

Corporate Governance Report 2009

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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 Liefoghe, Director

Independent in relation to the company, management and major shareholders

Mr. Raymond Liefoghe 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 Liefoghe served as a member of the board of directors of OJSC "Alliance" Oil Company between 2006

and 2008. Mr. Liefoghe graduated from the International Trade Institute in Paris in 1973. Between 1974 and 1991, Mr. Liefoghe 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. Liefoghe 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. Liefoghe 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 Liefoghe 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 Liefoghe 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 Organizations 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 com-

menced 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.