

OAO TNK-BP HOLDING
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2008 AND 31 DECEMBER 2007 AND FOR THE SIX
MONTHS ENDED 30 JUNE 2008 AND 2007
(UNAUDITED)

OAO TNK-BP HOLDING
Interim Condensed Consolidated Balance Sheets (Unaudited)
(expresses in millions of US Dollars, except as indicated)

	Note	30 June 2008	31 December 2007
Assets			
Cash and cash equivalents		848	635
Restricted cash		-	5
Trade and other receivables, net	4	17,008	11,093
Inventories	5	1,175	1,103
Other current assets		271	202
Total current assets		19,302	13,038
Long-term investments		23	20
Property, plant and equipment, net		14,920	13,901
Other long-term assets		1,092	945
Total assets		35,337	27,904
Liabilities and Shareholders' Equity			
Short-term debt and current portion of long-term debt	7	188	277
Trade accounts and notes payable		8,214	5,331
Other accounts payable and accrued expenses	8	571	741
Taxes payable	11	1,741	1,251
Dividends payable		1,130	840
Total current liabilities		11,844	8,440
Long-term debt	7	1,911	1,582
Asset retirement obligations		340	335
Deferred income tax liabilities		949	927
Other long-term liabilities		235	327
Total liabilities		15,279	11,611
Commitments and contingencies	14	-	-
Minority interest		868	708
Common stock (authorised and issued – 15,847 million shares, RUR 1.0 par value)	9	550	550
Preferred stock (authorised and issued – 450 million shares, RUR 1.0 par value)	9	16	16
Treasury stock, at cost	9	(239)	(239)
Additional paid-in capital		4,933	4,933
Retained earnings		13,930	10,325
Total shareholders' equity		19,190	15,585
Total liabilities and shareholders' equity		35,337	27,904

The accompanying notes are an integral part of these interim condensed consolidated financial statements

OAO TNK-BP HOLDING**Interim Condensed Consolidated Statements of Income (Unaudited)**

(expressed in millions of US Dollars)

	Note	Six months ended 30 June 2008	Six months ended 30 June 2007
Revenues			
Sales and other operating revenues	12	24,914	15,321
Total revenues		24,914	15,321
Costs and other deductions			
Export duties		6,607	4,021
Taxes other than income tax	11	5,810	3,343
Operating expenses		2,413	1,744
Transportation expenses		1,293	1,058
Cost of purchased products		1,110	844
Selling, general and administrative expenses		854	729
Depreciation, depletion and amortization		705	684
Exploration expenses		37	66
Loss on disposals and impairment of assets		15	61
Total costs and other deductions		18,844	12,550
Other income and expenses			
Earnings from equity investments		3	4
Gain on disposals of subsidiaries		60	30
Interest income and net other income		70	(2)
Exchange gain / (loss), net		11	22
Interest expense		(81)	(85)
Total other income and expenses		63	(31)
Income before income taxes and minority interest		6,133	2,740
Income taxes			
Current tax expense		1,291	776
Deferred tax expense / (benefit)		(43)	(283)
Total income tax expense		1,248	493
Income before minority interest		4,885	2,247
Minority interest		161	101
Net income		4,724	2,146
Net income per share of common stock (US Dollar)	9	0.31	0.14

The accompanying notes are an integral part of these interim condensed consolidated financial statements

OAO TNK-BP HOLDING**Interim Condensed Consolidated Statements of Cash Flows (Unaudited)**

(expressed in millions of US Dollars)

	Note	Six months ended 30 June 2008	Six months ended 30 June 2007
Cash flows from operating activities			
Net income		4,724	2,146
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization		705	684
Deferred tax expense / (benefit)		(43)	(283)
Minority interest		161	101
Loss on disposals and impairment of assets		15	61
Gain on disposals of subsidiaries		(60)	(30)
Earnings from equity investments less dividends received		(3)	(4)
Non-cash provisions		4	2
Dry hole expenses		3	8
Exchange loss/(gain) from financing activities		67	42
Other non-cash adjustments, net		(13)	(7)
Changes in operational working capital, excluding cash and cash equivalents:			
Restricted cash		5	2
Trade and other receivables, net		(5,804)	(153)
Inventories		(67)	(168)
Accounts and notes payable and accrued expenses		2,806	393
Taxes payable		488	(181)
Other		(105)	(266)
Net cash provided by operating activities		2,883	2,347
Investing activities			
Capital expenditures		(1,922)	(1,357)
Grants used for capital expenditures		(396)	(146)
Grants received		126	140
Purchase of intangible assets		(15)	(9)
Proceeds from disposals of property, plant and equipment		14	22
Purchase of investments	6	-	(524)
Proceeds from sales of subsidiaries and joint ventures		52	27
Promissory notes repaid		167	-
Loans issued		(78)	(116)
Loans repaid		9	65
Net cash used for investing activities		(2,043)	(1,898)
Financing activities			
Proceeds from issuance of long-term debt		293	1,034
Repayment of long-term debt		(1)	(25)
Proceeds from issuance of short-term debt		163	235
Repayment of short-term debt		(255)	(390)
Dividends paid to minorities		(1)	-
Dividends paid to shareholders		(856)	(1,590)
Net cash used for financing activities		(657)	(736)
Effect of exchange rate changes on cash and cash equivalents		30	31
Net change in cash and cash equivalents		213	(256)
Cash and cash equivalents at beginning of period		635	827
Cash and cash equivalents at end of period		848	571

The accompanying notes are an integral part of these interim condensed consolidated financial statements

OAO TNK-BP HOLDING**Interim Condensed Consolidated Statement of Changes in Shareholders' Equity (Unaudited)**

(expressed in millions of US Dollars, except as indicated)

	Common stock	Preferred stock	Treasury stock	Additional paid-in capital	Retained earnings	Total shareholders' equity
Balance at 31 December 2007	550	16	(239)	4,933	10,325	15,585
Net income	-	-	-	-	4,724	4,724
Dividends (Note 9)	-	-	-	-	(1,119)	(1,119)
Balance at 30 June 2008	550	16	(239)	4,933	13,930	19,190

	30 June 2008 (millions of shares)	31 December 2007 (millions of shares)
Number of Ordinary shares issued	15,847	15,847
Number of Preferred shares issued	450	450
Number of Treasury shares	(850)	(850)

The accompanying notes are an integral part of these interim condensed consolidated financial statements

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Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(expressed in US Dollars, tabular amounts in millions)

Note 1: Organization

OAO TNK-BP Holding (“TBH” or “the Company”) is a subsidiary of TNK-BP Limited (“TNK-BP”), a British Virgin Islands company. TNK-BP was formed effective 29 August 2003 by the Alfa Group, the Access-Renova Group (jointly “AAR”) and BP, to hold their respective interests in their Russian and Ukrainian oil and gas assets. AAR contributed its 100 percent interest in TNK Industrial Holdings Limited which held a 100 percent interest in TNK-BP International Limited, which in turn owned a 96.1 percent interest in OAO Tyumen Oil Company (“TNK”) and a 100 percent interest in Sbornare Management Limited, which in turn effectively held a 68 percent interest in OAO Sidanco (“Sidanco”) for its 50.0 percent interest in TNK-BP. BP contributed its 29.6 percent interest in Sidanco, 33.4 percent interest in OAO Rusia Petroleum (“Rusia Petroleum”) and 75.0 percent interest in BP Moscow Retail (“BP Retail Assets”) for its 50.0 percent interest in TNK-BP. BP also made a balancing payment directly to AAR in cash and BP shares, payable over three years.

In 2005, TNK-BP completed a number of steps under its corporate restructuring program. Pursuant to the program, in December 2005 TBH, a newly created holding company, accessioned TNK, Sidanco and OAO ONAKO (“ONAKO”), key holding companies of TNK-BP in Russia. As part of this accession, TBH issued shares to the minority interest holders in these entities. Furthermore, most of the minority shareholders in 14 key subsidiaries of TNK-BP in Russia were consolidated within TBH through a voluntary share exchange program also completed in December 2005.

As a result of these accessions and the above described share exchange, minority shareholders received approximately 5% of the shares in TBH. All purchases of minority interests have been treated as acquisitions and accounted for using the purchase method of accounting.

The Company and its subsidiaries (jointly referred to as “the Group”) conduct exploration and development activities and produce oil and gas in the Russian Federation, operate petroleum refineries and market oil and petroleum products in the Russian Federation.

TNK-BP’s assets held outside of TBH include its equity interest in OAO NGK Slavneft, interests in Rusia Petroleum, OAO East Siberian Gas Company, the BP Retail Assets and its Ukrainian businesses referred to above.

Note 2: Interim Condensed Consolidated Financial Statements

The unaudited interim condensed consolidated financial statements of the Group presented herein do not include all the information required by accounting principles generally accepted in the United States of America (“US GAAP”). These unaudited interim condensed consolidated financial statements should be read in conjunction with the TBH consolidated financial statements as of and for the year ended 31 December 2007. In the opinion of the Group’s management, the accompanying unaudited interim condensed consolidated financial statements include all adjustments (all of which are of normal recurring nature) necessary to state fairly the Group’s financial position as of 30 June 2008 and the results of its operations and its cash flows for the six month period then ended, in conformity with accounting principles generally accepted in the United States of America.

The financial results of the six months ended 30 June 2008 are not necessarily indicative of future financial results.

Note 3: Basis of Presentation

Reporting and functional currency. The Company’s and its subsidiaries’ functional currency is the US dollar as a significant portion of the Group’s business is conducted in US dollars and management uses the US dollar to manage the Group’s financial risks and exposures, and to measure its performance.

The local currency of the Group’s subsidiaries is the Russian Rouble, where their transactions and balances have been remeasured into US dollars in accordance with the relevant provisions of Statement of Financial Accounting Standards No. 52, *Foreign Currency Translation*. Consequently, monetary assets and liabilities are

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remeasured at closing exchange rates and non-monetary items are remeasured at historic exchange rates and adjusted for any impairment. The consolidated statements of income and cash flows have been remeasured at the average exchange rates for the period. Exchange differences resulting from the use of these exchange rates have been included in the determination of net income and are included in net exchange gains and losses in the accompanying consolidated statements of income.

As of 30 June 2008 and 31 December 2007, exchange rates were 23.46 and 24.55 Russian Roubles to the US dollar, respectively. Average exchange rates for the six months ended 30 June 2008 and 2007 were 23.95 and 26.08 Russian Roubles to the US dollar, respectively.

Any remeasurement of Russian Rouble amounts to US dollars should not be construed as a representation that such Russian Rouble amounts have been, could be, or will in the future be converted into US dollars at the exchange rate shown or at any other exchange rate.

New accounting standards adopted. In September 2006, FASB Statement No. 157, *Fair Value Measurements*, was issued and became effective for the Group on 1 January 2008 for items that are recognized at fair value in the financial statements on a recurring basis (at least annually). For the recognition, measurement and disclosure of other nonfinancial assets and liabilities the Statement becomes effective for the Group on 1 January 2009. The Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The adoption of this FASB Statement for the items that are recognized at fair value in the financial statements on a recurring basis had no material effect on the Group's results of operations, financial position or liquidity.

In February 2007, FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115*, was issued and became effective for the Group on 1 January 2008. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. Upon adoption of this FASB Statement, the Group did not change its accounting policy for measurement of financial instruments. The adoption of this FASB Statement had no material effect on the Group's results of operations, financial position or liquidity.

Recent accounting pronouncements. In December 2007, FASB Statement No. 141(r), *Business Combinations*, was issued and becomes effective for the Group on 1 January 2009. This Statement provides guidance for the recognition and measurement in the financial statements of the identifiable assets acquired, the liabilities assumed and the noncontrolling interest in the acquiree. The Statement similarly provides guidance for accounting for goodwill acquired in a business combination or a gain arising from a bargain purchase. The Group is currently evaluating the impact of this Statement.

In December 2007, FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements including an amendment of ARB No. 51*, was issued and becomes effective for the Group on 1 January 2009. This Statement provides new standards to govern the accounting and reporting for noncontrolling (minority) interests in partially owned consolidated subsidiaries and for the loss of control of subsidiaries. The Statement establishes that a noncontrolling interest in a subsidiary is an ownership interest that should be reported as equity in the consolidated financial statements. The Group is currently evaluating the impact of this Statement.

In May 2008, the FASB issued FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. This Statement is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with generally accepted accounting principles in the United States of America for non-governmental entities. The Statement is not yet effective pending regulatory approval in the United States of America. The Group does not expect this Statement to have a material impact on the preparation of its consolidated financial statements.

In April 2008, the FASB Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*, was issued and becomes effective for the Group on 1 January 2009. The Position amends FASB Statement No. 142, *Goodwill and Other Intangible Assets*, to improve the consistency between the useful life of a recognized intangible asset under FASB Statement No. 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141, *Business Combinations*, and other U.S.

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GAAP. The guidance for determining the useful life of a recognized intangible asset is to be applied prospectively, therefore, the impact of the implementation of this pronouncement cannot be determined until the transactions occur.

Comparative amounts. Certain changes have been made to the prior period presentation to conform with current year presentation with no effect to shareholders' equity or net income.

Note 4: Trade and Other Receivables, Net

	30 June 2008	31 December 2007
Trade accounts and notes receivable (net of allowance for doubtful accounts of USD 18 million and USD 28 million as of 30 June 2008 and 31 December 2007, respectively)	13,603	7,364
Recoverable value-added tax	1,515	1,982
Advances issued	1,248	1,295
Grants to be received	343	55
Taxes receivable	166	160
Promissory notes receivable	-	159
Other receivables (net of allowance for doubtful accounts of USD 9 million and USD 8 million as of 30 June 2008 and 31 December 2007, respectively)	133	78
Total trade and other receivables, net	17,008	11,093

Recoverable value-added tax balances mainly relate to crude oil and petroleum products export sale activities. As of 30 June 2008 and 31 December 2007, USD 164 million and USD 181 million of export value-added tax, respectively, is not expected to be received within twelve months and has therefore been included in Other long-term assets.

The Group receives grants for certain capital expenditures incurred pursuant to investment agreements with the Uvat municipality of the Tyumen region. Effective 1 January 2008, capital grants are provided to the Group subsequent to the expenditure being incurred. Prior to 1 January 2008, capital grants were received by the Group on an advance basis.

Note 5: Inventories

	30 June 2008	31 December 2007
Crude oil and petroleum products	718	689
Materials and supplies	457	414
Total inventories	1,175	1,103

Note 6: Acquisition of Subsidiaries

In January 2007, the Group completed the acquisition of the 50 percent of the share capital of OOO JV Vanyoganneft ("Vanyoganneft") not previously held by the Group for USD 485 million in cash. This acquisition has been accounted for using the purchase method. The consideration paid was assigned as follows: USD 451 million - to oil and gas unproved properties, USD 143 million - to oil and gas proved properties and equipment, USD 117 million to long-term deferred income tax liability, USD 50 million - to other assets and USD 42 million - to other liabilities. Effective 18 January 2007, the Group consolidated its interests in Vanyoganneft and no longer uses the equity method of accounting.

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Note 7: Debt

Short-term debt and the current portion of long-term debt are as follows:

	30 June 2008	31 December 2007
Obligations to banks:		
US dollar denominated (composite variable interest: as of 30 June 2008 – Libor plus 0.5 percent, as of 31 December 2007 – Libor plus 0.6 percent)	50	210
US dollar denominated (fixed interest rate - 3.93 percent)	45	-
Loans from related parties	85	59
Current portion of long-term debt	8	8
Total short-term debt and the current portion of long-term debt	188	277

Long-term debt is as follows:

	30 June 2008	31 December 2007
Long-term debt received from third parties	200	146
Long-term debt received from TNK-BP controlled companies:		
US dollar denominated loans	907	907
Russian Rouble denominated loans	812	537
Less: current portion of long-term debt	(8)	(8)
Total long-term debt	1,911	1,582

Long-term debt received from third parties. Long-term debt received from third parties is represented by six RUR denominated facilities with total amount of RUR 4.7 billion (USD 0.2 billion) and RUR 3.5 billion (USD 0.1 billion) outstanding as of 30 June 2008 and 31 December 2007, respectively. These facilities bear interest at the refinancing rate of the Russian Central Bank (10.75 percent and 10 percent as of 30 June 2008 and 31 December 2007, respectively) and mature in December 2011 through June 2013, with interest payable at maturity.

Long-term debt received from TNK-BP controlled companies. Apart from long-term debt received from third parties, the Group has obtained loans from Russian and offshore TNK-BP controlled companies which are not part of the Group. The total amount of these liabilities as of 30 June 2008 and 31 December 2007 was USD 1.7 billion and USD 1.4 billion, respectively.

The RUR denominated loans received from TNK-BP controlled companies are mainly represented by a number of facilities received by a subsidiary of the Group with a total amount of RUR 17.1 billion (USD 0.7 billion) and RUR 12.2 billion (USD 0.5 billion) outstanding as of 30 June 2008 and 31 December 2007, respectively. These facilities bear interest at the refinancing rate of the Russian Central Bank with interest payable at the maturity of the loans with the final maturity in May 2013.

The major part of USD denominated debt received from TNK-BP controlled companies is represented by loans obtained by TBH with a total amount of USD 0.8 billion outstanding as of 30 June 2008 and 31 December 2007. These loans bear composite variable interest of Libor plus 0.7 percent and mature in March 2012.

Note 8: Other Accounts Payable and Accrued Expenses

	30 June 2008	31 December 2007
Advances from customers	272	389
Salaries payable and other related costs	153	192
Interest accrued	26	19
Other	120	141
Total other accounts payable and accrued expenses	571	741

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(expressed in US Dollars, tabular amounts in millions)

Note 9: Shareholders' Equity

The share capital of the Company comprises 15,847 million authorised and issued ordinary shares of RUR 1 par value and 450 million authorised, issued and outstanding non-cumulative preferred shares of RUR 1 par value.

The treasury stock of the Company comprises 850 million ordinary shares, which are held at cost. The treasury stock was issued in the course of TNK-BP's corporate restructuring program.

Profits available for distribution to shareholders in respect of any reporting period are determined by reference to the statutory financial statements of the Company and its subsidiaries prepared in accordance with the law of the Russian Federation and denominated in Russian roubles.

During the six months ended 30 June 2008 and 2007 the Group declared dividends of USD 1,119 million and USD 813 million, respectively.

Earnings per share. The calculation of earnings per share for the reporting period was as follows:

	Six months ended 30 June 2008	Six months ended 30 June 2007
Net income	4,724	2,146
Deduct dividends declared on preferred stock	(33)	(24)
Net income available to common shareholders	4,691	2,122
Weighted average number of common shares, millions of shares	15,847	15,847
Deduct weighted average number of treasury shares, millions of shares	(850)	(850)
Weighted average number of outstanding common shares, millions of shares	14,997	14,997

As of 30 June 2008 and 31 December 2007, the Company had no securities which would have a dilutive effect on net income per share of common stock.

Note 10: Income taxes

The Group is not subject to corporate income tax on a consolidated basis, rather Group entities are assessed for corporate income taxes on an individual basis. The statutory corporate income tax rate in the Russian Federation is 24 percent. The Group is party to agreements with the Tyumen and Orenburg regional authorities which grant the Group relief of four percent on the above statutory rate subject to the Group making qualified capital investments in the Regions. In addition, during the six months ended 30 June 2007, the Group recognized a tax benefit related to the reversal of tax accruals of USD 170 million resulting from the enactment of legislation in the Russian Federation which, provided certain conditions are met, eliminated the requirement to withhold taxes on the payment of intragroup dividends within the Russian Federation. The above benefits are offset by certain non-deductible expenses. The effective tax rate of the Group approximated 20 percent and 18 percent for the six months ended 30 June 2008 and 2007, respectively.

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Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(expressed in US Dollars, tabular amounts in millions)

Note 11: Taxes other than income tax expense and taxes payable

Taxes other than income tax expense for the six months ended 30 June 2008 and 2007 comprises the following:

	Six months ended 30 June 2008	Six months ended 30 June 2007
Unified production tax	5,155	2,785
Excise taxes	438	370
Property tax	98	67
Pension fund and other social taxes	88	79
Non-recoverable VAT expense	15	29
Tax penalties and interest	5	1
Other taxes	11	12
Total taxes other than income tax	5,810	3,343

Unified production tax. The rate of this tax is adjusted depending on the market price of Urals blend and the RR/USD exchange rate. Average tax rates for the six months ended 30 June 2008 and 2007 were USD 21.24 per barrel and USD 11.16 per barrel, respectively.

Current and long-term taxes payable as of 30 June 2008 and 31 December 2007 are as follows:

	30 June 2008	31 December 2007
Unified production tax	1,085	731
Value-added tax	226	159
Income taxes	217	180
Excise taxes	90	87
Property tax	51	31
Pension fund and other social taxes	34	34
Tax penalties and interest	19	13
Current deferred income tax liability	6	3
Other taxes	15	14
Total taxes payable	1,743	1,252
Less: long-term taxes payable	(2)	(1)
Current taxes payable	1,741	1,251

Note 12: Revenues

Revenues for the six months ended 30 June 2008 and 2007 comprise the following:

	Six months ended 30 June 2008	Six months ended 30 June 2007
Crude oil – export (Europe and CIS)	12,452	8,439
Crude oil – domestic	1,140	722
Petroleum products – export (Europe and CIS)	6,153	3,148
Petroleum products – domestic	4,525	2,648
Other revenues	644	364
Sales and other operating revenues	24,914	15,321

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Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(expressed in US Dollars, tabular amounts in millions)

Note 13: Related Party Transactions

The Group has the following balances in the ordinary course of business with affiliates of Alfa Group, a major shareholder of TNK-BP:

	30 June 2008	31 December 2007
Cash and cash equivalents with Alfa Bank	104	53
Accounts and notes receivable	5	4

The Group has the following transactions and balances in the ordinary course of business with OAO NGK Slavneft and its subsidiaries:

	As of 30 June 2008 and for the six months ended 30 June 2008	As of 31 December 2007 and for the six months ended 30 June 2007
Trade and other receivables, net	47	20
Trade accounts and notes payable	49	35
Loans received	85	59
Sales of crude oil for export	210	34
Volumes (millions of tons)	0.4	0.1
Sales of refined products	48	109
Volumes (millions of tons)	0.1	0.2
Crude oil refining fee	106	97
Volumes (millions of tons)	3.2	3.1

The transactions and balances with TNK-BP controlled companies are as follows:

	As of 30 June 2008 and for the six months ended 30 June 2008	As of 31 December 2007 and for the six months ended 30 June 2007
Trade accounts receivable, net	12,869	6,786
Advances issued and other accounts receivable, net	81	36
Short-term and long-term interest receivable	29	42
Short-term and long-term portion of loans issued	162	110
Trade accounts payable	7,026	4,183
Other accounts payable	40	25
Dividends payable	1,066	792
Other long-term liabilities	80	169
Loans received	1,719	1,445
Sales of crude oil	10,759	7,572
Volumes (millions of tons)	14.3	17.9
Sales of petroleum products	5,904	3,019
Volumes (millions of tons)	8.0	6.6
Other sales	49	50
Purchases of crude oil	359	477
Volumes (millions of tons)	1.1	2.3
Other purchases:		
Management fees	453	388
Consulting services	-	9
Crude oil refining fee	17	-
Volumes (millions of tons)	0.5	-
Other purchases	17	3

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The transactions and balances with other related parties are as follows:

	As of 30 June 2008 and for the six months ended 30 June 2008	As of 31 December 2007 and for the six months ended 30 June 2007
Accounts receivable and loans issued	41	13
Accounts payable and loans received	23	10
Sales of gas	23	-
Volumes (billions of cubic meters)	0.6	-
Gas processing fee	48	20
Volumes (billions of cubic meters)	1.5	0.6

Note 14: Commitments and Contingencies

Economic and operating environment in the Russian Federation. Whilst there have been improvements in economic trends in the Russian Federation, the country continues to display certain characteristics of emerging markets. These characteristics include, but are not limited to, the existence of a currency that is in practice not convertible in most countries and relatively high inflation. Furthermore, the tax, currency, and customs legislation within this country is subject to varying interpretations and changes which can occur frequently.

Gas production and marketing activities. As of 30 June 2008 and 31 December 2007, the Group's capitalized costs related to its gas subsidiaries amounted to USD 651 million and USD 652 million, respectively.

Russian independent gas producers are currently only able to access the domestic gas transmission system upon agreement with Gazprom, Russia's gas monopoly which owns and operates the system. Currently, the Group does not have long-term access to this system.

Taxation. Russian tax 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 activities of the Group may be challenged by the relevant regional and federal authorities. Recent developments suggest that the authorities are becoming more active in seeking to enforce, through the Russian court system, interpretations of tax legislation which may be selective for particular taxpayers and different to the authorities' previous interpretations or practices. Different and selective interpretations of tax regulations by various government authorities and inconsistent enforcement create further uncertainties in the taxation environment in the Russian Federation.

Tax declarations, together with related documentation, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Fiscal periods remain open to review by the authorities for the three calendar years preceding the year of review (one year in the case of customs). Under certain circumstances reviews may cover longer periods. In addition, in some instances new tax regulations have taken retroactive effect. Additional taxes, penalties and interest which may be material to the financial position of the taxpayers may be assessed in the Russian Federation as a result of such reviews.

Tax audits. Pursuant to tax audits conducted in 2006 and 2007, the Russian tax authorities have presented tax acts and decisions in the amount of USD 260 million (RUR 6.5 billion) relating to 2003, 2004 and 2005 in respect of income tax and other taxes of Group subsidiaries. The Group believes that it has made adequate provision for the outcome of the matters raised by the tax authorities.

As of 30 June 2008 and 31 December 2007, the Group has recorded a liability in the amount of USD 46 million (RUR 1.1 billion) and USD 41 million (RUR 1 billion), respectively, related to the matters discussed above.

Oilfield and gasfield licenses. The Group is subject to periodic reviews of its activities by government authorities with respect to the requirements of its licenses. Where appropriate, management of the Group liaise

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(expressed in US Dollars, tabular amounts in millions)

with government authorities to agree on remedial actions and resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties or license limitation, suspension or revocation.

Environmental liabilities. Environmental regulation in the Russian Federation is evolving as is the enforcement posture of government authorities. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material.

The Group's estimated environmental liability was USD 167 million and USD 161 million as of 30 June 2008 and 31 December 2007, respectively. The estimates used by management include uncertainties about a number of factors including the extent of necessary remediation, the technology to be used for remediation and the standards that will constitute an acceptable remediation. As additional information becomes available management will continue to adjust its estimated provision to an appropriate level. The Group's environmental obligations could range up to USD 300 million.

Legal contingencies. The Group is a named defendant in a number of lawsuits as well as a named party in numerous other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a materially adverse effect on the financial position or the operating results of the Group.

In February 2002, Norex Petroleum Limited filed a lawsuit against TNK and certain other defendants in the United States District Court for the Southern District of New York over the ownership of a company, which was owned by an affiliate of the Alfa Group and the Access-Renova Group. In 2002, this company was acquired by TNK. In February 2004, the case was dismissed based on jurisdiction and venue. In July 2005, the Court of Appeals reversed the decision of the District Court and returned the case to the lower court where in September 2007 the case was dismissed. In October 2007, Norex Petroleum Limited petitioned the Court of Appeals for reconsideration of this decision. Management continues to believe that the resolution of the matter will not have a material adverse impact on the financial position of the Group.

On 18 April 2008, a minority shareholder in the Company filed a suit in the Tyumen Arbitration Court against OAO TNK-BP Management ("TBM"), a subsidiary of TNK-BP, and BP Exploration Services, a subsidiary of BP, alleging that an agreement between BP and TBM to provide services by BP specialists to the Group was invalid (the "Services Agreement"). The suit petitioned the Court to rule the Services Agreement null and void. Pursuant to the claimant's application, on 30 April 2008, the Tyumen Arbitration Court issued an injunction suspending all activities under the Services Agreement. On 23 July 2008, the Tyumen Arbitration Court ruled the Services Agreement null and void. The Group believes that it has meritorious grounds to appeal this ruling and such appeal was filed on 22 August 2008. Currently it is not possible to predict the ultimate outcome of the appeal hearing or to reasonably estimate any potential financial effect.

Other matters. Subsequent to the year ended 31 December 2007, a number of differences arose between BP and AAR, the shareholders of TNK-BP. These included disputes with regard to the provision of services by BP specialists to the Group, the employment of non-Russian nationals by the Group, the board of director nomination process for certain subsidiaries of the Group, including the Company, and the removal of the current Chief Executive Officer of the Group. At this stage there has been no significant impact on the Group's operation and on 4 September 2008, the shareholders entered into a Memorandum of Understanding to agree on a number of matters including governance, executive management structure and corporate strategy.

Also in August 2008, pursuant to a number of inspections conducted by Russian Labour Authorities, the Chief Executive Officer of the Group was disqualified as acting as an officer of a Russian legal entity for a period of two years. The Group believes that it has meritorious grounds to appeal this disqualification. Pending the outcome of the appeal by the Group, the current Chief Executive Officer continues to operate in that position.

Currently, it is not possible to predict the ultimate outcome which may arise from these matters or to reasonably estimate any potential effect on operations or the financial condition of the Group.

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(expressed in US Dollars, tabular amounts in millions)

Note 15: Segment information

Presented below is information about the Group's operations for the six months ended 30 June 2008 and 2007 in accordance with SFAS No.131, *Disclosures about Segments of an Enterprise and Related Information*.

The Group has three operating segments – exploration and production (“E&P”); refining, marketing, and distribution (“RM&D”); and oil field services. Management on a regular basis assesses the performance of these operating segments. The exploration and production segment explores for, develops and produces crude oil and gas. The refining, marketing and distribution segment processes crude oil into refined products, and also purchases, sells and transports crude oil and refined petroleum products. The oil field services segment provides support and maintenance to oil and gas exploration and production facilities.

The Other segment primarily includes corporate activities. In addition, the Other segment includes gains on disposals of subsidiaries and earnings from equity investments.

Commencing 1 January 2008, certain changes to segment measures reported to management were introduced with the following effects for segment reporting:

- The Group discloses EBITDA by segment as a measure of profit / loss.
- All crude oil sales in the E&P segment are presented as intersegment revenues.
- E&P segment revenues are presented using notional intersegment prices which are set at the lowest netback available depending on type of crude and channel.
- Projects related costs incurred on corporate level are allocated to individual segments.
- All trade accounts receivable and export value-added tax receivable are presented as RM&D assets.
- Accounts receivable from and loans issued to TNK-BP controlled companies are not allocated to individual segments.
- Segment assets are presented net of intersegment loans as the latter are considered to be managed by the corporate treasury function.
- Segment information is prepared using estimates of market prices and other forecasted factors. Prices and Other Differences included in the reconciliations in the tables below represent differences between estimated and actual results.

As of 30 June 2008 and for the six months ended 30 June 2008	Exploration and Production	Refining, Marketing and Distribution	Oil Field Services	Other	Elimination	Total
Revenues						
Third parties	416	24,079	21	-	-	24,516
Intersegment	12,223	18	280	-	(12,521)	-
Segment revenues	12,639	24,097	301	-	(12,521)	24,516
Prices differences						326
Other differences						72
Consolidated revenues						24,914
EBITDA	4,912	1,726	85	34	(45)	6,712
Segment assets	15,097	7,062	311	264	(538)	22,196
Balances with TNK-BP controlled companies						13,141
Consolidated assets						35,337

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(expressed in US Dollars, tabular amounts in millions)

EBITDA is reconciled to income before income taxes and minority interest as follows:

EBITDA	6,712
Export duties update	93
Other differences	33
Depreciation, depletion and amortization	(705)
Interest income and net other income	70
Exchange gain / (loss), net	11
Interest expense	(81)
Income before income taxes and minority interest	6,133

In prior periods, E&P segment revenues were presented based on actual realized prices before the deduction of export duties and transportation costs. Projects related costs incurred on corporate level were included in Other segment. Intersegment loans and receivables were included in segment assets. Balances with TNK-BP controlled companies were allocated to individual segments. Trade accounts receivable and export value-added tax receivable relating to sales of E&P entities were presented in E&P segment assets. Further, segment information was prepared based on actual results.

As of 31 December 2007 and for the six months ended 30 June 2007	Exploration and Production	Refining, Marketing and Distribution	Oil Field Services	Other	Elimination	Consolidated
Revenues						
Third parties	8,528	6,747	19	27	-	15,321
Intersegment	2,533	155	276	38	(3,002)	-
Segment revenues	11,061	6,902	295	65	(3,002)	15,321
Income before income taxes and minority interest	1,937	1,313	(38)	(382)	(90)	2,740
Segment assets	23,629	12,925	455	1,950	(11,055)	27,904

Note 16: Subsequent Events

In August 2008, pursuant to its agreement with OGK-1, TNK-BP has entered into a joint venture in the Nizhnevartovsk region (Nizhnevartovsk GRES Holding Limited). Following the terms of the agreement, the Group will enter into long-term agreements with the joint venture for the supply of gas and purchase of electric power.