

TNK-BP INTERNATIONAL LIMITED
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2009 AND 31 DECEMBER 2008 AND FOR THE NINE
MONTHS ENDED 30 SEPTEMBER 2009 AND 2008
(UNAUDITED)

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

	Note	30 September 2009	31 December 2008
Assets			
Cash and cash equivalents		1,766	1,745
Restricted cash		19	6
Bank deposits with maturity more than 3 months		100	-
Short-term investments	6	479	-
Trade and other receivables, net	7	3,801	3,553
Inventories	8	847	786
Assets held for sale	9	704	715
Other current assets		161	192
Total current assets		7,877	6,997
Long-term investments	10	2,789	2,763
Property, plant and equipment, net		17,404	17,188
Goodwill and intangible assets	11	879	918
Other long-term assets		794	841
Total assets		29,743	28,707
Liabilities and Equity			
Short-term debt and current portion of long-term debt	12	1,491	1,898
Trade accounts and notes payable		1,532	1,556
Other accounts payable and accrued expenses	13	707	1,247
Taxes payable	15	891	812
Liabilities associated with assets held for sale	9	44	42
Total current liabilities		4,665	5,555
Long-term debt	12	5,528	6,094
Asset retirement obligations		350	341
Deferred income tax liabilities		1,798	1,659
Other long-term liabilities		292	269
Total liabilities		12,633	13,918
Commitments and contingencies	19	-	-
Ordinary share capital (authorised and issued – 54,000 shares, USD 1.0 par value)		-	-
Additional paid-in capital	5	2,890	2,976
Retained earnings		13,083	10,831
Accumulated other comprehensive loss		(83)	(124)
Total Group shareholders' equity		15,890	13,683
Noncontrolling interest		1,220	1,106
Total equity		17,110	14,789
Total liabilities and equity		29,743	28,707

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)
(expressed in millions of USD)

	Note	Nine months ended 30 September 2009	Nine months ended 30 September 2008
Revenues			
Sales and other operating revenues	16	24,747	43,900
Costs and other deductions			
Export duties		5,554	12,633
Taxes other than income tax	15	4,167	9,354
Operating expenses		2,945	3,914
Cost of purchased products		2,431	3,667
Transportation expenses		2,311	2,353
Depreciation, depletion and amortization		1,389	1,190
Selling, general and administrative expenses		857	1,325
Loss on disposals and impairment of assets		62	34
Exploration expenses		31	66
Total costs and other deductions		19,747	34,536
Other income and expenses			
Earnings / (loss) from equity investments	10	35	315
Gain on disposals of subsidiaries	6	204	60
Interest income and net other income	17	65	120
Exchange loss, net		(125)	(45)
Interest expense	12,13	(184)	(386)
Total other income and expenses		(5)	64
Income before income taxes		4,995	9,428
Income taxes			
Current tax expense		921	2,289
Deferred tax expense		177	157
Total income tax expense	14	1,098	2,446
Net income		3,897	6,982
Less: net income attributable to noncontrolling interest		206	430
Net income attributable to Group shareholders		3,691	6,552

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

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

	Note	Nine months ended 30 September 2009	Nine months ended 30 September 2008
Cash flows from operating activities			
Net income		3,897	6,982
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization		1,389	1,190
Deferred tax expense		177	157
Loss on disposals and impairment of assets		62	34
Gain on disposals of subsidiaries	6	(204)	(60)
Earnings from equity investments less dividends received		(35)	(219)
Dry hole expenses		17	5
Other non-cash adjustments, net		(50)	72
Changes in operational working capital, excluding cash and cash equivalents:			
Restricted cash		(13)	1
Trade and other receivables, net		(222)	114
Inventories		(83)	(108)
Accounts and notes payable and accrued expenses		(428)	(302)
Taxes payable		97	43
Other		2	(11)
Net cash provided by operating activities		4,606	7,898
Investing activities			
Capital expenditures		(1,732)	(3,043)
Grants used for capital expenditures		(271)	(604)
Grants received		271	344
Purchase of intangible assets		(7)	(53)
Proceeds from disposals of non-current assets		14	39
Acquisition of subsidiaries, joint ventures and noncontrolling interests	5, 10	(257)	(1,167)
Cash flows from sales of subsidiaries and joint ventures	6	(12)	50
Proceeds from sales of short-term investments		27	-
Bank deposits with maturity more than 3 months		(100)	-
Loans issued		-	(27)
Loans repaid		-	5
Net cash used for investing activities		(2,067)	(4,456)
Financing activities			
Proceeds from issuance of long-term debt		964	96
Repayment of long-term debt		(1,253)	(1,125)
Proceeds from issuance of short-term debt		210	238
Repayment of short-term debt		(892)	(406)
Dividends paid to noncontrolling interest owners		(91)	(45)
Dividends paid to shareholders		(1,439)	(3,000)
Net cash used for financing activities		(2,501)	(4,242)
Effect of exchange rate changes on cash and cash equivalents		(19)	(1)
Cash and cash equivalents reclassified to assets held for sale		2	16
Net change in cash and cash equivalents		21	(785)
Cash and cash equivalents at beginning of period		1,745	3,224
Cash and cash equivalents at end of period		1,766	2,439

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

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

(expressed in millions of USD, except as indicated)

	Nine months ended 30 September 2009		
	Note	Equity	Comprehensive income
Common stock			
Balance as of 31 December 2008		-	
Balance as of 30 September 2009		-	
Additional paid-in capital			
Balance as of 31 December 2008		2,976	
Acquisition of noncontrolling interest	5	(86)	
Balance as of 30 September 2009		2,890	
Retained earnings			
Balance as of 31 December 2008		10,831	
Net income attributable to Group shareholders		3,691	3,691
Dividends to Group shareholders		(1,439)	
Balance as of 30 September 2009		13,083	
Accumulated other comprehensive loss			
<i>Currency translation adjustment</i>			
Balance as of 31 December 2008		(124)	
Translation adjustment for the period attributable to Group shareholders		(22)	(22)
Less: Currency translation loss realized on disposal of subsidiaries	6	63	63
Balance as of 30 September 2009		(83)	
Total comprehensive income attributable to Group shareholders for the period			3,732
Total Group shareholders' equity as of 30 September 2009		15,890	
Noncontrolling interest			
Balance as of 31 December 2008		1,106	
Net income attributable to noncontrolling interest		206	206
Dividends to noncontrolling interest		(72)	
Acquisitions of subsidiaries and noncontrolling interests	5	(20)	
Total comprehensive income attributable to noncontrolling interest for the period			206
Total noncontrolling interest as of 30 September 2009		1,220	
Total comprehensive income for the period			3,938
Total equity as of 30 September 2009		17,110	
Number of Ordinary shares issued (thousands of shares)			
At 31 December 2008			54
At 30 September 2009			54

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 USD, tabular amounts in millions)

Note 1: Organization

TNK-BP International Limited (“TNK-BP International” or the “Company”) and its subsidiaries (jointly referred to as “the Group”) conduct exploration and development activities and produce oil and gas in the Russian Federation, operate petroleum refineries and market oil and petroleum products in the Russian Federation, Ukraine and Internationally.

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

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

The unaudited interim condensed consolidated financial statements of the Group present the Group’s financial position as of 31 December 2008 and the results of its operations, its cash flows and its changes in equity for the nine months ended 30 September 2008 as though the transfer of the 75.0 percent interest in STBP Holdings Limited to the Company discussed above had occurred on 1 January 2008.

Note 2: Interim Condensed Consolidated Financial Statements

The unaudited interim condensed consolidated financial statements of the Group presented herein do not include all the information required by accounting principles generally accepted in the United States of America (“US GAAP”). These unaudited interim condensed consolidated financial statements should be read in conjunction with the TNK-BP consolidated financial statements as of and for the year ended 31 December 2008. 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 September 2009 and the results of its operations and its cash flows for the nine month period then ended, in conformity with US GAAP.

The financial results of the nine months ended 30 September 2009 are not necessarily indicative of future financial results.

Note 3: Basis of Presentation

Reporting and functional currency. The Company has determined that the United States dollar (“USD”) is the reporting currency for the purposes of financial reporting under US GAAP.

For the majority of subsidiaries of the Group, the functional currency is the USD as a significant portion of the Group’s business is conducted in USD; management uses the USD 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 (“RUR”) or the Ukrainian Hryvnia depending on the location and nature of activities of the particular business. For the purposes of financial reporting under US GAAP, transactions and balances have been remeasured into the functional currency of the subsidiary which, in the majority of cases, is the USD. In accordance with the relevant

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(expressed in USD, tabular amounts in millions)

provisions of Accounting Standard Codification (ASC) 830, *Foreign Currency Matters*, monetary assets and liabilities are remeasured at closing exchange rates and non-monetary items are measured at historic exchange rates and adjusted for any impairment. The consolidated statements of income and of cash flows have been remeasured at the average exchange rates during the period or the actual rate on the transaction date. Exchange differences resulting from the use of these exchange rates have been included in the determination of net income and are included in net exchange gains and losses in the accompanying consolidated statements of income.

As of 30 September 2009 and 31 December 2008, exchange rates were 30.09 and 29.38 RUR to the USD, respectively. Average exchange rates for the nine months ended 30 September 2009 and 2008 were 32.48 and 24.05 RUR to the USD, respectively.

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

New accounting standards adopted. In June 2009, SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (codified within ASC 105, *Generally Accepted Accounting Principles*), was issued and became effective for the Group from the interim period ended 30 September 2009. The Codification is the sole source of authoritative US GAAP to be applied by non-governmental entities and supersedes all non-SEC accounting and reporting standards existing on 15 September 2009. The Codification is not intended to change US GAAP. All references to accounting standards in these Financial Statements were updated to corresponding ASC references.

In September 2006, SFAS No. 157, *Fair Value Measurements* (codified within ASC 820, *Fair Value Measurements and Disclosures*), was issued and became effective for the Group on 1 January 2008 for items that are recognized at fair value in the financial statements on a recurring basis. For the recognition, measurement and disclosure of other nonfinancial assets and liabilities the Statement became effective for the Group on 1 January 2009. The Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The adoption of this Statement had no material effect on the Group's results of operations, financial position or liquidity.

In December 2007, SFAS No. 141(R), *Business Combinations* (codified within ASC 805, *Business Combinations*), was issued and became effective for the Group on 1 January 2009. This Statement provides guidance for recognition and measurement in the financial statements of identifiable assets acquired, liabilities assumed and noncontrolling interest in the acquiree. The statement similarly provides guidance for accounting for goodwill acquired in a business combination or a gain arising from a bargain purchase. The adoption of this Statement had no material effect on the Group's results of operations, financial position or liquidity.

In December 2007, SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements including an amendment of ARB No. 51* (codified within ASC 810, *Consolidation*), was issued and became effective for the Group on 1 January 2009. This Statement provides new standards to govern the accounting and reporting for noncontrolling (minority) interests in partially owned consolidated subsidiaries and for the loss of control of subsidiaries. The Statement establishes that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. The adoption of this Statement had no material effect on the Group's results of operations, financial position or liquidity. The presentation of noncontrolling interest has been changed to comply with the requirements of this Statement.

In March 2008, SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (codified within ASC 815, *Derivatives and Hedging*), was issued and became effective for the Group on 1 January 2009. This Statement requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under ASC 815, *Derivatives and Hedging*, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows.

In April 2008, the FASB Staff Position ("Position") No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (codified within ASC 350, *Intangibles - Goodwill and Other*, and ASC 275, *Risks and*

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(expressed in USD, tabular amounts in millions)

Uncertainties), was issued and became effective for the Group on 1 January 2009. This Position amends ASC 350, *Intangibles – Goodwill and Other*, to improve the consistency between the useful life of a recognized intangible asset under ASC 350, *Intangibles - Goodwill and Other*, and the period of expected cash flows used to measure the fair value of the asset under ASC 805, *Business Combinations*, and other accounting standards. The guidance for determining the useful life of a recognized intangible asset is to be applied prospectively. The adoption of this Position had no material effect on the Group's results of operations, financial position or liquidity.

In November 2008, FASB Emerging Issues Task Force ("EITF") No. 08-6, *Equity Method Investment Accounting Considerations* (codified within ASC 323, *Investments – Equity Method and Joint Ventures*), was issued and became effective for the Group on 1 January 2009. This EITF clarifies certain issues raised by ASC 805, *Business Combinations*, and ASC 810, *Consolidation*, in relation to equity method accounted investments, including impairment considerations. The adoption of this EITF had no material effect on the Group's results of operations, financial position or liquidity.

In April 2009, Position No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise From Contingencies* (codified within ASC 805, *Business Combinations*), was issued and became effective for the Group on 1 January 2009. This Position amends the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination under ASC 805, *Business Combinations*. This Position requires an enterprise to recognize acquired contingencies at fair value on the acquisition date if fair value can be reasonably estimated during the allocation period. The adoption of this Position had no material effect on the Group's results of operations, financial position or liquidity.

In May 2009, SFAS No. 165, *Subsequent Events* (codified within ASC 855, *Subsequent Events*), was issued and became effective for the Group starting from the interim period ended 30 June 2009. This Statement sets forth the period after the balance sheet date during which events or transactions that may occur should be evaluated for potential recognition or disclosure in the financial statements, the circumstances under which events or transactions occurring after the balance sheet date should be recognized in financial statements and the disclosures that should be made about events or transactions that occurred after the balance sheet date. The Statement introduced the concept of financial statements being available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The adoption of this Statement had no material effect on the Group's results of operations, financial position or liquidity.

In April 2009, FASB issued Position No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are not Orderly* (codified within ASC 820, *Fair Value Measurements and Disclosures*), that provides an additional guidance for estimating fair value in accordance with ASC 820, *Fair Value Measurements and Disclosures*, when the volume and level of activity for the asset or liability have significantly decreased. This Position also includes a guidance on identifying circumstances that indicate a transaction is not orderly. This Position became effective for the Group starting from the interim period ended on 30 June 2009. This Position emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation techniques used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The adoption of this Position had no material effect on the Group's results of operations, financial position or liquidity.

In April 2009, FASB issued Position No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (codified within ASC 825, *Financial Instruments*), which became effective for the Group from the interim period ended 30 June 2009. This Position requires fair value disclosures for financial instruments on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. The adoption of this Position had no material effect on the Group's results of operations, financial position or liquidity.

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Recent accounting pronouncements. In June 2009, SFAS No. 167, *Amendments for FASB Interpretation No. 46(R)* (not yet included into Codification), was issued and will become effective for the Group on 1 January 2010. This Statement changes the rules for determination when an entity should be consolidated. This Standard requires the Group to perform an analysis to determine whether the Group's variable interest or interests give it a controlling financial interest in a variable interest entity. The Group is also required to assess whether it has an implicit financial responsibility to ensure that the variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance. It is expected that the adoption of these Statement will have no material effect on the Group's results of operations, financial position or liquidity.

In August 2009, Accounting Standards Update (ASU) No. 2009-05, *Measuring Liabilities at Fair Value*, was issued and becomes effective for the Group on 1 January 2010. This ASU amends ASC 820, *Fair Value Measurements and Disclosures*, and provides additional guidance on how companies should measure liabilities at fair value. While reaffirming the existing definition of fair value, this ASU reintroduces the concept of entry value into the determination of fair value. Entry value is the amount an entity would receive to enter into an identical liability. Under the new guidance, the fair value of a liability is not adjusted to reflect the impact of contractual restrictions that prevent its transfer. The adoption of this ASU had no material effect on the Group's results of operations, financial position or liquidity.

Note 4: Financial and Derivative Instruments

Fair values. The estimated fair values of financial instruments are determined with reference to various market information and other valuation techniques as considered appropriate. ASC 820, *Fair Value Measurements and Disclosures*, requires an entity to maximize its use of observable inputs when measuring fair value. In the absence of observable inputs, considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realize 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 Group is also exposed to a credit risk in the event of non-payment by counterparties. The creditworthiness of customers and other counterparties is continually reviewed.

ASC 820, *Fair Value Measurements and Disclosures*, prioritises the inputs to valuation techniques into three levels as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to assess at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Unobservable inputs for the asset or liability. These inputs reflect the Company's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The methods and assumptions used to estimate fair value of each class of financial instruments are summarized below.

Cash and cash equivalents, short-term bank deposits, accounts receivable and accounts payable. The carrying amounts of these items are a reasonable approximation of their fair value.

Short-term investments. Short-term investments are stated at fair value with any gains or losses arising from changes in fair value being recognized directly in the Income Statement within Interest income and net other income. As of 30 September 2009 Short-term investments comprised of shares of Weatherford International Ltd received by the Group as part of the purchase consideration for the sale of the Oilfield Services (OFS) business (see Note 6) and classified as trading securities under ASC 320 and reported at fair value. The fair value of these shares was determined based on quoted prices and amounted to USD 479 million as of 30 September 2009 (Level 1 in the Fair Value Measurement Hierarchy). The gain from change in fair value of the shares of USD 51 million was recorded in Interest income and net other income for nine months ended 30 September 2009.

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(expressed in USD, tabular amounts in millions)

Derivative instruments – share price guarantee. Pursuant to the OFS business disposal the Group received a price guarantee maturing on 29 June 2010 according to which Weatherford is obligated to compensate the Group for any difference where the actual realized selling price of the shares is less than floor value amounting to USD 18.4972 per share (see Note 6). This guarantee is accounted for as a derivative at fair value, with any related fair value gains or losses recognized in Interest income and net other income. As of 30 September 2009, the fair value of the price guarantee for the shares held at that date amounted to USD 16 million (Level 2 in the Fair Value Measurement Hierarchy). In the nine months then ended the Group recognized a fair value loss of USD 27 million.

Derivative instruments – commodity price swaps. The strategy of the Group is to obtain competitive prices for its hydrocarbons and allow operating results to reflect market price movements dictated by supply and demand. The Group seeks, however, to minimize the distorting effects of individual markets where, for example, it has to negotiate fixed prices within a narrow trading window. To mitigate the price risks of these markets, the Group employs derivative instruments – short-term price swaps.

For the derivative instruments entered into during the nine months ended 30 September 2009 and 2008, the Company did not apply hedge accounting under the provisions of ASC 815, *Derivatives and Hedging*. Gains and losses related to changes in the fair value of derivatives were recognized in the consolidated statements of income within Interest income and net other income. The Group maintains a system of controls that includes the authorization, reporting and monitoring of derivative activity. The limited derivative activities of the Group pose no material credit or market risks to its operations, financial condition or liquidity.

Derivatives are included at fair value in Other current assets or Other accounts payable and accrued expenses. Gains or losses from derivatives are included into Income statement line “Interest income and net other income”. Fair values are calculated by the Group based on quoted market prices for hydrocarbons futures (Level 2 in the Fair Value Measurement Hierarchy). The transactions and balances for derivatives are as follows:

Type	30 September 2009	31 December 2008
Commodity contracts – crude oil and oil products swaps	(12)	11

Type	For the nine months ended 30 September 2009	For the nine months ended 30 September 2008
Commodity contracts – crude oil and oil products swaps	9	(11)

The volumes for the above mentioned swap transactions where the Group was the fixed price payer were 3.0 million tonnes (5.7% of the total crude oil production) and 2.4 million tonnes (4.7% of the total crude oil production) for the nine months ended 30 September 2009 and 2008, respectively. The volumes for the above mentioned swap transactions where the Group was the fixed price seller were 0.3 million tonnes (0.6% of the total crude oil production) and 0.4 million tonnes (0.9% of the total crude oil production) for the nine months ended 30 September 2009 and 2008, respectively.

Short-term debt. Loan arrangements have both fixed and variable interest rates that reflect the currently available terms for a 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 a similar debt. The carrying value of this debt is a reasonable approximation of its fair value. Fair value of the corporate bonds as of 30 September 2009 was determined based on market quote prices (Level 1 in the Fair Value Measurement Hierarchy). Fair value of the corporate bonds as of 31 December 2008 was determined based on future cash flows discounted at the estimated risk-adjusted discount rate rather than based on the market quote prices as the market was not active. As of 30 September 2009 and 31 December 2008, these bonds have a fair value of approximately USD 4,411 million and USD 3,450 million, while the carrying values are USD 4,476 million and USD 4,475 million, respectively.

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(expressed in USD, tabular amounts in millions)

Note 5: Acquisition of Subsidiaries and Noncontrolling Interests

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

During 2008, the Group finalized the purchase price allocation for the assets acquired in December 2007 through March 2008. The total purchase price for the series of transactions was allocated as follows:

Property, plant and equipment	401
Intangible assets	276
Goodwill	359
Long-term deferred income tax liability	(145)
Total consideration	891

As of 31 December 2007, the Group had paid USD 100 million of the consideration of USD 260 million relating to the purchase transactions completed in December 2007. During the nine months ended 30 September 2008, the Group paid further USD 741 million out of the total consideration of USD 891 million. As of 31 December 2008, the Group had paid all of the total consideration of USD 891 million.

The intangible assets relate to the value associated with the land rights and various permits allowing the construction or operation of gasoline stations. The intangible assets are amortized over a weighted average period of 20 years. The goodwill relates to synergies expected to be realized through the integration of the retail business into the Group's existing operations.

In December 2008, the Group completed the acquisition of the 25 percent of the share capital of STBP not previously held by the Group for USD 153 million in cash. In January 2009 the Group paid the final payment of USD 120 million for this acquisition.

In June 2009, the Group initiated a legal reorganization by way of accession of four wholly owned subsidiaries to OAO TNK-BP Holding ("TBH"). Minority shareholders of TBH voting at the annual meeting of shareholders against accession had the right to sell their shares to TBH at a price determined by an independent appraiser. The legal term for the related minority buy-out requests expired on 14 August 2009. As a result the Group recognized a reduction in the additional paid-in capital in the amount of USD 2 million.

In July 2009, the Group completed the acquisition of the 25 percent share in an operating subsidiary, not previously held by the Group, for USD 115 million in cash. As a result the Group recognized a paid-in capital charge of USD 84 million with a reduction of noncontrolling interest by USD 31 million.

Note 6: Disposal of subsidiaries

On 27 July 2009, the Group completed the disposal of its OFS companies to Weatherford International Ltd. ("Weatherford"). In exchange, the Group received 24.3 million Weatherford ordinary shares with an attached price guarantee – see Note 4. Total consideration is estimated at USD 526 million which includes the fair value of the shares received and the attached guarantee as well as a cash amount expected to be received as part of a completion accounting settlement. The Weatherford shares are traded on the New York Stock Exchange and on the disposal date their total fair value amounted to USD 451 million. As a result of this transaction a disposal gain of USD 204 million was recognized.

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

(expressed in USD, tabular amounts in millions)

Note 7: Trade and Other Receivables, Net

	30 September 2009	31 December 2008
Trade accounts and notes receivable (net of allowance for doubtful accounts of USD 12 million and USD 18 million as of 30 September 2009 and 31 December 2008, respectively)	1,248	716
Advances issued (net of allowance for doubtful accounts of USD 3 million and USD 10 million as of 30 September 2009 and 31 December 2008, respectively)	1,141	1,210
Recoverable value-added tax	1,129	1,141
Taxes receivable	109	332
Other receivables (net of allowance for doubtful accounts of USD 6 million and USD 7 million as of 30 September 2009 and 31 December 2008, respectively)	174	154
Total trade and other receivables, net	3,801	3,553

Note 8: Inventories

	30 September 2009	31 December 2008
Crude oil and petroleum products	586	502
Materials and supplies	261	284
Total inventories	847	786

Note 9: Assets Held for Sale

In June 2007, the Group entered into a Heads of Terms with OAO Gazprom (“Gazprom”) and BP whereby the Group has agreed to sell to Gazprom its interests in Rusia Petroleum and OAO East Siberian Gas Company (“ESGC”). Rusia Petroleum holds the exploration and production licence for the Kovykta field – see Note 19.

The Group classified the related assets and liabilities as held for sale in the interim condensed consolidated balance sheets as of 30 September 2009 and 31 December 2008. The major classes of assets and liabilities of Rusia Petroleum and ESGC are:

	30 September 2009	31 December 2008
Cash and cash equivalents	-	2
Accounts and notes receivable, net	8	26
Inventories	2	3
Property, plant and equipment, net	664	664
Other assets	30	20
Assets held for sale	704	715
Trade accounts and notes payable	1	5
Other accounts payable and accrued expenses	2	3
Taxes payable	1	1
Deferred income tax liability	40	33
Liabilities associated with assets held for sale	44	42

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

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Note 10: Long-Term Investments

	30 September 2009	31 December 2008
Advances to and investments in affiliates and joint ventures:		
OAO NGK Slavneft and its subsidiaries ("Slavneft")	2,459	2,435
NVGRES Holding Limited ("NVGRES")	302	301
OOO Novo-Urengoiskaya Gazovaya Kompaniya ("NUGK")	7	4
Total advances to and investments in affiliates and joint ventures	2,768	2,740
Long-term investments, at cost	21	23
Total long-term investments	2,789	2,763

Slavneft. The Group's earnings from its equity investment in Slavneft for the nine months ended 30 September 2009 and 2008 amounted to USD 24 million and USD 309 million, respectively.

No dividends were declared by Slavneft for the nine months ended 30 September 2009. For the nine months ended 30 September 2008 the Group's share in Slavneft declared dividends amounted to USD 114 million.

NVGRES. In August 2008, pursuant to an agreement with OAO OGK-1 ("OGK-1"), a Russian power generating company, the Group has entered into a joint venture in the Nizhnevartovsk region (NVGRES Holding Limited). Under the agreement with OGK-1 signed in February 2008, OGK-1 contributed two existing power units of Nizhnevartovsk Power Plant and the Group invested approximately Euro 230 million in the newly established joint venture in exchange for a 25% plus 1 share in the venture. The full purchase price of Euro 230 million (equivalent of USD 358 million) was paid in August 2008. In the nine months ended 30 September 2009 the Group recorded earnings from its equity investment in NVGRES of USD 8 million, and a translation loss of USD 7 million.

Note 11: Goodwill and Intangible Assets

	Cost	Accumulated amortization	Net book value
Intangible assets			
Intangible assets associated with land rights and permits	399	(15)	384
Other intangible assets	271	(96)	175
Total intangible assets	670	(111)	559
Goodwill related to the acquisition of subsidiaries	359	-	359
Balance as of 31 December 2008	1,029	(111)	918
	Cost	Accumulated amortization	Net book value
Intangible assets			
Intangible assets associated with land rights and permits	399	(29)	370
Other intangible assets	273	(123)	150
Total intangible assets	672	(152)	520
Goodwill related to the acquisition of subsidiaries	359	-	359
Balance as of 30 September 2009	1,031	(152)	879

As of 30 September 2009 and 31 December 2008, the Group's intangible assets associated with land rights and permits include USD 251 million and USD 262 million (net of accumulated amortization), respectively, relating to the acquisition of certain gasoline filling stations and other retail assets in Moscow, the Moscow region and Ukraine. These intangible assets are amortized on a straight-line basis over a weighted average period of 20 years – see Note 5.

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

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expense for intangible assets amounted to USD 42 million and USD 41 million for the nine months ended 30 September 2009 and 2008, respectively.

As of 30 September 2009 and 31 December 2008, the Group had goodwill amounting to USD 359 million, relating to the acquisition of subsidiaries– see Note 5.

Note 12: Debt

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

	30 September 2009	31 December 2008
Obligations to banks, US dollar denominated:		
Unsecured loans with composite variable interest	160	50
Unsecured loans with fixed interest	-	95
Secured loans with fixed interest	-	400
Euro denominated secured loans with fixed interest	-	297
Other short-term debt	-	5
Current portion of long-term debt	1,331	1,051
Total short-term debt and the current portion of long-term debt	1,491	1,898

As of 30 September 2009, short-term debt was provided for funding of working capital and consisted of unsecured facilities from international and Russian banks. Secured short-term loans outstanding as of 31 December 2008 were repaid in full amount within the first nine months of 2009. The weighted average interest rate on short-term borrowings outstanding as of 30 September 2009 was 4.9 percent.

Secured loans. In December 2008, the Group obtained a short-term committed credit line with a credit limit of USD 400 million. The credit facility was to mature in one year with the credit limit reducing by USD 100 million each month starting from September 2009. The credit line was secured by mortgage of office property, pledge of land lease rights and pledge of rights under an oil products delivery contract. As of 31 December 2008 the amount outstanding under this facility was USD 400 million. This amount was repaid in January 2009. The Group early terminated this loan agreement in September 2009.

In December 2008, the Group obtained a short-term loan from NVGRES Holding Limited in the amount of Euro 211 million. The loan was to mature in July 2009 and was secured by pledge of shares of NVGRES Holding Limited representing the Group's 25% plus 1 share interest in the joint venture. The outstanding amount as of 31 December 2008 was Euro 211 million. The loan was repaid in full in May 2009.

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Long-term debt is as follows:

	30 September 2009	31 December 2008
Obligations to banks, US dollar denominated:		
Medium-term uncollateralized finance - variable interest debt (composite variable interest: as of 30 September 2009 and 31 December 2008 - Libor plus 0.6 %)	1,591	2,282
Pre-export collateralized finance	540	150
Unsecured loans with fixed interest from Russian banks	-	-
Corporate bonds:		
Eurobond TNK-BP 2011 – fixed interest debt (coupon interest rate – 6.875%, effective interest rate – 6.98%)	499	499
Eurobond TNK-BP 2016 – fixed interest debt (coupon interest rate – 7.50%, effective interest rate – 7.55%)	997	997
Eurobond TNK-BP 2012 – fixed interest debt (coupon interest rate – 6.125%, effective interest rate – 6.15%)	500	500
Eurobond TNK-BP 2017 – fixed interest debt (coupon interest rate – 6.625%, effective interest rate – 6.74%)	795	795
Eurobond TNK-BP 2013 – fixed interest debt (coupon interest rate – 7.50%, effective interest rate – 7.69%)	597	596
Eurobond TNK-BP 2018 – fixed interest debt (coupon interest rate – 7.875%, effective interest rate – 8.06%)	1,089	1,088
Other	251	238
Less: current portion of long-term debt	(1,331)	(1,051)
Total long-term debt	5,528	6,094

Medium-term uncollateralized finance. In June 2006, the Group signed a USD 1,800 million unsecured medium-term loan facility with a syndicate of international banks. The loan bears interest at 0.65 percent over LIBOR, matures in June 2010 and is repayable in eleven equal instalments on a quarterly basis starting from December 2007. The loan amount outstanding as of 30 September 2009 and 31 December 2008 was USD 491 million and USD 982 million, respectively.

In November 2006, the Group entered into an agreement for a USD 1 billion syndicated unsecured loan facility arranged by a consortium of international banks. The facility bears interest at LIBOR plus 0.575 percent per annum for the first three years and LIBOR plus 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. Thus, the loan amount outstanding as of 30 September 2009 and 31 December 2008 was USD 900 million.

In November 2007, the Group entered into an agreement for a USD 600 million loan facility arranged by a consortium of international banks. The loan bears interest at LIBOR plus 0.75 percent per annum. The facility matures in May 2010 and is repayable in nine equal instalments on a quarterly basis starting from May 2008. The loan amount outstanding as of 30 September 2009 and 31 December 2008 was USD 200 million and USD 400 million, respectively.

Pre-export collateralized finance. In December 2008, the Group entered into an agreement for up to USD 750 million loan facility with a consortium of international banks. The facility matures in November 2011. The loan is to be repaid in ten equal instalments on a quarterly basis starting from August 2009. The facility is secured by assignment of crude oil export contracts. As of 31 December 2008, the loan was drawn for USD 150 million. In April, June and July 2009, the Group drew down additional USD 165 million, USD 180 million and USD 105 million tranches, respectively. The interest rate on the loan facility was changed from the initial LIBOR plus 2.85 percent to LIBOR plus 4 percent in April 2009. The amount outstanding as of 30 September 2009 and 31 December 2008 was USD 540 million and USD 150 million, respectively.

Unsecured loans with fixed interest from Russian banks. In January 2009, the Group obtained a loan from Gazprombank in the amount of USD 500 million. The loan was to mature in July 2011 and was to be repaid in

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full amount on the maturity date. The facility bore interest at 12.95 percent. The loan was fully repaid ahead of schedule in July 2009.

Eurobonds. As of 30 September 2009 and 31 December 2008 the Group had USD 4.5 billion of Eurobonds issued and outstanding.

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

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

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

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

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

Note 13: Other Accounts Payable and Accrued Expenses

	30 September 2009	31 December 2008
Salaries payable and other related costs	251	384
Advances from customers	207	248
Dividends payable to noncontrolling interest shareholders	59	86
Interest accrued	42	266
Deferred consideration	-	120
Other	148	143
Total other accounts payable and accrued expenses	707	1,247

Interest accrued. As of 31 December 2008, interest accrued included interest of USD 138 million (RUR 4 billion) related to an income tax provision that was reversed in January 2009 - see Note 19. The reversal of the provision resulted in a decrease of Interest expense in the interim condensed consolidated income statement for the nine months ended 30 September 2009 by USD 126 million.

Deferred consideration. As of 31 December 2008, the Group had an outstanding amount payable of USD 120 million for the acquisition of noncontrolling interest in STBP, which was paid in January 2009 – see Note 5.

Note 14: Income taxes

The Group is not subject to a corporate income tax on a consolidated basis, rather Group entities are assessed for corporate income taxes on an individual basis. The statutory corporate income tax rate in the Russian Federation is 20 percent and 24 percent for 2009 and 2008, respectively. The Group is a party to agreements with the Tyumen and Orenburg regional authorities which grant the Group relief of four percent on the above statutory

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rates subject to the Group making qualified capital investments in those Regions. The above benefits are offset by an accrual of withholding tax on earnings to be distributed to foreign subsidiaries and certain non-deductible expenses. These expenses were partly offset by the release of a previously recorded provision of USD 124 million - see Note 19. The effective tax rate of the Group approximated 22 percent and 26 percent for the nine months ended 30 September 2009 and 2008, respectively.

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

Taxes other than income tax expense for the nine months ended 30 September 2009 and 2008 comprises the following:

	Nine months ended 30 September 2009	Nine months ended 30 September 2008
Unified production tax	3,266	8,134
Excise taxes	621	804
Property tax	145	151
Pension fund and other social taxes	109	165
Non-recoverable VAT expense	2	51
Tax penalties and interest	(10)	19
Other taxes	34	30
Total taxes other than income tax	4,167	9,354

Unified production tax. The rate of this tax is adjusted depending on the market price of the Urals blend and the RR/USD exchange rate. Average tax rates for the nine months ended 30 September 2009 and 2008 were USD 9.09 per barrel and USD 21.80 per barrel, respectively.

Current and long-term taxes payable as of 30 September 2009 and 31 December 2008 are as follows:

	30 September 2009	31 December 2008
Unified production tax	480	248
Value-added tax	166	136
Excise taxes	68	64
Pension fund and other social taxes	54	68
Property tax	52	35
Current deferred income tax liability	37	38
Tax penalties and interest	33	51
Income taxes	(8)	157
Other taxes	12	18
Total taxes payable	894	815
Less: long-term taxes payable	(3)	(3)
Current taxes payable	891	812

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Note 16: Revenues

Revenues for the nine months ended 30 September 2009 and 2008 comprise the following:

	Nine months ended 30 September 2009	Nine months ended 30 September 2008
Crude oil – export (Europe and CIS)	12,097	21,250
Crude oil – domestic	1,224	1,942
Petroleum products – export (Europe and CIS)	6,808	12,183
Petroleum products – domestic	3,808	7,484
Other revenues	810	1,041
Sales and other operating revenues	24,747	43,900

Note 17: Interest Income and Net Other Income

Interest income and other income for the nine months ended 30 September 2009 and 2008 comprise the following:

	Nine months ended 30 September 2009	Nine months ended 30 September 2008
Interest income	25	96
Net gains from changes in fair values	24	-
Commodity contracts – crude oil and oil products swaps gains	9	(11)
Income from disposals of short-term investments	2	-
Other income	5	35
Interest income and other income	65	120

Note 18: Related Party Transactions

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

	As of 30 September 2009 and for the nine months ended 30 September 2009	As of 31 December 2008 and for the nine months ended 30 September 2008
Cash and cash equivalents held at Alfa Bank	103	83
Deposits with maturity more than 3 months in Alfa-Bank	100	-
Trade and other receivables, net	11	8
Insurance expenses	9	10

In the ordinary course of business the Group receives guarantees from Alfa Group among other banks. According to Russian legislation the Group is entitled to provide such guarantees to the customs authorities as a security of its obligations for custom payments. The guarantees received from Alfa Group amounted to USD 53 million in effect as of 30 September 2009 and USD 88 million in effect as of 31 December 2008. The guarantee related expenses amounted to USD 0.4 million and USD 0.1 million for nine months ended 30 September 2009 and 2008, respectively.

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

	As of 30 September 2009 and for the nine months ended 30 September 2009	As of 31 December 2008 and for the nine months ended 30 September 2008
Trade and other receivables, net	65	48
Accounts and notes payable	16	72
Sales of crude oil export	832	1,389
<i>Volumes (millions of tons)</i>	2.1	1.8
Sales of petroleum, products export	516	965
<i>Volumes (millions of tons)</i>	1.4	1.3
Secondee costs expensed	0.7	20

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

	As of 30 September 2009 and for the nine months ended 30 September 2009	As of 31 December 2008 and for the nine months ended 30 September 2008
Trade and other receivables, net	19	25
Dividends receivable	96	97
Accounts and notes payable	55	58
Sales of crude oil export	251	579
<i>Volumes (millions of tons)</i>	0.8	1.1
Sales of petroleum products	0.3	48
<i>Volumes (millions of tons)</i>	-	0.1
Purchases of crude oil and petroleum products	1,238	2,252
<i>Volumes (millions of tons)</i>	7.4	7.5
Crude oil refining fee	157	177
<i>Volumes (millions of tons)</i>	5.1	5.0

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

	As of 30 September 2009	As of 31 December 2008
Accounts receivable and loans issued	16	14
Accounts payable and loans received	23	26

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

	As of 30 September 2009 and for the nine months ended 30 September 2009	As of 31 December 2008 and for the nine months ended 30 September 2008
Trade receivables and loans issued	47	25
Accounts payable	25	15
Loan received from NVGRES	-	297
Sales of natural gas	188	71
<i>Volumes (billions of cubic meters)</i>	4.1	1.6
Sales of refined products	-	4.4
Gas processing fee	68	76
<i>Volumes (billions of cubic meters)</i>	2.9	2.4

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Note 19: 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 a relatively high inflation. Furthermore, the tax, currency, and customs legislation within these countries is subject to varying interpretations and changes which can occur frequently.

Volatility in financial and commodity markets. The recent crisis in financial and credit markets has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the international and Russian banking sector, and higher interbank lending rates. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Management is taking these developments and the recent volatility in financial and commodity markets into account in the conduct of daily operations and for the business planning and believes that it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

Gas production and marketing activities. As of 30 September 2009 and 31 December 2008, the Group's capitalized costs related to its gas subsidiaries amounted to USD 1,333 million and USD 1,329 million, respectively. These amounts include the capitalized costs of Rusia Petroleum and ESGC, the entities which are involved in the development of the Kovykta field – see below.

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

Taxation. The 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. Following the liquidation of a group subsidiary company in January 2009, a provision of USD 124 million which had previously been recorded in respect of an uncertain income tax position was released, together with a provision of USD 126 million for potential related interest charges.

Pursuant to tax audits conducted in 2006 and 2007, the Russian tax authorities have presented a number of tax acts and decisions relating to 2003, 2004 and 2005 in respect of income tax and other taxes of Group subsidiaries. Currently, the Group is appealing, either with the higher tax authorities or in the courts, tax decisions with a total exposure amounting to USD 92 million (RUR 2.8 billion).

Pursuant to tax audits conducted in 2008, the Russian tax authorities have presented a number of tax acts and decisions relating to 2006 and 2007 in respect of income tax and other taxes of a number of Group subsidiaries.

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Currently, the Group is appealing, either with the higher tax authorities or in the courts, tax decisions with a total exposure amounting to USD 93 million (RUR 2.8 billion).

The Group believes that it has made an adequate provision for the outcome of the matters raised by the tax authorities. As of 30 September 2009 and 31 December 2008, the Group has recorded a liability in the amount of USD 102 million (RUR 3.1 billion) and USD 392 million (RUR 11.5 billion), respectively, related to the matters discussed above.

Oilfield and gasfield licenses. The Group is subject to periodic reviews of its activities by government authorities with respect to the requirements of its licenses. Where appropriate, management of the Group liaise with government authorities to agree on remedial actions and resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties or license limitation, suspension or revocation.

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

In June 2007, the Group entered into a Heads of Terms with Gazprom and BP whereby the Group has agreed to sell to Gazprom its interests in Rusia Petroleum and ESGC – see Note 9. Capitalized costs relating to the Kovykta project amounted to USD 664 million as of 30 September 2009 and 31 December 2008, respectively. Management believes that these capitalized costs will be fully recovered through the intended sale to Gazprom and considers that the Kovykta related assets and liabilities are appropriately presented as assets held for sale and liabilities associated with assets held for sale as of 30 September 2009.

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

Environmental liabilities. Environmental regulation in the Russian Federation is evolving as is the enforcement posture of the government authorities. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which may 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 226 million and USD 235 million as of 30 September 2009 and 31 December 2008, respectively. The estimates used by management include uncertainties about a number of factors including the extent of necessary remediation, the technology to be used for remediation, and the standards that will constitute an acceptable remediation. As additional information becomes available, management will continue to adjust its estimated provision to an appropriate level. The Group’s environmental obligations could range up to USD 375 million as of 30 September 2009.

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

In February 2002, Norex Petroleum Limited filed a lawsuit against TNK and certain other defendants in the United States District Court for the Southern District of New York over the ownership of a company, which was owned by an affiliate of the Alfa Group and the Access-Renova Group. In 2002, this company was acquired by TNK. In February 2004, the case was dismissed based on jurisdiction and venue. In July 2005, the Court of Appeals reversed the decision of the District Court and returned the case to the lower court where in September 2007 the case was dismissed. In October 2007, Norex Petroleum Limited petitioned the Court of Appeals for

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reconsideration of this decision. In February 2009, a Court of Appeal hearing took place, however a decision remains outstanding. 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 September 2008, the Russian Federal Antimonopoly Service (“FAS”) issued a decision whereby it found TNK-BP Holding in violation of Russian antimonopoly legislation in respect of jet fuel and gasoline pricing on the wholesale markets. In November 2008, the FAS issued a fine in the amount of USD 44 million (RUR 1.1 billion) against TNK-BP Holding. The Group has appealed the decision and related fine and has obtained to date a number of favourable court rulings. These rulings are subject to appeal by the FAS.

On 31 July 2009, the FAS issued a further decision against TNK-BP Holding and on 25 September 2009 issued a fine in the amount of USD 139 million (RUR 4.2 billion). The Group believes that it has meritorious grounds to appeal in court the FAS decision and the related fines and an appeal has already been filed.

Note 20: Segment information

Presented below is information about the Group’s operations for the nine months ended 30 September 2009 and 2008 in accordance with ASC 280, *Segment Reporting*.

The Group has three operating segments – exploration and production (“E&P”); refining, marketing, and distribution (“RM&D”); and oil field services (divested in July 2009 – see Note 6). Management assesses the performance of these operating segments on a regular basis. The E&P segment explores for, develops and produces crude oil and gas. The RM&D segment processes crude oil into refined products and also purchases, sells and transports crude oil and refined petroleum products. The oil field services segment provided support and maintenance to oil and gas exploration and production facilities.

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

Segment information is prepared using estimates of market prices and other forecasted factors.

As of 30 September 2009 and for the nine months ended 30 September 2009	Exploration and Production	Refining, Marketing and Distribution	Oil Field Services	Other	Elimination	Total
Revenues						
Third parties	560	24,156	26	5	-	24,747
Intersegment	10,603	12	212	-	(10,827)	-
Segment revenues	11,163	24,168	238	5	(10,827)	24,747
EBITDA	4,809	1,493	39	349	(27)	6,663
Segment assets	16,946	9,392	-	3,904	(499)	29,743

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As of 31 December 2008 and for the nine months ended 30 September 2008	Exploration and Production	Refining, Marketing and Distribution	Oil Field Services	Other	Elimination	Total
Revenues						
Third parties	618	43,234	40	-	-	43,892
Intersegment	18,087	24	432	-	(18,543)	-
Segment revenues	18,705	43,258	472	-	(18,543)	43,892
Revenues not-allocated to segments						8
Consolidated revenues						43,900
EBITDA	6,517	4,028	134	322	(72)	10,929
Segment assets	16,641	8,400	322	3,634	(290)	28,707

EBITDA for the nine months ended 30 September 2009 and 2008 is reconciled to income before income taxes as follows:

	For the nine months ended 30 September 2009	For the nine months ended 30 September 2008
EBITDA	6,663	10,929
Depreciation, depletion and amortization	(1,389)	(1,190)
Interest income	25	96
Other income	5	35
Exchange loss, net	(125)	(45)
Interest expense	(184)	(386)
Other differences	-	(11)
Income before income taxes and minority interest	4,995	9,428

Note 21: Subsequent Events

Subsequent events were evaluated by the Group for the period from 1 October 2009 up to 5 November 2009 which is the date when financial statements were issued.

Subsequent to 30 September 2009, the Group declared dividends to shareholders of USD 400 million.