

TNK INTERNATIONAL LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2003

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
TNK International Limited

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of changes in shareholders' equity present fairly, in all material respects, the financial position of TNK International Limited and its subsidiaries at 31 December 2003 and 2002, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3 to the financial statements, the Company changed its method of accounting for asset retirement obligations as of 1 January 2003.

PricewaterhouseCoopers

31 May 2004

TNK INTERNATIONAL LIMITED**Consolidated Balance Sheets**

(expressed in millions of U.S. Dollars, except as indicated)

	Notes	31 December 2003	31 December 2002
Assets			
Cash and cash equivalents		681	947
Restricted cash	5	115	63
Accounts and notes receivable, net	7	2,526	1,913
Inventories	8	429	489
Securities held to maturity	11	174	136
Other current assets		119	81
Total current assets		4,044	3,629
Long-term investments	9	1,778	823
Property, plant and equipment, net	10	9,072	7,751
Other long-term assets		463	407
Total assets		15,357	12,610
Liabilities and Shareholders' Equity			
Short-term debt and current portion of long-term debt	11	883	1,118
Trade accounts and notes payable		305	352
Other accounts payable and accrued expenses	12	571	337
Taxes payable	15	1,504	834
Total current liabilities		3,263	2,641
Long-term debt	11	1,872	2,049
Asset retirement obligations	3	281	-
Long-term taxes payable	15	78	82
Deferred income tax liability	14	1,299	864
Other long-term payables		44	56
Total liabilities		6,837	5,692
Minority interest			
Ordinary share capital (authorised and issued – 50,000 shares, USD 1.0 par value)	13	-	-
Additional paid-in capital		1,384	1,384
Retained earnings		5,855	3,728
Total shareholders' equity		7,239	5,112
Commitments and contingent liabilities	18	-	-
Total liabilities and shareholders' equity		15,357	12,610

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

TNK INTERNATIONAL LIMITED**Consolidated Statements of Income**

(expressed in millions of U.S. Dollars)

	Notes	Year ended 31 December 2003	Year ended 31 December 2002
Revenues			
Sales and other operating revenues	16	12,020	9,125
Less: export duties		(1,373)	(722)
Less: excise taxes		(327)	(347)
Net revenues		10,320	8,056
Costs and other deductions			
Operating expenses		1,397	1,334
Cost of purchased products		1,022	975
Taxes other than income tax	15	1,929	1,497
Transportation expenses		1,462	825
Depreciation, depletion and amortisation		773	580
Selling, general and administrative expenses		870	538
Exploration expenses		62	70
Loss on asset disposals		70	44
Maintenance of social infrastructure		7	29
Total costs and other deductions		7,592	5,892
Other income and expenses			
Earnings from equity investments		476	47
Interest income and other, net		150	77
Exchange (loss) gain		(37)	20
Interest expense		(283)	(350)
Gain on partial sale of Sidanco	4	-	113
Total other income and expenses		306	(93)
Income before income taxes and minority interest		3,034	2,071
Income taxes			
Current tax expense		405	333
Deferred tax benefit		(178)	(143)
Total income tax expense	14	227	190
Income before minority interest and cumulative effect of change in accounting principle		2,807	1,881
Minority interest		312	337
Income before cumulative effect of change in accounting principle		2,495	1,544
Cumulative effect of change in accounting principle	3	226	-
Net income		2,721	1,544

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

TNK INTERNATIONAL LIMITED
Consolidated Statements of Cash Flows
(expressed in millions of U.S. Dollars)

	Notes	Year ended 31 December 2003	Year ended 31 December 2002
Operating activities			
Net income		2,721	1,544
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of change in accounting principle	3	(226)	-
Depreciation, depletion and amortisation		773	580
Exchange loss (gain)		37	(28)
Deferred income tax benefit	14	(178)	(143)
Minority interest		312	337
Accretion of bond discount		12	(38)
Accretion expense on asset retirement obligations		31	-
Dry hole expense		-	44
Gain on sale of investments and partial sale of Sidanco		-	(113)
Loss on asset disposals		70	44
Distributions less than income from equity affiliates		(185)	(1)
Non-cash provisions		99	61
Changes in operational working capital, excluding cash:			
Accounts and notes receivable		(228)	(376)
Inventories		82	6
Accounts and notes payable		152	(95)
Taxes payable		588	175
Other		8	(37)
Net cash provided by operating activities		4,068	1,960
Investing activities			
Capital expenditures		(849)	(593)
Acquisition of Slavneft	9	(933)	(261)
Purchase of additional interests in consolidated subsidiaries	4	(992)	(49)
Proceeds from partial sale of Sidanco	4	-	375
Sale of long-term investments		-	69
Purchase of equity affiliates		(47)	(49)
Proceeds from maturity of securities		141	-
Other		-	(2)
Net cash used for investing activities		(2,680)	(510)
Financing activities			
Proceeds from long-term debt		1,356	1,765
Repayment of long-term debt		(1,671)	(774)
Repayments of indebtedness related to Sidanco acquisition		(274)	(544)
Proceeds from short-term loans		359	2,049
Repayment of short-term loans		(490)	(2,968)
Repurchase of TNK bonds		(87)	-
Change in restricted cash to secure short-term borrowing	5	(52)	2
Dividends paid to shareholders		(594)	(139)
Dividends paid from consolidated subsidiaries		(228)	(159)
Net cash used for financing activities		(1,681)	(768)
Effect of exchange rate changes on cash and cash equivalents		27	(5)
Net change in cash and cash equivalents		(266)	677
Cash and cash equivalents at beginning of year		947	270
Cash and cash equivalents at end of period		681	947

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

TNK INTERNATIONAL LIMITED
Consolidated Statements of Changes in Shareholders' Equity
(expressed in millions of U.S. Dollars, except as indicated)

	Number of ordinary shares (thousands)	Ordinary share capital	Additional paid-in capital	Retained earnings	Total shareholders' equity
Balance at 1 January 2002	50	-	1,343	2,313	3,656
Net income	-	-	-	1,544	1,544
Shareholder contribution of Yugraneft	-	-	41	-	41
Dividends	-	-	-	(139)	(139)
Repayment of shareholders loan	-	-	-	10	10
Balance at 31 December 2002	50	-	1,384	3,728	5,112
Net income	-	-	-	2,721	2,721
Dividends	-	-	-	(594)	(594)
Balance at 31 December 2003	50	-	1,384	5,855	7,239

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

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements
(expressed in U.S. Dollars, tabular amounts in millions)

Note 1: Organisation

TNK International Limited (“the Company”) and its subsidiaries (jointly referred to as “the Group”) conduct exploration activities and produce oil and gas in the Russian Federation and operate petroleum refineries and market petroleum products under the “TNK” brand name and to unbranded wholesale customers primarily in the Russian Federation and Ukraine.

The Company holds a 96.1 percent interest in OAO Tyumen Oil Company (“TNK”). In May 2003, TNK Industrial Holdings Limited contributed its 100.0 percent interest in Sorsare Management Limited (“Sorsare”), which in turn effectively holds a 68.0 percent interest in OAO Sidanco (“Sidanco”) to the Company. These consolidated financial statements give retroactive effect to this reorganization as if it had taken place at the beginning of the earliest period presented as it is a reorganization of entities under common control and as a result, the Company’s previously reported shareholders’ equity as of 1 January 2002 increased by USD 624 million.

In February 2003, AAR and BP signed a memorandum of understanding to form a new company TNK-BP, which will combine AAR’s interest in the Company, excluding OAO NGK Slavneft (“Slavneft”), with BP’s Russian oil and gas interests, excluding BP’s interest in Sakhalin IV and Sakhalin V. The transaction was completed on 29 August 2003 and was effective 1 January 2003. AAR and BP each have a 50 percent interest in TNK-BP. In September 2003, AAR and BP agreed terms for including Slavneft within TNK-BP. This transaction was not completed until January 2004. TNK International’s interest in Slavneft at 31 December 2003 has been included in these financial statements.

Note 2: Basis of Presentation

The consolidated financial statements of the Group are prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

Subsidiaries registered in the Russian Federation maintain their accounting records in accordance with the Regulations on Accounting and Reporting in the Russian Federation. Subsidiaries outside the Russian Federation maintain their accounting records in accordance with local regulations. The accompanying consolidated financial statements have been prepared from these accounting records and adjusted as necessary in order to comply with US GAAP.

In preparing the consolidated financial statements in conformity with US GAAP, management makes estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from such estimates.

Reporting and functional currency. In November 2002, the International Practices Task Force (“IPTF”) concluded that the Russian Federation ceased to be a highly inflationary economy as of 1 January 2003. The Company has determined that the functional currency for its operations in the Russian Federation is the U.S. dollar as a significant portion of the Group’s business is conducted in U.S. dollars and management uses the U.S. dollar to manage a significant portion of the Group’s financial risks and exposures, and to measure its performance.

The local currency of certain subsidiaries of the Group may be the Russian Rouble, Ukrainian Hryvnia or the U.S. dollar depending on the location and nature of the activities of the particular business. In the case of subsidiaries where the local currency is not the U.S. dollar, the transactions and balances have been remeasured into U.S. dollars in accordance with the relevant provisions of Statement of Financial Accounting Standards No. 52, *Foreign Currency Translation*. Consequently, monetary assets and liabilities are translated at closing exchange rates and non-monetary items are translated at historic exchange rates and adjusted for any impairment. The consolidated statements of income and cash flows have been translated at the weighted average exchange rates for the year. Exchange differences resulting from the use of these exchange rates have been included in the determination of net income and are included in exchange gains/(losses) in the accompanying consolidated statements of income.

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements
(expressed in U.S. Dollars, tabular amounts in millions)

Inflation, exchange restriction and controls. During the year ended 31 December 2003, the Russian Rouble appreciated by 7.3 percent against the U.S. dollar and the official Russian Rouble inflation was 12.0 percent. During 2002 the Russian Rouble depreciated against the U.S. dollar by 5.4 percent and the inflation was 15.1 percent. Exchange restrictions and controls exist relating to converting Russian Roubles to other currencies. At 31 December 2003, the Group was required to sell 25 percent of its foreign currency receipts within the Russian Federation to authorised banks for Russian Roubles. At present, the Russian Rouble is not a convertible currency outside the Russian Federation. Future movements in the exchange rates between the Russian Rouble and the U.S. dollar will affect the carrying value of the Group's Russian Rouble denominated monetary assets and liabilities. Such movements may also affect the Group's ability to realise non-monetary assets represented in U.S. dollars in these consolidated financial statements.

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

Note 3: Summary of Significant Accounting Policies

Principles of consolidation. The consolidated financial statements include the operations of all entities in which the Group directly or indirectly owns or controls more than 50 percent of the voting stock. Joint ventures and investments in which the Group has voting ownership interests between 20 and 50 percent and the Group exerts significant influence are accounted for using the equity method. Investments in other companies are accounted for at cost and adjusted for estimated impairment.

Cash equivalents. Cash equivalents include all liquid securities with original maturities of three months or less when acquired.

Accounts receivable. Accounts receivable are presented at net realisable value and include value-added and excise taxes which are payable to tax authorities upon collection of such receivables.

Inventories. Crude oil and petroleum products inventories are valued at the lower of cost, using the first-in first-out method, or net realisable value. Costs include applicable purchase costs and operating expenses. Materials and supplies inventories are recorded at the lower of average cost or net realisable value.

Property, plant and equipment. The Group follows the successful efforts method of accounting for its oil and gas properties whereby property acquisitions, successful exploratory wells, all development costs (including development dry holes), and support equipment and facilities are capitalised. Unsuccessful exploratory wells are charged to expense at the time the wells are determined to be non-productive. Production costs, overheads and all exploration costs other than exploratory drilling are charged to expense as incurred. Acquisition costs of unproved properties are evaluated periodically and any impairment assessed is charged to expense.

See recent accounting standards below regarding the Group's accounting for asset retirement obligations.

Proved oil and gas properties are assessed for possible impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires long-lived assets with recorded values that are not expected to be recovered through future cash flows to be written down to current fair value. Fair value is generally determined from estimated discounted future net cash flows.

Depreciation, depletion and amortisation of capitalised costs of proved oil and gas properties is calculated using the unit-of-production method for each field based upon proved reserves for property acquisitions and proved developed reserves for exploration and development costs.

Gains or losses from retirements or sales are included in the determination of net income, except those related to oil and gas properties subject to composite depreciation, depletion and amortisation.

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements
(expressed in U.S. Dollars, tabular amounts in millions)

Other property, plant and equipment not associated with exploration and production activities are carried at cost less accumulated depreciation. These assets are also evaluated for impairment in accordance with SFAS No. 144. Depreciation of these assets is calculated on a straight-line basis as follows:

Buildings and constructions	5 - 33 years
Machinery and equipment	5 - 15 years

Maintenance and repairs and minor renewals are expensed as incurred. Major renewals and improvements are capitalised.

Environmental liabilities. Liabilities for environmental remediation are recorded when it is probable that obligations have been incurred and the amounts can be reasonably estimated. Environmental remediation liabilities are not discounted for the time value of future expected payments. Environmental expenditures that have future benefit are capitalised.

Derivative instruments. The Group recognises all derivatives as either assets or liabilities in the balance sheet and measures those instruments at fair value. The accounting for changes in fair value depends on its intended use and designation and could entail recording the gain or loss through earnings of the current period, or as part of comprehensive income and subsequently reclassifying into earnings when the gain or loss is realised.

Pension and post-employment benefits. The Group's mandatory contributions to the Governmental pension plan are expensed when incurred. Discretionary pensions and other post-employment benefits are not material.

Revenue recognition. Revenues from the production and sale of crude oil and petroleum products are recognised when deliveries to customers are made, title has transferred and collectibility is reasonably assured.

Income taxes. Deferred income tax assets and liabilities are recognised for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, in accordance with SFAS No. 109 *Accounting for Income Taxes*. Deferred income tax assets and liabilities are measured using enacted tax rates in the years in which these temporary differences are expected to reverse. Included in this calculation are deferred income taxes for the unremitted earnings of equity affiliates and foreign subsidiaries on basis differences between the relevant parent company financial statement carrying amounts and the respective tax basis of its investments in subsidiaries and equity affiliates. Management periodically assesses possible methods of remitting the earnings to the parent and adjusts this liability to the amount calculated at enacted rates corresponding to the expected method of distribution. Valuation allowances are provided for deferred income tax assets when management believes it is more likely than not that the assets will not be realised.

Comprehensive income. SFAS No. 130, *Reporting Comprehensive Income*, requires disclosure of all changes in equity during a period except those resulting from investments by and distributions to the Company's shareholders. There is no difference between the Company's net income and comprehensive income for all periods presented.

Recent accounting standards. Effective 1 January 2003, the Group adopted Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* ("SFAS 143"). SFAS 143 addresses the accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 differs in several significant respects from the previous accounting employed by the Group. Prior to the adoption of SFAS 143, the Group accrued site restoration costs using the unit-of-production method of accounting. As of 31 December 2002 asset retirement obligations of USD 354 million had been accrued and were included in accumulated depletion, depreciation and amortization.

Under SFAS 143, the Group recognises a liability for the fair value of an asset retirement obligation in the period in which it is incurred, and capitalises the associated asset retirement cost. In periods subsequent to initial measurement, the Group recognises period-to-period changes in the liability for an asset retirement obligation resulting from (a) the passage of time and (b) revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Certain downstream long-lived assets generally have indeterminate settlement dates for asset retirement since the Group intends to operate such assets in perpetuity. Accordingly,

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements
(expressed in U.S. Dollars, tabular amounts in millions)

asset retirement obligations were not recognized for these assets, but may be in the future if and when such circumstances change.

The effect of this change in accounting principle was to increase income by USD 226 million, net of tax, and was reflected in the accompanying statement of income for the year ended 31 December 2003. The effect of adoption of SFAS 143 also resulted in an increase in property, plant and equipment, decommissioning liabilities and deferred tax liabilities of USD 495 million, USD 233 million and USD 37 million, respectively.

The 2003 and 2002 net income of the Group on a pro forma basis as if SFAS 143 was adopted prior to 1 January 2002 would have been USD 2,495 million and USD 1,517 million respectively.

Reclassifications. Certain previously reported amounts have been reclassified to conform to the presentation adopted in 2003. The reclassifications had no impact on the amount of previously reported net income or shareholders' equity.

Note 4: Acquisitions and Disposals

In January 2003, the Group, through Sidanco, acquired an additional 26.1 percent interest in its production subsidiary OAO Varyeganneftegaz ("VNG"). Total purchase consideration was USD 114 million. This transaction has been recorded using the purchase method of accounting and, accordingly, the difference between the book value of the minority interest acquired and the purchase consideration has been allocated to oil and gas producing assets based on relative fair values of those assets.

In March 2003, the Group entered into an agreement with parties affiliated with OAO Sibneft ("Sibneft") to acquire interests in OAO Onako and OAO Orenburgneft held by Sibneft. The total purchase consideration was USD 825 million and was paid in April 2003. As a result of this transaction, the Group's interest in OAO Onako and OAO Orenburgneft increased to 98.8 percent from 94.0 percent and to 88.1 percent from 50.2 percent, respectively. These transactions have been recorded using the purchase method and accordingly the difference between the book value of the minority interest acquired and the purchase consideration has been allocated to oil and gas producing assets based on relative fair values of those assets.

In April 2002, the Group sold a 15.0 percent interest in Sidanco to BP for USD 375 million, generating an after tax gain of USD 113 million.

Note 5: Cash and Cash Equivalents and Supplemental Cash Flow Information

At 31 December 2003 and 2002 restricted cash includes cash deposits used to secure bank debt and open letters of credit.

During the years ended 31 December 2003 and 2002, cash payments of interest totalled USD 332 million and USD 323 million, respectively, and payments for income tax totalled USD 392 million and USD 310 million, respectively.

Note 6: Financial and Derivative Instruments

Fair values. The estimated fair values of financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate, however in the absence of quoted market values, considerable judgement is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realise or settle in a market transaction. Certain of these financial instruments are with major financial institutions and expose the Group to market and credit risk. The creditworthiness of these institutions is routinely reviewed and full performance is anticipated. The methods and assumptions used to estimate fair value of each class of financial instrument are presented below:

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements
(expressed in U.S. Dollars, tabular amounts in millions)

Cash and cash equivalents, accounts receivable and accounts payable. The carrying amount of these items are a reasonable approximation of their fair value.

Investments in securities. For exchange traded securities quoted market prices were used to determine fair value while for all other securities the future cash flows have been estimated and discounted to determine fair value.

Short-term debt. Loan arrangements have both fixed and variable interest rates that reflect the currently available terms for similar debt. The carrying value of this debt is a reasonable approximation of its fair value.

Long-term debt. Loans under bank arrangements have variable interest rates that reflect currently available terms and conditions for similar debt. The carrying value of this debt is a reasonable approximation of its fair value. For corporate bonds issued the future cash flows, discounted at the Group's incremental borrowing rate, or quoted market prices for exchange traded securities were used to determine fair value. These bonds have a fair value of approximate USD 1,177 million and USD 947 million, at 31 December 2003 and 2002, respectively.

Credit risks. A significant portion of the Group's accounts receivable is from domestic and export trading companies and governmental entities. Although collection of these receivables could be influenced by economic factors affecting these entities, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

Derivative instruments. During 2002 the Group purchased put options to reduce risks associated with the volatility of the price of oil. At 31 December 2002, the Group had open put options for 53 million barrels of oil. The fair value of these open options was USD 10 million and was recorded in other current assets. During 2003 the Group did not purchase any additional put options.

In connection with the Group's Eurobond offering in November 2002 (see Note 11), the Group entered into an interest rate swap. Under the terms of the swap agreement, net cash payments, based on the difference between the fixed interest rate of 3.535 percent and the U.S. dollar LIBOR floating interest rate percentage calculated by reference to the principal amount of USD 400 million are made semi-annually through November 2007. In February 2003, following an additional Eurobond offering for the principal amount of USD 300 million the Group renewed the terms of the interest rate swap agreement calculating net cash payments based on the difference between the fixed interest rate of 3.4943 percent and the U.S. dollar LIBOR floating interest rate percentage by reference to the entire principal amount of USD 700 million made semi-annually through November 2007. The fair values of the interest rate swap at 31 December 2002 and 2003 were not material.

The Group does not account for interest rate swap or put options as hedges and, accordingly, all gains and losses associated with these instruments have been recognised in the consolidated statement of income as interest income and other. The net result of the Group's derivative instrument activity in 2003 and 2002 was a loss of USD 1 million and USD 42 million, respectively.

Note 7: Accounts and Notes Receivable, Net

	31 December 2003	31 December 2002
Trade accounts and notes receivable (net of allowance for doubtful accounts of USD 21 million and USD 14 million at 31 December 2003 and 31 December 2002, respectively)	580	504
Recoverable value-added tax	1,390	880
Taxes receivable	185	160
Advances issued	152	199
Other receivables (net of allowance for doubtful accounts of USD 23 million at 31 December 2003 and 31 December 2002, respectively)	219	170
Total accounts and notes receivable, net	2,526	1,913

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements
(expressed in U.S. Dollars, tabular amounts in millions)

Note 8: Inventories

	31 December 2003	31 December 2002
Crude oil and petroleum products	219	260
Materials and supplies	210	229
Total inventories	429	489

Note 9: Long-Term Investments

	31 December 2003	31 December 2002
Advances to and investments in affiliates and joint ventures:		
Slavneft	1,463	-
ZAO Rospan International	123	75
RUSIA	100	100
Other	33	44
Total advances to and investments in affiliates and joint ventures	1,719	219
Securities held to maturity (Note 11)	-	163
Long-term investments, at cost		
Slavneft and its subsidiaries	-	337
Other	59	104
Total long-term investments	1,778	823

Slavneft. In January 2003, the Group along with companies affiliated with Sibneft paid a purchase price of USD 1,860 million (USD 930 million related to the Group's ownership) which completed the acquisition of Slavneft as a result of the Russian and Belarusian Governments privatisation auctions which were held in December 2002, bringing Sibneft and Group's combined ownership interest in Slavneft to 99.0 percent. This ownership is divided equally between the Group and companies affiliated with Sibneft. Accordingly, the Group owns approximately 49.5 percent of Slavneft and accounts for this investment using the equity method of accounting, which requires the Group to record its share of Slavneft's earnings for the year ended 31 December 2003.

Condensed balance sheet and income statement of equity consolidated entities as of and for the year ended 31 December 2003 follow:

	Slavneft	Other	Total
Revenues	3,399	482	3,881
Operating income	1,072	102	1,174
Net income	864	69	933
Current assets	1,272	112	1,384
Non current assets	2,889	600	3,489
Current liabilities	(411)	(192)	(603)
Non current liabilities	(830)	(150)	(980)
Equity	(2,920)	(370)	(3,290)

Investment in LiNOS. In 2000, the Group acquired a 59.0 percent interest in LiNOS, a refining company, located in Eastern Ukraine for total consideration of USD 33 million in a privatisation auction. Under the privatisation agreement, the Group is required to supply annually 4.0 million tons of crude oil to LiNOS and

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements
(expressed in U.S. Dollars, tabular amounts in millions)

provide a commitment to assist LiNOS in restructuring its long-term payables to a bank, which are guaranteed by the Ukrainian Government. At the date of acquisition, LiNOS was under external management appointed by the Supreme Arbitration Court of Ukraine on 6 September 2000 for a period of up to 10 years. The external manager 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 manager obtained a final amicable agreement signed by the LiNOS creditors to indicate 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. As a result of this restructuring the Group's interest in LINIK totalled 74.7 percent. Following the amicable settlement, management have reassessed their commitment to assist LiNOS in restructuring its long-term debt and recognised a liability for USD 77 million payable through 2013. The charge is reflected in the consolidated statement of income as other income and expenses.

As a result of the restructuring plan, the Group's interest in LiNOS has been allocated to its investment in LINIK and LINIK has been consolidated as of 31 December 2003. The effect on these financial statements has been a reclassification of the Group's investment in LiNOS from investments held at cost to property, plant and equipment.

Note 10: Property, Plant and Equipment

	Cost	Accumulated DD&A	Net book value
Oil and gas properties and equipment	8,852	2,095	6,757
Refining and related equipment	891	233	658
Other assets	1,154	317	837
Assets under construction	820	-	820
Balance at 31 December 2003	11,717	2,645	9,072

	Cost	Accumulated DD&A	Net book value
Oil and gas properties and equipment	7,522	1,953	5,569
Refining and related equipment	678	159	519
Other assets	1,226	231	995
Assets under construction	668	-	668
Balance at 31 December 2002	10,094	2,343	7,751

The Group's oil and gas fields are situated on land belonging to Governmental authorities. The Group obtains licences from such Governmental authorities and pays exploration and production taxes to explore and produce oil and gas from these fields. These licences expire between 2004 and 2023; however, they may be extended at the initiative of the Group provided it is in compliance with the licence terms. Management expects to extend such licences for properties expected to produce subsequent to their licence expiry dates.

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements
(expressed in U.S. Dollars, tabular amounts in millions)

Note 11: Debt

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

	31 December 2003	31 December 2002
Obligations to banks:		
Russian Rouble denominated (composite fixed interest 6.7%; 2002: 7.7%)	47	53
U.S. dollar denominated (composite fixed interest 2002: 12.1%)	-	26
U.S. dollar denominated (composite variable interest LIBOR plus 5.0%; 2002: LIBOR plus 3.7%)	-	71
Short-term promissory notes and other	27	104
Current portion of long-term debt	809	864
Total short-term debt and current portion of long-term debt	883	1,118

At 31 December 2003, the Russian Rouble fixed interest debt is provided by a Russian bank for funding working capital and certain capital projects and is unsecured.

Long-term debt is as follows:

	31 December 2003	31 December 2002
Obligations to banks, U.S. dollar denominated:		
Trade finance – variable interest debt	1,154	1,039
Project finance – fixed interest debt	-	53
Project finance – variable interest debt	84	94
Ex-Im bank guaranteed – variable interest debt	317	233
Ex-Im bank non guaranteed – variable interest debt	18	11
Obligations to banks, Russian Rouble denominated:		
Project finance – fixed interest debt	-	47
Trade finance – fixed interest debt	-	205
Corporate bonds:		
U.S. dollar linked – fixed interest bonds (Note 9)	186	323
Russian Rouble denominated – fixed interest bonds	106	178
Eurobond – fixed interest debt	709	400
Indebtedness related to Sidanco acquisition	-	274
Other	107	56
Less: current portion of long-term debt	(809)	(864)
Total long-term debt	1,872	2,049

Excluding the undrawn facilities under the Ex-Im Bank arrangements, at 31 December 2003 and 2002, the Group had available credit and overdraft facilities totalling approximately USD 40 million and USD 65 million, respectively.

USD denominated trade finance. The Group has entered into various U.S. dollar denominated credit facilities with non-Russian banks to provide trade finance. These variable interest debt facilities bear composite interest at LIBOR plus 3.1 percent and are repayable through April 2008. They are collateralized by assignment of crude oil and petroleum product export contracts that exceed 100.0 percent of the outstanding debt. These agreements require the Group to maintain at least 10.0 percent of the Group's future exports contracts free of any liens. In addition, the facilities contain cross default provisions. The facilities are repayable with the proceeds of the committed export contracts.

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements
(expressed in U.S. Dollars, tabular amounts in millions)

USD denominated project finance. In September 2002, the Group amended its U.S. dollar denominated loan agreement with Sberbank to finance capital projects associated with certain oilfields. The loan bears interest at between 10 and 13 percent and is repayable in fourteen equal quarterly installments commencing December 2002. Effective September 2003 the interest rate was changed to a variable rate of LIBOR plus 3.25 percent with the same schedule of repayment. The loan is collateralized by 75.0 percent of OAO TNK-Nyagan shares and equipment of OAO Nizhnevartovskoye NeftePererabatyvayuscheye Obyedineniye.

In 1993, the Group through VNG, entered into a three-party agreement with the International Bank for Reconstruction and Development as the lender and the Government of the Russian Federation as the borrower, whereby VNG was a sub-borrower and a final recipient of the financing for the modernization of its oil extraction equipment. The amount of financing received under this agreement totalled USD 170 million. Interest is payable at LIBOR plus 0.75 percent per annum on the amount of loan outstanding. The loan is repayable with semi-annual principal payments through its maturity in 2006 and is collateralized by a floating charge on VNG assets.

Ex-Im Bank. During 2001, the Group, through TNK, entered into agreements with Commerzbank and Chase Manhattan Bank to obtain U.S. dollar denominated credit facilities for USD 334 million and USD 232 million, respectively. The loans are guaranteed by the Ex-Im Bank, with TNK further guaranteeing to Ex-Im Bank certain crude export contracts and providing a lien on all movable property acquired with the loan proceeds. The guaranteed portions of each facility totals USD 292 million and USD 232 million, bear interest at LIBOR plus 0.95 percent and LIBOR plus 0.13 percent, and are repayable in fourteen equal semi-annual installments commencing June 2004 and sixteen equal semi-annual installments commencing December 2003, respectively. The use of these facilities is restricted to the financing of the Samotlor oilfield project and the reconstruction of Ryazan Refinery. At 31 December 2003, USD 131 million and USD 186 million have been drawn under these facilities.

The Commerzbank agreement also makes available an additional facility for USD 42 million, bears interest at LIBOR plus 4.0 percent and is repayable in ten equal semi-annual installments commencing June 2004. This facility is not guaranteed by Ex-Im Bank. At 31 December 2003, USD 18 million has been drawn under this facility.

In September 2003, the Group entered into agreements with Commerzbank and Chase Manhattan Bank to amend interest rates and restructure repayment schedules. The guaranteed portions of each facility will bear interest at LIBOR plus 0.20 percent and LIBOR plus 0.13 percent, and are repayable in twelve equal semi-annual installments commencing June 2005 and fourteen equal semi-annual installments commencing December 2004, respectively. The non-guaranteed portion of Commerzbank will bear interest at LIBOR plus 2.0 percent and is repayable in eight equal semi-annual installments commencing June 2005. The agreement is made effective January 2004.

Corporate bonds linked to U.S. dollar exchange rates. During 1999 and 2000, the Group, through TNK, issued Russian Rouble denominated bonds with a face value of RR 9,000 million (USD 332 million). The bond interest payments and principal repayment are linked to the U.S. dollar exchange rate. The bonds were issued at a discount of USD 27 million. The first issue with a face value of RR 2,500 million bears interest at 7.0 percent payable semi-annually. The second and third issue with respective face values of RR 2,500 million and RR 4,000 million bear interest at 10.0 percent per annum payable on maturity. The bonds mature in three to five years from the issue, however, at the bondholders' option, can be put at each annual anniversary of the bond issue. The Group has purchased corporate bonds issued by various financial institutions that have bond terms identical to the TNK's issue of RR 9,000 million, U.S. dollar linked, bonds and have principal amounts equal to virtually all of the issuance by TNK of such bonds. Such corporate bonds are recorded as securities held to maturity.

In June 2003, the third bond issue with a face value of RR 4,000 million (USD 141 million) was repaid.

Corporate bonds denominated in Russian Roubles. In 2001, the Group through TNK placed two corporate bonds with a coupon value of RR 3,000 million each. The bonds bear interest at 12.0 percent and 15.0 percent

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements
(expressed in U.S. Dollars, tabular amounts in millions)

payable semi-annually and were placed at a USD 17 million discount. The bonds mature in 2005 and 2006, respectively.

During 2003 the Group has retired part of the issue (2,695,319 bonds) maturing in March 2005 at 104.7 percent of par value resulting in a loss of USD 6 million recognized in the consolidated statement of income as part of interest income and other.

Eurobonds. In November 2002, the Group received a loan financed by the issuance of five year unsecured Loan Participation Notes (“Eurobonds”) totalling USD 400 million. Interest on the loan is payable at the rate of 11.0 percent per annum payable semi-annually. In February 2003, the issue was extended for a further USD 300 million, issued at a premium of USD 17 million. The Eurobonds require the Group to maintain certain minimum financial covenants. As discussed in Note 6, the Group has entered into an interest rate swap arrangement in connection with this transaction.

Indebtedness related to Sidanco acquisition. In connection with the Group’s acquisition of Sidanco in 2001, it incurred indebtedness of USD 1,257 million to the previous owners of the Sidanco shares. The obligations were collateralized by the Group’s shares in Sidanco and bore fixed interest at 9.6 percent. The remaining balance of USD 274 million at 31 December 2002 was repaid in March 2003.

Aggregate maturities of long-term debt outstanding at 31 December 2003 are as follows:

	31 December 2003
2005	382
2006	370
2007	879
2008	105
2009 and further	136
Total long-term debt	1,872

Note 12: Other Accounts Payable and Accrued Expenses

	31 December 2003	31 December 2002
Advances from customers	120	99
Salaries and other related payable costs	116	61
Interest accrued	76	101
Other	259	76
Total other accounts payable and accrued expenses	571	337

Note 13: Shareholders’ Equity

The share capital of TNK International Limited comprise fifty thousand authorised and issued ordinary shares of USD 1 par value.

In December 2003, the Company’s Board of Directors declared, and subsequently paid, a dividend in the amount of USD 594 million for the first half of 2003. In February 2004 a dividend of USD 525 million was declared for the third quarter of 2003.

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements
(expressed in U.S. Dollars, tabular amounts in millions)

Note 14: Income taxes

TNK International is not subject to corporate income tax on a consolidated basis. The Group calculates deferred income taxes in accordance with SFAS No. 109, Accounting for Income Taxes, applying the specific provision for a foreign company using the U.S. dollar as a reporting currency. SFAS No. 109 requires deferred income taxes to be computed on non-current assets in Russian Roubles by comparing the historical book and tax basis in Russian Roubles after the respective depreciation but before any indexing for either book or tax purposes. The Russian Rouble deferred income tax is then remeasured into U.S. dollars using the prevailing year-end exchange rate.

Deferred income tax reflects the impact of temporary differences between the carrying values of assets and liabilities recognised for US GAAP financial reporting purposes and such amounts recognised for statutory tax purposes. Deferred income tax assets and liabilities primarily result from the difference between the carrying value of property, plant and equipment, working capital and liabilities associated with undistributed earnings of subsidiaries.

The Group's effective tax rate differs from the Russian federal statutory tax rate primarily due to the significant proportion of the Group's income accumulated in the Russian economic development zones where the tax rates are lower than the Russian statutory rate. Effective 1 January 2004, legislation was enacted which significantly reduced the tax benefits associated with the use of the Russian economic development zones.

Note 15: Taxes other than income tax expense and taxes payable

Taxes other than income tax expense for the year ended 31 December 2003 comprises the following:

	31 December 2003	31 December 2002
Unified production tax	1,592	1,117
Pension fund and other social taxes	119	105
Property tax	77	66
Non-reclaimable VAT expense	46	54
Road user's tax	-	94
Tax penalties and interest	41	7
Other taxes	54	54
Total taxes other than income tax	1,929	1,497

Unified production tax was introduced effective 1 January 2002 and replaced the mineral restoration tax, royalty tax and excise tax on crude oil production. The rate for the tax is adjusted depending on the market price of Urals blend and the RR/USD exchange rate.

Non-reclaimable VAT expense. Following the acquisition of LiNOS, the Group is required to ship 4 million tons of crude oil to the refinery. The double tax treaty between the Russian Federation and Ukraine does not permit the Group's Ukrainian subsidiaries to reclaim the VAT charged by the Group, accordingly such VAT is expensed.

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements
(expressed in U.S. Dollars, tabular amounts in millions)

Current and long-term taxes payable at 31 December 2003 and 2002 are as follows:

	31 December 2003	31 December 2002
Value-added tax	1,160	685
Income taxes	84	77
Tax penalties and interest	68	44
Unified production tax	151	16
Other taxes	119	94
Total taxes payable	1,582	916
Less: long-term taxes payable	(78)	(82)
Current taxes payable	1,504	834

The Group has negotiated a deferred payment schedule for part of its outstanding tax liabilities with the federal and local tax authorities. These agreements require that certain Group subsidiaries settle their ongoing current tax liability as they come due and that scheduled payments on the restructured tax liability are adhered to. If these companies fail to fulfil these obligations, the restructured tax liability would become current and subject to interest on the outstanding principal at the rate of 1/300 of the Russian Central Bank interest rate per day. The Group subsidiaries have complied, and expect to continue to comply, with the terms of these agreements.

Note 16: Revenues

	Year ended 31 December 2003	Year ended 31 December 2002
Crude oil – export (Europe and CIS)	7,260	4,520
Crude oil – domestic	259	202
Petroleum products – export (Europe and CIS)	2,078	2,292
Petroleum products – domestic	2,050	1,784
Other revenues	373	327
Gross sales and other operating revenues	12,020	9,125

Note 17: Related Party Transactions

The Group has the following transactions in the ordinary course of business with Alfa Bank, an affiliate of a major shareholder, who acts as one of the Group's bankers, and with entities controlled by Alfa Group:

	As of and for the year ended 31 December 2003	As of and for the year ended 31 December 2002
Cash and cash equivalents with Alfa Bank	74	138
Short-term loans from Alfa Bank	45	65
Promissory notes of Alfa Bank acquired	90	154
Promissory notes of Alfa Leasing acquired	3	-
Promissory notes of Alfa Leasing outstanding	2	3
Interest charged on loans from Alfa Bank	4	21
Interest rate range (percent, per annum)	2.7-13.0	6.5-13.0

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements
(expressed in U.S. Dollars, tabular amounts in millions)

The Group had transactions in the ordinary course of business with BP:

	As of and for the year ended 31 December 2003	As of and for the year ended 31 December 2002
Accounts and notes receivable	55	41
Accounts and notes payable	9	-
Sales of crude oil for export	1,039	738
Volumes (millions of tons)	5.5	4.2
Sales of refined products for export	361	156
Volumes (millions of tons)	2.2	1.0
Management fee expense	13	6
Integration expenses	16	-

During 2003 and 2002, the Group supplied crude oil for refining to LiNOS. In addition, the Group purchased petroleum products from LiNOS. Presented below are the amounts and the outstanding balances with LiNOS for such services and purchases:

	As of and for the year ended 31 December 2003	As of and for the year ended 31 December 2002
Advances to and receivables from LiNOS	14	19
Accounts payable to LiNOS	6	23
Sales of crude oil and petroleum products	3	66
Volumes (millions of tons)	0.02	0.5
Purchases of crude oil and petroleum products	360	276
Volumes (millions of tons)	2.6	1.6

Transactions and balances with other related parties are as follows:

	As of and for the year ended 31 December 2003	As of and for the year ended 31 December 2002
Advances to and receivables from other related parties	65	8
Accounts payable to other related parties	56	41
Sales of petroleum products	9	-
Volumes (millions of tons)	0.1	-
Purchases of crude oil and petroleum products	296	-
Volumes (millions of tons)	2.0	-
Other sales	17	-
Other purchases	5	-

Note 18: Commitments and Contingent Liabilities

Economic and operating environment in the Russian Federation. The Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation.

Whilst there have been improvements in the economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

Taxation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements
(expressed in U.S. Dollars, tabular amounts in millions)

the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments. These positions are supported by recent court decisions which are currently under appeal. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in the accompanying financial statements.

Oilfield licenses. The Group is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its oilfield licenses. Management of the Group correspond with governmental authorities to agree on remedial actions necessary to 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. The Group's management believes any issues of non-compliance will be resolved through negotiations or corrective actions without any materially adverse effect on the financial position or the operating results of the Group.

During 2003, a subsidiary of the Group received a claim from government authorities in relation to all revenue derived from the sale of oil produced from certain fields for which this subsidiary does not hold production licenses. The total crude oil production of the subsidiary from these fields since inception and up to 31 December 2003 totalled to 0.5 million tons. The Group management is currently negotiating the amount of settlement and does not believe that the final outcome will result in material adverse effect on the financial position or operating results of the Group.

Environmental liabilities. The Group and its predecessor entities have operated in the Russian Federation for many years and certain environmental issues have arisen. Governmental authorities are continually considering environmental regulations and their enforcement and the Group periodically evaluates its obligations related thereto. As obligations are determined, they are provided for over the estimated remaining lives of the related oil and gas reserves, or recognised immediately, depending on their nature. The impact of environmental liabilities under proposed or any future legislation cannot reasonably be estimated. Under current legislation and enforcement practice, management believes there are no liabilities that are in excess of amounts accrued in the accompanying financial statements, which will have a materially adverse effect on the financial position or the operating results of the Group.

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 connection with the share consolidation and exchange program conducted in December 2001, various former minority shareholders of TNK subsidiaries have initiated legal proceedings challenging the consolidation and exchange in relation to their former shares in these subsidiaries. While these proceedings are ongoing, the Group does not believe that any outcome of such proceedings will have a material adverse effect on its financial condition or results of operations.

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 AAR. In 2002, this company was acquired by TNK. In February 2004 the case was dismissed based on jurisdiction and venue.

In April 2003, certain producing subsidiaries of Sidanco received letters from the Ministry of Finance, relating to a Government financing arrangement operated in 1994. Additional export quotas were granted to those subsidiaries, in return for which the increased revenues were to be used for equipment upgrades. The Ministry of Finance claims the right to the revenues derived from the additional export quotas in the amount of

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements
(expressed in U.S. Dollars, tabular amounts in millions)

USD 13 million (including USD 6 million of interest). Management is disputing the total amount of the claims and does not believe the outcome will have a material adverse effect on the financial position or operating results of the Group.

In May 2003, Astian Group Limited (“Astian”) and Indian Ocean Petroleum Services Limited (“IOPS”) cited claims in the High Court of Justice Eastern Caribbean Supreme Court against the Group. Astian and IOPS, as minority shareholders of OAO Saratovneftegas and OAO Saratov Refinery, allege that the Group, using its controlling interest, arranged for OAO Saratovneftegas and OAO Saratov Refinery to sell crude or services to other parties within the Group at prices below market. The Group has cited motions to move the jurisdiction from BVI to Russia and the courts found for the Group on 17 November 2003, however, the claimants have issued an application seeking leave to appeal the ruling. The Group intends to vigorously defend its activities and believes the resolution of the matter will not have a significant adverse impact on the financial position or operating results of the Group.

As discussed in Note 9, the Group’s investment in LiNOS is being restructured under the supervision of the Ukrainian Arbitration Court. In December 2003, creditors who were not part of the amicable agreement initiated a second bankruptcy against LiNOS. This bankruptcy was suspended in December 2003. Management estimates such claims could exceed USD 100 million. Management believes that the ultimate resolution of this matter will not have a material adverse impact on the financial position of the Group.

Guarantee obligations. Under the terms of the Group’s management agreement with ZAO Rospan International (“Rospan”), the Group has committed to Rospan achieving certain minimum amounts of free cash flow and earnings before interest, tax, depreciation and amortization (EBITDA), both as defined in the agreement. The Group is required to compensate Rospan for the greater of any shortfall, apart from any deficit related solely to external factors (e.g. decline in oil prices, access to Gazprom pipeline), in the actual amount of free cash flow or EBITDA forecast in their business plan and actual results.

Insurance. At 31 December 2003, the Group held limited insurance policies in relation to its assets and operations, and in respect of public liability and other insurable risks and therefore largely self-insured.