

**TNK-BP INTERNATIONAL LIMITED**  
**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)**

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

	Note	30 June 2008	31 December 2007
<b>Assets</b>			
Cash and cash equivalents		2,939	3,224
Restricted cash		10	6
Trade and other receivables, net	4	6,279	5,520
Inventories	5	1,658	1,405
Assets held for sale	7	745	748
Other current assets		268	213
<b>Total current assets</b>		<b>11,899</b>	<b>11,116</b>
Long-term investments	8	2,457	2,306
Property, plant and equipment, net		15,904	14,678
Goodwill and intangible assets	9	938	407
Other long-term assets		953	832
<b>Total assets</b>		<b>32,151</b>	<b>29,339</b>
<b>Liabilities and Shareholders' Equity</b>			
Short-term debt and current portion of long-term debt	10	1,612	1,624
Trade accounts and notes payable		1,559	1,491
Other accounts payable and accrued expenses	11	1,228	1,445
Taxes payable	13	2,175	1,612
Liabilities associated with assets held for sale	7	76	86
<b>Total current liabilities</b>		<b>6,650</b>	<b>6,258</b>
Long-term debt	10	6,521	6,924
Asset retirement obligations		340	335
Deferred income tax liabilities		2,110	1,773
Other long-term liabilities		195	190
<b>Total liabilities</b>		<b>15,816</b>	<b>15,480</b>
Commitments and contingencies	16	-	-
<b>Minority interest</b>		<b>1,247</b>	<b>1,056</b>
Ordinary share capital (authorised and issued: as of 30 June 2008 – 54,000 shares, USD 1.0 par value, as of 31 December 2007 – 53,000 shares, USD 1.0 par value)		-	-
Additional paid-in capital		2,976	2,976
Retained earnings		12,112	9,827
<b>Total shareholders' equity</b>		<b>15,088</b>	<b>12,803</b>
<b>Total liabilities and shareholders' equity</b>		<b>32,151</b>	<b>29,339</b>

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

**TNK-BP INTERNATIONAL LIMITED**  
**Interim Condensed Consolidated Statements of Income (Unaudited)**  
(expresses in millions of US Dollars)

	Note	Six months ended 30 June 2008	Six months ended 30 June 2007
<b>Revenues</b>			
Sales and other operating revenues	14	28,295	17,031
<b>Total revenues</b>		<b>28,295</b>	<b>17,031</b>
<b>Costs and other deductions</b>			
Export duties		7,627	4,425
Taxes other than income tax	13	5,896	3,454
Cost of purchased products		2,497	1,411
Operating expenses		2,462	1,838
Transportation expenses		1,532	1,280
Selling, general and administrative expenses		881	776
Depreciation, depletion and amortization		761	721
Exploration expenses		54	81
Loss on disposals and impairment of assets		15	93
<b>Total costs and other deductions</b>		<b>21,725</b>	<b>14,079</b>
<b>Other income and expenses</b>			
Earnings from equity investments	8	147	128
Gain on disposals of subsidiaries		60	30
Interest income and net other income		121	7
Exchange gain / (loss), net		58	68
Interest expense		(273)	(241)
<b>Total other income and expenses</b>		<b>113</b>	<b>(8)</b>
<b>Income before income taxes and minority interest</b>		<b>6,683</b>	<b>2,944</b>
<b>Income taxes</b>			
Current tax expense		1,492	930
Deferred tax expense / (benefit)		189	(232)
<b>Total income tax expense</b>	12	<b>1,681</b>	<b>698</b>
<b>Income before minority interest</b>		<b>5,002</b>	<b>2,246</b>
Minority interest		317	185
<b>Net income</b>		<b>4,685</b>	<b>2,061</b>

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

**TNK-BP INTERNATIONAL LIMITED**  
**Interim Condensed Consolidated Statements of Cash Flows (Unaudited)**  
(expresses in millions of US Dollars)

	Note	Six months ended 30 June 2008	Six months ended 30 June 2007
<b>Cash flows from operating activities</b>			
Net income		4,685	2,061
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization		761	721
Deferred tax expense / (benefit)		189	(232)
Minority interest		317	185
Loss on disposals and impairment of assets		15	93
Gain on disposals of subsidiaries		(60)	(30)
Earnings from equity investments less dividends received		(128)	(117)
Non-cash provisions		12	2
Dry hole expenses		4	12
Other non-cash adjustments, net		10	(22)
Changes in operational working capital, excluding cash and cash equivalents:			
Restricted cash		(4)	-
Trade and other receivables, net		(506)	812
Inventories		(250)	(250)
Accounts and notes payable and accrued expenses		33	261
Taxes payable		540	(196)
Other		(34)	(295)
<b>Net cash provided by operating activities</b>		<b>5,584</b>	<b>3,005</b>
<b>Investing activities</b>			
Capital expenditures		(2,008)	(1,452)
Grants used for capital expenditures		(396)	(146)
Grants received		126	140
Purchase of intangible assets		(28)	(9)
Proceeds from disposals of property, plant and equipment		14	20
Purchase of investments	6	(788)	(527)
Proceeds from sales of subsidiaries and joint ventures		52	15
Loans issued		(22)	(91)
<b>Net cash used for investing activities</b>		<b>(3,050)</b>	<b>(2,050)</b>
<b>Financing activities</b>			
Proceeds from issuance of long-term debt		49	1,334
Cost associated with the issuance of long-term debt		-	(4)
Repayment of long-term debt		(395)	(100)
Proceeds from issuance of short-term debt		193	435
Repayment of short-term debt		(275)	(1,590)
Dividends paid to minorities		(45)	(142)
Dividends paid to shareholders		(2,400)	(1,000)
<b>Net cash used for financing activities</b>		<b>(2,873)</b>	<b>(1,067)</b>
Effect of exchange rate changes on cash and cash equivalents		39	32
Cash and cash equivalents reclassified to assets held for sale	7	15	(8)
<b>Net change in cash and cash equivalents</b>		<b>(285)</b>	<b>(88)</b>
Cash and cash equivalents at beginning of period		3,224	1,740
<b>Cash and cash equivalents at end of period</b>		<b>2,939</b>	<b>1,652</b>

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

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

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

	Number of ordinary shares (thousands)	Ordinary share capital	Additional paid-in capital	Retained earnings	Total shareholders' equity
<b>Balance as of 31 December 2007</b>	53	-	2,976	9,827	12,803
Shares issued (Note 1)	1	-	-	-	-
Net income	-	-	-	4,685	4,685
Dividends	-	-	-	(2,400)	(2,400)
<b>Balance as of 30 June 2008</b>	54	-	2,976	12,112	15,088

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

## **TNK-BP INTERNATIONAL LIMITED**

### **Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)**

(expressed in US Dollars, tabular amounts in millions)

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#### **Note 1: Organization**

TNK-BP International Limited (“TNK-BP International” or 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, Ukraine and Internationally.

TNK-BP International is a wholly owned subsidiary of TNK-BP Limited (“TNK-BP” or “Parent”), 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, which in turn owned a 96.1 percent interest in OAO Tyumen Oil Company (“TNK”) and a 100 percent interest in Sorsare 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 STBP Holdings Limited which owned BP Moscow Retail (“BP 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.

On 1 February 2008, TNK-BP Industrial Holdings Limited approved the issuance of an additional 1,000 shares by the Company. On 31 March 2008, TNK-BP Industrial Holdings Limited contributed its 75.0 percent interest in STBP Holdings Limited as consideration for the newly issued shares. This transaction is recognized as a transaction under common control.

The unaudited interim condensed consolidated financial statements of the Group present the Group’s financial position as of 30 June 2008 and the results of its operations, its cash flows and its changes in equity for the six month period then ended as though the transfer of 75.0 percent interest in STBP Holdings Limited to the Company discussed above had occurred on 1 January 2008. The comparative information has been restated to present the combined financial position, results of operations, cash flows of the Group and STBP Holdings Limited and its subsidiaries.

#### **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 TNK-BP 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 certain subsidiaries of the Group is either the Russian Rouble or the Ukrainian Hryvnia depending on the location and nature of the activities of the particular business, in which case 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 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

## TNK-BP INTERNATIONAL LIMITED

### Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(expressed in US Dollars, tabular amounts in millions)

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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 Statement, the Group did not change its accounting policy for measurement of financial instruments. The adoption of this 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. GAAP. The guidance for determining the useful life of a recognized intangible asset is to be applied

**TNK-BP INTERNATIONAL LIMITED****Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)**

(expressed in US Dollars, tabular amounts in millions)

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 34 million as of 30 June 2008 and 31 December 2007, respectively)	2,277	1,390
Recoverable value-added tax	2,005	2,344
Advances issued	1,326	1,393
Grants to be received	343	55
Taxes receivable	194	176
Other receivables (net of allowance for doubtful accounts of USD 11 million and USD 12 million as of 30 June 2008 and 31 December 2007, respectively)	134	162
<b>Total trade and other receivables, net</b>	<b>6,279</b>	<b>5,520</b>

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 169 million and USD 184 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	1,157	952
Materials and supplies	501	453
<b>Total inventories</b>	<b>1,658</b>	<b>1,405</b>

**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.

In December 2007 through March 2008, the Group entered into series of transactions to acquire gasoline filling stations and other retail assets in Moscow, the Moscow region and Ukraine. The total purchase price amounted to USD 891 million of which USD 260 million relate to transactions completed in December 2007.

**TNK-BP INTERNATIONAL LIMITED****Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)**

(expressed in US Dollars, tabular amounts in millions)

The acquisition was accounted for using the purchase method. In the consolidated Balance Sheets as of 30 June 2008 and 31 December 2007, the purchase price is allocated on a preliminary basis as follows:

	30 June 2008	31 December 2007
Property, plant and equipment	282	90
Intangible assets	413	124
Goodwill	345	94
Long-term deferred income tax liability	(149)	(48)
<b>Total consideration paid</b>	<b>891</b>	<b>260</b>

As of 30 June 2008, the Group had paid USD 841 million of the total consideration of USD 891 million. The outstanding consideration amounting to USD 50 million is accounted for as deferred consideration and included in Other accounts payable and accrued expenses – see Note 11.

As of 31 December 2007, the Group had paid USD 100 million of the consideration of USD 260 million relating to the purchase transactions completed in December 2007. The outstanding consideration amounting to USD 160 million was accounted for as deferred consideration and included in Other accounts payable and accrued expenses – see Note 11.

The intangible assets relate to the value associated with the land rights and various permits allowing the building or operation of gasoline stations. The intangible assets will be amortized over a weighted average period of 20 years. The goodwill relates to synergies expected to be realised after the integration of the retail business acquired into the Group.

**Note 7: Assets Held for Sale**

In June 2007, the Group entered into a Heads of Terms with OAO Gazprom (“Gazprom”) and BP Plc (“BP”) whereby the Group has agreed to sell to Gazprom its interests in Rusia Petroleum and OAO East Siberian Gas Company (“ESGC”). Rusia Petroleum holds the exploration and production licence for the Kovykta field.

The Group classified the related assets and liabilities as held for sale in the interim condensed consolidated balance sheet as of 30 June 2008 and 31 December 2007. The major classes of assets and liabilities of Rusia Petroleum and ESGC are:

	30 June 2008	31 December 2007
Cash and cash equivalents	5	20
Accounts and notes receivable, net	48	60
Inventories	3	6
Property, plant and equipment, net	660	657
Other assets	29	5
<b>Assets held for sale</b>	<b>745</b>	<b>748</b>
Trade accounts and notes payable	17	46
Other accounts payable and accrued expenses	3	-
Taxes payable	1	2
Deferred income tax liability	55	38
<b>Liabilities associated with assets held for sale</b>	<b>76</b>	<b>86</b>

Management believes that the above assets balances will be fully recovered through the intended sale to Gazprom.

**TNK-BP INTERNATIONAL LIMITED****Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)**

(expressed in US Dollars, tabular amounts in millions)

**Note 8: Long-Term Investments**

	30 June 2008	31 December 2007
Advances to and investments in affiliates and joint ventures:		
OAO NGK Slavneft and its subsidiaries ("Slavneft")	2,423	2,279
OOO Novo-Urengoiskaya Gazovaya Kompaniya ("NUGK")	3	-
Total advances to and investments in affiliates and joint ventures	2,426	2,279
Long-term investments, at cost	31	27
<b>Total long-term investments</b>	<b>2,457</b>	<b>2,306</b>

**Slavneft.** The Group's earnings from its equity investment in Slavneft for the six months ended 30 June 2008 and 2007 amounted to USD 144 million and USD 124 million, respectively.

No dividends were declared by Slavneft for the six months ended 30 June 2008. For the six months ended 30 June 2007 the Group's share in Slavneft declared dividends amounted to USD 112 million.

**NUGK.** In December 2007, pursuant to its agreement with Gazprom, the Group has participated as a Shareholder in a gas transportation joint venture in the Urengoy region (NUGK). The joint venture will increase the sales of gas, produced by the Group. The Group has 50 percent in the joint venture and accounts for this investment under the equity method.

**Note 9: Goodwill and Intangible Assets**

	Cost	Accumulated amortization	Net book value
Intangible assets			
Intangible assets associated with land rights and permits	150	(2)	148
Other intangible assets	211	(46)	165
Total intangible assets	361	(48)	313
Goodwill related to the acquisition of subsidiaries	94	-	94
<b>Balance as of 31 December 2007</b>	<b>455</b>	<b>(48)</b>	<b>407</b>
	Cost	Accumulated amortization	Net book value
Intangible assets			
Intangible assets associated with land rights and permits	440	(11)	429
Other intangible assets	228	(64)	164
Total intangible assets	668	(75)	593
Goodwill related to the acquisition of subsidiaries	345	-	345
<b>Balance as of 30 June 2008</b>	<b>1,013</b>	<b>(75)</b>	<b>938</b>

As of 30 June 2008 and 31 December 2007, the Group's intangible assets associated with land rights and permits include USD 402 million and USD 124 million (net of accumulated amortization), respectively, relating to the acquisition of certain gasoline filling stations and other retail assets in Moscow, the Moscow region and Ukraine. These intangible assets are amortized on a straight-line basis over a weighted average period of 20 years – see Note 6.

Other intangible assets include mainly software licenses used in subsidiaries and road-use rights which are being amortized on a straight-line basis over average periods of 3 years and 48 years, respectively.

**TNK-BP INTERNATIONAL LIMITED****Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)**

(expressed in US Dollars, tabular amounts in millions)

As of 30 June 2008 and 31 December 2007, the Group had goodwill amounting to USD 345 million and USD 94 million, respectively, relating to the above acquisition – see Note 6.

**Note 10: 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
Other	11	-
Current portion of long-term debt	1,421	1,355
<b>Total short-term debt and the current portion of long-term debt</b>	<b>1,612</b>	<b>1,624</b>

Long-term debt is as follows:

	30 June 2008	31 December 2007
Obligations to banks, US dollar denominated:		
Medium-term finance – variable interest debt (composite variable interest: as of 30 June 2008 – Libor plus 0.7 percent, as of 31 December 2007 – Libor plus 0.7 percent)	3,242	3,636
Corporate bonds:		
Eurobond TNK-BP 2011 – fixed interest debt (coupon interest rate – 6.875 percent, effective interest rate – 6.98 percent)	499	498
Eurobond TNK-BP 2016 – fixed interest debt (coupon interest rate – 7.50 percent, effective interest rate – 7.55 percent)	997	997
Eurobond TNK-BP 2012 – fixed interest debt (coupon interest rate – 6.125 percent, effective interest rate – 6.15 percent)	500	499
Eurobond TNK-BP 2017 – fixed interest debt (coupon interest rate – 6.625 percent, effective interest rate – 6.74 percent)	794	794
Eurobond TNK-BP 2013 – fixed interest debt (coupon interest rate – 7.50 percent, effective interest rate – 7.69 percent)	596	595
Eurobond TNK-BP 2018 – fixed interest debt (coupon interest rate – 7.875 percent, effective interest rate – 8.06 percent)	1,087	1,086
Other	227	174
Less: current portion of long-term debt	(1,421)	(1,355)
<b>Total long-term debt</b>	<b>6,521</b>	<b>6,924</b>

**Medium-term uncollateralized finance.** In September 2005, the Group executed a loan framework agreement for up to USD 500 million with a consortium of international banks to be used for general corporate purposes. Under the terms of the loan agreement the loan matures in September 2008 and is repayable in one lump sum at the maturity date. The loan bears interest at LIBOR plus 0.7 percent and is uncollateralized. The loan amount outstanding as of 30 June 2008 and 31 December 2007 was USD 500 million.

In June 2006, the Group signed a USD 1.8 billion unsecured medium-term loan facility with a syndicate of international banks. The loan bears interest at 0.65 percent over LIBOR, matures in June 2010 and is repayable in eleven equal instalments on a quarterly basis starting from December 2007. The loan amount outstanding as of 30 June 2008 and 31 December 2007 was USD 1.3 billion and USD 1.6 billion, respectively.

In November 2006, the Group entered into an agreement for a USD 1 billion syndicated unsecured loan facility arranged by a consortium of international banks. The facility bears interest at LIBOR plus 0.575 percent per annum for the first three years and 0.625 percent per annum thereafter. The loan matures in November 2011 and is repayable in nine equal installments on a quarterly basis starting from November 2007. In March 2007, USD

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(expressed in US Dollars, tabular amounts in millions)

100 million under this facility was repaid ahead of schedule. Thus, the loan amount outstanding as of 30 June 2008 and 31 December 2007 was USD 900 million.

In November 2007, the Group entered into an agreement for a USD 600 million loan facility arranged by a consortium of international banks. The loan bears interest at LIBOR plus 0.75 percent per annum. The facility matures in May 2010 and is repayable in nine equal instalments on a quarterly basis starting from May 2008. The loan amount outstanding as of 30 June 2008 and 31 December 2007 was USD 533 million and USD 600 million, respectively.

**Eurobonds.** As of 30 June 2008 and 31 December 2007, the Group had USD 4.5 billion of Eurobonds issued and outstanding.

In July 2006, the Group placed USD 1.5 billion Eurobonds split into 5 and 10-year tranches maturing in 2011 and 2016 respectively. The 5-year USD 0.5 billion issue bears interest of 6.875 percent per annum payable semi-annually and has been issued at a discount of 0.441 percent to the nominal value. The 10-year USD 1 billion issue bears interest of 7.5 percent per annum payable semi-annually and has been issued at a discount of 0.374 percent to the nominal value.

In March 2007, the Group placed USD 1.3 billion Eurobonds split into 5 and 10-year tranches maturing in 2012 and 2017 respectively. The 5-year USD 0.5 billion issue bears interest of 6.125 percent per annum payable semi-annually and has been issued at a discount of 0.124 percent to the nominal value. The 10-year USD 0.8 billion issue bears interest of 6.625 percent per annum payable semi-annually and has been issued at a discount of 0.799 percent to the nominal value.

In October 2007, the Group placed USD 1.7 billion Eurobonds split into two tranches of USD 0.6 billion and USD 1.1 billion maturing in March 2013 and March 2018, respectively. The USD 0.6 billion issue bears interest of 7.5 percent per annum payable semi-annually and has been issued at a discount of 0.834 percent to the nominal value. The USD 1.1 billion issue bears interest of 7.875 percent per annum payable semi-annually and has been issued at a discount of 1.272 percent to the nominal value.

The proceeds from the Eurobond issues discussed above have been used for general corporate purposes.

The outstanding long-term debt is subject to certain financial and non-financial covenants as stipulated by corresponding borrowing agreements. Among other matters, these covenants require the Group to maintain certain financial ratios calculated in accordance with US GAAP financial statements. In addition, long-term debt is subject to cross default provisions.

#### Note 11: Other Accounts Payable and Accrued Expenses

	30 June 2008	31 December 2007
Advances from customers	323	383
Interest accrued	308	295
Salaries payable and other related costs	306	413
Dividends payable to minority shareholders	67	51
Deferred consideration for the acquisition of subsidiaries	50	160
Other	174	143
<b>Total other accounts payable and accrued expenses</b>	<b>1,228</b>	<b>1,445</b>

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**Note 12: 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 and accrual of withholding tax on earnings to be distributed to foreign subsidiaries. The effective tax rate of the Group approximated 25 percent and 24 percent for the six months ended 30 June 2008 and 2007, respectively.

**Note 13: 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	5,103	2,764
Excise taxes	518	459
Pension fund and other social taxes	117	102
Property tax	101	69
Non-recoverable VAT expense	24	33
Tax penalties and interest	16	8
Other taxes	17	19
<b>Total taxes other than income tax</b>	<b>5,896</b>	<b>3,454</b>

**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
Income taxes	430	355
Value-added tax	300	224
Excise taxes	99	106
Pension fund and other social taxes	71	70
Current deferred income tax liability	61	37
Tax penalties and interest	57	37
Property tax	52	32
Other taxes	25	23
Total taxes payable	2,180	1,615
Less: long-term taxes payable	(5)	(3)
<b>Current taxes payable</b>	<b>2,175</b>	<b>1,612</b>

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**Note 14: 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)	13,897	8,572
Crude oil – domestic	1,140	720
Petroleum products – export (Europe and CIS)	7,952	4,595
Petroleum products – domestic	4,630	2,751
Other revenues	676	393
<b>Sales and other operating revenues</b>	<b>28,295</b>	<b>17,031</b>

**Note 15: Related Party Transactions**

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

	30 June 2008	31 December 2007
Cash and cash equivalents with Alfa Bank	123	63
Accounts and notes receivable	5	4

The Group has the following transactions and balances in the ordinary course of business with BP, a major shareholder:

	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 and notes receivable	127	46
Accounts and notes payable	52	69
Sales of crude oil for export	909	102
Volumes (millions of tons)	1.2	0.2
Sales of refined products for export	586	392
Volumes (millions of tons)	0.9	1.1
Seconded and integration costs expensed	21	55

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

	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 and notes receivable	47	20
Dividends receivable	78	98
Accounts and notes payable	84	95
Loans received	85	59
Sales of crude oil for export	449	100
Volumes (millions of tons)	0.9	0.3
Sales of refined products	48	109
Volumes (millions of tons)	0.1	0.2
Purchases of crude oil and petroleum products	1,407	922
Volumes (millions of tons)	4.9	5.3
Refining fee	106	97
Volumes (millions of tons)	3.2	3.1

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The balances with the Parent and its subsidiaries are as follows:

	As of 30 June 2008	As of 31 December 2007
Accounts receivable and loans issued	12	10
Accounts payable and loans received	27	28

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
Loans issued	35	13
Accounts payable	23	10
Sales of gas	23	-
Volumes (billions of cubic meters)	0.6	-
Processing fee	48	20
Volumes (billions of cubic meters)	1.5	0.6

#### Note 16: Commitments and Contingencies

**Economic and operating environment in the Russian Federation and Ukraine.** Whilst there have been improvements in economic trends in the Russian Federation and Ukraine, the countries continue 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 these countries 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 1,311 million and USD 1,310 million, respectively. These amounts include the capitalized costs of Russia Petroleum and ESGC, the entities which are involved in the development of the Kovykta field – see below.

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.

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**Tax audits.** In November 2005, the Russian tax authorities presented a claim in respect of the use of profit tax concessions by a Group trading subsidiary in 2001 in the amount of USD 340 million (RUR 9.8 billion). A tax decision in the same amount was received in January 2006; the Group subsequently challenged this decision in the courts. In October 2006, the Group received favourable court rulings which would reduce the amount of the exposure to USD 276 million (RUR 7.3 billion); however, legal proceedings continue. The Group believes that it has made adequate provision for the outcome of this matter.

Pursuant to tax audits conducted in 2006 and 2007, the Russian tax authorities have presented tax acts and decisions in the amount of USD 360 million (RUR 9.0 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 516 million (RUR 12.1 billion) and USD 465 million (RUR 11.4 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 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.

In January 2007, the Federal Subsoil Use Agency ("Rosnedra") conducted a license compliance audit at Rusia Petroleum, the Group's subsidiary and holder of the Kovykta field license. A subsequent letter of notification dated February 2007 from Rosnedra to Rusia Petroleum required that the company remedies alleged non-compliance with required production levels within a three month period, failing which, the question of license revocation would be considered.

In April 2007 the Group filed a claim with the Irkutsk Arbitration Court challenging the interpretation of the license agreement by Rosnedra as to required production levels. In May 2007, related to this appeal, the Court issued an injunction as to any actions by Rosnedra until which time as the Court had ruled upon the appeal. Subsequently, the court ruled that it did not have jurisdiction to rule on this appeal matter.

In June 2007, the Group entered into a Heads of Terms with Gazprom and BP whereby the Group has agreed to sell to Gazprom its interests in Rusia Petroleum and ESGC – see Note 7. Capitalized costs relating to the Kovykta project amounted to USD 660 million as of 30 June 2008. Management believes that these capitalized costs will be fully recovered through the intended sale to Gazprom.

Furthermore, according to the Heads of Terms, Gazprom will grant to the Group an option to acquire up to 25% plus one share in the share capital and debt of Rusia Petroleum and ESGC provided certain conditions are met through future cooperation between the parties to the Heads of Terms.

**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 172 million and USD 167 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

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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.

In 2000, the Group acquired a 59.0 percent interest in LINOS, a refining company, located in Eastern Ukraine in a privatization auction. As of the date of acquisition, LINOS was under external management appointed in September 2000 by the Supreme Arbitration Court of Ukraine, for a period of up to 10 years. The external management was charged with restoring LINOS to solvency through economic reform and restructuring the refinery's obligations. During the period of external management all claims against LINOS were suspended. On 6 February 2003, the Ukrainian Court approved a plan by the external manager to restructure LINOS. Under the restructuring plan, a new company, LINIK, was formed by the Group. In accordance with the plan, the refining assets of LINOS were contributed to LINIK; the Group and minority shareholders also contributed cash and their equity interests in LINOS. In November 2003, the external management obtained a final agreement with certain LINOS creditors as to the completion of the restructuring plan. Those creditors with valid claims against LINOS when declared bankrupt were granted an equity interest in LINIK resulting in the bankruptcy proceedings being cancelled in December 2003. In December 2006, further bankruptcy proceedings against LINOS were initiated by the creditors who were not part of the initial agreement. On 9 October 2007, the Court ruled that liquidation of LINOS can proceed. In April 2008, pursuant to the liquidation process, most of the remaining assets of LINOS, primarily an equity interest in LINIK, have been sold to a Group subsidiary for USD 43 million. On 1 July 2008, the bankruptcy procedures were completed, and LINOS was liquidated. The resolution of this matter did not have a material impact on the financial position of the Group.

On 18 April 2008, a minority shareholder in TNK-BP Holding, a Group company, filed a suit in the Tyumen Arbitration Court against TNK-BP Management ("TBM") and BP Exploration Services, a subsidiary of BP, alleging that an agreement between BP and TBM to provide services by BP specialists to TBM 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 the Company. 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 TNK-BP Holding, 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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**Note 17: 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.
- 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	<b>Exploration and Production</b>	<b>Refining, Marketing and Distribution</b>	<b>Oil Field Services</b>	<b>Other</b>	<b>Elimination</b>	<b>Total</b>
Revenues						
Third parties	416	27,359	21	-	-	27,796
Intersegment	12,223	18	280	-	(12,521)	-
<b>Segment revenues</b>	<b>12,639</b>	<b>27,377</b>	<b>301</b>	<b>-</b>	<b>(12,521)</b>	<b>27,796</b>
Prices differences						371
Other differences						128
<b>Consolidated revenues</b>						<b>28,295</b>
<b>EBITDA</b>	<b>4,857</b>	<b>1,960</b>	<b>85</b>	<b>490</b>	<b>(45)</b>	<b>7,347</b>
<b>Segment assets</b>	<b>16,261</b>	<b>13,018</b>	<b>311</b>	<b>3,154</b>	<b>(593)</b>	<b>32,151</b>

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

EBITDA	7,347
Export duties update	105
Other differences	86
Depreciation, depletion and amortization	(761)
Interest income and net other income	121
Exchange gain / (loss), net	58
Interest expense	(273)
<b>Income before income taxes and minority interest</b>	<b>6,683</b>

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. 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	950	16,056	19	6	-	17,031
Intersegment	10,111	156	276	24	(10,567)	-
<b>Segment revenues</b>	<b>11,061</b>	<b>16,212</b>	<b>295</b>	<b>30</b>	<b>(10,567)</b>	<b>17,031</b>
<b>Income before income taxes and minority interest</b>	<b>1,931</b>	<b>1,576</b>	<b>(44)</b>	<b>(477)</b>	<b>(42)</b>	<b>2,944</b>
<b>Segment assets</b>	<b>24,755</b>	<b>14,580</b>	<b>455</b>	<b>8,573</b>	<b>(19,024)</b>	<b>29,339</b>

**Note 18: Subsequent Events**

In August 2008, pursuant to its agreement with OGK-1, the Group has entered into a joint venture in the Nizhnevartovsk region (Nizhnevartovsk GRES Holding Limited). Under the agreement with OGK-1 signed in February 2008, OGK-1 contributed two existing power units of Nizhnevartovskaya TPP and the Group invested approximately Euro 230 million in the newly established joint venture in exchange for a 25 percent plus 1 share in the venture. Following the terms of the agreement, the joint venture will construct a third power unit and will enter into long-term agreements for the supply of gas and electric power. The Agreement also provides an option for the Group to increase its share up to 50% less one share after the construction of the new power unit is completed which is planned for 2010. The Group will account for this investment under the equity method.