

## **TNK-BP INTERNATIONAL LTD**

### **2007 FINANCIAL RESULTS**

#### **Financial Context**

TNK-BP International Ltd (TIL) has reported its consolidated financial results for 2007 for the TIL group of companies. The financial statements have been prepared under accounting principles generally accepted in the United States of America (generally referred to as US GAAP) and represent the consolidated financial position of TIL and its subsidiaries.

TIL is a wholly owned subsidiary of TNK-BP Ltd and together with its subsidiaries conducts oil and gas exploration, development and production activities in the Russian Federation, as well as operating refineries and marketing oil and petroleum products in the Russian Federation, Ukraine and internationally.

Net Income for 2007 is reported as \$5.3bn with EBITDA of \$9.4bn.

For 2007, the TIL financial statements also include the SFAS 69 supplemental information on oil and gas exploration and production activities. As this is the first year in which such data has been prepared, no comparative disclosures are included in respect of 2006.

#### **Business Environment**

The main structural change affecting the 2007 TIL group results relates to the divestment of its Udmurtneft assets which were sold in August 2006. The 2006 results included around \$2.0bn of profit from the disposal and around \$0.4bn from the 8 months of production operations.

The trading environment in 2007 was significantly stronger than 2006. Urals (MED/NWE) marker prices averaged almost \$70/bbl representing an increase of around 13% relative to 2006. Average TIL realizations increased by 15% year-on-year although the benefit from Udmurtneft operations in 2006 diluted the reported increase in Revenues to 9%.

Production volumes of oil and condensate amounted to 1,452 mbd for 2007 (excluding Slavneft). After adjusting for the Udmurtneft volumes in 2006 (122 mbd prior to divestment), underlying production levels were largely unchanged year-on-year.

The business environment was adversely affected by external factors with higher Urals prices driving up production taxes, and ruble appreciation and inflation in the oil services sector causing increases in operating costs. Production operations activity was also higher with increased levels of wellwork, fracturing and sidetracks relative to 2006.

Relative to the increase in realizations of 15%, costs and other deductions increased by only 12% giving rise to an underlying growth in EBITDA of 22% and Net Income of 24%, excluding the effects of the Udmurtneft divestment. The after tax effect of the Udmurtneft divestment in 2006 results in a year-on-year reported decrease in Net Income of 21%.

Investment levels in 2007 were increased with organic capex of \$3.5bn representing an increase of around 50% relative to 2006. As a result of focused investment spend and the application of enhanced technologies, a significant increase in reserves was booked with 179% of production being replaced in 2007 under SEC methodology on a life-of field basis.