

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

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

|   | Note | 30 June 2009  | 31 December 2008 |
|---|------|---------------|------------------|
| <b>Assets</b>   |      |               |                  |
| Cash and cash equivalents   |      | 1,625         | 1,745            |
| Restricted cash   |      | 14            | 6                |
| Bank deposits with maturity more than 3 months                                    |      | 100           | -                |
| Trade and other receivables, net  | 6    | 3,238         | 3,553            |
| Inventories   | 7    | 906           | 786              |
| Assets held for sale  | 8    | 988           | 715              |
| Other current assets  |      | 160           | 192              |
| <b>Total current assets</b>   |      | <b>7,031</b>  | <b>6,997</b>     |
| Long-term investments   | 9    | 2,738         | 2,763            |
| Property, plant and equipment, net  |      | 17,315        | 17,188           |
| Goodwill and intangible assets  | 10   | 894           | 918              |
| Other long-term assets  |      | 826           | 841              |
| <b>Total assets</b>   |      | <b>28,804</b> | <b>28,707</b>    |
| <b>Liabilities and Equity</b>   |      |               |                  |
| Short-term debt and current portion of long-term debt                             | 11   | 1,424         | 1,898            |
| Trade accounts and notes payable  |      | 1,353         | 1,556            |
| Other accounts payable and accrued expenses                                       | 12   | 670           | 1,247            |
| Taxes payable   | 14   | 908           | 812              |
| Liabilities associated with assets held for sale                                  | 8    | 151           | 42               |
| <b>Total current liabilities</b>  |      | <b>4,506</b>  | <b>5,555</b>     |
| Long-term debt  | 11   | 6,114         | 6,094            |
| Asset retirement obligations  |      | 347           | 341              |
| Deferred income tax liabilities   |      | 1,674         | 1,659            |
| Other long-term liabilities   |      | 267           | 269              |
| <b>Total liabilities</b>  |      | <b>12,908</b> | <b>13,918</b>    |
| Commitments and contingencies   | 17   | -             | -                |
| Ordinary share capital (authorised and issued – 54,000 shares, USD 1.0 par value) |      | -             | -                |
| Additional paid-in capital  |      | 2,976         | 2,976            |
| Retained earnings   |      | 11,902        | 10,831           |
| Accumulated other comprehensive loss  |      | (156)         | (124)            |
| <b>Total Group shareholders' equity</b>   |      | <b>14,722</b> | <b>13,683</b>    |
| Noncontrolling interest   |      | 1,174         | 1,106            |
| <b>Total equity</b>   |      | <b>15,896</b> | <b>14,789</b>    |
| <b>Total liabilities and equity</b>   |      | <b>28,804</b> | <b>28,707</b>    |

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

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

|  | Note  | Six months ended<br>30 June 2009 | Six months ended<br>30 June 2008 |
|--|-------|----------------------------------|----------------------------------|
| <b>Revenues</b>  |       |                                  |                                  |
| Sales and other operating revenues                       | 15    | 14,487                           | 28,295                           |
| <b>Total revenues</b>                                    |       | 14,487                           | 28,295                           |
| <b>Costs and other deductions</b>                        |       |                                  |                                  |
| Export duties  |       | 3,075                            | 7,627                            |
| Taxes other than income tax                              | 14    | 2,368                            | 5,896                            |
| Operating expenses                                       |       | 1,827                            | 2,462                            |
| Transportation expenses                                  |       | 1,474                            | 1,532                            |
| Cost of purchased products                               |       | 1,297                            | 2,497                            |
| Depreciation, depletion and amortization                 |       | 899                              | 761                              |
| Selling, general and administrative expenses             |       | 579                              | 881                              |
| Loss on disposals and impairment of assets               |       | 32                               | 15                               |
| Exploration expenses                                     |       | 18                               | 54                               |
| <b>Total costs and other deductions</b>                  |       | 11,569                           | 21,725                           |
| <b>Other income and expenses</b>                         |       |                                  |                                  |
| Earnings / (loss) from equity investments                | 9     | (2)                              | 147                              |
| Gain on disposals of subsidiaries                        |       | -                                | 60                               |
| Interest income and net other income                     |       | 46                               | 121                              |
| Exchange gain / (loss)                                   |       | (67)                             | 58                               |
| Interest expense   | 11,12 | (94)                             | (273)                            |
| <b>Total other income and expenses</b>                   |       | (117)                            | 113                              |
| <b>Income before income taxes</b>                        |       | 2,801                            | 6,683                            |
| <b>Income taxes</b>                                      |       |                                  |                                  |
| Current tax expense                                      |       | 565                              | 1,492                            |
| Deferred tax expense                                     |       | 93                               | 189                              |
| <b>Total income tax expense</b>                          | 13    | 658                              | 1,681                            |
| <b>Net income</b>  |       | 2,143                            | 5,002                            |
| Less: net income attributable to noncontrolling interest |       | 136                              | 317                              |
| <b>Net income attributable to Group shareholders</b>     |       | 2,007                            | 4,685                            |

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  | Six months ended<br>30 June 2009 | Six months ended<br>30 June 2008 |
|---|-------|----------------------------------|----------------------------------|
| <b>Cash flows from operating activities</b>                                       |       |                                  |                                  |
| Net income  |       | 2,143                            | 5,002                            |
| Adjustments to reconcile net income to net cash provided by operating activities: |       |                                  |                                  |
| Depreciation, depletion and amortization  |       | 899                              | 761                              |
| Deferred tax expense  |       | 93                               | 189                              |
| Loss on disposals and impairment of assets  |       | 32                               | 15                               |
| Gain on disposals of subsidiaries   |       | -                                | (60)                             |
| Loss / (earnings) from equity investments less dividends received                 |       | 2                                | (128)                            |
| Dry hole expenses   |       | 13                               | 4                                |
| Other non-cash adjustments, net   |       | (55)                             | 22                               |
| Changes in operational working capital, excluding cash and cash equivalents:      |       |                                  |                                  |
| Restricted cash   |       | (8)                              | (4)                              |
| Trade and other receivables, net  |       | 295                              | (506)                            |
| Inventories   |       | (122)                            | (250)                            |
| Accounts and notes payable and accrued expenses                                   |       | (484)                            | 33                               |
| Taxes payable   |       | 94                               | 540                              |
| Other   |       | (44)                             | (34)                             |
| <b>Net cash provided by operating activities</b>                                  |       | <b>2,858</b>                     | <b>5,584</b>                     |
| <b>Investing activities</b>   |       |                                  |                                  |
| Capital expenditures  |       | (1,267)                          | (2,008)                          |
| Grants used for capital expenditures  |       | (47)                             | (396)                            |
| Grants received   |       | 47                               | 126                              |
| Purchase of intangible assets   |       | (5)                              | (28)                             |
| Proceeds from disposals of non-current assets                                     |       | 10                               | 14                               |
| Acquisition of subsidiaries and noncontrolling interests                          | 5, 12 | (120)                            | (788)                            |
| Proceeds from sales of subsidiaries and joint ventures                            |       | -                                | 52                               |
| Bank deposits with maturity more than 3 months                                    |       | (100)                            | -                                |
| Loans issued  |       | -                                | (22)                             |
| <b>Net cash used for investing activities</b>                                     |       | <b>(1,482)</b>                   | <b>(3,050)</b>                   |
| <b>Financing activities</b>   |       |                                  |                                  |
| Proceeds from issuance of long-term debt  |       | 859                              | 49                               |
| Repayment of long-term debt   |       | (463)                            | (395)                            |
| Proceeds from issuance of short-term debt   |       | 50                               | 193                              |
| Repayment of short-term debt  |       | (888)                            | (275)                            |
| Dividends paid to noncontrolling interest owners                                  |       | (83)                             | (45)                             |
| Dividends paid to shareholders  |       | (936)                            | (2,400)                          |
| <b>Net cash used for financing activities</b>                                     |       | <b>(1,461)</b>                   | <b>(2,873)</b>                   |
| Effect of exchange rate changes on cash and cash equivalents                      |       | (25)                             | 39                               |
| Cash and cash equivalents reclassified to assets held for sale                    |       | (10)                             | 15                               |
| <b>Net change in cash and cash equivalents</b>                                    |       | <b>(120)</b>                     | <b>(285)</b>                     |
| Cash and cash equivalents at beginning of period                                  |       | 1,745                            | 3,224                            |
| <b>Cash and cash equivalents at end of period</b>                                 |       | <b>1,625</b>                     | <b>2,939</b>                     |

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)

|  | Six months ended 30 June 2009 |                      |
|--|-------------------------------|----------------------|
|  | Equity                        | Comprehensive income |
| <b>Common stock</b>  |                               |                      |
| Balance as of 31 December 2008   | -                             | -                    |
| Balance as of 30 June 2009   | -                             | -                    |
| <b>Additional paid-in capital</b>  |                               |                      |
| Balance as of 31 December 2008   | 2,976                         |                      |
| Balance as of 30 June 2009   | 2,976                         |                      |
| <b>Retained earnings</b>   |                               |                      |
| Balance as of 31 December 2008   | 10,831                        |                      |
| Net income attributable to Group shareholders  | 2,007                         | 2,007                |
| Dividends to Group shareholders  | (936)                         |                      |
| Balance as of 30 June 2009   | 11,902                        |                      |
| <b>Accumulated other comprehensive loss</b>  |                               |                      |
| <i>Currency translation adjustment</i>   |                               |                      |
| Balance as of 31 December 2008   | (124)                         |                      |
| Change during the period attributable to Group shareholders                              | (32)                          | (32)                 |
| Balance as of 30 June 2009   | (156)                         |                      |
| <b>Total comprehensive income attributable to Group shareholders for the period</b>      |                               | 1,975                |
| <b>Total Group shareholders' equity as of 30 June 2009</b>                               | 14,722                        |                      |
| <b>Noncontrolling interest</b>   |                               |                      |
| Balance as of 31 December 2008   | 1,106                         |                      |
| Net income attributable to noncontrolling interest                                       | 136                           | 136                  |
| Dividends to noncontrolling interest   | (66)                          |                      |
| Accumulated other comprehensive loss attributable to noncontrolling interest             | (2)                           | (2)                  |
| <b>Total comprehensive income attributable to noncontrolling interest for the period</b> |                               | 134                  |
| <b>Total noncontrolling interest as of 30 June 2009</b>                                  | 1,174                         |                      |
| <b>Total comprehensive income for the period</b>   |                               | 2,109                |
| <b>Total equity as of 30 June 2009</b>   | 15,896                        |                      |
| Number of Ordinary shares issued (thousands of shares)                                   |                               |                      |
| At 31 December 2008  |                               | 54                   |
| At 30 June 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)

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

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

TNK-BP International is a wholly owned subsidiary of TNK-BP Limited (“TNK-BP” or “Parent”), a British Virgin Islands company. TNK-BP was formed effective 29 August 2003 by the Alfa Group, the Access-Renova Group (jointly “AAR”) and BP, to hold their respective interests in their Russian and Ukrainian oil and gas assets. AAR contributed its 100 percent interest in TNK Industrial Holdings Limited which held a 100 percent interest in TNK-BP International, which in turn owned a 96.1 percent interest in OAO Tyumen Oil Company (“TNK”) and a 100 percent interest in Sborsare 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 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 six months ended 30 June 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 June 2009 and the results of its operations and its cash flows for the six month period then ended, in conformity with accounting principles generally accepted in the United States of America.

The financial results of the six months ended 30 June 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 the activities of the particular business. For the purposes of financial reporting under US GAAP, transactions and balances have been remeasured into the functional

## TNK-BP INTERNATIONAL LIMITED

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

(expressed in USD, tabular amounts in millions)

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currency of the subsidiary which, in the majority of cases, is the USD. In accordance with the relevant provisions of Statement of Financial Accounting Standards (“SFAS”) No. 52, *Foreign Currency Translation*, monetary assets and liabilities are remeasured at closing exchange rates and non-monetary items are remeasured at historic exchange rates and adjusted for any impairment. The consolidated statements of income and of cash flows have been remeasured at the average exchange rates during the period. Exchange differences resulting from the use of these exchange rates have been included in the determination of net income and are included in net exchange gains and losses in the accompanying consolidated statements of income.

The functional currency of certain subsidiaries and affiliates, such as oil field services companies (“OFS”) and NVGRES Holding Limited (“NVGRES”), is the Russian Rouble as the primary economic environment of these entities is the local market.

As of 30 June 2009 and 31 December 2008, exchange rates were 31.29 and 29.38 RUR to the USD, respectively. Average exchange rates for the six months ended 30 June 2009 and 2008 were 33.07 and 23.95 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 September 2006, SFAS No. 157, *Fair Value Measurements*, was issued and became effective for the Group on 1 January 2008 for items that are recognized at fair value in the financial statements on a recurring basis. 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*, 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*, 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*, 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 SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, 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*, was issued and became effective for the Group on 1 January 2009. This Position amends SFAS No. 142, *Goodwill and Other Intangible Assets*, to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141, *Business Combinations*, and other accounting standards. The guidance

## TNK-BP INTERNATIONAL LIMITED

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

(expressed in USD, tabular amounts in millions)

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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*, was issued and became effective for the Group on 1 January 2009. This EITF clarifies certain issues raised by SFAS No. 141 (R) and SFAS No. 160 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*, 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 SFAS No. 141(R). 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*, 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*, that provides the additional guidance for estimating fair value in accordance with SFAS No. 157, *Fair Value Measurements*, 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*, 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.

**Recent accounting pronouncements.** In June 2009, SFAS No. 167, *Amendments for FASB Interpretation No. 46(R)*, was issued and will become effective for the Group on 1 January 2010. This Statement is a revision of FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, and changes how a company determines 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

## TNK-BP INTERNATIONAL LIMITED

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

(expressed in USD, tabular amounts in millions)

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expected that the adoption of these Statement will have no material effect of the Group's results of operations, financial position or liquidity.

In June 2009, SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, was issued and will be effective for the Group for interim and annual periods ending on or after 30 September 2009. The Codification was launched as the sole source of authoritative non-government's US GAAP. The Codification is not intended to change US GAAP. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All references to accounting standards in the Financial Statements for the nine months ending 30 September 2009 will be changed to Accounting Standard Codification (ASC) references.

#### 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 methodologies as considered appropriate. In the absence of quoted market values, 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. The methods and assumptions used to estimate fair value of each class of financial instruments are presented 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 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 June 2009 was determined based on market quote prices. 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 June 2009 and 31 December 2008, these bonds have a fair value of approximately USD 3,892 million and USD 3,450 million, while the carrying values are USD 4,476 million and USD 4,475 million, respectively.

**Derivative instruments.** 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 six months ended 30 June 2009 and 2008, the Company did not apply hedge accounting under the provisions of SFAS No. 133. 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. Fair values are calculated by the Group based on quoted market prices for hydrocarbons futures.

The transactions and balances for derivatives are as follows:

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

(expressed in USD, tabular amounts in millions)

| Type   | Balance sheet location | 30 June 2009 | 31 December 2008 |
|--|------------------------|--------------|------------------|
| Commodity contracts – crude oil and oil products swaps | Other current assets   | 2            | 11               |

| Type   | Location of gain                     | For the six months ended 30 June 2009 | For the six months ended 30 June 2008 |
|--|--------------------------------------|---------------------------------------|---------------------------------------|
| Commodity contracts – crude oil and oil products swaps | Interest income and net other income | 29                                    | 47                                    |

The volumes for the above mentioned swap transactions where the Group was the fixed price payer were 1.4 million tonnes (4.1% of the total crude oil production) and 1.3 million tonnes (3.8% of the total crude oil production) for the six months ended 30 June 2009 and 2008, respectively. The volumes for the above mentioned swap transactions where the Group was the fixed price seller were 0.1 million tonnes (0.4% of the total crude oil production) and 0.4 million tonnes (1.3% of the total crude oil production) for the six months ended 30 June 2009 and 2008, respectively.

**Note 5: Acquisition of Subsidiaries**

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)      |
| <b>Total consideration</b>              | <b>891</b> |

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 six months ended 30 June 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.

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

(expressed in USD, tabular amounts in millions)

**Note 6: Trade and Other Receivables, Net**

|  | 30 June 2009 | 31 December 2008 |
|--|--------------|------------------|
| Trade accounts and notes receivable<br>(net of allowance for doubtful accounts of USD 11 million and USD 18 million as of 30 June 2009 and 31 December 2008, respectively) | 1,051        | 716              |
| Recoverable value-added tax  | 1,031        | 1,141            |
| Advances issued<br>(net of allowance for doubtful accounts of USD 4 million and USD 10 million as of 30 June 2009 and 31 December 2008, respectively)                      | 819          | 1,210            |
| Taxes receivable   | 206          | 332              |
| Other receivables<br>(net of allowance for doubtful accounts of USD 7 million and USD 7 million as of 30 June 2009 and 31 December 2008, respectively)                     | 131          | 154              |
| <b>Total trade and other receivables, net</b>  | <b>3,238</b> | <b>3,553</b>     |

**Note 7: Inventories**

|                                  | 30 June 2009 | 31 December 2008 |
|----------------------------------|--------------|------------------|
| Crude oil and petroleum products | 607          | 502              |
| Materials and supplies           | 299          | 284              |
| <b>Total inventories</b>         | <b>906</b>   | <b>786</b>       |

**Note 8: 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 17.

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

|   | 30 June 2009 | 31 December 2008 |
|---|--------------|------------------|
| Cash and cash equivalents                               | -            | 2                |
| Accounts and notes receivable, net                      | 13           | 26               |
| Inventories   | 2            | 3                |
| Property, plant and equipment, net                      | 664          | 664              |
| Other assets  | 27           | 20               |
| <b>Assets held for sale</b>                             | <b>706</b>   | <b>715</b>       |
| Trade accounts and notes payable                        | 4            | 5                |
| Other accounts payable and accrued expenses             | 2            | 3                |
| Taxes payable   | 1            | 1                |
| Deferred income tax liability                           | 41           | 33               |
| <b>Liabilities associated with assets held for sale</b> | <b>48</b>    | <b>42</b>        |

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

On 29 May 2009, the Group entered into an agreement with Weatherford International Ltd. (“Weatherford”) for the sale of the Group’s oil field services companies (“OFS”) in exchange for 24.3 million of Weatherford common stock shares. During the 13 months period following signing of the Agreement, Weatherford is obligated to compensate the Group for any difference between an actual realized selling price of the shares and a floor value amounting to USD 18.4972 per share. On 27 July 2009, the parties to the Agreement completed the

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

(expressed in USD, tabular amounts in millions)

sale. The Group classified the related assets and liabilities as held for sale in the interim condensed consolidated balance sheet as of 30 June 2009. The major classes of assets and liabilities of OFS are:

|   | 30 June 2009 |
|---|--------------|
| Cash and cash equivalents                               | 12           |
| Accounts and notes receivable, net                      | 22           |
| Inventories   | 15           |
| Property, plant and equipment, net                      | 224          |
| Other assets  | 9            |
| <b>Assets held for sale</b>                             | <b>282</b>   |
| Trade accounts and notes payable                        | 35           |
| Other accounts payable and accrued expenses             | 21           |
| Taxes payable   | 28           |
| Deferred income tax liability                           | 19           |
| <b>Liabilities associated with assets held for sale</b> | <b>103</b>   |

Discrete financial information with regard to the OFS segment is provided in Note 18. Pursuant to the sale discussed above, the Group has fully recovered the carrying value of the OFS assets as of 30 June 2009.

**Note 9: Long-Term Investments**

|  | 30 June 2009 | 31 December 2008 |
|--|--------------|------------------|
| Advances to and investments in affiliates and joint ventures:      |              |                  |
| OAO NGK Slavneft and its subsidiaries ("Slavneft")                 | 2,424        | 2,435            |
| NVGRES Holding Limited ("NVGRES")                                  | 289          | 301              |
| OOO Novo-Urengoiszkaya Gazovaya Kompaniya ("NUGK")                 | 6            | 4                |
| Total advances to and investments in affiliates and joint ventures | 2,719        | 2,740            |
| Long-term investments, at cost                                     | 19           | 23               |
| <b>Total long-term investments</b>                                 | <b>2,738</b> | <b>2,763</b>     |

**Slavneft.** The Group's loss from its equity investment in Slavneft for the six months ended 30 June 2009 amounted to USD 11 million and earnings for the six months ended 30 June 2008 amounted to USD 144 million.

No dividends were declared by Slavneft for the six months ended 30 June 2009 and 2008.

**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). The Group's earnings from the equity investment in NVGRES for the six months ended 30 June 2009 was USD 7 million.

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

(expressed in USD, tabular amounts in millions)

**Note 10: Goodwill and Intangible Assets**

|   | Cost         | Accumulated<br>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            |
| <b>Balance as of 31 December 2008</b>                     | <b>1,029</b> | <b>(111)</b>                | <b>918</b>     |
|   | Cost         | Accumulated<br>amortization | Net book value |
| Intangible assets   |              |                             |                |
| Intangible assets associated with land rights and permits | 399          | (24)                        | 375            |
| Other intangible assets                                   | 274          | (114)                       | 160            |
| Total intangible assets                                   | 673          | (138)                       | 535            |
| Goodwill related to the acquisition of subsidiaries       | 359          | -                           | 359            |
| <b>Balance as of 30 June 2009</b>                         | <b>1,032</b> | <b>(138)</b>                | <b>894</b>     |

As of 30 June 2009 and 31 December 2008, the Group's intangible assets associated with land rights and permits include USD 255 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 expense for intangible assets amounted to USD 28 million and USD 27 million for the six months ended 30 June 2009 and 2008, respectively.

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

**Note 11: Debt**

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

|  | 30 June 2009 | 31 December 2008 |
|--|--------------|------------------|
| Obligations to banks, US dollar denominated:                           |              |                  |
| Unsecured loans with composite variable interest                       | -            | 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            | 5                |
| Current portion of long-term debt                                      | 1,419        | 1,051            |
| <b>Total short-term debt and the current portion of long-term debt</b> | <b>1,424</b> | <b>1,898</b>     |

As of 31 December 2008, short-term debt was provided for funding of working capital and consisted both of secured and unsecured facilities from international and Russian banks and other parties. Short-term debt from banks and secured short-term loans were repaid in full amount within the first half of 2009. The weighted average interest rate in short-term borrowings outstanding as of 31 December 2008 was 9.8 percent.

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

(expressed in USD, tabular amounts in millions)

**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 matures in one year and the credit limit reduces by USD 100 million each month starting from September 2009. The credit line is 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, which was repaid in January 2009. No amounts were outstanding under this facility as of 30 June 2009.

In December 2008, the Group obtained a short-term loan from NVGRES 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 was Euro 211 million. The loan was repaid in full amount in May 2009.

Long-term debt is as follows:

|  | 30 June 2009 | 31 December 2008 |
|--|--------------|------------------|
| Obligations to banks, US dollar denominated:   |              |                  |
| Medium-term uncollateralized finance - variable interest debt<br>(composite variable interest: as of 30 June 2009 and 31 December 2008 - Libor plus 0.6 %) | 1,821        | 2,282            |
| Pre-export collateralized finance  | 495          | 150              |
| Unsecured loans with fixed interest from Russian banks   | 500          | -                |
| Corporate bonds:   |              |                  |
| Eurobond TNK-BP 2011 – fixed interest debt<br>(coupon interest rate – 6.875%, effective interest rate – 6.98%)   | 499          | 499              |
| Eurobond TNK-BP 2016 – fixed interest debt<br>(coupon interest rate – 7.50%, effective interest rate – 7.55%)  | 997          | 997              |
| Eurobond TNK-BP 2012 – fixed interest debt<br>(coupon interest rate – 6.125%, effective interest rate – 6.15%)   | 500          | 500              |
| Eurobond TNK-BP 2017 – fixed interest debt<br>(coupon interest rate – 6.625%, effective interest rate – 6.74%)   | 795          | 795              |
| Eurobond TNK-BP 2013 – fixed interest debt<br>(coupon interest rate – 7.50%, effective interest rate – 7.69%)  | 597          | 596              |
| Eurobond TNK-BP 2018 – fixed interest debt<br>(coupon interest rate – 7.875%, effective interest rate – 8.06%)   | 1,088        | 1,088            |
| Other  | 241          | 238              |
| Less: current portion of long-term debt  | (1,419)      | (1,051)          |
| <b>Total long-term debt</b>  | <b>6,114</b> | <b>6,094</b>     |

**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 June 2009 and 31 December 2008 was USD 655 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 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 June 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 June 2009 and 31 December 2008 was USD 267 million and USD 400 million, respectively.

## **TNK-BP INTERNATIONAL LIMITED**

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

(expressed in USD, tabular amounts in millions)

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***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. In 2008, the loan was drawn for USD 150 million. In April and June 2009, respectively, the Group drew down additional USD 165 million and USD 180 million tranches under this loan facility. 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 June 2009 and 31 December 2008 was USD 495 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 amount of USD 500 million. The loan matures in July 2011 and is to be repaid in full amount on the maturity date. The facility bears interest at 12.95 percent. The loan amount outstanding as of 30 June 2009 was USD 500 million. The loan was fully repaid ahead of schedule on 29 July 2009.

***Eurobonds.*** As of 30 June 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.

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

(expressed in USD, tabular amounts in millions)

**Note 12: Other Accounts Payable and Accrued Expenses**

|   | 30 June 2009 | 31 December 2008 |
|---|--------------|------------------|
| Salaries payable and other related costs                              | 216          | 384              |
| Advances from customers   | 153          | 248              |
| Interest accrued  | 120          | 266              |
| Dividends payable to noncontrolling interest shareholders             | 59           | 86               |
| Deferred consideration for the acquisition of noncontrolling interest | -            | 120              |
| Other   | 122          | 143              |
| <b>Total other accounts payable and accrued expenses</b>              | <b>670</b>   | <b>1,247</b>     |

As of 31 December 2008, interest accrued included income tax interest of USD 138 million (RUR 4 billion) related to the income tax provision that was reversed in January 2009 - see Note 17. The reversal of the provision resulted in a decrease of Interest expense in the interim condensed consolidated income statement for the six months ended 30 June 2009 by USD 126 million.

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. As of 31 December 2008, the Group had an outstanding amount payable of USD 120 million for this acquisition, which was paid in January 2009.

**Note 13: 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 rates subject to the Group making qualified capital investments in those Regions. The above benefits are offset by certain non-deductible expenses and an accrual of withholding tax on earnings to be distributed to foreign subsidiaries. In addition, during the six months ended 30 June 2009, the Group recognized USD 81 million in current income tax expense related to foreign exchange gains arising under statutory accounting. This expense was partly offset by the release of a previously recorded provision of USD 124 million - see Note 17. The effective tax rate of the Group approximated 24 percent and 25 percent for the six months ended 30 June 2009 and 2008, respectively.

**Note 14: Taxes other than income tax expense and taxes payable**

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

|  | Six months ended<br>30 June 2009 | Six months ended<br>30 June 2008 |
|--|----------------------------------|----------------------------------|
| Unified production tax                   | 1,779                            | 5,103                            |
| Excise taxes                             | 380                              | 518                              |
| Property tax                             | 94                               | 101                              |
| Pension fund and other social taxes      | 80                               | 117                              |
| Non-recoverable VAT expense              | 17                               | 24                               |
| Tax penalties and interest               | (4)                              | 16                               |
| Other taxes                              | 22                               | 17                               |
| <b>Total taxes other than income tax</b> | <b>2,368</b>                     | <b>5,896</b>                     |

**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 six months ended 30 June 2009 and 2008 were USD 7.82 per barrel and USD 21.24 per barrel, respectively.

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

(expressed in USD, tabular amounts in millions)

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

|                                       | 30 June 2009 | 31 December 2008 |
|---------------------------------------|--------------|------------------|
| Unified production tax                | 463          | 248              |
| Value-added tax                       | 116          | 136              |
| Excise taxes                          | 68           | 64               |
| Current deferred income tax liability | 68           | 38               |
| Income taxes                          | 53           | 157              |
| Property tax                          | 50           | 35               |
| Pension fund and other social taxes   | 50           | 68               |
| Tax penalties and interest            | 33           | 51               |
| Other taxes                           | 10           | 18               |
| Total taxes payable                   | 911          | 815              |
| Less: long-term taxes payable         | (3)          | (3)              |
| <b>Current taxes payable</b>          | <b>908</b>   | <b>812</b>       |

**Note 15: Revenues**

Revenues for the six months ended 30 June 2009 and 2008 comprise the following:

|  | Six months ended<br>30 June 2009 | Six months ended<br>30 June 2008 |
|--|----------------------------------|----------------------------------|
| Crude oil – export (Europe and CIS)          | 7,337                            | 13,897                           |
| Crude oil – domestic                         | 529                              | 1,140                            |
| Petroleum products – export (Europe and CIS) | 3,972                            | 7,952                            |
| Petroleum products – domestic                | 2,143                            | 4,630                            |
| Other revenues                               | 506                              | 676                              |
| <b>Sales and other operating revenues</b>    | <b>14,487</b>                    | <b>28,295</b>                    |

**Note 16: 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<br>30 June 2009 and for<br>the six months ended<br>30 June 2009 | As of<br>31 December 2008 and<br>for the six months<br>ended 30 June 2008 |
|--|---|---|
| Cash and cash equivalents held at Alfa Bank            | 177   | 83  |
| Deposits with maturity more than 3 months in Alfa-Bank | 100   | -   |
| Trade and other receivables, net                       | 8   | 8   |
| Insurance expenses                                     | 8   | 7   |

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

(expressed in USD, tabular amounts in millions)

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

|                                     | As of<br>30 June 2009<br>and for the six<br>months ended<br>30 June 2009 | As of<br>31 December 2008<br>and for the six<br>months ended<br>30 June 2008 |
|-------------------------------------|--|--|
| Trade and other receivables, net    | 60   | 48   |
| Accounts and notes payable          | 16   | 72   |
| Sales of crude oil export           | 539  | 909  |
| <i>Volumes (millions of tons)</i>   | 1.5  | 1.2  |
| Sales of petroleum, products export | 246  | 586  |
| <i>Volumes (millions of tons)</i>   | 0.8  | 0.9  |
| Seconded costs expensed             | -  | 21   |

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

|   | As of<br>30 June 2009<br>and for the six<br>months ended<br>30 June 2009 | As of<br>31 December 2008<br>and for the six<br>months ended<br>30 June 2008 |
|---|--|--|
| Trade and other receivables, net              | 21   | 25   |
| Dividends receivable                          | 91   | 97   |
| Accounts and notes payable                    | 57   | 58   |
| Sales of crude oil export                     | 173  | 449  |
| <i>Volumes (millions of tons)</i>             | 0.6  | 0.9  |
| Sales of petroleum products                   | -  | 48   |
| <i>Volumes (millions of tons)</i>             | -  | 0.1  |
| Purchases of crude oil and petroleum products | 721  | 1,407  |
| <i>Volumes (millions of tons)</i>             | 4.9  | 4.9  |
| Crude oil refining fee                        | 97   | 106  |
| <i>Volumes (millions of tons)</i>             | 3.2  | 3.2  |

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

|                                      | As of<br>30 June 2009 | As of<br>31 December 2008 |
|--------------------------------------|-----------------------|---------------------------|
| Accounts receivable and loans issued | 15                    | 14                        |
| Accounts payable and loans received  | 24                    | 26                        |

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

|   | As of<br>30 June 2009<br>and for the six<br>months ended<br>30 June 2009 | As of<br>31 December 2008<br>and for the six<br>months ended<br>30 June 2008 |
|---|--|--|
| Loans issued                              | 29   | 25   |
| Accounts payable                          | 23   | 15   |
| Loan received from NVGRES                 | -  | 297  |
| Sales of natural gas                      | 97   | 23   |
| <i>Volumes (billions of cubic meters)</i> | 2.5  | 0.6  |
| Gas processing fee                        | 45   | 48   |
| <i>Volumes (billions of cubic meters)</i> | 2.3  | 1.5  |

## TNK-BP INTERNATIONAL LIMITED

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

(expressed in USD, tabular amounts in millions)

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#### Note 17: 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 Group has been closely monitoring the crisis in financial and credit markets and the general contraction of worldwide economic activity. The 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 ongoing 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 June 2009 and 31 December 2008, the Group's capitalized costs related to its gas subsidiaries amounted to USD 1,321 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 a 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 tax acts and decisions in the amount of USD 277 million (RUR 8.7 billion) relating to 2003, 2004 and 2005 in respect of income tax and other taxes of Group subsidiaries. The Group is currently appealing these decisions either with the higher tax authorities or in the courts. As of 30 June 2009, the Group had received favourable court rulings

## **TNK-BP INTERNATIONAL LIMITED**

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

(expressed in USD, tabular amounts in millions)

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in respect of USD 67 million (RUR 2 billion) of the above amount. The Group believes that it has made an adequate provision for the outcome of the matters raised by the tax authorities.

Pursuant to tax audits conducted in 2008, the Russian tax authorities have presented tax acts in the amount of USD 108 million (RUR 3.4 billion) relating to 2006 and 2007 in respect of income tax and other taxes of a number of Group subsidiaries. The Group believes that it has made an adequate provision for the outcome of the matters raised by the tax authorities.

As of 30 June 2009 and 31 December 2008, the Group has a liability in the amount of USD 103 million (RUR 3.2 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 April 2007, the Group filed a claim with the Irkutsk Arbitration Court challenging the interpretation of the license agreement by Rosnedra as to the required production levels. In May 2007, related to this appeal, the Court issued an injunction as to any actions by Rosnedra until which time as the Court had ruled upon the appeal. Subsequently, the court ruled that it did not have jurisdiction to rule on this appeal matter.

In June 2007, the Group entered into a Heads of Terms with Gazprom and BP whereby the Group has agreed to sell to Gazprom its interests in Rusia Petroleum and ESGC – see Note 8. Capitalized costs relating to the Kovykta project amounted to USD 664 million as of 30 June 2009 and 31 December 2008, respectively. Management continues to believe 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 June 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 222 million and USD 235 million as of 30 June 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 June 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

## **TNK-BP INTERNATIONAL LIMITED**

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

(expressed in USD, tabular amounts in millions)

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resulting liabilities will not have a materially adverse effect on the financial position or the operating results of the Group.

In February 2002, Norex Petroleum Limited filed a lawsuit against TNK and certain other defendants in the United States District Court for the Southern District of New York over the ownership of a company, which was owned by an affiliate of the Alfa Group and the Access-Renova Group. In 2002, this company was acquired by TNK. In February 2004, the case was dismissed based on jurisdiction and venue. In July 2005, the Court of Appeals reversed the decision of the District Court and returned the case to the lower court where in September 2007 the case was dismissed. In October 2007, Norex Petroleum Limited petitioned the Court of Appeals for reconsideration of this decision. 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 the 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 two favourable court rulings. On 25 June 2009, the FAS released a press statement claiming that TNK-BP, among other Russian oil majors, has violated the antimonopoly legislation; however, no formal claims have been received by the Group on this matter and it is not possible to understand the nature of these new claims in detail or quantify any potential liability.

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

(expressed in USD, tabular amounts in millions)

**Note 18: Segment information**

Presented below is information about the Group's operations for the six months ended 30 June 2009 and 2008 in accordance with SFAS No.131, *Disclosures about Segments of an Enterprise and Related Information*.

The Group has three operating segments – exploration and production (“E&P”); refining, marketing, and distribution (“RM&D”); and oil field services. Management 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 provides support and maintenance to oil and gas exploration and production facilities.

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

Segment information is prepared using estimates. Changes between those estimates and actual results which are not allocated to segments are included as reconciliations in the tables below.

The segment information is prepared using estimates.

| As of 30 June 2009 and for the six months ended 30 June 2009 | Exploration and Production | Refining, Marketing and Distribution | Oil Field Services | Other        | Elimination    | Total         |
|--|----------------------------|--------------------------------------|--------------------|--------------|----------------|---------------|
| Revenues   |                            |                                      |                    |              |                |               |
| Third parties  | 330                        | 14,137                               | 20                 | -            | -              | 14,487        |
| Intersegment   | 6,350                      | 10                                   | 179                | -            | (6,539)        | -             |
| <b>Segment revenues</b>                                      | <b>6,680</b>               | <b>14,147</b>                        | <b>199</b>         | <b>-</b>     | <b>(6,539)</b> | <b>14,487</b> |
| <b>EBITDA</b>  | <b>2,861</b>               | <b>854</b>                           | <b>31</b>          | <b>33</b>    | <b>65</b>      | <b>3,844</b>  |
| <b>Segment assets</b>  | <b>16,963</b>              | <b>8,766</b>                         | <b>282</b>         | <b>3,289</b> | <b>(496)</b>   | <b>28,804</b> |

EBITDA for the six months ended 30 June 2009 is reconciled to income before income taxes as follows:

|   |              |
|---|--------------|
| <b>EBITDA</b>   | <b>3,844</b> |
| Depreciation, depletion and amortization  | (899)        |
| Interest income and net other income, excluding net gain related to derivatives | 17           |
| Exchange gain, net  | (67)         |
| Interest expense  | (94)         |
| <b>Income before income taxes</b>   | <b>2,801</b> |

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

(expressed in USD, tabular amounts in millions)

| As of 31 December 2008<br>and for the six<br>months ended<br>30 June 2008 | <b>Exploration<br/>and<br/>Production</b> | <b>Refining,<br/>Marketing and<br/>Distribution</b> | <b>Oil Field<br/>Services</b> | <b>Other</b> | <b>Elimination</b> | <b>Total</b>  |
|---|---|---|-------------------------------|--------------|--------------------|---------------|
| Revenues  |   |   |                               |              |                    |               |
| Third parties   | 416                                       | 27,359  | 21                            | -            | -                  | 27,796        |
| Intersegment  | 12,223                                    | 18  | 280                           | -            | (12,521)           | -             |
| <b>Segment revenues</b>   | <b>12,639</b>                             | <b>27,377</b>                                       | <b>301</b>                    | <b>-</b>     | <b>(12,521)</b>    | <b>27,796</b> |
| Prices differences  |   |   |                               |              |                    | 371           |
| Other differences   |   |   |                               |              |                    | 128           |
| <b>Consolidated<br/>revenues</b>  |   |   |                               |              |                    | <b>28,295</b> |
| <b>EBITDA</b>   | <b>4,857</b>                              | <b>1,960</b>  | <b>85</b>                     | <b>490</b>   | <b>(45)</b>        | <b>7,347</b>  |
| <b>Segment assets</b>   | <b>16,641</b>                             | <b>8,400</b>  | <b>322</b>                    | <b>3,634</b> | <b>(290)</b>       | <b>28,707</b> |

EBITDA for the six months ended 30 June 2008 is reconciled to income before income taxes as follows:

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

**Note 19: Subsequent Events**

Subsequent events were evaluated by the Group for the period from 1 July 2009 up to 3 August 2009 which is the date when financial statements were issued.

In June 2009, the Group announced its reorganization plans by accession of its four subsidiaries OAO "Sborsare Management", ZAO "Sidanco-Investments", ZAO "Sidanco-Neftepererabotka", and ZAO "Sidanco-Securities" to OAO TNK-BP Holding ("TBH"). Minority shareholders of TBH voting at the annual meeting of shareholders against accession have the right to sell their shares to TBH at the price of Russian Roubles 28.79 (USD 0.92 at the rate of 30 June 2009) determined by an independent valuator. Minority shareholders hold 826 million of common and preferred shares of TBH (about 5% of share capital). However, the total amount that may be spent on the purchase of TBH shares from minority shareholders can not exceed 10% of TBH net assets, which is circa USD 130 million.

On 29 July 2009, the Group has early repaid the USD 500 million long-term loan from Gazprombank – see Note 11.

On 27 July 2009, the Group completed the sale of its oil field services business – see Note 8.