-	1 064	-	-
Total cash flow (used in)/from financing activities		**-18 650**	**34 262**	**180 457**	**225 470**
Effect of exchange rate changes on cash and cash equivalents held in foreign currencies		3 231	12 859	9	-1 471
Effect from translation to presentation currency		-5 445	-75 663	-	-
Change in cash and cash equivalents		**56 703**	**-73 005**	**85 542**	**672**
Cash and cash equivalent at beginning of the year	24	335 367	408 372	1 305	633
Cash and cash equivalent at end of the year	24	**392 070**	**335 367**	**86 847**	**1 305**

Statement of Changes in Equity – Group

(Expressed in USD thousand)	Attributable to owners of the Company: Share capital	Other paid in capital	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Equity at January 1, 2008*	**33 656**	**27 801**	**93 702**	**423 069**	**578 228**	**28 518**	**606 746**
Result for the year	-	-	-	40 566	40 566	5 403	45 969
Other comprehensive income/(loss)	-	-	-398 542	-	-398 542	246	-398 296
Total comprehensive income/ (loss) for the year	**-**	**-**	**-398 542**	**40 566**	**-357 976**	**5 649**	**-352 327**
Merger of OJSC "Alliance" Oil Company and Alliance Oil Company Ltd (Note 25)	114 972	828 424	-	-	943 396	-	943 396
Changes in ownership of Subsidiaries	-	-	-	-	-	-4 932	-4 932
Disposal of subsidiaries to related parties	-	-11 119	-	-	-11 119	-	-11 119
Equity issue (Note 25)	12 900	152 075	-	-	164 975	-	164 975
Dividends paid to shareholders by subsidiaries (Note 35)	-	-	-	-193 199	-193 199	-	-193 199
Share option plan (Note 25)	-	-	-	4 136	4 136	-	4 136
Total transactions with owners for the year	**127 872**	**969 380**	**-**	**-189 063**	**908 189**	**-4 932**	**903 257**
Equity at December 31, 2008	**161 528**	**997 181**	**-304 840**	**274 572**	**1 128 441**	**29 235**	**1 157 676**
Result for the year	-	-	-	343 754	343 754	1 242	344 996
Other comprehensive income/(loss)	-	-	-34 344	-2 945	-37 289	130	-37 159
Total comprehensive income/ (loss) for the year	**-**	**-**	**-34 344**	**340 809**	**306 465**	**1 372**	**307 837**
Changes in ownership of subsidiaries	-	-8	-	-	-8	-956	-964
Equity issue (Note 25)	10 000	108 675	-	-	118 675	-	118 675
Dividends paid to shareholders by subsidiaries	-	-	-	-53	-53	-	-53
Convertible bonds (Note 27)	-	-	22 271	-	22 271	-	22 271
Share option plan (Note 25)	-	-	-	1 316	1 316	-	1 316
Total transactions with owners for the year	**10 000**	**108 667**	**22 271**	**1 263**	**142 201**	**-956**	**141 245**
Equity at December 31, 2009	**171 528**	**1 105 848**	**-316 913**	**616 644**	**1 577 107**	**29 651**	**1 606 758**

* The financial figures represent OJSC "Alliance" Oil Company financial information for the financial year ended December 31, 2007.

Statement of Changes in Equity – Parent Company

(Expressed in USD thousand)	Attributable to owners of the Parent Company					Non-con-trolling interest	Total Equity
	Share capital	Other paid in capital	Other reserves	Retained earnings	Total		
Equity at January 1, 2008	**59 451**	**451 669**	**-**	**24 474**	**535 594**	**-**	**535 594**
Result for the year	-	-	-	-12 307	-12 307	-	-12 307
Total comprehensive loss for the year	**-**	**-**	**-**	**-12 307**	**-12 307**	**-**	**-12 307**
Issuance of shares to OJSC "Alliance" Oil Company shareholders (Note 25)	89 177	1 310 918	-	-	1 400 095	-	1 400 095
Equity issue (Note 25)	12 900	152 392	-	-	165 292	-	165 292
Share option plan (Note 25)	-	-	-	6 492	6 492	-	6 492
Total transactions with owners for the year	**102 077**	**1 463 310**	**-**	**6 492**	**1 571 879**	**-**	**1 571 879**
Equity at December 31, 2008	**161 528**	**1 914 979**	**-**	**18 659**	**2 095 166**	**-**	**2 095 166**
Result for the year	-	-	-	-2 244	-2 244	-	-2 244
Total comprehensive loss for the year	**-**	**-**	**-**	**-2 244**	**-2 244**	**-**	**-2 244**
Equity issue (Note 25)	10 000	108 675	-	-	118 675	-	118 675
Convertible bonds (Note 27)	-	-	22 271	-	22 271	-	22 271
Share option plan (Note 25)	-	-	-	1 316	1 316	-	1 316
Total transactions with owners for the year	**10 000**	**108 675**	**22 271**	**1 316**	**142 262**	**-**	**142 262**
Equity at December 31, 2009	**171 528**	**2 023 654**	**22 271**	**17 731**	**2 235 184**	**-**	**2 235 184**

Notes to the financial statements

Expressed in thousand USD (TUSD) unless indicated otherwise

Note 1 Organisation

Alliance Oil Company Limited ("the Company" formerly, West Siberian Resources Limited) was incorporated in Bermuda on September 1, 1998, as a tax exempted limited liability private company, and is domiciled in the same country. The Company's registered office is located at: Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company and its subsidiaries (the "Group") emerged in its current form as a result of the merger between OJSC "Alliance" Oil Company ("Alliance") and the Company. The merger was completed on April 10, 2008, whereby the Alliance shareholders contributed the entire share capital of Alliance to the Company in exchange for 1,783,540,968 (before reverse split) ordinary shares issued by the Company. In addition, the Company issued warrants to subscribe for 99,682,500 ordinary shares at an exercise price of SEK 6.21 per share (before the reverse split) as part of the merger agreement.

After the successful completion of the merger Alliance owned 60% of the Company and accordingly, the Company prepared the consolidated financial statements using the accounting model prescribed by IFRS 3 'Business Combinations' for 'reverse acquisitions'. Under this model Alliance was considered to be the accounting acquirer while the Company was presented as the acquiree. The Company, as the legal parent, was presented as the parent company in the financial statements. In June 2009, the company's corporate name was changed from West Siberian Resources Limited to Alliance Oil Company Limited.

The Group is an independent vertically integrated oil and gas company with exploration and production (upstream) operations and oil refining and marketing (downstream) operations in Russia and upstream operations in Kazakhstan. The Group's upstream operations include crude oil exploration, extraction and production in the Timano-Pechora, Volga Urals and Tomsk regions of Russia and the Atyrau region of Kazakhstan. The downstream operations include oil refining, transportation, marketing and sales of oil products in the Russian Far East.

The principal activities of the significant entities of the Group as at December 31, 2009 were as follows:

Operating entity	Activity	Country
Alliance Oil Company Ltd	Holding company	Bermuda
OJSC "Alliance" Oil Company	Holding company	Russian Federation
Vostok Oil (Cyprus) Ltd	Holding company	Cyprus
O&G Credit Agency Ltd	Financing of subsidiaries	Cyprus
LLC West Siberian Resources Invest	Management services	Russian Federation
LLC Alliance Management (former LLC Alliance-WSR Management)	Management services	Russian Federation
OJSC Vostochnaya Transnationalnaya Kompaniya	Oil exploration and production	Russian Federation
LLC Khvoinoye	Oil exploration and production	Russian Federation
OJSC Pechoraneft	Oil exploration and production	Russian Federation
CJSC Saneco	Oil exploration and production	Russian Federation
LLC Kolvinskoye	Oil exploration and production	Russian Federation
OJSC Tatnefteotdacha	Oil exploration and production	Russian Federation
LLP Potential Oil	Oil exploration and production	Kazakhstan
OJSC Khabarovsk Oil Refinery	Oil refinery	Russian Federation
OJSC Khabarovsknefteproduct	Trading of oil products	Russian Federation
OJSC Amurnefteproduct	Trading of oil products	Russian Federation
OJSC Primornefteproduct	Trading of oil products	Russian Federation
LLC A-Spect	Trading of oil products	Russian Federation
LLC Alliance Energo (former LLC Alliance Khabarovsk)	Trading of energy	Russian Federation
CJSC Alliance Oil	Trading of oil products	Russian Federation
LLC Naftatekhresource	Inventory and equipment supply	Russian Federation
LLC Alliance Bunker	Trading of oil products	Russian Federation
CJSC Alliancetransoil	Transportation services	Russian Federation
CJSC Alliancepromservice	Leasing of machinery and equipment	Russian Federation
LLC Alliance-Bioprom	Production of biofuels	Russian Federation
CJSC Ecobioprom	Production of biofuels	Russian Federation
LLC TD Ecobioprom	Trading of biofuels	Russian Federation
LLC Ecobioprom MTS-1	Production of biofuels	Russian Federation

Note 2 Accounting principles

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

Entities of the Group maintain their accounting records in accordance with the laws and accounting and reporting regulations of the countries of incorporation. Statutory accounting principles and procedures may differ substantially from those generally accepted under International Financial Reporting Standards ("IFRS"). Accordingly, the accompanying consolidated financial statements on pages 2–53, which have been prepared from the Group's statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS. The parent company financial statements are prepared in accordance with IFRS.

The financial statements have been prepared on the historical cost basis except for the fair value of subsidiaries acquired, in accordance with IFRS 3 "Business Combinations".

Following the completion of the merger with Alliance the consolidated financial statements were prepared using the accounting model prescribed by IFRS 3 "Business combination" for "reverse acquisitions". This accounting treatment requires Alliance to be treated as the accounting acquirer for the consolidated financial information and the Company being presented as the acquiree. As a consequence, the assets and liabilities of the Company, being the legal parent, were recorded at fair value initially in the consolidated financial statements. The assets and liabilities of the legal subsidiary Alliance were recognized and measured in the combined financial statements at their pre-combination carrying amounts.

The Company's consolidated financial statements have been included in the Group's consolidated financial statements from April 10, 2008, the date of the merger. The standalone financial statements of the Parent Company are presented for the year ended December 31, 2009 with comparative information for the year ended December 31, 2008.

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

Changes in accounting policy and disclosures

New and amended standards adopted by the Group

In 2009 the Group has adopted all new and revised Standards and Interpretations that are mandatory for adoption in the annual periods beginning on or after 1 January 2009. The principal changes arising from adoption of these Standards and Interpretations are as follows:

IAS 1 "Presentation of Financial Statements" (revised and effective 1 January 2009)

The revised Standard introduces terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. The Standard prohibits the presentation of items of income and expense (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been restated so that it also is in conformity with the revised Standard.

IFRS 8 "Operating Segments" (effective 1 January 2009)

IFRS 8 "Operating Segments" replaced IAS 14 "Segment Reporting" upon its effective date. This Standard introduces new requirements and guidelines regarding the disclosure of operating segments. In the previous reporting periods the Group determined its reporting segments based on the nature of operations of the Group's companies and presented the following reporting segments – oil exploration and production, refining and transportation, and marketing and sales of oil products. IFRS 8 requires the Group to determine operating segments based on management reporting system, and replaces the requirements to determine primary (business) and secondary (geographical) reporting segments of the Group. For management purposes, the Group is organised into two major operating divisions – Upstream (exploration, evaluation and production of crude oil) and Downstream (refining, transportation and sales of oil products).

These divisions are the basis on which the Group reports its primary segment information, presented in the Note 4.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

At the date of approval of the Group's consolidated financial statements, the following new and revised Standards and Interpretations have been issued, but are not effective for the financial year ended December 31, 2009:

	Effective for the accounting periods beginning on or after
Amendments to IAS 1 "Presentation of financial statements"	1 January 2010
Amendments to IAS 7 "Statement of Cash Flows"	1 January 2010
Amendments to IAS 17 "Leases"	1 January 2010
Amendments to IAS 24 "Related Party Disclosures"	1 January 2011
Amendments to IAS 32 "Financial instruments: presentation"	1 January 2010
Amendments to IAS 36 "Impairment of assets"	1 January 2010
Amendments to IAS 38 "Intangible assets"	1 July 2009
Amendments to IAS 39 "Financial instruments: recognition and measurement"	1 July 2009
Revised IFRS 1 "First-time Adoption of International Financial Reporting Standards"	1 July 2009
Amendments to IFRS 2 "Share based payments"	1 July 2009
Revised IFRS 3 "Business combinations"	1 July 2009
Amendment to IFRS 5 "Non-current assets held for sale and discontinued operations"	1 July 2009
Amendments to IFRS 8 "Operating Segments"	1 January 2010
IFRS 9 "Financial Instruments"	1 January 2013
IFRIC 17 "Distributions of Non – cash Assets to Owners"	1 July 2009
IFRIC 18 "Transfers of Assets from Customers"	1 July 2009
IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"	1 July 2010

Management is currently considering the potential impact of the adoption of these Standards, amendments and interpretations. However, it is not practicable to provide a reasonable estimate of their effect until a detailed review has been completed.

Foreign currencies

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 individual financial statements of each Group's entity are presented in its functional currency:

- For entities operating in the Russian Federation – Russian Rouble ("RUB");
- For entities operating in Kazakhstan – Kazakhstan Tenge ("KZT").
- For entities operating in Cyprus and Bermuda – US Dollar ("USD")

For the purpose of the consolidated financial statements, the results and financial position of each Group's entity are expressed in USD, which is the functional currency of the Company and the presentation currency for the consolidated financial statements. In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the income statement in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to the income statement on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in USD using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the quarterly average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as "Exchange differences on translating foreign operations". All cash flows are translated at the average exchange rates for the period. Resulting exchange differences are presented as "Effect of translation to presentation currency".

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to the consolidated income statement as part of the gain or loss on disposal. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to income statement.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intragroup transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised. Non-controlling interests at the reporting date consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination. Losses applicable to the non-controlling interest in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to the income statement or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: Recognition and Measurement".

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with

IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the consolidated income statement.

Any differences arising on acquisition of an additional interest in subsidiaries from parties related by means of common control between the cost of acquisition and the Group’s interest in the carrying value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition, is recognised directly in equity. Any differences between consideration paid and acquired net assets arising on acquisition of additional interest in subsidiaries from third parties is recognised as goodwill or written off to the consolidated income statement.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measure-ment period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circum-stances that existed as of the acquisition date – and is subject to a maximum of one year.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee where the Group does not have control or joint control over those policies.

The results and the assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group’s share of net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group’s interest in that associate (which includes any long-term interest that, in substance, form part of the Group’s net investment in the associate) are not recognised.

Any excess of the cost of acquisition over the Group’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as the part of the investment. Any excess of the Group’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition after re-assessment is recognised immediately in the consolidated income statement.

Where a group company transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group’s interest in the relevant associate.

Intangible assets

Intangible assets acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Goodwill

Goodwill arising on acquisition of a subsidiary represents the excess of the cost of acquisition over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Impairment of goodwill

Goodwill is not amortised but is reviewed for impairment annually. For the purpose of impairment testing, goodwill is allocated to each of the Group’s cash generating units expected to benefit from the synergies of the combination. Cash generating units (CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Property, plant and equipment

The Group's property, plant and equipment in general consist of oil and gas properties involved in crude oil exploration and production (or "upstream assets"), refining and marketing properties involved in oil refining, oil and oil products transportation and marketing of oil products (or "downstream assets") and other non-production assets.

Oil and gas properties

The Group follows the successful efforts method of accounting for its oil and gas properties, under which all license acquisition, exploration and appraisal costs are initially capitalised in field area cost centres pending determination of oil reserves. Expenditure incurred during the various exploration and appraisal phases is then written off unless commercial reserves have been established or the determination process has not been completed.

Expenditures for oil and gas properties are accounted for at historic cost less depletion and impairment losses 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.

Costs directly associated with an exploration of a field area are capitalised until the determination of reserves is evaluated. During this phase no depletion is charged. Upon the completion of the development and the start of production the field will be accounted for as a producing asset. If it is determined that a commercial discovery has not been achieved these costs are charged to the consolidated income statement.

Oil and gas properties are depleted in accordance with the unit-of-production method over proved and probable reserves; the base for depletion includes management's best estimates of future development costs related to probable reserves. Depletion of a field area is charged to the consolidated income statement after production commences. Exploration and evaluation assets related to each exploration license are not depleted, but are carried forward until the existence (or otherwise) of commercial reserves has been determined.

Proved and probable reserves include oil quantities which the Group expects to produce after the expiry dates of its current licenses. The Group's current licenses for exploration, production and development of oil fields expire between 2011 and 2033. Where the license term is shorter than the production phase of the oil field, the oil and gas properties are depreciated over the production phase of the oil and gas fields, as management believes that such licenses will be renewed. The production phase of oil and gas fields is determined based on the estimate of commercially viable reserves.

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.

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.

Refining and marketing properties and other non-production assets

Refining and marketing properties and other non-production assets are measured at cost less accumulated depreciation and impairment losses if applicable.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and capitalised borrowing costs.

Deprecation is calculated using the straight-line method utilising useful lives of the assets determined by independent appraisers and over the estimated useful economic lives of assets, which are:

Buildings and Infrastructure	20-50 years
Machinery and Equipment	8-20 years
Pipelines and Cables	5-20 years
Vehicles	3-5 years
Fixtures and Fittings	4-6 years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

Provision for decommissioning and site restoration costs

Decommissioning and site restoration provision is related primarily to the conservation and abandonment of wells, removal of pipelines and other oil and gas facilities together with site restoration related to the Group's license areas. Management estimates the obligation related to these costs based on internally generated engineering estimates, current statutory requirements and industry practices. Future decommissioning and site restoration costs, discounted to net present value, are capitalised within property, plant and equipment and a corresponding obligation recorded when a constructive obligation to incur such costs exists and the amount can be reliably estimated.

The decommissioning asset is depreciated using the unit-of-production method based on proved and probable reserves. The unwinding of the obligation resulting from the passage of time by applying an interest method of allocation to the amount of the obligation is subsequently released over the life of the field and is charged to financial expenses.

The adequacy of the decommissioning and site restoration provision is periodically reviewed in the light of current laws and regulations, and adjustments made as necessary. Changes in the estimated expenditure are reflected as an adjustment to the provision and a corresponding adjustment to property, plant and equipment.

Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the Cash Generating Unit (CGU) to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated income statement.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the consolidated income statement, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis and crude oil stock being valued on a weighted average basis. Net realisable value represents the estimated selling price for inventories in the ordinary course of business less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial assets

Financial assets are recognised and derecognised on the trade date where the purchase or sale of the financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit and loss' (FVTPL), 'held to maturity' investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial Assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as accounts receivable, assets are reviewed individually and subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables includes the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30–45 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial Assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of three months or less at the date of investment, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

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.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Convertible bonds

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity and is not subsequently re-measured.

Financial liabilities

Financial liabilities are classified into the following specified categories: financial liabilities 'at fair value through profit and loss' (FVTPL) and 'other financial liabilities'.

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are referred to.

Employee benefits
Remuneration to employees, including unused vacation and bonuses and appropriate accruals of unified social tax in respect of services rendered during the period is recognised as an expense in the consolidated income statement.

The Group's entities are legally obliged to make defined contributions to the State Pension Funds of the Russian Federation and Kazakhstan where Group operates (a defined contribution plan financed on a pay-as-you-go basis). In the Russian Federation all obligatory social contributions, including contributions to the Russian Federation State Pension Fund, are collected through a unified social tax ("UST") calculated by the application of a regressive rate from 26% to 2% of the annual gross remuneration of each employee. The Group's contributions to the State Pension Funds of the Russian Federation and Kazakhstan where the Group operates relating to defined contribution plans are charged to the consolidated income statement in the period to which they relate.

The Group recognises a liability and an expense for bonuses. The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Share based payments
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 included in assumptions about the number of options that are expected to vest. At the end of reporting period, the Group revises its estimates of the number of options that are expected to vest. The Group recognises the impact of the revision to original estimates in the consolidated 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.

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable, net of discounts, value added tax and custom duties.

Revenue from the sale of crude oil and oil products is recognised when the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- costs incurred or to be incurred in respect of the transaction can be measured reliably.

Incidental revenues from production of crude oil or revenues associated with initial test production are offset against capitalised costs of the related field area cost centre until quantities of proven and probable reserves are determined and commercial production has commenced.

Revenue from rendering of services is recognised at the time the services are provided.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that assets net carrying amount.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with the laws of countries where the Group's entities operate. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognised as an expense or income in the consolidated income statement, except when they relate to items that are recognised in other comprehensive income, in which case the associated income tax is also recognised in other comprehensive income, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments and have been identified as the management team of Managing Director, Chief Financial Officer, Chief Operating Officer, Chief Executive Officer Downstream, Chief Executive Officer Upstream.

Critical accounting estimates and judgments

In the application of the Group's accounting policies management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant areas of accounting requiring the use of the Group's management estimates and assumptions relate to oil and gas reserves; useful economic lives and residual values of property, plant and equipment; impairment of tangible assets and goodwill; site restoration costs; taxation and allowances.

Useful economic lives of property, plant and equipment

Oil and gas properties

The Group's oil and gas properties are depleted over the respective life of the oil and gas fields using the unit-of-production method based on proved and probable oil and gas reserves and incorporating the anticipated future capital cost for the development of those reserves (Note 12).

When determining the life of the oil and gas field, assumptions that were valid at the time of estimation, may change when new information becomes available. The factors that could affect the estimation of the life of an oil and gas field include the following:

- Changes of proved and probable oil and gas reserves;
- Differences between actual commodity prices and commodity price assumptions used in the estimation of oil and gas reserves;
- Unforeseen operational issues; and
- Changes in capital, operating, processing and reclamation costs, discount rates and foreign exchange rates possibly adversely affecting the economic viability of oil and gas reserves.

Any of these changes could affect prospective depletion of oil and gas assets and their carrying value.

Anticipated future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

Refining and marketing properties and other non-production assets

Property, plant and equipment other than oil and gas properties are depreciated on a straight-line basis over their useful economic lives (Note 12). Management at the end of each reporting period reviews the appropriateness of the assets useful economic lives and residual values. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group and the estimated residual value.

Impairment of tangible assets and goodwill

As at each year end the Group's management consider whether there are any indications that assets may be impaired and if so, perform an asset impairment review. The review covered the Group's upstream CGUs defined on a field area cost centre basis (represented by the group of three Kharyaga fields and the Kolvinskoye field located in the Timano-Pechora region, the group of three fields and the Khvoinoye field located in the Tomsk region, the Kochevnenskaya group of six fields and three separate fields located in the Volga-Urals region of the Russian Federation and one field located in Kazakhstan) and downstream business segment as a whole (Note 12, 14).

The recoverable amounts of the cash-generating units were determined based on a value in use calculations. The key assumptions used in the value in use calculations were as follows:

Upstream segment assets

Cash inflows from the upstream CGUs were calculated based on the following assumptions:

- crude oil price Brent based on Intercontinental Exchange crude oil price futures data;
- production volumes based on the approved field's development program;
- operating costs included production and other taxes, other controllable production and administration expenses;
- the capital expenditures included drilling costs and other capital expenditures expected to be incurred for field development;
- financial pre-tax discount rate of 14.00% per annum.

For each oil field or group of fields tests were performed for the period of expected profitable operations but no longer than the field development period determined in the reserve report prepared by DeGolyer & McNaughton.

Downstream segment assets

Cash inflows from downstream business segment were calculated based on the following assumptions:

- the cash flows were calculated for a ten-year period;
- the prices of oil products were forecast on the basis of oil price and refining margins;
- costs included crude oil purchases, operating and administration expenses;
- the financial pre-tax discount rate of 12.13% per annum.

Management believes that any reasonable possible change in the key assumptions on which recoverable amounts are based would not cause the aggregate carrying amounts to exceed the aggregate recoverable amounts of the cash-generating units.

Decommissioning and site restoration costs

On fields where the Group is required to contribute to decommissioning and site restoration costs, a provision is recorded to recognise the commitments (Note 26). 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 decommissioning and 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 decommissioning and site restoration costs are subject to change because of change in laws and regulations, and their interpretation.

Estimated decommissioning and site 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.

Taxation

The Group is subject to income tax and other taxes. Significant judgement is required in determining the provision for income tax and other taxes due to the complexity of the tax legislation of countries where the Group operates. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made. Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies (Note 10).

Allowances

The Group creates allowances for doubtful debts to reflect estimated losses resulting from potential inability of customers to make required payments (Note 19, 21, 22). When evaluating the adequacy of an allowance for doubtful debts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in the consolidated financial statements.

Note 3 Reclassifications

Certain comparative information presented in the consolidated financial statements for the year ended December 31, 2008 has been reclassified in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended December 31, 2009. The major reclassifications related to transportation costs, export related expenses and cost of oil extraction.

The effect of the reclassifications on the income statement is summarised below:

	Before reclassification	After reclassification	Effect
Revenue			
Revenue from sales of oil products	2 233 650	2 233 712	62
Other income	32 491	32 429	-62
Cost of sales			
Production costs - crude oil	-316 138	-320 201	-4 063
Production costs - oil products	-1 556 688	-1 516 209	40 479
Cost of other sales	-11 768	-11 780	-12
Selling expenses	-169 799	-199 018	-29 219
Administration expenses	-61 280	-69 348	-8 068
Other operating expenses, net	-20 850	-19 967	883
			-

The effect of the reclassifications on the statement of cash flows is summarised below:

	Before reclassification	After reclassification	Effect
Operating activities			
Adjustments for:			
Interest paid	-54 837	-48 128	6 709
Total cash flow from/(used in) operations	**300 266**	**306 975**	**6 709**
Investing activities			
Investment in oil and gas properties	-175 703	-177 983	-2 280
Investment in refining properties	-350 785	-317 688	33 097
Investment in selling and other non-production assets	-14 946	-19 582	-4 636
Interest capitalised and paid	-	-34 481	-34 481
Interest received	-	18 212	18 212
Proceeds from other investing activities	16 621	-	-16 621
Total cash flow used for investments	**-344 729**	**-351 438**	**-6 709**
			-

Note 4 Segment information

The information reported to the Group's chief operating decision makers for the purposes of resource allocation and assessment of segment performance is specifically focused on two principal activities of the Group: upstream segment which includes crude oil exploration, extraction and production and downstream segment which includes oil refining, transportation and sales of oil products. The Group's management reviews and evaluates the performance of these segments on a regular basis. All other subsidiaries are combined into one segment "Other companies" and represent companies involved in non-core activities and the Parent company.

The reportable operating segments derive their revenue primarily from:

- upstream - sales of crude oil to downstream segment for further refining and to third parties (export, CIS and domestic sales)
- downstream - sales of oil products to third parties

The Group's management assesses the performance of the operating segments based on EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) which is calculated as follows: operating result plus depletion and depreciation, impairment of oil and gas properties and goodwill if applicable minus gain on disposal of shares in subsidiaries if applicable, and plus/minus other significant one-off income/ (expenses). In 2009, other significant one-off items included a non-operating adjustment related to the revision of decommissioning provision estimate. EBITDA is a supplemental financial measure used by management to evaluate operations. Management believes that EBITDA represents useful means of assessing the performance of the Group's ongoing operating activities, as it reflects the Group's earnings trend without showing the impact of certain charges.

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than goodwill, deferred tax, investments in shares and loans receivable which are managed on a central basis
- all liabilities other than trade accounts payable, advances received and payables for property, plant and equipment in respect of ex-ternal suppliers are managed on a central basis and not allocated to reportable segments.

The information regarding the Group's reportable segments is presented below:

	Upstream	Downstream	Other Compa-nies	Eliminations	Reconciling items	Total
Year ended December 31, 2009						
Revenue						
Export	191 670	340 176				531 846
Export CIS	81 218	12 153				93 371
Domestic	226 788	1 055 245	5 508	-186 350	30	1 101 221
Total segment revenue	499 676	1 407 574	5 508	-186 350	30	1 726 438
Less: Intersegment revenue	149 812	31 327	5 211	-186 350	-	-
Revenue from external customers	349 864	1 376 247	297	-	30	1 726 438
Segment result/Operating income	**111 884**	**193 977**	**-15 409**	**-**	**163 197**	**453 649**
Net financial items	-19 530	-21 592	-873	-2 798	9 211	-35 582
Result before income tax	**92 354**	**172 385**	**-16 282**	**-2 798**	**172 408**	**418 067**
Income tax expense	-13 976	-42 532	743	-	-17 306	-73 071
Result for the period	**78 378**	**129 853**	**-15 539**	**-2 798**	**155 102**	**344 996**
Segment EBITDA	**198 331**	**216 474**	**-15 222**	**-**	**-11 725**	**387 858**
Segment assets	1 285 386	1 187 366	105 965	-36 577	133 379	2 675 519
Unallocated assets						51 495
Total Assets						**2 727 014**
Segment liabilities	50 665	142 197	313	-36 577	-119	156 479
Unallocated liabilities						963 777
Total Liabilities						**1 120 256**
Other disclosures						
Capital expenditures	83 092	77 823	568	12 113	51 136	224 732
Depletion and depreciation	-84 448	-22 497	-395	-	-217	-107 557

Net financial items for Upstream and Downstream segments included: interest income of TUSD 3,066 (2008; TUSD 6,543); interest expense of TUSD 10,910 (2008; TUSD 26,509); other financial expenses of TUSD 4,117 (2008; TUSD 846) and foreign exchange loss of TUSD 7,569 (2008; TUSD 780).

The Group has a customer which represents 23% of downstream segment revenue for the year ended December 31, 2009.

During the year ended December 31. 2009 the value of two capitalised exploration licenses and related exploration assets on areas located in Tatarstan were written off in the amount of TUSD 4,360 due to unsatisfactory results of the exploration works performed, also a previously recognised impairment loss for the oil fields located in the Timano-Pechora region was partially reversed in the amount of TUSD 174,672 (Note 12).

The major differences between the management reporting accounts and the consolidated financial statements arise due to the following IFRS adjustments:

- Elimination of unrealised gains/losses on intra-group operations.
- Currency exchange losses related to inter-segment loans viewed as extended investments reclassified from the income statement to the statement of comprehensive income.
- Deferred tax accrued for the above mentioned adjustments and other differences in the deferred tax movements not included into the management reporting accounts.
- Reversal of impairment provision in the amount of MUSD 174.7 that was recognised on the Group level and not allocated to the upstream operating segment result.

The reconciliation of segment capital expenditures to the consolidated financial statements includes primarily difference in treatment of capital advances paid and borrowing costs capitalised but not yet allocated to specific item of property, plant and equipment.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Reconciliation of the segments' EBITDA to result before income tax is presented below:

	Jan 1, 2009 - Dec 31, 2009
EBITDA for reportable segments	414 805
Other companies EBITDA	-15 222
Reconciling items	-11 725
Total EBITDA	**387 858**
Depletion and depreciation	-107 557
Net financial items*	-35 582
Reversal of impairment of oil and gas properties	170 312
Gain on disposal of shares in subsidiaries	905
Other	2 131
Result before tax	**418 067**

* Net financial items include: share of result of associate, interest income, interest expense, other financial expenses and currency exchange gains/(losses).

Activities by geographical areas

The Group operates in two geographical areas, Russia and Kazakhstan. For management accounting purposes activities in Kazakhstan are considered to be not significant, therefore for reporting purposes a single geographical segment is used. As at December 31, 2009 non-current assets located in Kazakhstan amounted to TUSD 40,489. All of the downstream assets are located in Russia.

Comparative information

As the merger of Alliance and the Company was completed in the financial year ended December 31, 2008 the segment management reporting for the combined Group for the comparative financial year ended December 31, 2008 is not available..

Note 5 Production costs – crude oil

	Group	
	Jan 1, 2009 - Dec 31, 2009	Jan 1, 2008 - Dec 31, 2008
Production tax	128 482	213 555
Salary and wages including social charges	28 003	27 766
Other taxes	18 086	9 549
Repairs and maintenance	11 726	9 934
Transportation	6 068	10 510
Production overheads	5 816	6 046
Materials and fuel	5 206	6 577
Exploration costs	3 524	6 404
Crude oil purchased for re-sale	2 145	17 794
Other	9 646	12 066
	218 702	320 201

Note 6 Production costs – oil products

	Group	
	Jan 1, 2009 - Dec 31, 2009	Jan 1, 2008 - Dec 31, 2008
Crude oil purchased for refining	377 411	900 844
Transportation	318 537	439 350
Taxes other than income tax	60 838	79 140
Oil products purchased for re-sale	45 389	43 623
Salary and wages including social charges	18 698	22 767
Other	21 526	30 485
	842 399	1 516 209

Transportation costs include expenses for crude oil delivery to the Khabarovsk Oil Refinery, oil products transportation to gas stations and crude oil insurance.

Note 7 Selling expenses

	Group	
	Jan 1, 2009 - Dec 31, 2009	Jan 1, 2008 - Dec 31, 2008
Transportation to customers	56 734	62 990
Export related expenses	38 829	38 332
Salary and wages including social charges	37 661	48 747
Repairs and maintenance	13 604	13 998
Taxes other than income tax	8 386	4 547
Utilities	5 599	5 947
Insurance	3 766	6 240
Rent	1 885	5 066
Advertising and marketing	1 503	2 614
Security	785	1 009
Communication	554	794
Other	7 969	8 734
	177 275	199 018

Note 8 Administration expenses

	Group		Parent company	
	Jan 1, 2009 - Dec 31, 2009	Jan 1, 2008 - Dec 31, 2008	Jan 1, 2009 - Dec 31, 2009	Jan 1, 2008 - Dec 31, 2008
Salary and wages including social charges and share options	20 627	21 787	10 722	8 012
Professional fees (legal, audit, consulting, etc.)	15 567	12 302	4 035	4 533
Rent	7 519	5 725	531	458
Bank charges	3 893	7 640	15	27
Security	2 549	3 890	-	-
Advertising and marketing	2 487	899	291	349
Taxes other than income tax	2 456	3 918	-	-
Communication	1 001	1 166	9	68
Insurance	269	2 881	57	-
Repairs and maintenance	90	506	-	-
Trademark royalty	-	3 423	-	-
Other	3 463	5 211	534	3 958
	59 921	69 348	16 194	17 405

PricewaterhouseCoopers, the Group auditors, and other audit firms have during the financial years ended December 31, 2009 and 2008, received remuneration for work performed as follows:

	Group		Parent company	
	Jan 1, 2009 - Dec 31, 2009	Jan 1, 2008 - Dec 31, 2008	Jan 1, 2009 - Dec 31, 2009	Jan 1, 2008 - Dec 31, 2008
PricewaterhouseCoopers - auditing	1 697	1 607	1 697	1 594
PricewaterhouseCoopers - other	239	186	233	173
Deloitte & Touche - auditing	1 083	1 513	-	-
Deloitte & Touche - other	86	220	80	-
Audit Consult - auditing	560	302	-	-
BDO Unicon - auditing	16	63	-	-
Baker Tilly Russaudit - auditing	64	59	-	-
Other - auditing	65	103	-	-
	3 810	4 053	2 010	1 767

Note 9 Interest expense and other financial expenses

	Group		Parent company	
	Jan 1, 2009 - Dec 31, 2009	Jan 1, 2008 - Dec 31, 2008	Jan 1, 2009 - Dec 31, 2009	Jan 1, 2008 - Dec 31, 2008
Interest expense on loans and borrowings	20 674	33 296	8 741	21 195
Interest expense on bonds	16 721	10 772	11 057	-
Interest on finance leases	1 224	1 461	-	-
Unwinding of discount on provision for decommissioning and site restoration costs	1 903	1 504	-	-
Other	2 577	2 866	3 433	701
	43 099	49 899	23 231	21 896

Note 10 Income tax expense

The parent company, Alliance Oil Company Limited, which is registered in Bermuda, is exempt from profit tax. The profit of Cypriot subsidiaries, Vostok Oil (Cyprus) Limited and O&G Credit Agency Limited is subject to Cypriot income tax at the rate of 10%. On taxable profits above current year profit of MEUR 1 an additional tax of 5% is imposed. The profit of LLC Potential Oil, a Kazakhstan subsidiary, is subject to Kazakhstan income tax at the rate of 30%.

The profit of the Group's Russian subsidiaries was subject to income tax at the rate of 24% in the financial year ended December 31, 2008. An income tax rate of 20% was enacted in November 2008 which became effective from 1 January 2009. As this tax rate was enacted by December 31, 2008, the effect of the change on the deferred income tax balances amounted to TUSD 21,716 was recognised in the financial year ended December 31, 2008.

Income tax recognised in the income statement

	Jan 1, 2009 - Dec 31, 2009	Jan 1, 2008 - Dec 31, 2008
Current tax	-56 840	-139 185
Deferred tax	-16 231	106 373
Total income tax expense	-73 071	-32 812

The income tax expense recorded in the income statement differs from the theoretical amount that would have arisen applying the tax rate to the net profit before income tax and is recognised as follows:

	Jan 1, 2009 Dec 31, 2009	Jan 1, 2008 Dec 31, 2008
Result before tax	418 067	78 781
Theoretical tax at rate 20% for Russia (2008: 24%)	-79 663	-18 241
Theoretical tax at rate 10% for Cyprus	-238	-1 256
Theoretical tax for subsidiaries operating in other jurisdictions	-2 673	-711
Effect of different tax rate on dividend income	-	-6 092
Tax effect on non-deductible charity expenses	-3 697	-4 727
Tax effect of gain/(loss) from disposal of shares in subsidiaries and associated companies	-	2 636
Other non-deductible expenses	-808	-18 440
Revaluation of deferred tax assets	14 008	-7 697
Effect of changes in income tax rate	-	21 716
Total income tax expense	-73 071	-32 812
Effective tax rate for the Group	-17%	-42%

The movement on the Group's deferred income tax position:

	Jan 1, 2009 Dec 31, 2009	Jan 1, 2008 Dec 31, 2008
Net deferred tax liabilities in the beginning of the year	133 404	57 682
Expense/(income) for the period	16 231	-84 657
Addition through reverse acquisition / acquisition of other subsidiaries	-	220 438
Currency exchange differences on loans classified as net investment, recorded in equity	-7 261	-9 245
Effect of translation to presentation currency	-4 932	-29 098
Change in tax rate	-	-21 716
Net deferred tax liabilities in the end of the year	137 442	133 404

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The analysis of the deferred tax balances (after offset) as they are recorded in the consolidated statement of financial position is presented below:

	Jan 1, 2009 Dec 31, 2009	Jan 1, 2008 Dec 31, 2008
Deferred tax liabilities	160 196	171 847
Deferred tax assets	-22 754	-38 443
Net deferred tax liabilities	137 442	133 404

The tax effects on the major temporary differences that gave rise to the deferred taxation as at December 31, 2009 and 2008 are presented below:

	Dec 31, 2009	Dec 31, 2008
Property, plant and equipment	165 016	135 334
Inventories	-3 967	-3 225
Trade and other receivables	-2 720	370
Provisions	-1 557	-2 654
Intragroup investment loans	-5 723	5 211
Trade and other payables	-3 014	-2 081
Other current liabilities	-	286
Tax loss carry-forwards	-9 811	-
Other	-782	163
Net deferred tax liabilities	137 442	133 404

Note 11 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	Jan 1, 2009 Dec 31, 2009	Jan 1, 2008 Dec 31, 2008
Profit attributable to owners of the Company	343 754	40 566
Weighted average number of ordinary shares in issue	167 062 661	143 165 818
Earnings per share	2,06	0,28

For the financial year ended December 31, 2008 during which the reverse acquisition of the Company by Alliance occurred, the weighted average number of ordinary shares outstanding included 1,783,540,968 shares (before reverse split) issued by the Company to the shareholders of Alliance for the period from the beginning of the reporting period to the merger completion date of April 10, 2008 and the actual number of the Company's ordinary shares outstanding for the period since the merger completion date till December 31, 2008. The actual and diluted weighted average number of shares used for calculating the earnings per share for the financial year ended December 31, 2008 was adjusted for the reduction in number of shares completed on June 10, 2009.

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense. For the share options, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Jan 1, 2009 Dec 31, 2009	Jan 1, 2008 Dec 31, 2008
Profit attributable to owners of the Company	343 754	40 566
Interest expense on convertible debt, net of tax	11 057	-
	354 811	**40 566**
Weighted average number of ordinary shares in issue	167 062 661	143 165 818
Adjustments for:		
– Assumed conversion of convertible bonds	9 756 247	-
– Share options	-	141 848
Weighted average number of ordinary shares for diluted earnings per share	**176 818 908**	**143 307 666**

Note 12 Property, plant and equipment

	Oil and gas properties	Refining and marketing properties	Other assets	Total
Cost				
At December 31, 2008	**1 535 928**	**698 493**	**21 418**	**2 255 839**
Reclassifications	-576	-193	769	-
Additions	96 116	126 427	2 189	**224 732**
Disposals	-15 392	-4 320	-2 657	**-22 369**
Effect of translation to presentation currency	-62 323	-14 863	-1 034	**-78 220**
At December 31, 2009	**1 553 753**	**805 544**	**20 685**	**2 379 982**
Accumulated depletion and depreciation				
At December 31, 2008	**-92 569**	**-96 303**	**-7 318**	**-196 190**
Charge for the year	-96 133	-19 800	-3 392	**-119 325**
Disposals	2 697	744	668	**4 109**
Effect of translation to presentation currency	11 427	1 614	47	**13 088**
At December 31, 2009	**-174 578**	**-113 745**	**-9 995**	**-298 318**
Accumulated impairment				
At December 31, 2008	**-316 849**	**-**	**-**	**-316 849**
Impairment charge reversal	174 672	-	-	174 672
Write-off of exploration assets	-4 360	-	-	-4 360
Depreciation charge	19 573	-	-	**19 573**
Effect of translation to presentation currency	2 624	-	-	**2 624**
At December 31, 2009	**-124 340**	**-**	**-**	**-124 340**
Net book value at December 31, 2009	**1 254 835**	**691 799**	**10 690**	**1 957 324**

	Oil and gas properties	Refining and selling properties	Other assets	Total
Cost				
At December 31, 2007	**265 631**	**461 663**	**18 221**	**745 515**
Additions through reverse acquisition	1 495 605	3 661	3 616	**1 502 882**
Reclassifications	-655	-303	958	**-**
Additions	192 511	364 317	5 860	**562 688**
Disposals	-14 956	-6 598	-1 928	**-23 482**
Effect of translation to presentation currency	-402 208	-124 247	-5 309	**-531 764**
At December 31, 2008	**1 535 928**	**698 493**	**21 418**	**2 255 839**
Accumulated depletion and depreciation				
At December 31, 2007	**-50 756**	**-94 266**	**-7 395**	**-152 417**
Reclassifications of accumulated depletion and depreciation	4	-169	165	**-**
Charge for the year	-108 022	-22 407	-3 115	**-133 544**
Disposals	1 218	1 404	1 167	**3 789**
Effect of translation to presentation currency	64 987	19 135	1 860	**85 982**
At December 31, 2008	**-92 569**	**-96 303**	**-7 318**	**-196 190**
Accumulated impairment				
At December 31, 2007	**-**	**-**	**-**	**-**
Impairment charge	-316 849	-	-	**-316 849**
At December 31, 2008	**-316 849**	**-**	**-**	**-316 849**
Net book value at December 31, 2008	**1 126 510**	**602 190**	**14 100**	**1 742 800**

In the first quarter 2009, two exploration licenses on areas located in Tatarstan in the Volga-Urals region of Russia were relinquished to the Russian Government due to unsatisfactory results of the exploration works performed. The value of the capitalised exploration licenses and related exploration assets was written off in the amount of TUSD 4,360 and was recorded in the income statement for the year ended December 31, 2009.

As a result of the upstream impairment test performed an impairment charge of TUSD 316,849 was recorded in the Group's consolidated income statement for the year ended December 31, 2008. As of December 31, 2009 this impairment loss was partially reversed in the amount of TUSD 174,672. The reversal related to the Kharyaga cash generating unit (CGU) in the Timano-Pechora region, reflecting that the conditions giving rise to the original impairment for this group of oil fields had reversed based on the value in use calculations prepared by management In preparing these calculations management took into consideration the significant reserves that had been added to the Timano-Pechora region, in particular the Kharyaga CGU, and revised oil price projections.

The Group's oil and gas properties are depleted based on the reserve quantities estimated by management and reviewed by DeGolyer & MacNaughton under the Petroleum Resources Management System classification of recoverable proved and probable reserves and estimates of future capital expenditures. For the financial years ended December 31, 2009 and 2008 the average depletion rate was USD 5.14 and USD 7.90, respectively.

For the financial years ended December 31, 2009 and 2008 borrowing costs amounting to 30,407 and 32,600 were capitalised in property, plant and equipment. The amount of capitalised borrowing costs represented the interest and other borrowing costs related to the loans obtained for the modernisation of OJSC Khabarovsk Oil Refinery and development of oil and gas properties.

Note 13 Exploration assets

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 located in the Volga-Urals region of the Russian Federation, included in the property, plant and equipment and intangible assets balances as at December 31, 2009 and 2008, were classified as follows:

	Dec 31, 2009	Dec 31, 2008
Opening balance	18 937	3 770
Additions through reverse acquisition	-	16 228
Transfers to oil and gas properties	-547	-36
Additions	5 315	3 312
Disposals and write-off	-4 487	-
Effect of translation to presentation currency	-426	-4 337
Closing balance	18 792	18 937

Note 14 Goodwill

	Dec 31, 2009	Dec 31, 2008
Cost – opening balance	11 450	2 611
Additions through reverse acquisition	-	638
Acquisitions of subsidiaries	1 215	10 325
Disposal of subsidiaries	-263	-
Effect of translation to presentation currency	-382	-2 124
Cost – closing balance	12 020	11 450
Accumulated impairment loss – opening balance	-208	-
Impairment charge for the year	-	-208
Effect of translation to presentation currency	6	-
Accumulated impairment loss – closing balance	-202	-208
Carrying value – opening balance	11 242	2 611
Carrying value – closing balance	11 818	11 242

During 2009 and 2008, the Group acquired non-controlling interests in existing subsidiaries from third parties (Note 15). The differences between the consideration paid and acquired net assets arising on acquisition of non-controlling interests were recognised as goodwill in the amount of 1,215 and 10,325 in the financial years ended December 31, 2009 and 2008, respectively. Management of the Group has an intention to gain complete control over the subsidiaries in order to ensure that the increased future net benefits will be attributable to majority shareholders only. Recognised goodwill relates to the expected increase in net benefits.

Annual test of impairment

The Group assessed the recoverable amount of goodwill as at 31 December 2009. No impairment related to goodwill has been recognised in the consolidated income statement for the year ended 31 December 2009. Goodwill in amount of TUSD 11,818 has been allocated for impairment testing purposes to the refining and downstream business cash-generating unit (refer to Note 2) The impairment charge for the financial year ended December 31, 2008 amounting to TUSD 208 represented the write-off of goodwill recorded at acquisition of CJSC Pechoraneft.

Note 15 Shares in subsidiaries

The parent company's investments in shares of subsidiaries as at December 31, 2009 and 2008 were presented as follows:

Name of subsidiary	Country	Effective ownership (%)	Carrying value at Dec 31, 2009	Carrying value at Dec 31, 2008
Vostok Oil (Cyprus) Ltd	Cyprus	100	100	100
O&G Credit Agency Ltd	Cyprus	100	2	2
LLC Khvoinoye	Russia	100	31 688	31 688
LLC Alexandrov Refinery	Russia	-	-	3 154
LLC Nikol	Russia	100	102 774	102 774
CJSC Saneco	Russia	100	179 404	179 404
LLC Pechora Exploration	Russia	100	5 048	5 048
CJSC Northoil	Russia	100	117 669	117 669
LLC Kolvinskoye	Russia	100	1	1
LLC Alliance Management	Russia	100	628	628
OJSC Alliance Oil Company	Russia	100	1 408 009	1 408 009
Options granted to the subsidiaries' employees (Note 25)			2 494	2 169
			1 847 817	1 850 646

On April 10, 2008 the Company completed the merger with Alliance. In the merger, Alliance's shareholders contributed the entire share capital of Alliance to the Company in exchange for 1,783,540,968 ordinary shares (before reverse split) issued by the Company. In addition, the Company issued warrants to subscribe for 99,682,500 ordinary shares at an exercise price of SEK 6.21 per share (before reverse split) as part of the merger agreement. As of December 31, 2009 the number of warrant shares was 4,984,125 shares (as adjusted for reverse split) at an exercisable price of SEK 124.20 per share none of which have been exercised as of the date of issuance of the annual report.

The Company's and Alliance's consolidated financial statements have been prepared starting from the second quarter of 2008 in accordance with the relevant accounting policy (Note 2). The total cost of the combination was estimated at TUSD 969,443 determined as the fair value of the existing 1,189,027,312 Company's shares (before reverse split) valued at TUSD 933,397, the directly attributable merger costs that amounted to TUSD 17,901 and the fair value of the warrants that amounted to TUSD 18,145.

The total cost of combination has been allocated to the Company's assets and liabilities while mainly the Company's oil and gas properties have been adjusted for the fair value.

The fair values of the acquired assets and liabilities of the Company are presented in the table below.

	The Company book values	Fair value adjustments	The Company fair valuess
Date of acquisition (merger completion)		April 10, 2008	
Non-current assets			
Property, plant and equipment	1 138 622	364 259	1 502 881
Intangible assets	1 458	-	1 458
Goodwill	638	-	638
Deferred tax asset	1 593	-	1 593
Other non-current assets	2 255	-	2 255
Current assets	105 386	-	105 386
Non-current liabilities			
Long-term borrowings	-300 959	-	-300 959
Deferred tax liabilities	-134 609	-87 422	-222 031
Provision for decommissioning and site restoration costs	-13 676	-	-13 676
Current liabilities	-107 800	-	-107 800
Net assets at acquisition date	**692 908**	**276 837**	**969 745**
Minority interest	-302	-	-302
Net assets acquired	**692 606**	**276 837**	**969 443**
Total cost of combination including shares, warrants and acquisition related costs as described above			969 443
Cash paid by Alliance for the acquisition related costs as at December 31, 2008			9 993
Less: Cash and cash equivalents of acquired subsidiary			-21 706
Cash flow on acquisition, net of cash acquired			**-11 713**
Result for the period of the Company since the acquisition date included in the Group's consolidated income statement excluding impairment charge and related deferred tax			29 447
Result for the period of the Company since the acquisition date included in the Group's consolidated income statement including impairment charge and related deferred tax			-224 034
Revenue for the combined Group for the twelve months 2008 as though the acquisition date had been January 1, 2008			2 864 963
Result for the period for the combined Group for the twelve months 2008 as though the acquisition date had been January 1, 2008			67 135

As at December 31, 2009 and 2008 the Group's investments in operating subsidiaries were presented as follows:

	Effective ownership, %	
Operating subsidiaries	**Dec 31, 2009**	**Dec 31, 2008**
OJSC Vostochnaya Transnationalnaya Kompaniya	100.00	100.00
LLC Khvoinoye	100.00	100.00
OJSC Pechoraneft	99.66	99.66
LLC Kolvinskoye	100.00	100.00
CJSC Saneco	100.00	100.00
LLC Alexandrov Refinery	-	100.00
LLC Alliance Management	100.00	100.00
OJSC Tatnefteotdacha	99.54	99.52
Bekstar International Limited	99.54	99.52
LLP Potential Oil	79.64	79.62
OJSC Khabarovsk Oil Refinery	95.79	95.79
OJSC Khabarovsknefteproduct	89.24	89.02
OJSC Khabarovsknefteproduct Service	89.24	89.02
OJSC Amurnefteproduct	82.03	80.51
OJSC Primornefteproduct	94.56	93.46
LLC A-Spect	94.56	93.46
LLC Ussury Neft	94.56	93.46
LLC Dalnevostochny Alliance	-	100.00
LLC Alliance - Energo	100.00	100.00
CJSC Alliance Oil	100.00	100.00
LLC Naftatekhresource	100.00	100.00
CJSC Alliancetransoil	100.00	100.00
LLC Alliance Bunker	100.00	100.00
CJSC Alliancepromservice	100.00	100.00
LLC Alliance-Bioprom	100.00	100.00
CJSC Ecobioprom	51.00	51.00
LLC TD Ecobioprom	51.00	51.00
LLC Ecobioprom MTS-1	51.00	51.00

In September 2009, LLC Dalnevostochny Alliance merged with CJSC Alliance Oil.

In December 2009, LLC Alliance Khabarovsk changed its name to OJSC Alliance-Energo.

During the year ended December 31, 2009, the Group acquired interests in the following subsidiaries:

	Interest acquired	Consideration paid
OJSC Khabarovsknefteproduct	0.22%	110
OJSC Amurnefteproduct	1.52%	115
OJSC Primornefteproduct	1.10%	1 912
OJSC Tatnefteotdacha	0.02%	19
		2 156

During the year ended December 31, 2008, the Group acquired interests in the following subsidiaries:

	Interest acquired	Consideration paid
OJSC Khabarovsk Oil Refinery	0.03%	13
OJSC Amurnefteproduct	0.78%	807
OJSC Primornefteproduct	5.62%	7 380
OJSC Khabarovsknefteproduct	0.52%	233
OJSC BAMnefteproduct	13.73%	150
		8 583

In 2008 the Group (through Alliance) acquired from third parties 48.15% of preference shares of OJSC Khabarovsk Oil Refinery for a consideration of TUSD 2,875. In 2008, an additional 30.99% of the preference shares of OJSC Khabarovsknefteproduct and 23.95% of the preference shares of OJSC Amurnefteproduct were acquired from third parties for a cash consideration of TUSD 3,874 and TUSD 737, respectively. In October 2008, the share capital of OJSC Amurnefteproduct was increased by conversion of ordinary and preference shares of OJSC BAMnefteproduct to ordinary and preference shares of OJSC Amurnefteproduct.

Note 16 Disposal of subsidiaries

On March 30, 2009 the Group sold 100% of the shareholding in the LLC Alexandrov Refinery located in the Tomsk region of Russian Federation for the net cash consideration amounted to TUSD 3,397. The recognised gain from the disposal amounted to TUSD 905.

Note 17 Other non-current assets

	Group	
	Dec 31, 2009	Dec 31, 2008
Long-term VAT	424	2 250
Other non-current assets	189	79
	613	2 329

Management considers some portion of the 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 18 Inventories

	Group	
	Dec 31, 2009	Dec 31, 2008
Crude oil	40 755	33 661
Oil products	57 965	31 606
Spare parts and materials	17 855	20 053
Allowance for slow-moving and obsolete inventory	-794	-1 372
	115 781	83 948

Note 19 Trade accounts receivable

	Group	
	Dec 31, 2009	Dec 31, 2008
Trade accounts receivable from related parties (Note 35)	5 028	10 364
Trade accounts receivable from third parties	27 254	25 202
Less: allowance for trade accounts receivable from third parties	-9 248	-4 374
	23 034	31 192

The average credit period for the Group's customers in 2009 was 20 days (2008: 25 days). The credit period for retail and wholesale customers does not exceed 30 days but the majority of customers pay in advance. No interest is charged on the outstanding balances.

The Group has fully provided for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable. Trade receivables between 90 and 365 days are provided for based on estimated irrecoverable amounts, determined by reference to past experience. The amount of provision is regularly reassessed based on the facts and circumstances existing as of each reporting date.

The Group renegotiated the terms of the majority of its sales contracts for an advance payment basis. In addition, the Group monitors the trade debtors through a special committee on monthly basis.

The movements in the allowance for trade accounts receivable are presented below:

	Group	
	2009	2008
Opening balance	-4 374	-4 607
Additions through reverse acquisition	-	-181
Addition to allowance	-5 874	-1 119
Release of allowance	992	353
Write-off of allowance	106	311
Release of allowance due to disposal of subsidiaries	11	-
Effect of translation to presentation currency	-109	869
Closing balance	-9 248	-4 374

The concentration of credit risk is limited due to the customer base being large and unrelated and all goods produced by the Group can be easily sold on the active market.

Ageing of impaired trade receivables:

	Group	
	Dec 31, 2009	Dec 31, 2008
less than 90 days	85	207
90-180 days	12	1 327
180-365 days	10	506
older than 365 days	9 218	3 789
	9 325	5 829

The Group has overdue balances of trade accounts receivable as of December 31, 2009 and 2008 for which no allowance was created as the management considered such balances as recoverable. The overdue balances of these trade accounts receivable are presented below:

	Group	
	Dec 31, 2009	Dec 31, 2008
less than 90 days	3	21 304
90-180 days	86	1 229
180-365 days	2	1 263
older than 365 days	104	489
	195	24 285

Note 20 Value added tax and other taxes receivable

	Group	
	Dec 31, 2009	Dec 31, 2008
VAT	87 195	53 749
Export and other custom duties	12 779	11 835
Other taxes receivable	491	1 771
	100 465	67 355

Note 21 Advances paid and prepaid expenses

	Group	
	Dec 31, 2009	Dec 31, 2008
Advances paid and prepaid expenses to related parties (Note 35)	846	101
Advances paid and prepaid expenses to third parties	61 592	36 066
Less: allowance for advances paid to third parties	-605	-749
	61 833	35 418

The Group's major balances of the advances paid and prepaid expenses are presented below:

	Group	
	31 Dec 2009	31 Dec 2008
Advances paid for transportation services	15 528	13 777
Advances paid for crude oil	29 896	2 433
Other advances paid	6 887	9 788
Prepaid expenses	10 127	10 169
Less: allowance for advances paid to third parties	-605	-749
	61 833	35 418

The movements in the allowance for advances paid are presented below:

	Group	
	2009	2008
Opening balance	-749	-315
Additions through reverse acquisition	-	-220
Additions to allowance	-56	-580
Release of allowance	158	215
Write-off of allowance	15	-
Effect of translation to presentation currency	27	151
Closing balance	-605	-749

The Group has overdue balances of advances paid as of December 31, 2009 and 2008, for which an allowance was created as the management considered such balances as non-recoverable.

	Group	
	Dec 31, 2009	Dec 31, 2008
less than 90 days	117	20
90-180 days	85	32
180-365 days	12	70
older than 365 days	549	693
	763	815

The Group has overdue balances of advances paid as of December 31, 2009 and 2008, for which no allowance was created as the management considered such balances as recoverable.

	Group	
	Dec 31, 2009	Dec 31, 2008
less than 90 days	267	31 786
90-180 days	175	338
180-365 days	2	765
older than 365 days	4	485
	448	33 374

Note 22 Other accounts receivable

	Group	
	Dec 31, 2009	Dec 31, 2008
Other accounts receivable from related parties (Note 35)	801	180
Other accounts receivable from third parties	6 620	3 096
Less: allowance for other accounts receivable from third parties	-500	-226
	6 921	3 050

The movements in the allowance for other accounts receivable are presented below:

	Group	
	2009	2008
Opening balance	-226	-378
Additions through reverse acquisition	-	-62
Additions to allowance	-441	-51
Release of allowance	174	15
Write-off of allowance	-	207
Release of allowance due to disposal of subsidiaries	-	-4
Effect of translation to presentation currency	-7	47
Closing balance	-500	-226

The Group has overdue balances of other accounts receivable as of December 31, 2009 and 2008, for which an allowance was created as the management considered such balances as non-recoverable.

	Group	
	Dec 31, 2009	Dec 31, 2008
less than 90 days	155	154
90-180 days	30	448
180-365 days	41	22
older than 365 days	431	90
	657	714

The Group has overdue balances of other accounts receivable as of December 31, 2009 and 2008, for which no allowance was created as the management considered such balances as recoverable.

	Group	
	Dec 31, 2009	Dec 31, 2008
less than 90 days	146	1 198
90-180 days	4	236
180-365 days	19	47
older than 365 days	22	132
	191	1 613

Note 23 Other financial assets

	Group	
	Dec 31, 2009	Dec 31, 2008
Short-term loans to related parties (Note 35)	251	321
Short-term loans to third parties	16 672	847
Promissory notes	-	24
	16 923	1 192

All short-term loans granted in 2009 and 2008 are denominated in RUB, not collateralised and mature in 2010 and 2009, respectively. The non-interest bearing loans to related parties were discounted using an effective market interest rate for similar borrowings of 14% in 2009 and 11.0% in 2008.

Note 24 Cash and cash equivalents and restricted cash

	Group		Parent company	
	Dec 31, 2009	Dec 31, 2008	Dec 31, 2009	Dec 31, 2008
Cash in bank:				
in USD	83 472	25 930	80 511	1 132
in RUB	15 864	10 309	1	13
in EUR	77	10	-	-
in Kazakh Tenge	943	883	-	-
in SEK	25	144	25	144
Cash in transit	7 265	1 428	6 309	-
Cash deposits:				
in USD	31 512	117 473	-	-
in RUB	195 490	52 417	-	-
in Euro	678	83 778	-	-
in Kazakh Tenge	50	-	-	-
Petty cash	1 002	894	1	16
	336 378	**293 266**	**86 847**	**1 305**
Restricted cash:				
in USD	16 698	18 307	-	-
in RUB	-	4 169	-	-
in EUR	38 994	19 625	-	-
	55 692	**42 101**	**-**	**-**
	392 070	**335 367**	**86 847**	**1 305**

Cash and deposits in banks at December 31, 2009 and 2008 include amounts of 32,078 and 127,268, respectively, held in OJSC Finprombank, a related party (Note 35). The deposits in USD, RUB and EURO placed with OJSC Finprombank, a related party, carried interest of 6.5% per annum and matured within three months after the date of origination.

Restricted cash is mostly represented by letters of credit on a special account with OJSC VTB Bank in accordance with the agreements for the modernisation of the Khabarovsk Oil Refinery. The cash can only be used for settlement of payments under these contracts.

Note 25 Share capital and other paid in capital

The parent company's share capital changes are presented below:

Parent Company	Number of shares held*	Par value per share (USD)*	Share capital	Other paid in capital
At January 1, 2008	**59 451 366**		**59 451**	**451 669**
Issue of shares for exchange with the shares of Alliance Oil Company – Apr 2008	89 177 048	1.00	89 177	1 310 918
Private placement - Apr 2008	12 900 000	1.00	12 900	157 414
Private placement issue costs - Apr 2008				-5 022
At December 31, 2008	**161 528 414**		**161 528**	**1 914 979**
Issue of shares - June 2009	10 000 000	1.00	10 000	113 858
Shares issue costs - Jun 2009				-5 183
At December 31, 2009	**171 528 414**		**171 528**	**2 023 654**

* *Number of shares held and par value per share are presented as if the reverse split of the Company's common shares was held as at 31 December 2007.*

As at December 31, 2009 the authorised number of shares was 200,000,000 of which 171,528,414 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 June 10, 2009 a reverse split of the Company's common shares was completed consolidating each 20 shares into 1 share. The nominal value per share was increased from USD 0.05 to USD 1.00. The reverse split reduced the number of outstanding shares from 3,230,568,280 to 161,528,414.

On June 12, 2009 an issue of 10,000,000 common shares (Swedish Depository Receipts) with a subscription price of SEK 95.00 raising TSEK 950,000 (TUSD 123,858 before issue costs) was completed. The net proceeds after issue costs amounted to TSEK 907,829 (TUSD 118,675).

No dividends were approved or paid in 2009.

Since January 31, 2006 the Group has followed the Alliance Oil Company Global Share Option Plan under which share options can be granted to eligible employees (including group management and directors). 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 Group'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 recognised 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 years ended December 31, 2009 and 2008 the share option charges amounted to 991 and 6,492 and increased the parent company's income statement line "Administration expenses" and correspondingly the retained earnings. For the financial years ended December 31, 2009 and 2008 the share option charge amounted to 1,316 and 4,136, respectively, and increased the Group's income statement line "Administration expenses" and correspondingly the Group's retained earnings.

Movements in the number of share options outstanding as of December 31, 2009 and 2008 and their related weighted average exercise prices were as follows. Number of options and exercise price were adjusted for the share reverse split described above.

	2009		2008	
	Average exercise price in SEK per share	No. of options	Average exercise price in SEK per share	No. of options
At 1 January	111.80	3 651 550	124.20	3 322 750
Granted during the period	-	-	81.80	1 339 200
Forfeited during the period	99.88	-652 500	106.60	-1 010 400
At 31 December	114.34	2 999 050	111.80	3 651 550

As of December 31, 2008 there were no exercisable options. As of the date of issuance of the annual report 2,237,750 options were exercisable none of which have been exercised.

Share options outstanding as of December 31, 2009 and 2008 have the following grant and expiry dates and exercise prices:

			No. of options outstanding	
Grant date	Expiry date	Exercise price in SEK per share	Dec 31, 2009	Dec 31, 2008
January 31, 2006	January 31, 2011	122.60	1 363 700	1 363 700
April 10, 2006	April 10, 2011	140.00	225 000	225 000
February 28, 2007	February 28, 2012	124.00	649 050	928 650
May 22, 2007	May 22, 2012	111.00	50 000	50 000
May 2, 2008	May 2, 2013	81.80	711 300	1 084 200
			2 999 050	3 651 550

The weighted average fair value of options granted determined using the Black-Scholes valuation model was SEK 2.50 (SEK 50.00 as adjusted for share reverse split) per option for the options granted as of January 31, 2006, SEK 3.01 (SEK 60.20 as adjusted for share reverse split) for the options granted on April 10, 2006, SEK 1.92 (SEK 38.40 as adjusted for share reverse split) for the options granted on February 28, 2007, SEK 1.72 (SEK 34.40 as adjusted for share reverse split) for the options granted on May 22, 2007 and SEK 1.39 (SEK 27.80 as adjusted for share reverse split) for the options granted on May 2, 2008. The significant inputs into the model were reference share prices at the grant dates and the exercise prices as shown above, volatility varied in the range between 37% and 48%, no dividend yield, an expected option life of 5 years, and annual risk-free interest rate varied between 4% and 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.

Note 26 Provision for decommissioning and site restoration costs

A provision is made to recognise the Group's obligation in respect of decommissioning and 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, 2009	Dec 31, 2008
Opening balance	13 695	3 298
Addition through reverse acquisition	-	13 676
Additions for new obligations	1 232	2 702
Changes in estimates	-4 192	-3 852
Unwinding costs	1 903	1 407
Effect of translation to presentation currency	-766	-3 536
Closing balance	11 872	13 695

The provision was estimated by the Group based on the existing technology and current prices. Timing of decommissioning and site restoration obligations is determined as expiry of the estimated period during which oil fields will continue to bring economic benefits to the Group.

Note 27 Borrowings

The summary of long- and short-term borrowings' principal and interest accrued payable as of December 31, 2009 is presented in the table below.

Bank	Currency	Interest rate range	Dec 31, 2009 Principal	Interest	Total
Bank loans nominated in RUR	RUR	From 11.25% to 18%	240 958	963	241 921
Convertible interest bearing bonds	USD	7.25%	235 512	6 254	241 766
Bank loans nominated in USD	USD	From LIBOR 3m+2.5% to 9.5%	216 830	435	217 265
Non-convertible interest bearing bonds	RUR	14%	8 834	362	9 196
Total loans and borrowings			702 134	8 014	710 148
Less long-term loans and borrowings					364 659
Short-term portion of long-term and short-term loans and borrowings					345 489

The summary of the long and short term borrowings' principal and interest accrued payable as of December 31, 2008 is presented in the table below.

Bank	Currency	Interest rate range	Dec 31, 2008 Principal	Interest	Total
Bank loans nominated in USD	USD	From LIBOR 3m+2.5% to 13.75%	520 016	1 466	521 482
Bank loans nominated in RUR	RUR	From 11% to 16%	232 172	909	233 081
Non-convertible interest bearing bonds	RUR	8.92%	102 109	2 523	104 632
Loans and borrowing from related parties	RUR	From 14% to 16%	4 394	24	4 418
Total loans and borrowings			858 691	4 922	863 613
Less long-term loans and borrowings					234 163
Short-term portion of long-term and short-term loans and borrowings					629 450

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

	Group		Parent company	
	Dec 31, 2009	Dec 31, 2008	Dec 31, 2009	Dec 31, 2008
Weighted average interest rate	9%	8%	6%	5%

During the financial years ended December 31, 2009 and 2008 26 % and 52 %, respectively, of the Group's book value of principal amount of borrowings were at floating interest rates. For capitalised borrowing costs refer to Note 12.

As of December 31, 2009, the loans and borrowings were collateralised by:

- 100% of the Group's shareholding in Vostok Oil (Cyprus) Ltd, OJSC VTK, OJSC Pechoraneft, CJSC Saneco, LLC Khvoinoye, LLC Nikol;
- 97.44% of the Group's shareholding in OJSC Tatnefteotdacha, 80.51% in OJSC Khabarovsknefteproduct, 98.32% in OJSC Primornefteproduct, 89.03% in OJSC Amurnefteproduct;
- Property, plant and equipment with a carrying value of TUSD 69,414;
- Oil products with an approximate carrying value of TUSD 5,394 and crude oil and oil products which can be sold to recover the pledge amount of TUSD 16,250;
- Financial guarantees of the Group companies and Lambros Overseas SA, a related party.

As of December 31, 2008, the loans and borrowings were collateralised by:

- 100% of the Group's shareholding in Vostok Oil (Cyprus) Ltd, OJSC VTK, OJSC Pechoraneft, CJSC Saneco, LLC Khvoinoye, LLC Nikol;
- 97.44% of the Group's shareholding in OJSC Tatnefteotdacha and 23.86% Company's shareholding in OJSC Primornefteproduct;
- Property, plant and equipment with a carrying value of TUSD 30,652;
- Oil products with carrying value of TUSD 6,209 and crude oil and oil products which can be sold to recover the pledge amount of TUSD 44,000;
- Financial guarantees of the Group companies and Lambros Overseas SA, a related party.

Some of the Group's loan and borrowings payable are subject to covenant clauses under which some Group's companies are required to meet certain operational and financial indicators including current liquidity ratio. As of December 31, 2008 one of the Group's companies did not meet the current liquidity ratio covenant as a result the borrower had the right to request early repayment of the outstanding balance amounting to 15,271. During 2009, the Group improved its liquidity position and as a result all loan covenants were met.

On July 16, 2009 the Group issued MUSD 265 convertible bonds bearing a quarterly coupon of 7.25% p.a. and maturing in July 2014. The bonds are convertible into SDRs at an initial conversion price of SEK 121.1250 per SDR. The Group has the option to call the bonds after the first three years at their principal amount, together with accrued interest, if the market price of the SDRs deliverable on conversion of the bonds exceeds 130% of the principal amount of the bonds over a specified period. The net proceeds received from the issue of the bonds have been split between the liability element and an equity component, representing the option to convert the liability into equity of the Group, as follows:

Proceeds from issue, net of debt issuance cost	257,783
Liability component at date of issue	235,512
Equity component	22,271

The interest charged for the period is calculated by applying an effective interest rate method. The liability component is measured at amortised cost. Debt issuance costs recognised directly in equity amounted to TUSD 624.

As of December 31, 2008 the Group had issued MRUB 3,000 non-convertible interest bearing bonds, secured by the financial guarantee of the Khabarovsk Oil Refinery. According to the issue terms, the Group could offer to redeem the bonds after three years. In September 2009, MRUB 2,733 of the bonds were redeemed at 100% of their face value in accordance with the option embedded in the bond issue. For the balance of the issue, which will remain outstanding until September 2011, the coupon was increased from 8.92% to 14% p.a.

In September 2009, OJSC "Alliance" Oil Company, a subsidiary of Alliance Oil Company Ltd, and OJSC "VTB Bank" agreed the renewal and extension of the MRUB 5,000 (MUSD 165 at the exchange rate on the extension date) credit agreement entered into in November 2008. The new facility has a 12 month maturity.

The expected future cash flows for the repayment of loan principal and payment of interest related to the long- and short-term loan facilities are presented below. The interest payments were based on the interest rate effective as of December 31, 2009.

The principal and interest payments denominated in RUB were converted into USD using the exchange rate as of December 31, 2009. Total interest paid for 12 months ended December 31, 2009 and 2008 comprised TUSD 63,994 and TUSD 82,609 thousand, respectively.

	Principal	Interest	Total
Within one year from December 31, 2009	337 474	61 582	399 056
Within one and two years from December 31, 2009	78 811	26 389	105 200
More than two years from December 31, 2009	315 336	58 023	373 359
Total amount estimated to be repaid	731 621	145 994	877 615

Note 28 Finance lease liabilities

As of December 31, 2008 the finance lease liabilities included in the statement of financial position were mainly represented by leased tank-wagons. The total number of tank-wagons leased by the Group in the first half 2009 and 2008 was 1,433. The lease agreements were denominated in US Dollars with the average lease term of 7-8 years. For the years ended December 31, 2009 and 2008, the average effective borrowing rate was within the range of 6.3-13.8%.

During 2009, the Group purchased leased tank wagons before the end of the lease term. The net carrying amount of the leased assets as of December 31, 2008 amounted to TUSD 30,167.

Minimum lease payments due for payment and present value of finance lease liabilities as of December 31, 2008 were as follows:

	Group	
	Minimum lease payments	Present value of finance lease liabilities
Within one year	4 781	3 800
Two to five years	7 781	6 888
Future finance charges	-1 874	-
Present value of finance lease liabilities	10 688	10 688

The movement of future finance charges was as follows:

	Group	
	Dec 31, 2009	Dec 31, 2008
Opening balance	1 874	3 354
Charge for the year	-1 224	-1 440
Decrease of future finance charges due to re-arrangement of lease contracts	-648	-39
Effect of translation to presentation currency	-2	-1
Closing balance	-	1 874

The movement of minimum lease payments was as follows:

	Group	
	31 Dec 2009	31 Dec 2008
Opening balance	10 688	14 835
Additions through reverse acquisition	-	59
Lease payments during the year	-11 926	-5 725
Charges for the year	1 224	1 440
Increase/(decrease) due to re-arrangement of lease contracts	-	-1
Effect of translation to presentation currency	14	80
Closing balance	-	10 688

Note 29 Trade and other accounts payable

	Group	
	Dec 31, 2009	Dec 31, 2008
Trade and other accounts payable to related parties (Note 35)	1 472	274
Trade and other accounts payable to third parties	38 711	62 209
	40 183	62 483

The average credit period for the Group's payables, including advances received, in 2009 was 31 days (2008: 24 days). There is no interest charged on the outstanding balance for trade and other payables during the allowed credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payments schedules to ensure that all payables are paid within the credit limit timeframe. The table below summarises the maturity profile of the Group's trade and other accounts payable as of December 31, 2009 and 2008 based on contractual undiscounted payments.

	Group	
	Dec 31, 2009	Dec 31, 2008
less than 90 days	25 191	38 757
90-180 days	13 905	22 741
180-365 days	1 070	895
older than 365 days	17	90
	40 183	62 483

Note 30 Advances received

	Group	
	Dec 31, 2009	Dec 31, 2008
Advances received from related parties (Note 35)	52 875	34 933
Advances received from third parties	72 727	23 613
	125 602	58 546

Note 31 Accrued expenses

	Group		Parent company	
	Dec 31, 2009	**Dec 31, 2008**	**Dec 31, 2009**	**Dec 31, 2008**
Wages and salaries accrued	17 312	9 631	304	406
Accrued professional services fees	1 845	4 179	951	1 931
Other accrued expenses	2 055	4 258		-
	21 212	18 068	1 255	2 337

Note 32 Other taxes payable

	Group	
	Dec 31, 2009	**Dec 31, 2008**
VAT	21 276	4 250
Production tax	13 527	9 121
Excise tax	7 811	7 316
Other taxes	6 345	5 201
	48 959	25 888

Note 33 Personnel costs

The Group's personnel costs for the financial years ended December 31, 2009 and 2008 are presented below.

	Group	
	Jan 1, 2009 Dec 31, 2009	**Jan 1, 2008 Dec 31, 2008**
Salaries and remuneration (including social charges and pension costs, annual bonus and share options) to the Members of the Board of Directors and the Managing Director	2 569	2 966
Salaries to other employees (including social costs, annual bonuses and share options granted)	102 420	118 119
	104 989	**121 085**

Unified social tax, disclosed in social charges, for the years ended 31 December 2009 and 2008 included contributions to the Pension Fund of the Russian Federation of USD 10,772 thousand and USD 13,553 thousand, respectively.

The Group's personnel costs for the financial years ended December 31, 2009 and 2008 are included in the income statement lines "Production costs - crude oil", "Production costs – oil products", "Selling expenses" and "Administration expenses". The Group has no pension commitments beyond the state pension contributions that are mandatory for employees in Russia.

The average number of employees during the reporting years ended December 31, 2009 and 2008 for the Alliance Oil Company Limited Group was 6,794 and 7,071.

The personnel costs of the parent company of the Group for the financial years ended December 31, 2009 and 2008 are presented below.

	Parent company	
	Jan 1, 2009	Jan 1, 2008
	Dec 31, 2009	Dec 31, 2008
Salaries and remuneration (including social charges and pension costs, annual bonus and share options) to the Members of the Board of Directors and the Managing Director	2 540	4 932
Salaries to other employees (including social costs, annual bonuses and share options)	2 272	2 832
	4 812	7 764

The Managing Director and other management of the Company received payments during the financial year ended December 31, 2009 from the parent company and management companies of the Group the following remuneration including salaries and annual bonus:

Management	Salary	Bonus	Total remuneration
Managing Director – Mr. Arsen Idrisov	2 029	-	2 029
Other management	2 497	862	3 359
	4 526	862	5 388

The Managing Director is a member of the Company's board of directors. No board fees are paid to the Managing Director. The employment contract effective as at December 31, 2009 may be terminated by the Company upon six months written notice to the Managing Director, should the Managing Director decide to leave the Company he also has to give six months' notice. The Managing Director is entitled to a bonus with an amount not to be exceeding 50% of the annual salary. No bonus was approved or paid to the Managing Director for the financial year ended December 31, 2008. The bonus for the financial year ended December 31, 2009 is subject to remuneration committee approval after the issuance of the annual report.

The salaries paid to other management included the salaries to management in the parent company, in the corporate centre LLC Alliance Management, in the management company LLC West Siberian Resources Invest which provided management services to the Group's upstream subsidiaries and salaries paid in Alliance which provided management services to the Group's downstream subsidiaries.

The annual bonus accrual for the financial year ended December 31, 2009 was based on the company's financial performance related to the annual budget and approximated as 10-50% of the base salary depending on the position and performance of the individual employees. The Group's total bonus accrual for the financial year ended December 31, 2009 amounted to TUSD 10,470 to be paid in 2010, subject to remuneration committee approval after the issuance of the annual report.

During the financial year ended December 31, 2009 board fees were paid to the Board of Directors as presented in the table below. Other fees represent remuneration paid to certain Directors in connection with their work in Board Committees (Remuneration and Audit committees).

Board of Directors	Board fee	Other fee	Total remuneration
Chairman of the Board	120	10	130
Other Board members	275	45	320
	395	55	450

Note 34 Commitments and contingencies

Capital Commitments

Under the contracts effective as of December 31, 2009 and December 31, 2008 future capital expenditures commitments were estimated at TUSD 785,697 and TUSD 601,947 (excluding VAT), respectively.

License Commitments

The Group is subject to periodic reviews of its activities by local regulatory authorities regarding the requirements of its oilfield licenses. Management of the subsidiaries of the Group agrees with local regulatory authorities remedial actions necessary to resolve any findings resulting from these reviews. Non-compliance with the terms of a particular license could result in penalties, fines or license limitations, suspension or revocation. The Group's management believes that any non-compliance with license terms that the Group may have in the future will be resolved through negotiations or proposed amendments without material effect on the consolidated financial positions or the operating results of the Group.

Litigation

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had or will have, individually or in the aggregate, a material adverse impact on the Group.

Environmental Matters

The Group is subject to extensive federal, state and local environmental controls and regulations in the countries in which it operates. The Group's operations involve air and water venting of detrimental impurities, potential impact to flora and fauna in the region of operations, and other environmental concerns.

The management believes that the Group's operations are in compliance with all current existing environmental laws and regulations of the countries in which the Group operates. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those environmental laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology to meet more stringent standards.

In accordance with the terms of various laws and extracting licenses upon completion of the oil and gas field exploitation the Group is liable to perform decommissioning and site restoration of the oil fields. The estimated cost of known environmental obligations has been provided in these consolidated financial statements (Note 26). Management of the Group regularly reassesses environmental obligations related to its operations. Estimates are based on management's understanding of current legal requirements, the terms of license agreements and the size and nature of the oil fields under the licenses. Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional environmental obligations.

Russian Federation Tax and Regulatory Environment

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result the laws and regulations affecting businesses continue to change rapidly. These changes are characterised by poor drafting, different interpretations and arbitrary application by the authorities. In particular taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group.

Note 35 Related party transactions

Related parties include shareholders, associates and other related parties representing numerous entities under common ownership and control with the Group.

Included in the Group's consolidated balance sheet as at December 31, 2009 and 2008 were the following significant balances with related parties:

	Group	
	Dec 31, 2009	Dec 31, 2008
Associates		
Advances paid	26	-
Shareholders		
Trade and other accounts receivable	320	-
Trade and other accounts payable	47	-
Other related parties		
Other financial assets and other non-current assets	275	381
Trade and other accounts receivable	5 509	10 544
Advances paid and prepaid expenses	820	101
Advances paid for construction	21	70
Advances capitalised in construction-in-progress	1 555	-
Cash and cash equivalents	32 078	127 268
Loans and borrowings	-	4 419
Trade and other accounts payable	1 147	187
Advances received and accrued expenses	52 875	34 933
Accounts payable for property, plant and equipment	278	155

Included in the Group's consolidated income statement for the financial years ended December 31, 2009 and 2008 were the following significant transactions with the related parties:

	Group	
	2009	2008
Associates		
Purchase of goods from related parties	1 392	-
Shareholders		
Trademark use charges	-	3 423
Revenue from sales to related parties	282	15
Purchase of services from related parties	456	1 225
Other related parties		
Revenue from sales to related parties	415 151	696 302
Purchase of goods from related parties	2 071	-
Purchase of services from related parties	27 616	25 436
Charity contributions to the fund named by Z.Bazhaev	13 253	11 893
Interest expense	87	404
Interest income	4 903	1 694
Capitalised interest on loans	512	294

Revenue from sales to related parties includes sales of crude oil and oil products in the domestic and export markets. Purchase of services from related parties mainly related to insurance services and rent.

No allowance for doubtful debts in respect of the amounts owed by related parties has been recognised in the consolidated income statements for the years ended December 31, 2009 and 2008.

In the year ended December 31, 2008 as a part of the merger agreement a dividend payment was made to the previous shareholders in Alliance in the amount of TUSD 193,248 which was paid back to the company as a repayment of the loans given to the related parties in prior years and proceeds from disposal of subsidiaries and associates.

Transactions with shareholders, associates and other related parties relate to transactions in the ordinary course of business with terms and conditions, similar to transactions with third parties except for non-interest bearing loans provided and obtained. All related party balances are unsecured and will be settled in cash under normal commercial credit terms. No guarantees have been given or received in relation to any related party balance.

The charity contributions to the fund named by Z. Bazhaev were made with the purpose of their further transfer to the Federal Treasury of the Russian Federation and other governmental organisations.

The parent company's balance sheet as at December 31, 2009 and 2008 included the following balances with the related parties:

	Dec 31, 2009	Dec 31, 2008
Loans given	646 319	541 193
Accrued expenses	41	41

The parent company's income statement for the twelve months ended December 31, 2009 and 2008 included the following transactions with the related parties:

	2009	2008
Interest income	35 721	38 672
Administration expenses		
Management and consulting fees	5 910	3 540
Administration and investor relations services	732	733
Secondment of technical personnel	-	130
	6 642	4 403

Note 36 Risks and uncertainties

In the oil business, companies face a number of risks relating to the activities and the industry. 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 mean that the outcome of any project could differ to the better or to the worse. The oil industry investments execution also contains a number of risks. Unforeseen events are continuously encountered in oil operations.

Crude oil and refined oil products are sold in competitive markets where prices fluctuate and price swings can be significant in a short space of time. High prices are beneficial and the financial performance is negatively affected when prices come down. Price changes also affect the amount of production taxes and export duties to be paid therefore the oil price exposure is lower than for many oil companies operating in other countries. The business is conducted in several currencies, primarily USD and RUB for which exchange rates fluctuate. The Group does not use hedging techniques, such as derivatives, to reduce its exposure to commodity prices, currency fluctuations nor interest rates.

The operations are based on permissions and licenses granted by Russian governmental authorities. It is crucial to be in compliance with the terms of such licenses, to get necessary approvals when needed and to fulfill obligations to tax and other authorities. Risks associated with the Russian legislation and its implementation in operations are addressed and managed. The Group's growth in the past few years would not have been possible, absent the successful management of such risks.

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:

Capital Risk Management

The Group manages its capital to ensure that the Group's companies will be able to continue as a going concern in order to provide return to the Group's shareholders and reduce the cost of capital maintenance. The capital structure of the Group in 2009 and 2008 included loans and borrowings, cash and cash equivalents and equity attributable to the owners of the parent company. The management of the Group reviews and approves the following ratios on a quarterly basis: EBITDA, return on shareholders' equity, return on capital employed, debt to equity ratio, equity ratio, risk-bearing capital, interest coverage and debt coverage ratios.

The Group is subject to external capital requirements imposed on loans provided by BNP Paribas SA, International Finance Corporation ("IFC") and OJSC Bank VTB, including current liquidity ratio. At 31 December 2009, the Group complied with all capital requirements.

Major Categories of Financial Instruments

The Group's principal financial liabilities comprise loans and borrowings, financial lease, trade and other accounts payable. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and loans given, cash and cash equivalents.

	Dec 31, 2009	Dec 31, 2008
Financial assets		
Loans and receivables (including cash and cash equivalents):		
Other financial assets	17 034	1 192
Trade and other accounts receivable	29 955	34 242
Cash and cash equivalents	392 070	335 367
Available for sale financials assets:		
Other financial assets	78	76
	439 137	370 877
Financial liabilities		
Measured at amortised cost		
Loans and borrowings	710 148	863 613
Finance lease liabilities	-	10 688
Trade and other accounts payable	40 183	62 483
	750 331	936 784

The main risks arising from the Group's financial instruments are commodity price risk, foreign currency, interest rate, credit and liquidity risks.

Commodity Price Risk

Commodity price risk is the risk that the Group's current or future earnings will be adversely impacted by changes in world crude oil prices. A decline in crude oil prices results in a decrease in profit for the year and negatively affects cash flows. The Group does not use hedging to reduce the exposure to this risk.

Foreign Currency Risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates. The Group undertakes certain transactions denominated in foreign currencies. The Group does not use any derivatives to manage foreign currency risk exposure. The significant part of the Group's revenues are denominated in USD, whereas the majority of the Group's operational costs are denominated in RUB. At the same time the significant part of the Group's borrowings are denominated in USD, while most of the Group's assets are denominated in RUB. Therefore, exposure to USD/RUB exchange rate fluctuations is mitigated by the existence of a source of cash flows denominated in USD.

The carrying amounts of the Group's monetary assets and liabilities at the reporting date were as follows:

	Nominated in USD		Nominated in EUR	
	Dec 31, 2009	Dec 31, 2008	Dec 31, 2009	Dec 31, 2008
Assets				
Trade and other accounts receivable	15 266	618	3	-
Cash and cash equivalents	137 992	142 311	39 749	103 412
	153 258	142 929	39 752	103 412
Liabilities				
Loans and borrowings	459 031	225 660	-	-
Finance leases liabilities	-	10 702	-	-
Trade and other accounts payable	18 752	1 107	551	-
	477 783	237 469	551	-
Total net position	-324 525	-94 540	39 201	103 412

The table below details the sensitivity of the Group's net result to changes of exchange rate of the RUB against the USD and EURO by 10% which is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The analysis was applied to monetary items at the balance sheet dates denominated in respective currencies.

	Nominated in USD		Nominated in EUR	
	2009	2008	2009	2008
Profit or loss	32 453	9 454	3 920	10 341

Interest Rate Risk

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The floating rate debt exposes the Group to fluctuations in interest payments due to changes in interest rates. The Group does not use any derivatives to manage interest rate risk exposure. The Group manages its interest rate risk through maintaining an appropriate mix between fixed and floating rate borrowings.

The table below details the Group's sensitivity to increase or decrease of the floating rate by 1%, which is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The analysis was applied to loans and borrowings based on the assumptions that amount of liabilities outstanding at the reporting date were outstanding for the whole year.

	Profit or Loss	
	Jan 1, 2009 Dec 31, 2009	Jan 1, 2008 Dec 31, 2008
LIBOR	1 688	4 090
BNP	130	400
	1 818	4 490

Credit Risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. Credit risk from financial assets of the Group, which comprise cash and cash equivalents, loans and receivables and other financial assets, have maximum exposure equal to the carrying value of these instruments. There were no guarantees given to secure financing of third parties at 31 December 2009 and 2008.

The Group has a concentration of cash and cash equivalents with a related party commercial bank as at December 31, 2009 and 2008 represented by 8% and 38%, respectively, of total Group's cash and cash equivalents.

Liquidity Risk

The Group's liquidity is affected by several operating factors as well as the availability of external financing. The availability of external funding in financial markets has been significantly reduced and may affect the Group's liquidity.

The net cash flow position of the Group is monitored on a daily basis by the central treasury function with weekly cash movements and cash balances being reported to the Group's management. The Group has renegotiated the terms of the majority of its oil products sales contracts to provide for advance payments, and has a strict policy for collecting doubtful debts and monitoring trade debtors. The Group prepares detailed budgets and forecasts and reviews the global and domestic oil price environment on a monthly basis in order to optimise crude oil sales, supply routes, oil product mix and refinery volumes. Management is focusing on matching the maturity profiles of financial assets and liabilities and reducing short-term debt through repayment of existing short-term loans. Accordingly, management considers that it is taking all necessary actions to allow the Group to meet its current obligations as they fall due.

Management anticipates the most significant capital expenditures in connection with the modernisation of the Khabarovsk Refinery and further development of crude oil producing assets. The Group's primary sources of cash are its operations, as well as bank loans and the proceeds from equity and debt capital markets offerings.

At December 31, 2009 and 2008 the Group had access to financing facilities, the total unused amount of which was 63,894 and 37,035, respectively.

Fair Value of Financial Instruments

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing model based on discounted cash flow analysis using prices from observable current market transactions.

Management believes that the carrying values of financial assets (Notes 19, 21, 23 and 24) and financial liabilities (Notes 29 and 32) recorded at amortised cost in the consolidated financial statements approximate their fair values.

Other risks:

- Safety, fire-safety and environmental risks: The Group is subject to extensive federal, state and local environmental controls and regulations in the countries in which it operates. The Group's operations involve air and water venting of detrimental impurities, potential impact to flora and fauna in the region of operations, and other environmental concerns. The management believes that the Group's operations are in compliance with all current existing environmental laws and regulations of the countries in which the Group operates. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those environmental laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology to meet more stringent standards.
- 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 Alliance Oil Company 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, 2009 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.

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 37 Significant events after the end of the period

In March 2010, the Group issued a USD 350 million five-year Eurobond. The bonds will mature on March 11, 2015 and will pay a fixed coupon of 9.875% per annum. The bonds are and traded on the regulated market of the London Stock Exchange.

Note 38 Adoption of the annual report

The annual report has been submitted by the Board of Directors on April 15, 2010. The financial statements are to be adopted by the Company's shareholders at the annual general meeting on May 27, 2010.

Independent auditor's report

To the shareholders and Board of directors of the Alliance Oil Company Ltd

We have audited the accompanying consolidated and parent company financial statements of Alliance Oil Company Ltd, appearing on page 2-53, which comprise statements of financial position as of December 31, 2009 and income statements, statements of changes in equity and cash flow statements

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 Alliance Oil Company Ltd, the parent company and Alliance Oil Company Ltd and its subsidiaries, the Group as of December 31, 2009 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Gothenburg, April 15, 2010
PricewaterhouseCoopers AB

Johan Rippe

Supplemental information

Reserve quantity information (Unaudited)

Proven and probable oil reserves	Tomsk Region	Timano-Pechora Region	Volga-Urals Region	Kazakhstan	Total
As of January 1, 2008	**69 717**	**260 733**	**141 445**	**16 328**	**488 223**
-revisions	1 990	9 057	8 193	-2 770	16 470
-production	-4 436	-5 165	-7 393	-422	-17 416
Total changes for the period	-2 446	3 892	800	-3 192	-946
As of December 31, 2008	**67 271**	**264 625**	**142 245**	**13 136**	**487 277**
-revisions	-3 110	45 017	12 021	765	54 693
-production	-3 555	-4 725	-7 276	-487	-16 043
Total changes for the period	-6 665	40 292	4 745	278	38 650
As of December 31, 2009	**60 606**	**304 917**	**146 990**	**13 414**	**525 927**

The balances of proven and probable oil reserves are based on the reserve evaluation report prepared by DeGolyer and MacNaughton (D&M), an international petroleum consulting firm, under PRMS classification.

The 'Revisions' lines in the above table included the effect of the oil reserves estimates revision made for the oil fields by D&M during the financial years ended December 31, 2009 and 2008.

Out of total crude oil production for the financial year ended December 31, 2008 amounted to 17,416 thousand barrels the volume of 13,892 thousand barrels was included in the Group's consolidated financial statements representing the crude oil production from the oil fields owned by the Company for the period from April 11, 2008, the date of the merger completion, till December 31, 2008.

This report, for the financial year from January 1, 2009 to December 31, 2009 is submitted by the Board of Directors and the Managing Director of Alliance Oil Company Ltd. The Group's retained earnings amount to TUSD 616,644. The Board and the Managing Director propose that the retained earnings in the parent company of TUSD 17,730, out of which the net loss for the financial year ended December 31, 2009 amounted to TUSD 2,244, be carried forward and that no dividend be paid for the financial year ended December 31, 2009.

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 15, 2010

Eric Forss
Chairman

Arsen Idrisov
Director and Managing Director

Isa Bazhaev
Director

Fernando Martinez-Fresneda
Director

Claes Levin
Director

Raymond Liefooghe
Director

Fred Boling
Director

Comparative information for 2005–2008 presented in graphs and tables in the annual report refers to data from Alliance Oil Company' Ltd's (former West Siberian Resources Ltd) previous annual reports, unless otherwise noted. In the consolidated financial statements, the comparative information is a reflection of AllianceOil Company Ltd adopting the requirements of IFRS 3 'Business Combinations' whereby the consolidated financial statements include OJSC "Alliance" Oil Company operations from 1 January 2008 to 9 April 2008 and the combined operations of WSR and OJSC "Alliance" Oil Company from 10 April 2008.

Key financial ratio definitions

● Earnings before interest, tax, depreciation and amortisation is defined as the Group's operating result plus depletion and depreciation, impairment of oil and gas properties and goodwill if applicable, minus gain on disposal of shares in subsidiaries if applicable, and plus/minus other significant one-off items in the income statement. In 2009 other significant one-off items included non-operating adjustment related to the revision of decommissioning provision estimate.

● Return on shareholders' equity is defined as the Group's net result divided by the shareholders' equity at the end of the year.

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

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

● Equity ratio is defined as the Group's shareholders' equity, plus non-controlling interest, in relation to total assets.

● The percentage of risk-bearing capital is defined as the total sum of shareholders' equity, plus non-controlling interest and deferred tax liabilities (including non-controlling interest), divided by total assets.

● Interest-coverage ratio is defined as the Group's net result after financial items, plus interest expenses (both capitalised and expensed in the income statement), plus/minus currency exchange rate differences on financial loans, divided by interest expenses.

● Debt-coverage ratio is defined as the Group's earnings before interest, tax, depletion, depreciation and amortization divided by interest expenses (both capitalised and expensed in the income statement).

● On June 10, 2009 the Group completed the reverse split of shares consolidating each 20 shares into 1 share that reduced the number of shares from 3,230,568,280 to 161,528,414. The weighted average number of shares for the year ended December 31, 2008 and number of shares as at December 31, 2008 were adjusted retrospectively to reflect the effect of the reverse split.

● On June 12, 2009 the Group completed the share issue after which the number of shares increased by 10,000,000 from 161,528,414 to 171,528,414.

● On July 16, 2009 the Group issued MUSD 265 bonds convertible into SDRs at an initial conversion price of SEK 121.1250 per SDR which have an effect on the average number of shares when calculated on a diluted basis.

● As of December 31, 2009 2,999,050 options were outstanding with the right to subscribe for 1 share of common stock at exercise prices ranging from SEK 81.80 to SEK 140.00 which have an effect on the average number of shares when calculated on a diluted basis.

Operational ratio definitions

Crude oil

● Oil revenue per barrel ratios are defined as net sales price (gross price less VAT or export duties) per barrel of oil sold to external customers.

● Production costs per barrel ratios are based on volumes of crude oil sold both intragroup and to external customers, excluding crude oil purchased for resale.

Oil products

● Oil products revenue per barrel are defined as net sales price (gross price less VAT or export duties) per barrel of oil products sold to external customers.

● Production costs per barrel ratios are defined as operating cost component (including purchases of crude oil and other services from interagroup companies) divided by volumes of oil products sold both intragroup and to external customers.

Adresses

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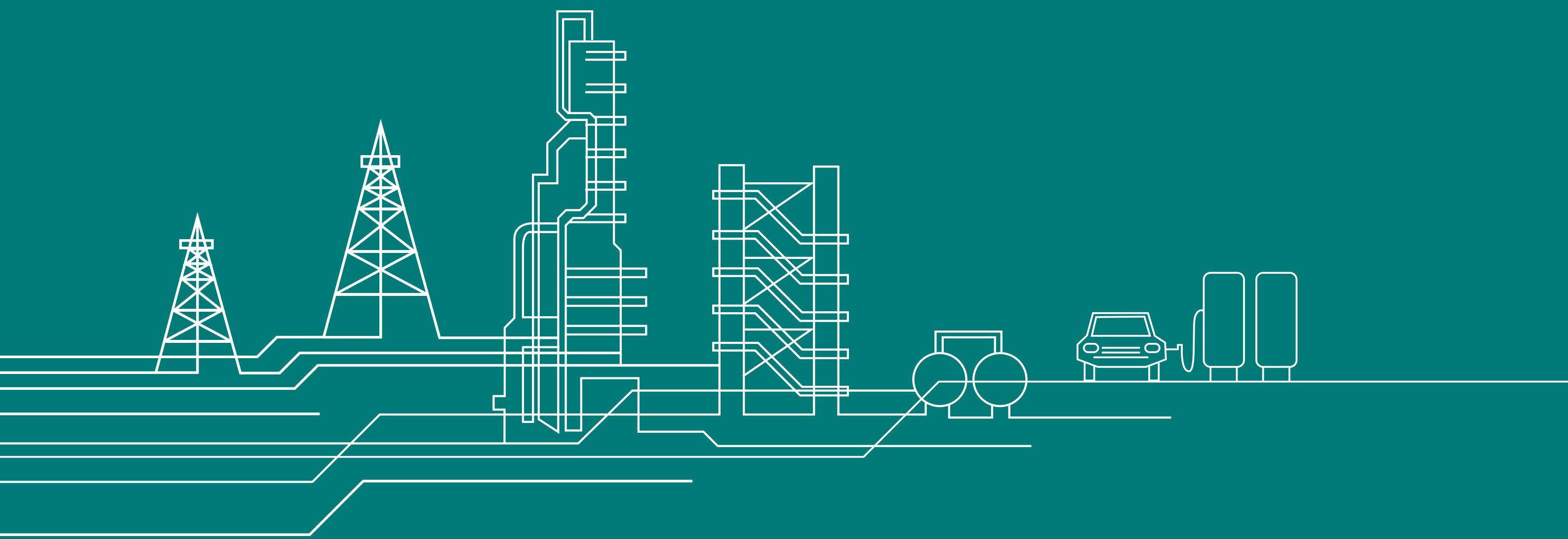

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