

TNK-BP INTERNATIONAL LIMITED
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2007 AND 31 DECEMBER 2006 AND FOR THE SIX
MONTHS ENDED 30 JUNE 2007 AND 2006
(UNAUDITED)

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

	Note	30 June 2007	31 December 2006
Assets			
Cash and cash equivalents		1,561	1,696
Restricted cash		11	12
Trade and other receivables, net	4	5,175	5,930
Inventories	5	1,126	866
Assets held for sale	7	668	-
Other current assets		236	208
Total current assets		8,777	8,712
Long-term investments	8	2,131	2,194
Property, plant and equipment, net		13,038	12,238
Other long-term assets		908	456
Total assets		24,854	23,600
Liabilities and Shareholders' Equity			
Short-term debt and the current portion of long-term debt	9	1,428	2,093
Trade accounts and notes payable		1,082	746
Other accounts payable and accrued expenses	10	845	1,049
Taxes payable	12	1,964	2,326
Liabilities associated with assets held for sale	7	96	-
Total current liabilities		5,415	6,214
Long-term debt	9	5,585	4,841
Asset retirement obligations		239	231
Deferred income tax liabilities		1,486	1,333
Other long-term liabilities		162	172
Total liabilities		12,887	12,791
Minority interest		942	813
Ordinary share capital (authorised and issued – 53,000 shares, USD 1.0 par value)		-	-
Additional paid-in capital		2,976	2,976
Retained earnings		8,049	7,020
Total shareholders' equity		11,025	9,996
Commitments and contingencies		-	-
Total liabilities and shareholders' equity		24,854	23,600

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 2007	Six months ended 30 June 2006
Revenues			
Sales and other operating revenues	13	16,900	18,020
Total revenues		16,900	18,020
Costs and other deductions			
Export duties		4,425	4,892
Taxes other than income tax	12	3,451	3,571
Operating expenses		1,872	1,247
Cost of purchased products		1,358	1,783
Transportation expenses		1,274	1,227
Selling, general and administrative expenses		747	635
Depreciation, depletion and amortisation		717	645
Loss on disposals and impairment of assets		93	12
Exploration expenses		81	56
Total costs and other deductions		14,018	14,068
Other income and expenses			
Earnings from equity investments		128	335
Income from disposal of subsidiaries		30	12
Interest income and net other income		5	38
Exchange gain (loss), net		68	(56)
Interest expense		(241)	(155)
Total other income and expenses		(10)	174
Income before income taxes and minority interest		2,872	4,126
Income taxes			
Current tax expense		911	936
Deferred tax expense (benefit)		(241)	115
Total income tax expense	11	670	1,051
Income before minority interest		2,202	3,075
Minority interest		173	174
Net income		2,029	2,901

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

	Note	Six months ended 30 June 2007	Six months ended 30 June 2006
Cash flows from operating activities			
Net income		2,029	2,901
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortisation		717	645
Deferred tax expense (benefit)		(241)	115
Minority interest		173	174
Loss on disposals and impairment of assets		93	12
Income from disposal of subsidiaries		(30)	(12)
Earnings from equity investments less dividends		(117)	(234)
Non-cash provisions		2	10
Dry hole expenses		12	7
Other non-cash adjustments, net		(26)	7
Changes in operational working capital, excluding cash:			
Trade and other receivables, net		814	(474)
Inventories		(246)	(125)
Accounts and notes payable and accrued expenses		262	(154)
Taxes payable		(197)	236
Other		(302)	8
Net cash provided by operating activities		2,943	3,116
Investing activities			
Capital expenditures		(1,445)	(1,170)
Subventions used for capital expenditures		(146)	(76)
Subventions received		140	66
Proceeds from disposals of property, plant and equipment		20	8
Purchase of investments	6	(527)	(77)
Proceeds from sales of subsidiaries and joint ventures		15	12
Loans issued		(91)	-
Loans repaid		-	23
Net cash used for investing activities		(2,034)	(1,214)
Financing activities			
Proceeds from issuance of long-term debt		1,334	-
Cost associated with the issuance of long-term debt		(4)	-
Repayment of long-term debt		(100)	(98)
Proceeds from issuance of short-term debt		435	1,262
Repayment of short-term debt		(1,590)	(362)
Change in restricted cash		(1)	7
Dividends paid to minorities		(142)	-
Dividends paid to shareholders		(1,000)	(1,540)
Net cash used for financing activities		(1,068)	(731)
Effect of exchange rate changes on cash and cash equivalents		32	18
Cash and cash equivalents reclassified to assets held for sale	7	(8)	(8)
Net change in cash and cash equivalents		(135)	1,181
Cash and cash equivalents at beginning of period		1,696	1,321
Cash and cash equivalents at end of period		1,561	2,502

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
Balance as of 31 December 2006	53	-	2,976	7,020	9,996
Net income		-	-	2,029	2,029
Dividends		-	-	(1,000)	(1,000)
Balance as of 30 June 2007	53	-	2,976	8,049	11,025

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)

Note 1: Organisation

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”), a British Virgin Islands company. TNK-BP was formed effective 29 August 2003 by the Alfa Group and 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 100.0 percent interest in TNK-BP International, which in turn owned a 96.1 percent interest in OAO Tyumen Oil Company (“TNK”) and a 100.0 interest in Sborsare Management Limited, which in turn effectively held a 68 percent interest in OAO Sidanco (“Sidanco”). BP contributed its 29.6 percent interest in Sidanco, 33.4 percent interest in OAO RUSIA Petroleum (“RUSIA”) and 75.0 percent interest in 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.

Note 2: Interim Condensed Consolidated Financial Statements

The unaudited interim condensed consolidated financial statements of TNK-BP International and its subsidiaries presented herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission of the United States of America (“SEC”) relating to interim financial reporting and therefore do not include all the information required by accounting principles generally accepted in the United States of America (“US GAAP”). Management has elected to follow SEC rules and regulations for interim financial reporting purposes. Under these rules and regulations certain information and footnotes required by US GAAP for complete financial statements have been condensed or omitted for interim reporting purposes. These unaudited interim condensed consolidated financial statements should be read in conjunction with the TNK-BP International consolidated financial statements as of and for the year ended 31 December 2006. 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 2007 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 2007 are not necessarily indicative of future financial results.

Note 3: Basis of Presentation

Reporting and functional currency. The Company’s and all 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 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 losses in the accompanying consolidated statements of income.

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 2007 and 31 December 2006 exchange rates were 25.82 and 26.33 Russian Roubles to the US dollar, respectively. Average exchange rates for the six months ended 30 June 2007 and 2006 were 26.08 and 27.68 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.

Accounting changes. In June 2006, FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), was issued and became effective for the Group on 1 January 2007. This Interpretation addresses the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The adoption of FIN 48 had no material effect on the Group's results of operations, financial position or liquidity.

In September 2006, FASB Staff Position No. AUG AIR-1, *Accounting for Planned Major Maintenance Activities*, was issued and became effective for the Group on 1 January 2007. This Position prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. The adoption of this FASB Staff Position did not have a material effect of the Group's results of operations, financial position or liquidity.

Recent accounting standards. In September 2006, FASB Statement No. 157, *Fair Value Measurements*, was issued and becomes effective for the Group on 1 January 2008. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The Group is currently evaluating the impact of this standard.

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 becomes 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. The Group is currently evaluating the impact of this standard.

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. These changes include the presentation of USD 5,243 million for the six months ended 30 June 2006 of excise and export duties in Costs and other deductions, rather than as a deduction in arriving at net revenues.

Note 4: Trade and Other Receivables, Net

	30 June 2007	31 December 2006
Trade accounts and notes receivable (net of allowance for doubtful accounts of USD 31 million and USD 34 million as of 30 June 2007 and 31 December 2006, respectively)	1,524	981
Recoverable value-added tax	2,649	3,544
Advances issued	541	932
Taxes receivable	289	404
Other receivables (net of allowance for doubtful accounts of USD 15 million and USD 11 million as of 30 June 2007 and 31 December 2006, respectively)	172	69
Total trade and other receivables, net	5,175	5,930

Recoverable value-added tax balances mainly relate to crude oil and petroleum products export sale activities. As of 30 June 2007 USD 234 million of value-added tax is not expected to be received within twelve months and has therefore been included in Other long-term assets.

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

(expressed in US Dollars, tabular amounts in millions)

Note 5: Inventories

	30 June 2007	31 December 2006
Crude oil and petroleum products	701	576
Materials and supplies	425	290
Total inventories	1,126	866

Note 6: Acquisition of Subsidiaries

In January 2007, the Group completed its acquisition of the 50 percent of the share capital of 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.

Note 7: Assets Held for Sale

In June 2007, the Group entered into a Memorandum of Understanding with Gazprom and BP whereby the Group has agreed to sell to Gazprom its interests in Rusia Petroleum and East Siberian Gas Company (ESGC). Rusia Petroleum holds the exploration and production licence for the Kovykta field – see Note 15.

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

	30 June 2007
Cash and cash equivalents	8
Restricted cash	2
Accounts and notes receivable, net	45
Inventories	3
Property, plant and equipment, net	545
Other assets	65
Assets held for sale	668
Trade accounts and notes payable	35
Taxes payable	1
Deferred income tax liability	55
Other liabilities	5
Liabilities associated with assets held for sale	96

Management believes that the above assets held for sale 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 2007	31 December 2006
Advances to and investments in affiliates and joint ventures:		
OAO NGK Slavneft and its subsidiaries ("Slavneft")	2,107	2,093
OOO JV Vanyoganneft ("Vanyoganneft")	-	75
Total advances to and investments in affiliates and joint ventures	2,107	2,168
Long-term investments, at cost	24	26
Total long-term investments	2,131	2,194

Slavneft. The Group's earnings from its equity investment in Slavneft for the six months ended 30 June 2007 and 2006 amounted to USD 124 million and USD 293 million, respectively.

For the six months ended 30 June 2007 and 2006 the Group's share in Slavneft declared dividends amounted to USD 112 million and USD 162 million, respectively.

Vanyoganneft. As of 31 December 2006 the Group owned 50 percent of the share capital of Vanyoganneft and accounted for this investment using the equity method of accounting. The Group's earnings from its equity investment in Vanyoganneft for the first 17 days of January 2007 and for the six months ended 30 June 2006 amounted to USD 4 million and USD 42 million, respectively. No dividends were declared by Vanyoganneft during the first 17 days of January 2007. For the six months ended 30 June 2006 the Group received cash dividends from Vanyoganneft in the amount of USD 36 million. On 18 January 2007, the Group acquired the share capital of Vanyoganneft not previously held – see Note 6.

Note 9: Debt

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

	30 June 2007	31 December 2006
Obligations to banks:		
US dollar denominated (composite variable interest: six months 2007 – Libor plus 0.6 percent, 2006 – Libor plus 0.7 percent)	235	1,390
Current portion of long-term debt	1,193	703
Total short-term debt and the current portion of long-term debt	1,428	2,093

Short-term debt as of 30 June 2007 was provided by international and domestic banks for funding of working capital and was uncollateralized.

Short-term bridge finance. In December 2006, the Group entered into a USD 1 billion unsecured loan facility arranged by a syndicate of international investment banks. Following the issue of Eurobonds (see below), this facility was repaid in full in March 2007.

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

(expressed in US Dollars, tabular amounts in millions)

Long-term debt is as follows:

	30 June 2007	31 December 2006
Obligations to banks, US dollar denominated:		
Medium-term finance – variable interest debt (composite variable interest: six months 2007 – Libor plus 0.6 percent, 2006 – Libor plus 0.6 percent)	3,200	3,300
Corporate bonds:		
Eurobond TNK 2007 – fixed interest debt (coupon interest rate – 11.00 percent, effective interest rate – 10.34 percent)	702	703
Eurobond TNK-BP 2011 – fixed interest debt (coupon interest rate – 6.875 percent, effective interest rate – 6.98 percent)	498	498
Eurobond TNK-BP 2016 – fixed interest debt (coupon interest rate – 7.50 percent, effective interest rate – 7.55 percent)	997	996
Eurobond TNK-BP 2012 – fixed interest debt (coupon interest rate – 6.125 percent, effective interest rate – 6.15 percent)	499	-
Eurobond TNK-BP 2017 – fixed interest debt (coupon interest rate – 6.625 percent, effective interest rate – 6.74 percent)	794	-
Other	88	47
Less: current portion of long-term debt	(1,193)	(703)
Total long-term debt	5,585	4,841

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 three years 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 2007 and 31 December 2006 was USD 500 million.

In June 2006, the Group signed a USD 1.8 billion unsecured, guaranteed 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 2007 and 31 December 2006 was USD 1.8 billion.

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 2009. In March 2007, USD 100 million under this facility was repaid ahead of schedule. The loan amount outstanding as of 30 June 2007 and 31 December 2006 was USD 900 million and USD 1 billion, respectively.

Eurobonds. As of 30 June 2007 the Group had USD 3.5 billion of Eurobonds issued and outstanding, increasing from USD 2.2 billion outstanding as of 31 December 2006.

The USD 700 million of Eurobonds consisted of two issues: USD 400 million placed at par in November 2002 and additional USD 300 million placed with premium of 5.75 percent of par value in February 2003. These Eurobonds bear interest at 11.0 percent per annum payable semi-annually, are uncollateralized and mature in November 2007. The Group entered into an interest rate swap agreement in connection with this transaction. The Group does not account for this interest rate swap as a hedge and, accordingly, all gains and losses associated with this instrument have been recognized in the condensed consolidated statement of income as interest income and net other income. The fair values of the interest rate swap as of 30 June 2007 and 31 December 2006 were not material.

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.

TNK-BP INTERNATIONAL LIMITED

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(expressed in US Dollars, tabular amounts in millions)

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.

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

All outstanding long-term debt is subject to certain financial and non-financial covenants stipulated by corresponding borrowing agreements. Among other things, these covenants require the Group to maintain certain financial ratios calculated in accordance with US GAAP financials for the correspondent financial year. In addition, certain of the debt instruments contain cross default provisions.

Note 10: Other Accounts Payable and Accrued Expenses

	30 June 2007	31 December 2006
Salaries payable and other related costs	271	342
Advances from customers	176	202
Interest accrued	111	83
Dividends payable to minority shareholders	50	148
Other	237	274
Total other accounts payable and accrued expenses	845	1,049

Note 11: Income taxes

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, in the second quarter 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, eliminates 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. Resulting from the above, the effective tax rate for the six months ended 30 June 2007 is approximately 23 percent. The effective tax rate for the six months ended 30 June 2006 is 25 percent.

Note 12: Taxes other than income tax expense and taxes payable

Taxes other than income tax expense for the six months ended 30 June 2007 and 2006 comprises the following:

	Six months ended 30 June 2007	Six months ended 30 June 2006
Unified production tax	2,764	3,044
Excise taxes	459	351
Pension fund and other social taxes	99	92
Property tax	68	53
Tax penalties and interest	8	4
Other taxes	53	27
Total taxes other than income tax	3,451	3,571

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 2007 and 2006 were USD 11.16 per barrel and USD 11.45 per barrel, respectively.

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

(expressed in US Dollars, tabular amounts in millions)

Current and long-term taxes payable as of 30 June 2007 and 2006 are as follows:

	30 June 2007	31 December 2006
Unified production tax	585	459
Value-added tax	562	771
Income taxes	368	310
Tax penalties and interest	184	185
Excise taxes	83	230
Current deferred income tax liability	74	269
Other taxes	111	110
Total taxes payable	1,967	2,334
Less: long-term taxes payable	(3)	(8)
Current taxes payable	1,964	2,326

Note 13: Revenues

Revenues for the six months ended 30 June 2007 and 2006 comprise the following:

	Six months ended 30 June 2007	Six months ended 30 June 2006
Crude oil – export (Europe and CIS)	8,572	9,751
Crude oil – domestic	720	996
Petroleum products – export (Europe and CIS)	4,595	4,545
Petroleum products – domestic	2,665	2,416
Other revenues	348	312
Sales and other operating revenues	16,900	18,020

Note 14: 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 2007	31 December 2006
Cash and cash equivalents with Alfa Bank	118	333
Accounts and notes receivable	5	1

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

	As of 30 June 2007 and for the six months ended 30 June 2007	As of 31 December 2006 and for the six months ended 30 June 2006
Accounts and notes receivable	23	85
Accounts and notes payable	73	99
Sales of crude oil for export	102	884
Volumes (millions of tons)	0.2	2.0
Sales of refined products for export	392	602
Volumes (millions of tons)	1.1	1.1
Seconded and integration costs expensed	55	65

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

(expressed in US Dollars, tabular amounts in millions)

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

	As of 30 June 2007 and for the six months ended 30 June 2007	As of 31 December 2006 and for the six months ended 30 June 2006
Trade accounts and notes receivable	23	30
Dividends receivable	122	23
Accounts and notes payable	37	69
Sales of crude oil for export	100	95
Volumes (millions of tons)	0.3	0.4
Sales of refined products	109	93
Volumes (millions of tons)	0.2	0.3
Purchases of crude oil and petroleum products	922	1,213
Volumes (millions of tons)	5.3	5.8
Refining fee	97	36
Volumes (millions of tons)	3.1	1.6

The transactions and balances with TNK-BP and its subsidiaries are as follows:

	As of 30 June 2007 and for the six months ended 30 June 2007	As of 31 December 2006 and for the six months ended 30 June 2006
Accounts receivable and loans issued	27	25
Sales of crude oil and petroleum products	212	137
Volumes (millions of tons)	0.4	0.3
Other sales	3	1
Other purchases	2	-

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

	As of 30 June 2007 and for the six months ended 30 June 2007	As of 31 December 2006 and for the six months ended 30 June 2006
Advances to and receivables from other related parties	-	10
Accounts payable to other related parties	9	-
Sales of crude oil and petroleum products	-	81
Volumes (millions of tons)	-	0.3
Purchases of crude oil and petroleum products	1	89
Volumes (millions of tons)	-	0.2
Processing fee	20	-
Volumes (billions of cubic meters)	0.6	-

Note 15: 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.

TNK-BP INTERNATIONAL LIMITED

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(expressed in US Dollars, tabular amounts in millions)

Gas production and marketing activities. Russian independent gas producers are currently only able to access the domestic gas transmission system subject to agreement with Gazprom, Russia's gas monopoly which owns and operates the system.

As of 30 June 2007 and 31 December 2006, the Group's capitalized costs related to its gas subsidiaries amounted to USD 1,361 million and USD 1,197 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.

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. During 2004 and 2005 the Russian tax authorities performed tax audits on certain of the Group's subsidiaries relating to their 2001-2003 activities.

In December 2004, the Russian tax authorities issued a decision challenging, among other things, the use of profit tax concessions claimed by TNK with respect to the reinvestment of profits in fixed production assets in 2001 and made a claim for USD 143 million (RUR 4 billion) including fines and penalty interest. This amount was paid in December 2006.

In November 2005, a separate claim for 2001 was lodged in respect of the use of profit tax concessions by a Group trading subsidiary 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) although legal proceedings are expected to continue. The Group believes that it has made adequate provision for the outcome of this matter.

In December 2005 and February 2006, the Russian tax authorities presented tax acts relating to 2002 and 2003 in respect of the use of reduced tax rate economic zones by TNK and Sidanco. These acts amounted to USD 1,402 million (RUR 40.4 billion) and USD 442 million (RUR 12.7 billion), respectively. In October 2006, the Russian tax authorities issued a tax decision related to those years amounting to USD 1,418 million (RUR 38 billion). This amount was paid in November 2006.

Currently, the Russian tax authorities are conducting audits of income tax and other taxes of Group subsidiaries for the years 2004 and 2005.

As of 30 June 2007 and 31 December 2006, the Group has a liability in the amount of USD 457 million (RUR 11.8 billion) and USD 448 million (RUR 11.8 billion), respectively, related to the matters discussed above.

Oilfield and gasfield licenses. The Group is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its licenses. Where appropriate, management of the Group liaise with governmental authorities to agree on remedial actions and resolve any findings resulting from these

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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 will 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 has ruled upon the appeal. Subsequently, the court ruled that it does not have jurisdiction to rule on this appeal matter.

Capitalized costs relating to Kovykta project amounted to USD 545 million as of 30 June 2007. In June 2007, the Group entered into a Memorandum of Understanding (MOU) with Gazprom and BP whereby the Group has agreed to sell to Gazprom its interests in RUSIA Petroleum and ESGC – see Note 7. Management believes that the above capitalized costs will be fully recovered through the intended sale to Gazprom. According to the MOU, Gazprom will grant to the Group an option to acquire up to a 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 MOU.

Environmental liabilities. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. 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 165 million and USD 173 million as of 30 June 2007 and 31 December 2006, respectively. The estimates used by management include uncertainties about a variety 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 proceedings have yet to commence. 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 privatisation 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, LNIK, was formed by the Group. In accordance with the plan, the refining

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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. Management believes that the ultimate resolution of this matter will not have a material adverse impact on the financial position of the Group.