



TNK-BP Finance S.A.
(incorporated with limited liability in Luxembourg)
as Issuer

**U.S.\$8,000,000,000
Guaranteed Debt Issuance Programme**

Unconditionally and irrevocably guaranteed by
TNK-BP International Limited
(incorporated with limited liability in the British Virgin Islands)

No Notes may be issued under the Programme
which have a minimum denomination of less than
€50,000 (or its equivalent in another currency)

Joint Arrangers and Permanent Dealers

Barclays Capital

**CALYON
Crédit Agricole CIB**

The Royal Bank of Scotland

**BNP PARIBAS
Citi**

Permanent Dealers

**Credit Suisse
UBS Investment Bank**

This Base Prospectus contains information provided by TNK-BP Finance S.A. (the “**Issuer**”) and TNK-BP International Limited (“**TNK-BP International**” or the “**Guarantor**”) in connection with a Guaranteed Debt Issuance Programme (the “**Programme**”) under which the Issuer may issue and have outstanding at any time global medium term notes (the “**Notes**”) on the terms set out herein (the “**Terms and Conditions of the Notes**”) as supplemented by the final terms (the “**Final Terms**” and each a “**Final Term**”) setting out the specific terms of each issue up to a maximum aggregate amount of U.S.\$8,000,000,000 or its equivalent in alternative currencies. In this Base Prospectus, references to “**TNK-BP**” or the “**Group**” mean TNK-BP International together with its consolidated subsidiaries, unless the context requires otherwise. See “*TNK-BP History and Organisational Structure—Present Structure of the TNK-BP Group*”.

The Notes will be constituted by, and have the benefit of, an amended and restated trust deed dated 20 January 2010 (the “**Trust Deed**”) between the Issuer, the Guarantor and Citicorp Trustee Company Limited (the “**Trustee**”). The Guarantor will unconditionally and irrevocably guarantee the due and punctual payment of all amounts due and payable in respect of any Notes issued by the Issuer pursuant to, in the case of the Guarantor, Clause 5 of the Trust Deed (the “**Guarantee**”). The Issuer and the Guarantor have, pursuant to an amended and restated dealer agreement (the “**Dealer Agreement**”) dated 20 January 2010, appointed Barclays Bank PLC, CALYON, The Royal Bank of Scotland plc, BNP Paribas, Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited and UBS Limited (the “**Dealers**”) as dealers for the Notes under the Programme, and have authorised and requested the Dealers to circulate this Base Prospectus in connection with the Programme, subject to the provisions of the Dealer Agreement.

No Notes may be issued under the Programme which have a minimum denomination of less than €50,000 (or its equivalent in another currency). Subject thereto and to compliance with all applicable legal, regulatory and/or central bank requirements, Notes will be issued in such denominations as may be specified in the relevant Final Terms.

All of the information contained in this Base Prospectus concerning the Russian oil and gas market and TNK-BP’s competitors, which may include estimates or approximations, has been derived from publicly available information, including press releases and filings made under various securities laws. The Issuer and the Guarantor accept responsibility for correctly copying such information from its sources and confirm that such information has been correctly copied from its sources. However, the Issuer and the Guarantor have relied on the accuracy of such information without carrying out an independent verification.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, the Guarantor, the Dealers or the Trustee that any recipient of this Base Prospectus or any other information supplied relating to the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Guarantor. Neither this Base Prospectus nor any other information supplied in connection with the Programme nor the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or the Guarantor or any of the Dealers or the Trustee to any person to subscribe for or to purchase any Notes.

No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Trustee as to the accuracy or completeness at any time of this Base Prospectus or any supplement hereto. No person has been authorised by the Issuer, the Guarantor, the Dealers or the Trustee to give any information or to make any representation not contained in this Base Prospectus or any supplement hereto, and, if given or made, such information or representation must not be relied upon as having been authorised.

The distribution of this Base Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Notes come are required by the Issuer, the Guarantor, the Dealers and the Trustee to inform themselves about and to observe any such restrictions. In particular, such persons are required to comply with the restrictions on offers or sales of Notes and on distribution of this Base Prospectus and other information in relation to the Notes set out under “*Subscription and Sale*” and “*Transfer Restrictions*”.

In connection with the issue of any Tranche of Notes (as defined in “*Overview of the Programme*”), the Dealer or Dealers (if any) named as the stabilising manager(s) (the “**Stabilising Manager(s)**”) (or

persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.

Furthermore, none of the Dealers or the Trustee makes any comment about the treatment for taxation purposes of payments or receipts in respect of any Notes. Each investor contemplating acquiring Notes under the Programme must seek such tax or other professional advice as it considers necessary for the purpose.

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE “*RISK FACTORS*”.

THE NOTES AND THE GUARANTEE (TOGETHER, THE “**SECURITIES**”) HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED AND SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (“**REGULATION S**”)). THE NOTES MAY BE OFFERED AND SOLD (i) WITHIN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS (EACH, A “**QIB**”), AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT (“**RULE 144A**”), IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A (SUCH NOTES SO OFFERED AND SOLD, THE “**RULE 144A NOTES**”) AND (ii) TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S (SUCH NOTES SO OFFERED AND SOLD, THE “**REGULATION S NOTES**”). THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. FOR A DESCRIPTION OF THESE AND CERTAIN OTHER RESTRICTIONS, SEE “*SUBSCRIPTION AND SALE*” AND “*TRANSFER RESTRICTIONS*”.

This Base Prospectus has been approved on the date hereof by the Luxembourg *Commission de Surveillance du Secteur Financier* (the “**CSSF**”) in its capacity as the competent authority for the purpose of Directive 2003/71/EC (the “**Prospectus Directive**”) and the Luxembourg law on prospectuses for securities of 10 July 2005. This Base Prospectus constitutes a Base Prospectus for the purposes of and in compliance with the Prospectus Directive and the Luxembourg law on prospectuses for securities of 10 July 2005 for the purpose of giving information with regard to the issue of Notes under the Programme during the period of twelve months from the date of its publication. Application has been made to list Notes issued under the Programme on the official list and traded on the regulated market (within the meaning of Directive 2004/39/EC (Markets in Financial Instruments Directive) of the Luxembourg Stock Exchange. The Programme provides that Notes may in the future be listed on such other or further stock exchange(s) as may be agreed between the Issuer, the Guarantor and the relevant Dealer(s) in relation to each issue, provided that the relevant requirements have been met. The relevant Final Terms in respect of the issue of any Notes will specify whether or not such Notes will be listed on the official list and traded on the Regulated Market of the Luxembourg Stock Exchange (or any other stock exchange). The Issuer may also issue unlisted Notes pursuant to the Programme.

Regulation S Notes of each Series which are sold in an “offshore transaction” within the meaning of Regulation S will initially be represented by interests in a global unrestricted note in registered form (each, a “**Regulation S Global Note**”), without interest coupons, which will be deposited with a

common depositary for, and registered in the name of a nominee of, Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”) on its Issue Date (as defined below). Beneficial interests in a Regulation S Global Note will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. Rule 144A Notes of each Series sold to QIBs, as referred to in, and subject to, the transfer restrictions described in “*Subscription and Sale*” and “*Transfer Restrictions*”, will initially be represented by interests in a global restricted Note in registered form (each, a “**Rule 144A Global Note**” and, together with any Regulation S Global Notes, the “**Global Notes**”), without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (“**DTC**”) on its Issue Date. Beneficial interests in a Rule 144A Global Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See “*Summary of the Provisions Relating to the Notes in Global Form*”. Individual definitive Notes in registered form will only be available in certain limited circumstances as described herein.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE “SEC”), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENCED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

ENFORCEABILITY OF JUDGMENTS

The Issuer is a company organised under the laws of Luxembourg and the Guarantor is a corporation organised under the laws of the British Virgin Islands. None of the directors and executive officers of the Issuer or the Guarantor are residents of the United States or the United Kingdom, and all or a substantial portion of the assets of the Issuer and the Guarantor and such persons are located outside the United States and the United Kingdom. As a result, it may not be possible for investors to effect service of process within the United States or the United Kingdom upon the Issuer or the Guarantor or such persons or to enforce against any of them in the United States courts or courts located in the United Kingdom judgments obtained in United States courts or courts located in the United Kingdom, respectively, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any State or territory within the United States.

In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom, their claims in respect of liabilities predicated upon English law.

A final judgment obtained in the courts of England will be enforceable in Luxembourg subject to applicable “exequatur” proceedings as provided for in the Council Regulation (EC) No. 44/2001 of 22 December 2000 on jurisdiction and the recognition and enforcement of judgments in civil and

commercial matters and the Council Regulation (EC) No. 805/2004 of 21 April 2004 creating a European enforcement order for uncontested claims.

SUPPLEMENTS TO THE BASE PROSPECTUS

The Issuer (failing which the Guarantor) will, in connection with the listing of the Notes on the official list and admission to trading on the Regulated Market of the Luxembourg Stock Exchange, so long as any Note remains outstanding and listed on such exchange, in the event of any material change in the Condition of the Issuer or the Guarantor which is not reflected in this Base Prospectus, prepare a supplement to the Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of the Notes to be listed on the official list and admitted to trading on the Regulated Market of the Luxembourg Stock Exchange.

The Issuer and the Guarantor may agree with any Dealer that a Series of Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplement to the Base Prospectus, if appropriate, will be published which will describe the effect of the agreement reached in relation to such Series of Notes.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

The financial information of TNK-BP set forth herein has, unless otherwise indicated, been derived from its audited consolidated financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles (“U.S. GAAP”) as set forth on pages F-2 through F-41 of this Base Prospectus as of 31 December 2008, 2007 and 2006 and for the years ended 31 December 2008, 2007 and 2006 (“**TNK-BP’s Audited U.S. GAAP Financial Statements**”). This Base Prospectus also includes on pages F-42 through F-63 unaudited interim condensed consolidated financial statements, prepared by TNK-BP in accordance with U.S. GAAP as applicable to interim consolidated financial reporting, as of 30 September 2009 and 31 December 2008 and for the nine-month periods ended 30 September 2009 and 2008 (“**TNK-BP’s Unaudited Nine Months Interim Financial Statements**” and, together with TNK-BP’s Audited U.S. GAAP Financial Statements, “**TNK-BP’s Financial Statements**”). The U.S. dollar is the functional and reporting currency for TNK-BP’s Financial Statements.

The financial information of the Issuer set forth herein has, unless otherwise indicated, been derived from its audited financial statements prepared in accordance with Luxembourg legal and regulatory requirements as set forth on pages F-64 through F-83 of this Base Prospectus as of and for the years ended 31 December 2008 and 2007 and as of and for the years ended 31 December 2007 and 2006 (the “**Issuer’s Financial Statements**”, together with TNK-BP’s Financial Statements, the “**Financial Statements**”). The U.S. dollar is the functional and reporting currency for the Issuer’s Financial Statements.

Effective 1 January 2009, TNK-BP adopted the U.S. GAAP guidance on consolidation as it relates to noncontrolling interests. The guidance changed the accounting and reporting standards for minority interests, which were recharacterised as noncontrolling interests and classified as a component of equity. In accordance with this guidance, TNK-BP changed the presentation of existing minority interests in TNK-BP’s Financial Statements.

Currency

In this Base Prospectus:

“**RUR**” or “**rouble**” means the lawful currency of the Russian Federation;

“**U.S. dollar**” or “**U.S.\$**” means the lawful currency of the United States;

“**Euro**” or “**€**” means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended by the Treaty on the European Union, signed at Maastricht, on 7 February 1992; and

“**Sterling**” or “**£**” means the lawful currency of the United Kingdom of Great Britain and Northern Ireland.

Oil and Gas Reserves Data

This Base Prospectus contains information concerning TNK-BP’s estimated proved, probable and possible oil and gas reserves that has been derived or extracted from the reports of DeGolyer and MacNaughton, a firm of independent petroleum engineers, dated as of 31 December in each of 2008, 2007 and 2006, and which are estimated in accordance with the following two sets of global standards of reserves measurement:

- the U.S. Society of Petroleum Engineers, Inc.’s Petroleum Resource Management System (“**PRMS**”) standards (formerly called SPE standards); and
- the standards of reserves measurement applied by the U.S. Securities and Exchange Commission (the “**SEC**”), including such standards on the basis of reserves being calculated through the current licence period (the “**SEC-LE basis**”) and such standards on the basis of reserves being calculated through the economic life of the fields (the “**SEC-LOF basis**”).

PRMS standards are reviewed and jointly sponsored by the World Petroleum Council, the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers.

Petroleum engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact manner. These estimates necessarily depend upon a number of variable factors and assumptions, many of which are beyond our control. Due to the inherent uncertainties and the necessarily limited nature of reservoir data and the inherently imprecise nature

of reserves estimates the reserves amounts disclosed in this Base Prospectus may change as additional information becomes available. Prospective investors should not place undue reliance on the ability of the reserves reports prepared by DeGolyer and MacNaughton to predict actual reserves or on comparisons of similar reports concerning companies established in other economic systems.

DeGolyer and MacNaughton's reserves reports as of 31 December 2008, 2007 and 2006 (respectively, the “**2008 Reserves Report**”, the “**2007 Reserves Report**” and the “**2006 Reserves Report**” and collectively the “**Reserves Reports**”) are based upon the authority of DeGolyer and MacNaughton as an expert with respect to such matters and relate to reserves held by all of TNK-BP's exploration and production subsidiaries and joint ventures, excluding OAO NGK Slavneft (“**Slavneft**”).

Annex A to this Base Prospectus contains a summary of the 2008 Reserves Report insofar as it relates to the review of TNK-BP's oil and gas fields on the SEC-LOF basis (the “**2008 SEC-LOF Reserves Report**”). The 2007 Reserves Report and the 2006 Reserves Report are not included in this Base Prospectus, and the 2008 Reserves Report, insofar as it relates to the review of TNK-BP's oil and gas fields based on the SEC-LE basis and the PRMS standards, has not been included in this Base Prospectus. In addition, the tables and appendices attached to the 2008 SEC-LOF Reserves Report which detail TNK-BP's reserves and revenue by subdivision and by subsidiary have not been reproduced in Annex A of this Base Prospectus.

Unless otherwise indicated, reserves data contained in this Base Prospectus has been calculated on the SEC-LOF basis.

The Reserves Reports have been prepared on the basis of the standards in effect as of their respective dates. The SEC has recently adopted significant revisions to the SEC standards on oil and gas reporting, which became effective on 1 January 2010. The main revisions that may have an impact on TNK-BP's reserve quantities relate to the use of a 12-month average price to estimate reserves rather than the price on the last day of the year and to the use of new technology and the enlargement of the areas for which reserves may be determined.

Under SEC standards in effect as of the dates of the respective Reserve Reports, proved oil and gas reserves were the estimated quantities of crude oil, natural gas, and natural gas liquids (“**NGL**”) that geological and engineering data demonstrated with reasonable certainty would be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Increases in price were taken into account only as already provided in existing contractual arrangements. In addition, under the SEC standards in effect as of the dates of the respective Reserve Reports (i) reservoirs were considered proved if economically feasible production was supported by either actual production or a conclusive formation test and (ii) reserves that could be produced economically through application of improved recovery techniques (such as fluid injection) were considered proved upon successful testing through a pilot project or if support for the engineering analysis on which the project was based was otherwise obtained.

The PRMS standards and the SEC standards differ in certain material respects. In addition, the SEC-LE basis and the SEC-LOF basis differ in certain material respects which are discussed below. The following is a description of principal differences (although the description does not include all of the differences and some differences not described may be material):

Duration of Licences. Under the SEC-LE basis in effect as of the dates of the respective Reserve Reports and guidance issued by the SEC staff in respect thereof, quantities of oil and gas deposits may be required to be limited to quantities expected to be produced during the term of the licences with respect thereto. In this regard, the guidance is that renewals of licences should not be assumed unless a demonstrated track record exists in respect of obtaining renewals. Under the PRMS standards and the SEC-LOF basis, TNK-BP's proved reserves were projected to the end of the economic producing life of the evaluated fields. For purposes of the Reserves Reports, insofar as they are based upon the SEC-LOF basis, DeGolyer and MacNaughton accepted TNK-BP's representations that, upon completion of the primary term of its current licences, TNK-BP intends to extend the licences to the end of the economic life of the associated fields and that it intends to proceed accordingly with the development and operations of those fields. Based upon TNK-BP's representations, DeGolyer and MacNaughton included as proved reserves those volumes that are estimated to be economically producible from the fields after the expiration of the primary term of the licences.

TNK-BP has excluded quantities producible beyond the licence period expiration dates when calculating the estimated reserves under the SEC-LE basis, which is one of the reasons why its estimated reserves under the SEC-LE basis are lower than under the SEC-LOF basis. However,

TNK-BP believes that it has, in substance, demonstrated an ability to obtain renewals by substantially complying with the terms of its current licences and, although there can be no assurance that TNK-BP will continue to be able to renew its licences, in 2006 TNK-BP extended two key licences regulating TNK-BP's production from the Samotlor oil field from 2013 until 2038. The Samotlor field is TNK-BP's largest oil field and accounted for approximately 32% of TNK-BP's crude oil production in 2008. In 2007 six licences were extended to dates ranging from 2037 to 2050. In 2008 and in the first nine months of 2009, 15 additional licences were extended to dates ranging from 2025 to 2048 (of which, eight were extended until 2038). For the period from the formation of TNK-BP in 2003 until 30 September 2009, 24 renewal applications have been successfully approved and no applications have been declined. See "*Business—Upstream Business—Licences*".

If TNK-BP calculated depreciation, depletion and amortisation using estimated reserves as reported under the SEC-LE basis, TNK-BP does not believe that this calculation would be materially different from such calculation under PRMS standards or the SEC-LOF basis, as it would expect to recover at least the net book value of its production related assets upon the expiry date of such licences.

Certainty of Existence. Under PRMS standards, reserves in undeveloped drilling sites that are located in more than one well site away from a commercial producing well may be classified as proved reserves if there is "reasonable certainty" that they exist. Under SEC standards in effect as of the dates of the respective Reserves Reports, it must be "demonstrated with certainty" that reserves exist before they may be classified as proved reserves. In the case of TNK-BP, any difference in the standards applicable to the certainty of the existence of oil reserves would not be material.

The PRMS standards also set out criteria for determining probable and possible reserves. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves where it is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves. Possible reserves are those additional reserves that are less certain to be recovered than probable reserves where it is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves. The SEC standards in effect as of the date of the respective Reserve Reports did not allow for inclusion of probable and possible reserves in filings with the SEC. The revised SEC standards that became effective on January 2010 allow for voluntary disclosure of probable and possible reserves.

Presentation of Reserves and Production Data

All numerical data regarding reserves of crude oil and gas presented in this Base Prospectus are presented in gross terms without adjustment to reflect any noncontrolling ownership interests unless otherwise stated by reference to net numerical data which are adjusted to reflect noncontrolling ownership interests in TNK-BP's exploration and production subsidiaries.

All numerical data regarding figures for production of crude oil presented in this Base Prospectus are presented in gross terms without any deduction for wasteage or own use at the field unless otherwise stated by reference to net numerical data.

All references to production of "liquids" in this Base Prospectus mean production of crude oil and condensate, and, beginning in 2007, NGL.

The following abbreviations have the following meanings as used in this Base Prospectus:

- "bbl" means barrels;
- "bcm" means billions of cubic metres;
- "boe" means barrels of oil equivalent;
- "bpd" means barrels per day;
- "mbd" means thousands of barrels per day;
- "mboed" means thousands of barrels of oil equivalent per day;
- "mmb" means millions of barrels;
- "mmbd" means millions of barrels per day;
- "mmboe" means millions of barrels of oil equivalent; and
- "mmboed" means millions of barrels of oil equivalent per day.

Conversion of Hydrocarbon Volumetric Data

This Base Prospectus presents data relating to TNK-BP's production, refining and marketing operations, which is expressed in barrels. As is common in the reporting of hydrocarbon production in countries of the Commonwealth of Independent States ("CIS"), TNK-BP maintains its internal records regarding such data in metric tonnes. Solely for the convenience of the reader, unless otherwise indicated, such metric data has been converted into barrels at the rate of 7.5 barrels per tonne of crude oil except for (i) the reserves data which has been extracted from the relevant Reserves Reports, (ii) oil refining and oil and petroleum product sales data which has been converted at a rate of 7.3 barrels per tonne. In addition, for natural gas, this Base Prospectus uses a conversion factor of one billion cubic metres of gas to six million boe.

FORWARD-LOOKING STATEMENTS

Certain statements in this Base Prospectus are not historical facts and constitute “forward-looking statements”. This Base Prospectus contains certain forward-looking statements in various locations, including, without limitation, under the headings “Summary”, “Risk Factors”, “Operating and Financial Review” and “Business”. Forward-looking statements are identified by words such as “believes”, “anticipates”, “expects”, “estimates”, “intends”, “plans”, “will”, “may” and similar expressions, but these expressions are not the exclusive means of identifying such statements. Examples of such forward-looking statements include, but are not limited to:

- statements of TNK-BP’s plans, objectives or goals, including those related to its strategy, products or services;
- statements of future economic performance; and
- statements of assumptions underlying such statements.

Forward-looking statements that may be made by the Guarantor, the Issuer or other subsidiaries in the TNK-BP group from time to time (but that are not included in this document) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements. These factors include:

- the prices of oil and oil products;
- inflation, interest rate and exchange rate fluctuations;
- the effects of, and changes in, the policy of the government of the Russian Federation (the “**Russian Government**”) and the government of Ukraine;
- the effects of changes in laws, regulations, taxation or accounting standards or practices;
- TNK-BP’s ability to control expenses;
- acquisitions or divestitures;
- technological changes;
- the effects of international political events on TNK-BP’s businesses; and
- TNK-BP’s success at managing the risks related to the aforementioned factors.

When relying on forward-looking statements, investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which TNK-BP operates. Such forward-looking statements speak only as of the date on which they are made, and are not subject to any continuing obligations under the listing rules of the regulated market of the Luxembourg Stock Exchange. Accordingly, the Guarantor and the Issuer do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise, except as otherwise required by applicable law or under the listing rules of the Luxembourg Stock Exchange. The Guarantor and the Issuer do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

ADDITIONAL INFORMATION

Neither the Issuer nor the Guarantor is required to file periodic reports under Section 13 or 15 of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”). For so long as either the Issuer or the Guarantor is not a reporting company under Section 13 or 15(d) of the Exchange Act, or exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Issuer or the Guarantor will, upon request, furnish to each holder or beneficial owner of Notes that are “restricted securities” (within the meaning of Rule 144(a)(3) under the Securities Act) and to each prospective purchaser thereof designated by such holder or beneficial owner upon request of such holder, beneficial owner or prospective purchaser, in connection with a transfer or proposed transfer of any such Rule 144A Notes under the Securities Act, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

RESPONSIBILITY STATEMENT

The Issuer and Guarantor accept responsibility for the information contained in this Base Prospectus. To the best of the knowledge of the Issuer and Guarantor (which have taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

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GENERAL DESCRIPTION OF TNK-BP

Business Overview

TNK-BP is one of the largest vertically-integrated oil and gas groups in Russia in terms of both proved oil reserves and crude oil production. TNK-BP is the result of a strategic partnership and business combination of certain oil and gas exploration and production operations held by Alfa Group, Access Industries and the Renova Group (together, “AAR”) and BP p.l.c. (“BP”) in Russia and Ukraine, which was completed in August 2003. TNK-BP’s main exploration and production operations are located primarily in Russia’s Western Siberian and Volga-Ural basins. TNK-BP is led by a management team comprised of experienced Russian and international managers.

In 2008, TNK BP recorded sales and other operating revenues of U.S.\$51,886 million, EBITDA of U.S.\$10,093 million and net income attributable to Group shareholders of U.S.\$5,284 million as compared to sales and other operating revenues of U.S.\$38,926 million, EBITDA of U.S.\$9,565 million and net income attributable to Group shareholders of U.S.\$5,342 million in 2007. In 2006, TNK BP recorded sales and other operating revenues of U.S.\$35,725 million, EBITDA of U.S.\$11,255 million and net income attributable to Group shareholders of U.S.\$6,678 million. As of 31 December 2008, TNK BP had outstanding indebtedness of U.S.\$7,992 million, net debt of U.S.\$6,361 million and a gearing ratio of 31.7% (calculated as the ratio of net debt to net debt plus total Group shareholders’ equity), as compared to outstanding indebtedness of U.S.\$8,548 million, net debt of U.S.\$5,478 million and a gearing ratio of 30.0% as of 31 December 2007. As of 31 December 2006, TNK BP had outstanding indebtedness of U.S.\$6,934 million, net debt of U.S.\$5,181 million and a gearing ratio of 33.9%.

For the nine months ended 30 September 2009, TNK BP recorded sales and other operating revenues of U.S.\$24,747 million, EBITDA of U.S.\$6,663 million and net income attributable to Group shareholders of U.S.\$3,691 million as compared to sales and other operating revenues of U.S.\$43,900 million, EBITDA of U.S.\$10,918 million and net income attributable to Group shareholders of U.S.\$6,552 million for the nine months ended 30 September 2008. As of 30 September 2009, TNK BP had outstanding indebtedness of U.S.\$7,019 million, net debt of U.S. \$5,134 million and a gearing ratio of 24.4%.

The following are certain of TNK-BP’s business and operational highlights which underpin its financial performance (excluding, for the purposes of TNK-BP’s operational data described below, data relating to TNK-BP’s interest in Slavneft but including data relating to TNK-BP’s consolidated subsidiaries):

- *Reserves.* Under the SEC-LOF basis, TNK-BP’s total proved oil and gas reserves held through its consolidated exploration and production subsidiaries as of 31 December 2008 amounted to approximately 8.1 billion boe. In 2008, TNK-BP replaced 82% of its annual production with new proved reserves under the SEC-LOF basis.
- *Production.* In 2008, total liquids production (crude oil, condensate and NGL) and gas sales of TNK-BP’s consolidated subsidiaries were 1.642 millions barrels of oil equivalent per day, representing an increase of 2.6% compared to the 2007 production levels. In the first nine months of 2009 total liquids production and gas sales of TNK-BP’s consolidated subsidiaries were 1.676 mmboed, representing a 2.6% increase compared to the same period in 2008.

In 2008, the total liquids production of TNK-BP’s consolidated subsidiaries was 70,453 thousand tonnes (or 1.454 mmbd) compared to 70,387 thousand tonnes (or 1.452 mmbd) in 2007. In the first nine months of 2009 total liquids production by TNK-BP’s consolidated subsidiaries was 53,527 thousand tonnes (or 1.481 mmbd), representing a 2% increase compared to the same period in 2008. In general, TNK-BP either exports crude oil or uses it as a feedstock for its refineries.

TNK-BP’s consolidated subsidiaries’ commercial gas sales totalled 11.3 billion cubic meters (or 189 million boe per day) in 2008, and 8.9 bcm (or 149 million boe per day) in 2007 and 10.9 bcm (or 177 million boe per day) in 2006. The contribution of gas sales to TNK-BP’s overall revenues and EBITDA is currently not material, but Management expects this contribution to increase significantly going forward in line with TNK-BP’s strategic focus on this business area.

- *Refining.* TNK-BP owns five refineries, four of which are located in Russia in the cities of Ryazan, Nizhnevartovsk, Krasnoleninsk and Saratov, with the fifth located in Lisichansk, Ukraine. Together, as of the date of this Base Prospectus, these five refineries have an effective capacity of approximately 31.5 million tonnes per year. In 2008, TNK-BP refined 28.2 million

tonnes of crude oil and other feedstock, representing an effective average refinery utilisation rate of 90%, compared to 28.7 million tonnes of crude oil and other feedstock refined in 2007, representing an effective average refinery utilisation rate of 92%. In the first nine months of 2009, TNK-BP refined 20.3 million tonnes of crude oil and other feedstock representing an effective average utilisation rate of 86% compared to 21.3 million tonnes and effective average utilisation rate of 90% in the first nine months of 2008. TNK-BP's refineries produce a variety of refined products, including gasoline, diesel fuel (gas oil), jet fuel (kerosene), fuel oil (mazut), lubricants and bitumen.

- *Exports.* In 2008, TNK-BP exported 38.1 million tonnes of crude oil (to Europe and the CIS), which was the equivalent of 54% of its total liquids production and 47% of its total sales in volume terms that year, compared to 41.0 million tonnes of crude oil in 2007 which was the equivalent of 58% of its total liquids production and 50% of its total sales in volume terms in that year. In the first nine months of 2009, TNK-BP's oil exports (to Europe and CIS) were 31.3 million tonnes, accounting for 59% of its total liquids production and 50% of its total sales, compared to 28.8 million tonnes, accounting for 55% of its total liquids production and 48% of its total sales, in the first nine months of 2008. TNK-BP also exported 21.4 million tonnes and 20.1 million tonnes of petroleum products in, respectively, 2008 and 2007 and 16.2 million tonnes and 15.7 million tonnes in, respectively, the first nine months 2009 and the first nine months of 2008, which for each period represented 26% its total sales in volume terms.
- *Domestic Marketing and Retail.* Domestically, TNK-BP sells its products through a variety of distribution channels. Gasoline and most of the diesel fuel TNK-BP produces is sold through TNK-BP's network of retail stations (including non-owned outlets managed by independent operators under the "TNK" brand who are tied to exclusive arrangements with TNK-BP, or "jobbers") and on the wholesale market. Other TNK-BP refined products are for the most part sold directly to large wholesale customers.

TNK-BP operates a network of retail filling stations in Russia and Ukraine, operating under two distinct customer brands: TNK and BP. Through these stations, TNK-BP markets a range of fuel products in Russia (mainly in the Northern, Central and Urals regions) and throughout Ukraine. As of 30 September 2009, TNK-BP's retail network in Russia and Ukraine included 1,399 filling stations, 822 of which are owned and operated by TNK-BP's marketing subsidiaries (including 62 filling stations under the BP brand). The remainder are independently owned and operated by jobbers.

In Moscow and the Moscow region, TNK-BP has over 270 branded retail sites (including 56 owned sites under the BP brand) as of 30 September 2009, which TNK-BP estimates represent an approximate 26% share (in terms of sales volume) of the Moscow retail market as of that date. TNK-BP is also a widely recognised retailer in Ukraine, with a network of 50 of its own and 250 jobber filling stations. As a part of its downstream strategy, TNK-BP is focused on expanding its operations into two new targeted growth regions: Rostov, through a joint venture, and St. Petersburg, through acquisitions and building its own retail sites.

- *Slavneft Joint Venture.* Slavneft is a Russian vertically-integrated oil and gas company which produced 19.6 million tonnes (or 0.4 mmbd) of crude oil in 2008. As of 31 December 2008, it had proved oil and gas reserves of 1.3 billion boe, under the SEC-LOF basis. Slavneft's reserves are not included in TNK-BP's oil and gas reserves. TNK-BP holds a 49.9% effective interest in Slavneft as a result of the 50-50 joint venture with Gazpromneft. TNK-BP and Gazpromneft purchase the bulk of crude oil produced by Slavneft on a 50:50 basis, at domestic market prices. TNK-BP processes approximately 40% of the crude oil it purchases from Slavneft at Slavneft's refinery YANOS. TNK-BP receives dividend payments from Slavneft, when, and in the amounts, declared and approved by the Slavneft shareholders. See "*Business—Upstream Business—Slavneft Joint Venture*".
- *Portfolio Management.* TNK-BP manages its portfolio so as to acquire and develop assets where it believes it can create and access new value and apply distinct skills and capabilities. Assets are acquired and developed in Russia and Ukraine, as well as in select international locations, which are value-accretive to TNK-BP's existing portfolio and are expected to support growth over the medium and long-term. TNK-BP's portfolio management also involves divestment of non-strategic assets thereby enabling higher activity, greater asset efficiencies and investment levels. For additional details about TNK-BP's portfolio management strategy see "*Operating and Financial Review—Formation and Evolution of TNK-BP*".

- *Awards.* In 2008, TNK-BP was awarded first prize as a “High Social Performance Organisation” in a national competition organised by the Russian Ministry of Economic Development and Trade and the Ministry of Public Health and Social Development. In 2006, TNK-BP’s Eurobond issue, comprising U.S.\$500 million 6.875% Notes due 2011 and U.S.\$1 billion 7.50% Notes due 2016, was voted the best corporate bond deal in eastern Europe in 2006 by market participants in *Euroweek* magazine. In 2005, TNK-BP was named one of the “Best Companies in Russia” (and the best company in the oil and gas sector) by *Global Finance* magazine. Also in 2005, TNK-BP was noted by the British Energy Institute for its safety and environmental protection standards for operations on the Volga River.
- *Credit Rating.* TNK-BP International is currently rated “Baa2” (outlook stable) by Moody’s, “BBB-” (outlook stable) by Standard & Poor’s and “BBB-” (outlook stable) by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

Strategic Objectives

TNK-BP’s principal strategic objective is to become a world class oil and gas group that is an industry leader in Russia with a clear focus on the sustainability and renewal of its resources and the efficiency of its operations. TNK-BP will pursue this objective by continuing with the strategy it has had in place since 2003, namely to:

- convert resources to reserves to production;
- enhance the netback (defined as the sales price of crude oil or refined products less all costs such as transportation to customers, taxes and duties) of the products it produces;
- grow a gas business; and
- build a corporate governance system on the basis of international standards.

To achieve these goals, TNK-BP is focusing on a number of key strategic priorities, including:

- *Upstream.* TNK-BP aims to grow its upstream production over time while replacing at least 100% of annual production with new proved reserves to create a sustainable basis for future production and to improve its production cost efficiency at the same time. In 2008, TNK-BP replaced 82% of its production, measured on the SEC-LOF basis, and 146% of its production, measured under the PRMS standard. To this end, TNK-BP will continue the disciplined acquisition of new subsoil use licences.
- *Downstream.* TNK-BP seeks to enhance the flexibility and profitability of its downstream operations, principally through the continued development of new export options for its production and higher margin products, the enhancement of its refining capabilities, and a targeted growth of its retail operations and business to business sales.
- *Gas Business.* TNK-BP aims to significantly increase the contribution of gas sales to its overall business and transform itself from an oil group into a major integrated oil and gas group. TNK-BP aims to achieve this by exploiting TNK-BP’s significant gas and associated gas resources and by efficiently delivering gas to the domestic gas market and export markets in accordance with Gazprom and/or Russian Federation policies. TNK-BP may increase its participation in power generation projects in the future, by exploiting the synergies between its status as a major consumer of electricity and as a significant producer of gas and associated gas.
- *Portfolio Management.* TNK-BP also intends to continue to manage its portfolio of assets in furtherance of its strategic goals and in so doing may, among other things, evaluate opportunities to acquire assets that management believes will enhance value or divest assets that are deemed to have limited or no opportunity to grow value.
- *Corporate Governance and Other Internal Initiatives.* TNK-BP intends to continue to focus on increasing its transparency and performance through improved corporate governance, organisational simplification and enhanced audit and financial reporting capabilities.
- *Employee Training.* TNK-BP is taking steps to increase its organisational capabilities and skills through programmes with leading world class universities (such as Skolkovo, INSEAD and Herriot-Watt) implementing best-practices for the oil and gas industry, improving internal and external training programmes, and benchmarking against international standards.

- *Health, Safety and Environmental Policies.* TNK-BP strives to continuously improve its safety and environmental performance and it aims to ensure that all its activities are conducted with due regard for health, safety and the surrounding environment.
- *Financial.* TNK-BP plans to implement a financial strategy that is focused on contributing to the group's growth while maintaining a strong balance sheet and enhancing its financial flexibility.

GENERAL DESCRIPTION OF THE PROGRAMME

Issuer:	TNK-BP Finance S.A.
Guarantor:	TNK-BP International Limited
Description:	Guaranteed Debt Issuance Programme
Size:	Up to U.S.\$8,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time.
Arrangers:	Barclays Bank PLC, CALYON and The Royal Bank of Scotland plc
Dealers:	Barclays Bank PLC, CALYON, The Royal Bank of Scotland plc, BNP Paribas, Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited and UBS Limited.
	The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches (as defined below) or in respect of the whole Programme. References in this Base Prospectus to “ <i>Permanent Dealers</i> ” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to “ <i>Dealers</i> ” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Trustee:	Citicorp Trustee Company Limited
Principal Paying Agent, Registrar, Calculation Agent and Transfer Agent:	Citibank, N.A. London
Luxembourg Paying Agent and Transfer Agent:	Dexia Banque Internationale à Luxembourg
U.S. Paying Agent and Transfer Agent:	Citibank, N.A. New York
Method of Issue:	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “ Series ”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “ Tranche ”) on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in the relevant Final Terms.
Issue Price:	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Form of Notes:	Series of Notes will be issued in registered form only. The Regulation S Notes and the Rule 144A Notes will be represented by the Regulation S Global Note and the Rule 144A Global Note, respectively. The Global Notes will be exchangeable for Definitive Notes (as defined herein) in the limited circumstances specified in the Global Notes.
Clearing Systems:	DTC (in the case of Rule 144A Notes) and Clearstream, Luxembourg and Euroclear (in relation to any Regulation S Notes), and such other clearing system as may be agreed between the Issuer, the Guarantor, the Principal Paying Agent, the Trustee and the relevant Dealer.
Initial Delivery of Notes:	On or before the issue date for each Tranche, the Rule 144A Global Note will be deposited with a custodian for DTC and the Regulation S Global Note shall be deposited with a common depositary for Euroclear and

Clearstream, Luxembourg. The Rule 144A Global Notes will be registered in the name of a nominee of DTC, and the Regulation S Global Notes will be registered in the name of a nominee of Euroclear and Clearstream, Luxembourg. Global Notes relating to Notes that are not listed on the regulated market of the Luxembourg Stock Exchange may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Guarantor, the Principal Paying Agent, the Trustee and the relevant Dealer. Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.

Currencies:	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Guarantor and the relevant Dealers.
Maturities:	Subject to compliance with all relevant laws, regulations and directives, Notes may have any maturity between one month and 30 years.
Denomination:	Notes will be in such denominations as may be specified in the relevant Final Terms (the “ Specified Denomination ”), provided that (i) the Specified Denomination(s) shall not be less than €50,000 (or its equivalent in another currency) and (ii) with respect to Notes with a maturity of less than 365 days, a minimum Specified Denomination exceeding €50,000 may apply as more fully set out in the relevant Final Terms.
Fixed Rate Notes:	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms
Floating Rate Notes:	Floating Rate Notes will bear interest determined separately for each Series as follows: <ul style="list-style-type: none">(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., or(ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin. Interest periods will be specified in the relevant Final Terms.
Zero Coupon Notes:	Zero Coupon Notes may be issued at their nominal amount or at a discount and will not bear interest.
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Final Terms.
Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Final Terms.
Interest Periods and Interest Rates:	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.
Redemption:	The relevant Final Terms will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds

	are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “ FSMA ”) must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Redemption by Instalments:	The Final Terms issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.
Other Notes:	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, partly paid Notes and any other type of Note that the Issuer, the Trustee and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Final Terms.
Optional Redemption:	The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.
Status of Notes:	The Notes and the Guarantee will constitute unsubordinated and unsecured obligations of the Issuer and the Guarantor, respectively, all as described in “ <i>Terms and Conditions of the Notes—Status</i> ”.
Negative Pledge:	See “ <i>Terms and Conditions of the Notes—Covenants—Negative Pledge</i> ”.
Cross Default:	See “ <i>Terms and Conditions of the Notes—Events of Default</i> ”.
Rating:	The Programme has been rated “Baa2” by Moody’s, “BBB-” by Standard & Poor’s and “BBB-” by Fitch. In addition, Fitch has assigned to the Programme its “F3” short-term rating and Standard & Poor’s has assigned to the Programme its “A-3” short-term rating. Notes to be issued under the Programme may be rated or unrated, and where an issue of Notes under the Programme is rated, its rating will not necessarily be the same as the rating applicable to the Programme. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Guarantor could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.
Early Redemption:	Except as provided in “ <i>Optional Redemption</i> ” above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See “ <i>Terms and Conditions of the Notes—Redemption, Purchase and Options</i> ”.
Withholding Tax:	All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of Luxembourg or the British Virgin Islands, as the case may be, subject to customary exceptions, all as described in “ <i>Terms and Conditions of the Notes—Taxation</i> ”.
Governing Law:	The Notes and the Trust Deed, as well as any non-contractual obligations arising out of or in connection with them, will be governed by, and shall be construed in accordance with, English law. The provisions of articles 86 to 94-8 of the Luxembourg Law of 10 August 1915, as amended, on commercial companies are excluded.

Listing and Admission to Trading:

This Base Prospectus has been approved by the CSSF in its capacity as the competent authority for the purpose of the Prospectus Directive and the Luxembourg law on prospectuses for securities of 10 July 2005 as a base prospectus issued in compliance with the Prospectus Directive and the Luxembourg law on prospectuses for securities of 10 July 2005 for the purpose of giving information with regard to the issue of notes under the Programme during the period of twelve months from the date of its publication. Application has been made to list Notes issued under the Programme on the official list and traded on the Regulated Market of the Luxembourg Stock Exchange or as otherwise specified in the relevant Final Terms. As specified in the relevant Final Terms, a Series of Notes may be unlisted.

Selling Restrictions:

The offering and sale of Notes is subject to all applicable selling restrictions, including, without limitation, those of the United States, the Russian Federation and Japan. See "*Subscription and Sale*".

Further Issues:

The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as a Series of Notes that was previously issued in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including such Notes) or upon such terms as the Issuer may determine at the time of their issue.

RISK FACTORS

Investment in the Notes involves a high degree of risk. Investors may lose the entire value of their investment or part of it, as the case may be. Potential investors should carefully review this entire Base Prospectus and in particular should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. These risk factors, individually or collectively, could have a material adverse effect on the Issuer or the Guarantor or TNK-BP's business, operations and financial condition and/or the rights under the Notes of the holders of the Notes.

Risks Relating to TNK-BP and the Oil and Gas Industry in Russia and Ukraine

Global economic developments and market conditions may adversely affect TNK-BP's business, financial condition and results of operations.

TNK-BP's results of operations are significantly influenced by the general economic conditions in the countries in which it operates and those in which it makes sales. The economic situation in these markets has in various ways been adversely affected by weakening economic conditions and the turmoil in the global financial markets. The countries in which TNK-BP operates, particularly Russia and Ukraine, and most of the countries in which TNK-BP's products are sold, have experienced declining GDP, reduced industrial production, increasing rates of unemployment and decreasing asset values. A deterioration in the financial condition of TNK-BP's customers could have an adverse impact on their access to capital which, in turn, could lower demand for TNK-BP's products and services.

The economic slowdown has resulted in lower market prices for oil and natural gas. As a result of lower oil and natural gas prices, TNK-BP's revenues in the first nine months of 2009 have decreased compared to the corresponding period in 2008 and TNK-BP has, among other things, reduced its capital expenditures in 2009. In addition, recent turmoil in the credit markets and its impact on the liquidity of major financial institutions may have an adverse effect on TNK-BP's cost of funding.

Adverse economic developments of the kind described above have affected and may continue to affect TNK-BP's business in a number of ways and could have a material adverse effect on TNK-BP's business, financial condition and result of operations.

A substantial or extended decline in oil, refined products, natural gas or petrochemical products prices would have a material adverse effect on TNK-BP's business, financial condition and results of operations.

TNK-BP's business, financial condition and results of operations depend substantially upon prevailing prices of oil, refined products, natural gas and petrochemical products. Historically, prices for oil, refined products, natural gas and petrochemical products have fluctuated in response to changes in many factors. TNK-BP does not and will not have control over the factors affecting prices for oil, refined products, natural gas and petrochemical products. These factors include:

- global and regional supply and demand and expectations regarding future supply and demand for crude oil, refined products, natural gas or petrochemical products;
- the cost of exploring for, developing, producing, processing and marketing crude oil, gas, refined products and petrochemical products;
- the ability and willingness of the Organisation of Petroleum Exporting Countries (OPEC) and other producing nations to influence global production levels and prices;
- the worldwide military and political environment and uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or further acts of terrorism, including in the United States, the Middle East, the CIS or other resource-producing regions;
- prices and availability of alternative and competing fuels;
- Russian and foreign governmental regulations and actions, including export restrictions and taxes;
- global and regional economic conditions;
- unexpected failure in the infrastructure;
- prices and availability of new technology; and
- weather and climate conditions and natural disasters.

Crude oil prices have been volatile in recent years, rising dramatically through July 2008 and then falling sharply over the second half of 2008. Crude oil prices began to stabilise in the first quarter of 2009 and have generally increased since then. According to Platts (a global provider of energy and metals information), the price of Brent crude, an international benchmark oil blend, as of 29 December 2006, 28 December 2007 and 31 December 2008 was U.S.\$58.93, U.S.\$96.02 and U.S.\$36.55 per barrel, respectively. The Platts price of Brent crude oil as of 30 September 2009 was U.S.\$65.70 per barrel, a decrease of approximately 30% from \$93.70 per barrel as at 30 September 2008. The fluctuation in oil prices has contributed to a decline in TNK-BP's revenues. TNK-BP's total crude oil sales revenues for the first nine months of 2009 declined by 43%, as compared to the first nine months of 2008.

Political developments in the Middle East, particularly as they relate to Iraq and Iran, could have a significant impact on crude oil and refined product prices. In the longer term, as the situation in Iraq stabilises, Iraq could become a significant source of crude oil exports, which could lead to an increase in worldwide crude oil production and, in turn, could result in a decrease in the price of crude oil and refined products in both the international and domestic markets. Since crude oil and refined products exports are TNK-BP's primary source of hard currency revenues and an important source of its earnings and cash flows, declines in oil or refined product prices will adversely affect TNK-BP's business, financial condition and results of operations, liquidity and its ability to finance planned capital expenditures. Lower crude oil or refined product prices also may reduce the amount of crude oil that TNK-BP can produce economically (thereby decreasing the size of its reserves) or reduce the economic viability of projects planned or in development, thereby resulting not only in a reduction of per barrel revenues, but also a reduction in total volumes produced. See "*Operating and Financial Review—Key Factors Affecting Results of Operations—Price of Crude Oil and Petroleum Products*".

TNK-BP's subsoil licences may be suspended or revoked prior to their expiration and TNK-BP may be unable to obtain or maintain various permits or authorisations.

The licensing regime in Russia for the exploration and production of oil and gas is governed primarily by the Law "*On Subsoil*" dated 21 February 1992, as amended (the "**Subsoil Law**"), and related regulations. TNK-BP's Russian companies conduct operations under numerous exploration and/or production licences. Under the current licensing regime, the Federal Agency for Subsoil Use ("**Rosnedra**") and the Federal Service for Supervision in the Sphere of Nature Use ("**Rosprirodnadzor**"), both operating under the jurisdiction of the Ministry of Natural Resources and Ecology of the Russian Federation ("**MNR**"), are responsible, respectively, for issuing subsoil licences and monitoring compliance with subsoil licence terms. The Subsoil Law provides that fines may be imposed and/or licences may be suspended, amended, or terminated if a relevant TNK-BP licensee fails to comply with licence requirements (such as stipulated levels of oil and gas extraction), make timely payments of levies and taxes for the subsoil use, provide geological information to controlling bodies or meet other reporting requirements. Imposition of any such sanctions might have an adverse effect on TNK-BP's operations and the value of its assets.

To operate TNK-BP's oil and gas business as currently contemplated, TNK-BP's Russian subsidiaries are required to obtain other licences, permits and approvals, such as land allotments, approvals of design and feasibility studies, pilot projects and development plans, approvals for construction of any facilities on site, and licences for use of hazardous objects such as pipelines and refining equipment. TNK-BP's Russian subsidiaries obtain these permits regularly. In Russia, procedures for obtaining such licences, permits and approvals are often bureaucratic, which may make it difficult for TNK-BP's Russian subsidiaries to obtain or renew all required permits in the future in a timely manner or at all.

Regulatory authorities exercise considerable discretion in issuing and renewing licences and in monitoring licencees' compliance with licence terms. Compliance with the requirements imposed by these authorities may be costly and time consuming and may result in delays in the commencement or continuation of exploration or production operations. From time to time, governmental authorities have indicated that TNK-BP may be in technical violation of certain of its licence requirements at some of its fields. TNK-BP believes that such violations have not been material, and has worked and is working to correct the violations or amend the terms of the relevant licences. No such licence has been suspended or terminated to date as a consequence of such violations.

In particular:

- in 2006, Governmental authorities questioned whether TNK-BP had fulfilled its licence conditions with respect to the operations of its wholly owned subsidiary, Rospan International (“Rospan”). In early November 2006, the General Prosecutor’s Office of Russia sent a letter to Rosnedra in respect of alleged violations by Rospan of the technical terms of its licences and laws and regulations in relation to land and water protection. The letter also requested Rosnedra to terminate the rights granted by the licences. In late November 2006, Rosnedra reviewed the issue and indicated that it would provide Rospan with a six-month period to remedy the alleged violations. Rospan received a formal written notice of this six-month remedy period in December 2006 and the remedy period commenced upon receipt of such notice. Rospan fulfilled its obligations to remedy the alleged violations ahead of the end of remedy period. Rosnedra therefore did not revoke Rospan’s licences, and
- through its 62.9% interest in Rusia Petroleum, TNK-BP is the majority owner of the Kovykta field in the Irkutsk Region in Eastern Siberia. Governmental authorities have questioned whether TNK-BP has fulfilled its licence conditions with respect to Rusia Petroleum and the Kovykta field because Rusia Petroleum has not produced gas in the quantities required under the terms of the licence. Rusia Petroleum conducted gas demand surveys with the regional governments and industrial customers in the Irkutsk Region and the results of the survey showed that the Irkutsk Region could only absorb approximately 2.0-2.4 bcma of gas in 2008 and 2.5-2.6 bcma of gas in 2009. In June 2007, TNK-BP entered into a memorandum of understanding with BP and Gazprom, which includes an agreement to sell its interest in Rusia Petroleum to Gazprom. Negotiations are still in progress and, as a result, TNK-BP continues to operate the Kovykta field, although at minimum operating levels. See “*Business—Upstream Business—Gas Business—Kovykta Project*” and “*Operating and Financial Review—Formation and Evolution of TNK-BP—Acquisitions and Divestments—Assets Held for Sale (Kovykta)*”.

There can be no assurance that governmental authorities will not, in the future, impose sanctions on TNK-BP with respect to its licences, including possible suspension or revocation of such licences.

In addition, private individuals and the public at large have the right to comment on and otherwise participate in the licencing process, including through intervention in the courts. As a result, the licences that TNK-BP requires to carry out its business may not be issued or renewed in a timely fashion, or at all, or may involve compliance with requirements that restrict TNK-BP’s ability to conduct its operations or to do so profitably or at all. TNK-BP has established a programme to actively manage the process of licence renewal, and certain of TNK-BP’s material licences, including two key licences to develop the Samotlor field (TNK-BP’s largest field) that were due to expire in 2013, were recently renewed and extended until 2038. However, there can be no assurance that TNK-BP will be able to renew the remaining licences prior to their expiration.

Furthermore, TNK-BP’s competitors may also seek to deny TNK-BP’s rights to develop certain natural resource deposits by challenging TNK-BP’s compliance with applicable tender rules and procedures or compliance with licence terms. Political factors can also affect whether non compliance with licensing regulations and the terms of TNK-BP’s licences could lead to suspension or termination of TNK-BP’s licences and permits, or to administrative, civil or criminal liability.

TNK-BP’s business and prospects may be affected by laws restricting foreign participation in the development of mineral deposits of federal significance.

On 7 May 2008 Federal Law No. 57 “On the Procedure for Making Foreign Investments into Commercial Organisations Having Strategic Importance for the National Defence and Security of the Russian Federation”, came into force containing provisions that restrict access of foreign investors to certain sectors of the Russian economy, including geological exploration and/or prospecting and extraction of mineral resources within major subsoil deposits that fall under the category of “deposits of federal significance” (the “**Strategic Investments Law**”), and the associated amendments to the Subsoil Law came into force. Deposits of federal significance include subsoil blocks containing recoverable oil reserves of not less than 70 million tonnes; containing gas reserves that are of not less than 50 billion cubic meters and/or are located in internal waters, territorial waters and on the continental shelf of the Russian Federation; and/or whose use requires the use of land plots designated for defence or security purposes.

Under the Strategic Investments Law, acquisition of direct or indirect control by a foreign investor of over 10% (or 5% in cases where the foreign investor is a foreign state, an international organisation or an organisation under the control of the aforementioned parties) or more of the voting shares in a

company operating deposits of federal significance is subject to prior approval of the commission formed by the Russian Government. Pursuant to the definition of control in the Strategic Investments Law, TNK-BP's Russian subsidiaries that operate deposits of federal significance are companies controlled by a "foreign investor" because over 10% of their voting shares are directly or indirectly controlled by TNK-BP International and 50% of TNK-BP International's share capital is held by shareholders that are non-Russian persons or legal entities.

The Russian Government may restrict participation of Russian entities directly or indirectly controlled by foreign investors in auctions for the right to use deposits of federal significance. In addition, issuance of production licence to a subsoil user that has made a discovery resulting in the relevant block meeting the "deposit of federal significance" criteria may be denied by the Russian Government. If a deposit of federal significance is discovered under a combined licence, the Russian Government has the right to terminate such licence.

The restrictions relating to deposits of federal significance in the Strategic Investments Law and the Subsoil Law introduce uncertainty with respect to the ability of TNK-BP to be a subsoil user with respect to new licences that it may seek to obtain in the future with respect to such deposits. The Russian Government may preclude TNK-BP from acquiring interests in companies that develop deposits of federal significance and, if TNK-BP were to discover a deposit of federal significance, the Russian Government may preclude TNK-BP from developing such deposit. In addition, the amendments to the Subsoil Law may restrict the ability of TNK-BP to acquire new reserves that would qualify as deposits of federal significance for development in the future as the authorities have the right to restrict participation in any auction or tender for the right to use such deposits by Russian entities in which foreign investors directly or indirectly hold any shares. Moreover, in the event that TNK-BP decides to sell to a foreign investor an interest in any of its subsidiaries that hold licences for deposits of federal significance, such transactions would be subject to the restrictions imposed by the Strategic Investments Law. Such restrictions, or any change in the application of those rules or any tightening of those measures, may limit TNK-BP's ability to raise equity financing in foreign capital markets or consummate strategic transactions in the future and, therefore, may have a material adverse effect on TNK-BP's business, financial condition, results of operations and prospects.

TNK-BP's development, exploration and production projects involve many uncertainties and operating risks that can prevent TNK-BP from finding or developing additional reserves or from meeting its production targets.

Although TNK-BP believes it has adequate reserves to maintain current production levels beyond the term of any Notes issued under the Programme, TNK-BP's proved reserves will decline as reserves are extracted unless such reserves are replaced. In addition, the volume of production from oil and natural gas properties generally declines as reserves are depleted. TNK-BP's long-term production is therefore dependent upon its success in finding or acquiring as well as developing additional reserves.

TNK-BP is exploring and producing in various geographical areas, including certain remote areas where environmental conditions are challenging, access is limited and costs can be high. The cost of drilling, completing and operating wells is often uncertain. As a result, TNK-BP may incur costs overruns or may be required to curtail, delay or cancel drilling operations because of a variety of factors, including unexpected drilling conditions, dry holes, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions, compliance with governmental requirements, including those relating to environmental protection, and shortages or delays in the availability of drilling rigs and the delivery of equipment. In addition, TNK-BP's overall drilling activity or drilling activity within a particular project area may be unsuccessful in that TNK-BP may not find commercially productive reservoirs.

If TNK-BP is unsuccessful in its exploration and development activities, it may not meet its long term production targets and its total proved reserves and production will decline over time, which may have a material adverse effect on its business, financial condition and results of operations.

Oil and gas reserves data in the Base Prospectus are only estimates, and TNK-BP's actual production, revenues and expenditures with respect to its reserves may differ materially from those estimates.

There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and the timing of development expenditures, including many factors beyond the control of TNK-BP. The reserves data included in this Base Prospectus represent only estimates and should not be construed as exact quantities. Estimating oil and gas reserves is a

subjective process and estimates of different engineers often vary significantly. In addition, results of drilling, testing and production subsequent to the date of an estimate generally result in revisions to that estimate. Accordingly, reserves estimates may be materially different from the quantities of crude oil that are ultimately recovered and, if recovered, the revenue therefrom could be less and the costs related thereto could be more than estimated amounts. The significance of such estimates is highly dependent upon the accuracy of the assumptions on which they were based, the quality of the information available and the ability to verify such information against industry standards. The reserves evaluations carried out were based on production data, prices, costs, ownership, geological and engineering data, and other information supplied by TNK-BP. Some of these evaluations were also prepared in accordance with PRMS standards and/or the SEC-LOF basis, which differ in certain material respects from the SEC-LE basis under the SEC standards. See “*Presentation of Financial and Other Information—Oil and Gas Reserves Data*”. For example, total proved reserves data according to the SEC-LOF basis are based on the assumption that existing licences will be renewed through the life of TNK-BP’s oil fields. Although TNK-BP has in the past been successful in renewing its licences, there can be no assurance that TNK-BP will be successful in renewing its licences in the future. In addition, the reserves estimates assume, among other things, that the future development of all TNK-BP’s oil fields and the future marketability of TNK-BP’s oil will be similar to past development and marketability. These economic assumptions may prove to be incorrect. In particular, the Russian economy is more unstable and subject to more significant and sudden changes than the economies of many other countries, and thus economic assumptions in Russia are subject to a significant degree of uncertainty. Potential investors should not place undue reliance on the forward looking statements in the Reserves Reports or on comparisons of similar reports concerning companies established in places with more mature economic systems.

TNK-BP depends on providers of transportation services for crude oil and refined products, and TNK-BP has no control over the infrastructure they maintain or the fees they charge.

Transneft

The majority of crude oil produced in Russia, and the majority of TNK-BP’s crude oil, is transported through the Russian national crude oil pipeline network that is operated by the state-controlled company Transneft. While alternative means of transportation exist in Russia that are not dependent on the Transneft system, such means are generally more expensive than the Transneft pipeline system. Access to Transneft’s trunk pipelines is regulated by the Russian Government. Each Russian oil producer’s allocation of pipeline capacity is restricted, with allocations based on the producer’s respective share of total Russian crude oil production. The system of access rights allocation may be subject to further reform. Furthermore, Transneft has also been required on two occasions by court order to suspend, for a limited period of time, transporting oil produced by another Russian oil company as a result of a legal dispute between a regional Russian Governmental authority and that company and in connection with a dispute between the company and one of its noncontrolling shareholders. Although these suspensions did not affect TNK-BP, there can be no assurance that TNK-BP’s use of the Transneft system will not be interrupted in the future as a result of legal disputes. The Transneft system is also subject to operational disruptions, while significant investments are being made to enable the system to expand capacity to accommodate the growth in oil production (specifically, in Eastern Siberia). These factors have contributed to significant increases in Transneft tariffs in recent years.

Historically, the Transneft system did not have sufficient capacity to meet the total demand for crude oil pipeline exports from Russian oil producers. However, Transneft has made substantial investments in the development of additional export routes and trans-shipment terminals (e.g., at the Primorsk port) in order to increase capacity. As a result of these investments, and in light also of the increased tendency of higher quality crude producers to rely on transportation means alternative to the Transneft system, currently there is spare capacity in Transneft’s pipeline network. Russian oil companies currently transport approximately 90% of their crude oil through the Transneft system. However, failure of Transneft to maintain or sufficiently increase the capacity of the Transneft system, breakdowns and leakages, or specific court or other actions to limit TNK-BP’s access to the system, could require TNK-BP to utilise more expensive alternative export routes or to sell excess production on the local market. This could result in a decline in TNK-BP’s profit margins.

The crude oil that TNK-BP transports through the Transneft pipeline network is blended with crude oil of other producers that may differ in quality. TNK-BP’s sales of crude oil that it transports through the Transneft system are of the crude oil blend that results from the combination of different types and qualities of crude oil in the system, which is usually referred to as “Urals blend” crude oil.

Therefore, the price TNK-BP gets for its oil may be lower than the price that TNK-BP could get for oil of the same quality if TNK-BP could transport its oil independently of Transneft. Any decrease in the quality of the crude oil blend transported through Transneft could reduce the marketability of the oil TNK-BP produces and, thereby, materially adversely affect its business, financial conditions and results of operations.

Other means of transportation

Alternative means of transportation for crude oil exist in Russia that are not dependent on the Transneft system, such as railways, and, to a lesser extent, river barges. Due to the increased levels of oil production in Russia and the potential limitations of export capacity through the Transneft system, significant investment in export infrastructure and, in particular, railways is taking place. However, such alternative means are generally more expensive than the Transneft pipeline system and, as with Transneft tariffs, there have been substantial increases in the cost of exporting via these alternative routes in recent years. In 2008, TNK-BP's average transportation cost to ship oil through the Transneft system amounted to U.S.\$4.8 per barrel, compared to U.S.\$11.7 per barrel to ship by routes other than the Transneft system.

Use of the Russian railway system exposes TNK-BP and other oil companies to risks including as the disruption in transportation schedules due to the declining physical condition of Russian railway facilities, theft during transportation and spills, including those due to poorly maintained tank cars or train collisions. Additional costs and logistical constraints are imposed by the incompatibility of the Russian broad gauge railway system with the railway systems of neighbouring countries.

Since the profit margin of exporting by rail is much lower than exporting by pipeline in a declining oil price environment, increased reliance on rail exports could potentially materially adversely affect TNK-BP's results of operations should TNK-BP be unable to utilise other transportation methods. However, with increasing capacity of Transneft pipelines, the reliance of TNK-BP on railway transportation is decreasing and is currently limited to high quality crude oils, which command a premium price as a high quality product that is not mixed with other products (as would happen in case of transportation via Transneft).

Increased reliance on these alternative means of transportation could lead to a general increase in transportation costs to the point where export economics are adversely impacted, or to an inability of Russian oil companies to meet export plans, causing a temporary diversion of crude and oil products onto the domestic market and a reduction in domestic prices.

Export pipelines

Pipeline capacity outside of Russia, particularly in CIS countries, has occasionally been subject to disruption due to political disputes. In January 2007, a dispute between Belarus and Russia regarding the use of the main pipeline through Belarus resulted in Belarus' decision to impose transit fees on Russian oil in response to Russian duties levied on oil exports to Belarus. For three days in January 2007, Russia cut shipments of crude oil through the pipeline through Belarus to Germany, Poland, Hungary, Slovakia and the Czech Republic. Such pipelines could be subject to future disruptions which could affect TNK-BP's deliveries of crude outside of Russia, possibly requiring TNK-BP to ship oil through less profitable routes.

See “*Business—Downstream Business—Supply, Trading and Logistics*”.

TNK-BP faces several risks with respect to the implementation of its strategy to develop natural gas operations.

The Russian natural gas transmission system, which includes gas trunk pipelines for gas exports, is currently owned and operated by Russia's vertically integrated gas monopoly, Gazprom, which has a de facto monopoly to export Russia's gas. Federal Law No. 117-F2 “On Gas Export” came into force on 31 July 2006 (the “**Gas Export Law**”) and granted Gazprom exclusive gas export rights. TNK-BP currently does not have a long-term agreement with Gazprom granting access to the gas transmission system. Currently, Russian independent gas producers such as TNK-BP are only able to access the gas transmission system to make domestic deliveries within Russia pursuant to short-term agreements with Gazprom and subject to the availability of spare capacity and the satisfaction of a number of other criteria. In the absence of an independent gas regulator, Gazprom effectively has the sole discretion over whether an independent gas producer meets the necessary criteria to have its gas transported through Gazprom's gas transmission system and Gazprom has on a number of occasions used its power to limit transmission system access to independents.

The Russian Government, however, continues to discuss plans to allow Russian independent gas producers greater access to the gas transmission system to help fill an emerging supply shortfall from Gazprom's gas fields. Amendments to the Gas Export Law in relation to export of liquefied natural gas and the gradual liberalisation of domestic gas prices are also being discussed. The success of TNK-BP's strategy relating to the development of its gas operations is in part dependent upon the implementation of these plans. Accordingly, if the Russian Government or Gazprom does not open up the Russian gas market to permit greater access by independent gas producers, and/or relevant amendments to the Gas Export Law liberalising export of liquefied natural gas are not adopted, it may have a material adverse effect on the value of TNK-BP's gas producing assets and TNK-BP's strategy to increase the percentage of its income it derives from gas operations.

If the Russian Federal Antimonopoly Service were to conclude that TNK-BP had conducted its business in contravention of antimonopoly legislation, it could impose administrative sanctions on TNK-BP.

Russian antimonopoly legislation prohibits anti-competitive behaviour, including abuse of a dominant position. Portions of this legislation are vague and subject to varying interpretations. If the Russian Federal Antimonopoly Service (the FAS) were to conclude that TNK-BP's business had been conducted in a prohibited manner, it could impose administrative sanctions on TNK-BP. See "*Business—Litigation*" for information about recent proceedings by the FAS against TNK-BP. Sanctions by the FAS could materially adversely affect TNK-BP's business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the Notes and the Guarantor's ability to meet its obligations under the Guarantee.

If the Russian Federal Antimonopoly Service were to conclude that TNK-BP created a subsidiary or acquired any shares (equity interests) or assets in contravention of antimonopoly legislation, it could impose administrative sanctions on TNK-BP and may file a claim seeking liquidation of any such subsidiary or invalidation of the transactions related to such shares (equity interests) or assets.

TNK-BP's business has grown substantially through the acquisition of shares (equity interests) or assets or creation of companies, many of which required the prior consent of the FAS or its predecessor agencies. Russian antimonopoly legislation restricts the acquisition by groups of companies or individuals of shares (equity interests) or assets or the creation of companies without this approval or notification. However, it is not always clear or well established what conduct Russian antimonopoly legislation prescribes and prohibits. If the FAS were to conclude that TNK-BP's acquisition of shares or assets or creation of a new company contravened applicable legislation and led or may have led to the restriction of competition on any market in Russia, it could impose administrative sanctions on TNK-BP and it could file a claim seeking liquidation of any such subsidiary or invalidation of the transactions related to such shares (equity interests) or assets, materially adversely affecting TNK-BP's acquisition strategy and, more generally, its business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the Notes and the Guarantor's ability to meet its obligations under the Guarantee.

TNK-BP encounters competition from other oil and gas companies in all areas of its operations, including the acquisition of licences, exploratory prospects and producing properties, and it may encounter competition from suppliers of alternative forms of energy sources.

The oil industry is intensely competitive. TNK-BP competes with other major Russian oil companies and major international oil companies. Many of its international competitors have substantially greater resources and have been operating in a market-based, competitive economic environment for much longer than TNK-BP has. The key activities in which TNK-BP faces competition are:

- the acquisition of subsoil licences at auctions or tenders run by governmental authorities;
- the acquisition of other companies that may already own licences or existing hydrocarbon-producing assets;
- the engagement of leading third-party service providers (including, among others, oil field services ("OFS") providers) whose capacity to provide key services may be limited;
- the purchase of capital equipment that may be scarce;
- the employment of the best qualified and most experienced staff;
- access to critical transportation infrastructure;
- the acquisition of existing retail outlets or of sites for new retail outlets; and
- the acquisition of or access to refining capacity.

In addition, TNK-BP may encounter competition from suppliers of alternative forms of energy sources, including environmentally-friendly renewable energy sources such as solar power or wind-generated power, as a result of continuing high hydrocarbon prices or potential depletion of hydrocarbon reserves in the future. TNK-BP's failure to compete effectively could materially adversely affect its business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and the Guarantor's ability to meet its obligations under the Guarantee.

Russian Government policies to ensure sufficient supplies of oil and refined products in the domestic market could impact TNK-BP's ability to sell its products at the best available prices and disrupt TNK-BP's relations with its export customers.

In common with other Russian oil companies, TNK-BP sells a portion of its oil and refined products in the Russian domestic market. Historically, the Russian Government has used and continues to use various administrative and fiscal measures to ensure sufficient supplies of oil and refined products are made available to domestic customers. There is no significant active commodity exchange market for crude oil in Russia and, as a result, prices are contract specific. Although netbacks generated from domestic sales are generally consistent with the netbacks generated from export sales, domestic crude oil prices trade significantly below international market prices, primarily reflecting the Russian tax regime of export duties and additional transportation costs associated with crude oil export. For a more detailed discussion of export and domestic crude oil pricing, see "*Business—Downstream Business—Supply, Trading and Logistics—Netbacks*".

In addition, the Russian Government has the authority to direct TNK-BP to deliver crude oil or refined products to certain Government-designated domestic customers, which may take precedence over market sales. Requirements for the delivery of domestic crude oil and refined products, with or without a corresponding limitation or ban of export sales, could be used if the domestic market experiences a shortage of crude oil or refined products. TNK-BP may be directed to make deliveries to Government agencies, the military, railways, agricultural producers, remote regions, specific consumers or refineries or to domestic refineries in general. Depending on the level of such required supplies, any Government-directed deliveries may force TNK-BP to curtail its export of crude oil or refined products, may disrupt TNK-BP's relations with its customers and may lead to delays in payments for crude oil and refined products. In addition, Government-directed deliveries may create oversupply of crude oil or refined products in the domestic market, with a resulting decline in the sale price and in the netbacks realised by TNK-BP. Any failure to make Government-directed deliveries may also affect TNK-BP's ability to export its crude oil. For example, the Russian Government has previously threatened to limit the access of Russian oil companies to export pipelines and sea terminals for failing to provide domestic refineries with the required supply of oil. As a result of these factors an increase in the levels of Government-directed deliveries, or a revocation of export rights or any further increase in export duties on crude oil or refined products oil could materially adversely affect TNK-BP's business, financial condition and results of operations.

The general system of export quotas and licensing of exports was abolished in 1995. At present, quantitative restrictions on exports may be imposed only if required to comply with Russia's obligations under international treaties or for national security purposes. No such restrictions currently apply to the export of crude oil, natural gas or refined products, although for the first six months of 2002, the Russian government implemented limits on allowable export volumes in response to increasing pressure from OPEC to reduce the world's crude oil supply and maintain high commodity prices. However, the legislation may change, and quantitative restrictions on the existing or extended legal grounds may be reintroduced, if the current liberalisation policy of the Russian Government is reversed. Any such reintroduction of export quotas or an export licensing regime could materially adversely affect TNK-BP's business, financial condition and results of operations.

TNK-BP may not be able to finance its planned capital expenditures.

TNK-BP's business requires significant capital expenditures, including in the areas of exploration and development, production, transportation and refining, and to meet TNK-BP's obligations under environmental laws and regulations. TNK-BP relies on its cash flows from its operating activities or on external sources, including bank borrowings and offerings of debt securities in the international capital markets to finance its capital expenditures. TNK-BP's cash flows generated from crude oil, refined product, natural gas and petrochemical product sales may decrease because of the recent decline in crude oil prices and the decreased demand in these products as a result of the global financial crisis. In addition, the global banking and capital markets have experienced a significant

disruption in recent months, which has been characterised by severe reductions in liquidity, greater volatility and general widening of credit spreads. As a result, many lenders have reduced or ceased providing funding to borrowers, particularly in emerging markets, and there has been a general increase in the cost of borrowing for private-sector borrowers. Although so far TNK-BP has continued to be able to access funding, if the current circumstances deteriorate and TNK-BP's cash flows decrease or TNK-BP is unable to raise the necessary financing, TNK-BP will have to reduce its planned capital expenditures. Any such reduction could materially adversely affect TNK-BP's ability to expand its business and, if the reductions are severe enough, could materially adversely affect its ability to maintain its operations at current levels. If any of these risks were to materialise, it could have a material adverse effect on TNK-BP's business, financial condition and results of operations.

The introduction of new specifications for fuel quality standards may force TNK-BP to incur further capital expenditures to upgrade its refineries.

Fuel production from TNK-BP's refineries currently meets Russian domestic quality standards. Investment plans for TNK-BP's refineries anticipate progressive tightening of domestic fuel standards, ultimately upgrading it to European standards. Where technical upgrades are required at the refineries, they have already been included in TNK-BP's investment plans. However, a risk remains that the Russian Government may accelerate the introduction of standards for cleaner fuels or that the changes, when introduced, may vary from TNK-BP's current understanding. TNK-BP intends to work closely with the relevant federal and local authorities to understand the timing for the changes in standards. If these changes, when introduced, vary significantly from TNK-BP's current understanding, they could force TNK-BP to incur further capital expenditures to upgrade its refineries and could limit TNK-BP's fuel supply to the domestic market until refinery technical upgrades are completed. See "*Business—Downstream Business—Refining*".

TNK-BP is routinely subject to reviews and challenges by Russian tax authorities.

TNK-BP is subject to routine Russian tax reviews by the Russian tax authorities and is subject to tax claims with respect to its day to day activities in the ordinary course of business. From time to time various authorities or bodies of the Russian Government, including the tax authorities, have signalled their intention to increase scrutiny of or otherwise investigate past actions of Russia's oil companies. In addition, repeat tax audits of Russian subsidiaries of TNK-BP may be conducted by tax authorities as a consequence of corporate restructuring activities. See "*TNK-BP History and Organisational Structure—Ongoing Changes in the Structure of TNK-BP*".

TNK-BP has, in the past, faced a number of potential and actual tax claims arising from the audits of TNK-BP's Russian subsidiaries. These claims have resulted in TNK-BP paying additional taxes and penalties, in addition to costs related to disputing the amounts assessed. TNK-BP is contesting these claims and disputing these amounts. See "*Business—Litigation*"

The tax environment in Russia is subject to frequent change, different and selective interpretations and inconsistent enforcement. In addition, the Russian legal system may not be immune from political or national influences and has little experience in interpreting new legislation and regulations. These factors make it difficult to anticipate what amounts TNK-BP will ultimately be required to pay upon the resolution of these open tax audits and unresolved claims. TNK-BP's management has however developed an estimate of the potential nature of this liability, on the basis, among other things, of its experience in the settlement of previous tax audits, its own assessment of the merit of the arguments presented by the tax authorities and by comparison to the outcome of other recent or similar audits made within TNK-BP's industry. Management believes that it has made an adequate provision for the outcome of the matters raised by the tax authorities. As of 30 September 2009, TNK-BP had recorded a liability in TNK-BP's Financial Statements in the amount of U.S.\$102 million (RUR 3.1 billion) related to the foregoing outstanding tax claims.

The Russian tax authorities have also in the past challenged the transfer pricing mechanisms used by certain entities which are now part of TNK-BP relating to their 2001 to 2003 activities, and there can be no assurance that TNK-BP will not face other challenges with respect to such mechanisms. If such mechanisms are successfully challenged by the Russian tax authorities in accordance with established procedures, TNK-BP may face liabilities associated with the assessed amount of taxes underpaid and related interest and penalties which could have a material impact on TNK-BP's financial condition and results of operations.

See “—*Risks Relating to the Russian Federation*—TNK-BP may be subject to repeated audits and investigations by the Russian tax authorities, even with respect to tax offences for which the statute of limitations has expired”.

TNK-BP’s operations are subject to strict and sometimes conflicting health, safety and environmental laws.

TNK-BP strives to ensure the application of strict standards covering the protection of the environment, human health and safety, through the implementation of applicable laws and regulations as well as the implementation of its own internal guidelines and procedures. As a result of these efforts, TNK-BP incurs and expects to continue to incur substantial capital and operating costs to comply with these increasingly complex laws, regulations and policies. These include costs to reduce certain types of air emissions and discharges to the waterways and to remediate contamination at various owned and previously owned facilities and at third-party sites where its products or waste have been handled or disposed. There are additional costs associated with the handling, use, storage, transportation, disposal and clean up of hazardous materials and non-hazardous wastes and the dismantlement or abandonment of TNK-BP’s properties at the end of their useful lives. TNK-BP’s shipping and other transportation operations are also subject to extensive environmental and other regulations.

New laws and regulations, the imposition of tougher requirements in licences, increasingly strict enforcement or new interpretations of existing laws, regulations and licences or the discovery of previously unknown contamination may require TNK-BP to modify its operations or require further expenditures. These expenditures may include expenditures to install pollution-control equipment, perform site clean-ups and pay fines or make other payments for discharges or other breaches of environmental standards. TNK-BP’s operations could also expose it to civil claims by third parties for alleged liability resulting from contamination of the environment or personal injuries caused by release of hazardous substances. In addition, TNK-BP may be required to modify, curtail or cease certain activities which could materially adversely affect its business, financial condition and results of operations.

TNK-BP’s operations are subject to the environmental risks inherent in the oil and gas industry, as are the operations of other Russian oil and gas companies. Russian environmental legislation consists of numerous federal and regional regulations which sometimes conflict with each other and cannot be consistently interpreted. As a result, full environmental compliance cannot always be ensured. In addition, Russian federal, regional and local authorities may adopt stricter environmental standards than those now in effect and are expected to move toward more stringent enforcement of existing laws and regulations.

TNK-BP’s environmental liabilities were U.S.\$226 million, U.S.\$235 million, U.S.\$167 million and U.S.\$173 million as of 30 September 2009, 31 December 2008, 31 December 2007 and 31 December 2006, respectively. As additional information becomes available, management will continue to adjust its estimated provision to an appropriate level. Although measures taken by TNK-BP in relation to compliance with environmental regulations have not had a material adverse effect on TNK’s business, financial condition or results of operations to date, no assurance can be given that, in the future, costs associated with environmental compliance or liabilities resulting from environmental damage caused by TNK-BP will not be material.

TNK-BP produces associated gas in locations where there are inadequate transportation facilities or no commercial market and it endeavours to use this gas in its own operations or to build the infrastructure required to deliver this gas to sales points. However, it is presently necessary to flare some of this gas. The Russian Government has enacted legislation restricting gas flaring and mandating the utilisation of 95% of associated gas produced in the course of oil extraction. As a result of these requirements, all Russian oil and gas producers, including TNK-BP, may be required to accelerate gas delivery projects and/or incur fines for their inability to meet the utilisation rate mandated by their respective licenses. See “*Business—Gas Business—Principal Gas Production Operations—Associated Gas*” handle such gas in different ways, which may be more costly.

One or more of TNK-BP’s subsidiaries may be forced into liquidation due to technical non-compliance with certain requirements of Russian law, which could have a material adverse effect on TNK-BP’s business, financial condition and results of operations.

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its technical non-compliance with certain requirements during formation, reorganisation or during its operation. There have been cases in the past in which formal deficiencies in the

establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. For example, in Russian corporate law, negative net assets calculated on the basis of Russian accounting standards as at the end of the second or any subsequent year of a company's operation, can serve as a basis for a court to order the liquidation of the company, upon a claim by governmental authorities (if no decision is taken to decrease the charter capital or liquidate the company). Many Russian companies have negative net assets due to very low historical asset values reflected on their Russian accounting standards balance sheets. However, their solvency (i.e., their ability to pay debts as they come due) is not otherwise adversely affected by such negative net assets.

Some of the companies in the TNK-BP group currently have negative net assets. Although TNK-BP does not consider these companies to be of strategic importance, it is taking action to rectify this situation. In addition, although some of its subsidiaries may have failed from time to time to fully comply with all the applicable legal requirements, TNK-BP believes that neither it, nor any of its subsidiaries, should be subject to liquidation on such grounds, and none of the possible violations has been of a material or substantial nature. However, weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. If involuntary liquidation were to occur, then TNK-BP may be forced to reorganise the operations it currently conducts through the affected subsidiaries. Any such liquidation could lead to additional costs, which could materially adversely affect TNK-BP's business, financial condition and results of operations.

TNK-BP Limited's shareholders have significant influence over Board of Directors' decisions and may have conflicts of interest.

The share capital of TNK-BP Limited, which is the top holding company of TNK-BP, is owned 50% by AAR and 50% by BP. As a result, each of these shareholders has the ability to influence TNK-BP's business significantly through its ability to vote on actions that require shareholder approval and through its representatives on TNK-BP Limited's Board of Directors. The shareholders have entered into an amended and restated Shareholders' Agreement dated 9 January 2009 which contains a number of provisions regarding the management of TNK-BP. AAR and BP are also able to control or significantly influence the outcome of any vote on any proposed amendment to TNK-BP Limited's charter, merger proposal and any proposed substantial sale of assets or other major corporate transactions.

The interests of AAR and BP in certain circumstances may conflict with the interests of Noteholders. For example, if TNK-BP encounters financial difficulties or if the strategies of its shareholders vary significantly from TNK-BP's strategy, the shareholders may cause TNK-BP, directly or indirectly, to pursue transactions to protect or enhance their equity investments in TNK-BP Limited to the detriment of TNK-BP, which could in turn adversely affect the ability of the Issuer and the Guarantor to service or repay their debt obligations, including the Notes and the Guarantee.

Additionally, AAR and BP may have different strategic objectives in relation to their respective shareholdings. Any such differences could prevent strategic decisions from being made or could otherwise adversely affect TNK-BP. For a discussion of a dispute between the TNK-BP Limited's shareholders during 2008 and subsequent changes to TNK-BP's management and management framework, see "*Management and Employees—Management Recent Developments*". While Management believes that the shareholder dispute during 2008 did not adversely affect TNK-BP's operating performance and that its management framework has been significantly improved by the recent changes that have been made, there can be no assurance that there will not be differences among TNK-BP Limited's shareholders in the future which could have a material adverse effect on TNK-BP's business, financial condition, results of operations and prospects.

TNK-BP is dependent on its senior management.

TNK-BP's growth and future success depend in significant part upon the continued contributions of a number of its senior management members. No assurance can be given that key members of senior management will remain at TNK-BP.

TNK-BP faces the risk of shortage of qualified personnel.

There is a growing global shortage of workers in the oil and gas industry which has caused foreign companies to look to the Russian labour market for employees. A shortage in the supply of labourers in Russia could cause an increase in salaries which could result in an increase in TNK-BP's labour costs. TNK-BP may also be forced to modernise production in order to reduce its dependence on

TNK-BP's labour force. These and other risks associated with labour shortages in the oil and gas industry could have a material adverse effect on TNK-BP's business, financial condition and results of operations.

There are risks associated with TNK-BP's operations in Ukraine.

TNK-BP owns the Lisichansk (Linik) refinery located in Ukraine. For the year ended 31 December 2008, approximately 4.7 million tonnes of crude oil and other feedstock, or 20% of TNK-BP's oil refining operations in 2008, were processed at the Linik Refinery. In addition, TNK-BP is a widely recognised retailer in Ukraine, with a network, as of 30 September 2009, of 50 owned filling stations and 250 jobber (non-owned) filling stations. In December 2009, TNK-BP entered into agreements to acquire a 100% interest in VikOil, a company engaged in the retail and wholesale distribution of petroleum products in Ukraine. Completion of the acquisition is expected to occur during the first quarter of 2010. See "*Operating and Financial Review—Formation and Evolution of TNK-BP—Recent Developments*". TNK-BP's operations in Ukraine do not represent a significant portion of total TNK-BP profits and are not material to TNK-BP's overall business.

Most of the risks discussed in this "Risk Factors" section of the Base Prospectus in relation to downstream operations in the Russian Federation also exist in Ukraine. In particular, since the collapse of the Soviet Union, the Ukrainian economy has been heavily dependent on trade and other economic relations with the Russian Federation and other CIS countries and imports a significant portion of its energy requirements primarily from Russia, including significant volumes of crude oil imports. The Ukrainian oil and gas industry is characterised by outdated equipment and infrastructure that require modernisation.

TNK-BP's operations in Ukraine are also subject to foreign exchange risks, in the event of a devaluation of the domestic currency, the hryvnia. For example, during the fourth quarter of 2008, the hryvnia weakened significantly against the U.S. dollar (from 4.6 to 8 hryvnia/1 U.S. dollar). As of 30 September 2009 the exchange rate was 8.01 hryvnia/1 U.S. dollar. Since the U.S. dollar is the operational currency of TNK-BP, a further weakening of the hryvnia would significantly impact the revenues generated from TNK-BP's Ukrainian operations.

Disagreements may develop with TNK-BP's joint venture partner in Slavneft.

TNK-BP holds a 49.9% effective interest in Slavneft, a 50-50 joint venture with Gazpromneft (formerly Sibneft), a Russian oil company that is a competitor of TNK-BP's. Gazprom acquired a controlling stake in Sibneft in September 2005 and renamed it Gazpromneft in May 2006. In accordance with the agreement between the joint venture partners in 2005, TNK-BP and Gazpromneft market Slavneft's crude oil and products on an equal basis rather than having Slavneft be responsible for such sales. TNK-BP and Gazpromneft also have equal representation on the Slavneft board of directors. Whilst the current Slavneft management structure remains in place, it is possible that the shareholders may enter into a new shareholders' agreement to enhance management efficiencies of Slavneft. Furthermore, even though TNK-BP does not currently expect any changes to the ownership of Slavneft, the possibility also remains that one shareholder could buy all or part of the other shareholder's stake. As such, there can be no assurance that there will be no changes in the ownership or management structure of Slavneft and the effect of any such change or failure to conduct business as planned could have a material adverse effect on Slavneft or on TNK-BP's investment in Slavneft.

Risks Relating to the Russian Federation

Although TNK-BP International is incorporated in the British Virgin Islands, most of TNK-BP's operations and fixed assets are located in, and a significant portion of its revenues is derived from, Russia. The following is a description of certain of the risks associated with investing in Russia or in entities with assets in Russia.

Political and governmental instability could materially adversely affect TNK-BP's business, financial condition and results of operations.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally planned economy to a pluralist democracy with a market-oriented economy. The Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, and to demands for autonomy from particular regional and ethnic groups. The course of political, economic and other reforms has in some respects been uneven, and the composition of the Russian Government, including the prime minister and the other heads of federal ministries, has

at times been unstable. For example, six different prime ministers headed governments between March 1998 and May 2000.

Vladimir Putin was elected President of the Russian Federation in March 2000. Since that time, Russia has generally experienced a higher degree of governmental stability. On 2 March 2008, Dmitry Medvedev was elected as President of Russia and appointed Mr. Putin as Prime Minister shortly thereafter.

Further changes in the Russian Government, major policy shifts, future presidential elections, the creation, abolition or reform of Government bodies regulating the oil and gas industry, or the lack of consensus between the President of Russia, the Russian Government, Russia's parliament and powerful economic groups could lead to political instability and could negatively effect the Russian economy, which could have a material adverse effect on TNK-BP's business, financial conditions or results of operations or on the value of investments in Russia generally and the Notes in particular.

Domestic political conflicts could create an uncertain operating environment that would hinder TNK-BP's long-term planning ability and could materially adversely affect the value of investments in Russia.

Russia is a federation comprising various sub-federal political units, some of which have the right to manage their internal affairs pursuant to agreements with the federal government and in accordance with applicable laws. In practice, the division of authority between federal and regional governmental authorities remains uncertain and contested. This uncertainty could hinder TNK-BP's long-term planning efforts and may create uncertainties in TNK-BP's operating environment, which may prevent it from effectively carrying out its business strategy.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, such as the conflict in Chechnya. The military conflict in Chechnya has brought normal economic activity within Chechnya to a halt and disrupted the economies of neighbouring regions. Various armed groups in Chechnya have engaged in attacks in that area. Violence and attacks relating to this conflict have also spread to other parts of Russia, including terrorist attacks in Moscow. The further intensification of violence, including terrorist attacks and suicide bombings, or its continued spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures may cause disruptions to domestic commerce and exports from Russia, and could materially adversely affect TNK-BP's business, financial condition and, results of operations.

Weaknesses relating to the Russian legal system and Russian law create an uncertain environment for investment and business activity.

Russia is still developing the legal framework required by a market economy. Several fundamental Russian laws have only recently become effective. The relatively recent nature of much of Russian legislation and the rapid evolution of the Russian legal system impact the enforceability of laws and can result in ambiguities and inconsistencies in legal interpretations and other anomalies. In addition, Russian legislation often leaves substantial gaps in the regulatory infrastructure. Among the risks of the current Russian legal system are:

- inconsistencies between and among the Constitution, federal and regional laws, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- conflicting local, regional and federal rules and regulations;
- limited court personnel with the ability to interpret new principles of Russian legislation, particularly business and corporate law;
- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions; and
- poorly developed bankruptcy procedures and certain violations in bankruptcy proceedings.

All of these weaknesses could affect TNK-BP's ability to enforce its rights under contracts and licences, or to defend itself against claims by others. No assurance can be given that regulators, judicial authorities or third parties will not challenge TNK-BP's internal procedures and by-laws or its compliance with applicable laws, decrees and regulations.

Many Russian laws are structured in a way that provides for significant administrative discretion in application and enforcement. Reliable texts of laws and regulations at the regional and local levels may not be available and are subject to different and changing interpretations and administrative

applications. Russian laws also often provide general statements of principles rather than a specific guide to implementation and government officials may be delegated or exercise broad authority in determining matters of significance. Such authority may be exercised in an unpredictable way, and effective appeal processes may not be available. As a result of these factors, even the best efforts to comply with the laws may not always result in full compliance. See “—*Risks Relating to TNK-BP and the Oil and Gas Industry in Russia and Ukraine—TNK-BP’s subsoil licences may be suspended or revoked prior to their expiration, and TNK-BP may be unable to obtain or maintain various permits or authorisations.*”

In addition, amendments to several Russian laws (including those relating to the tax regime, corporations and licensing) have only recently become effective. The recent nature of much Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Russian legal system in ways that may not coincide with market developments may result in ambiguities, inconsistencies and anomalies, the enactment of laws and regulations without a clear constitutional or legislative basis and ultimately in investment risks that do not exist in countries with more developed legal systems. For example, although Russian bankruptcy laws establish a procedure for declaring an entity bankrupt and liquidating its assets, relatively few entities have been declared bankrupt in Russia, and many of the bankruptcy proceedings that have occurred have not been conducted in the best interests of creditors. All of these weaknesses could affect TNK-BP’s ability to enforce its rights, or to defend itself against claims by others in respect of TNK-BP’s Russian subsidiaries, and could affect enforcement of any rights of holders of the Notes against the Issuer or the Guarantor. Furthermore, no assurance can be given that the development or implementation or application of legislation (including government resolutions or presidential decrees) will not adversely affect foreign investors (or private investors generally).

The judiciary’s lack of independence and relative inexperience, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent TNK-BP or an investor in the Notes from obtaining effective redress in a court proceeding.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia remain largely uncontested. The court system is understaffed and underfunded. Judges and courts are generally inexperienced in the area of business and corporate law. Under Russian legislation, judicial precedents generally have no binding effect on subsequent decisions and are not recognised as a source of law. However, in practice, courts usually consider judicial precedents in their decisions. In addition, most court decisions are not readily available to the public. Enforcement of court judgments can in practice be very difficult in Russia. Additionally, court claims are often used in furtherance of political and commercial aims. TNK-BP may be subject to such claims and may not be able to receive a fair hearing. Additionally, court judgments are not always enforced or followed by law enforcement agencies. All of these factors make judicial decisions in Russia difficult to predict and make effective redress uncertain.

These uncertainties also extend to property rights. During Russia’s transformation from a centrally planned economy to a market economy, legislation was enacted to protect private property against expropriation and nationalisation. However, these protections may not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of the members of the TNK-BP group or their assets, potentially with little or no compensation, could have a material adverse effect on TNK-BP’s business, financial condition and results of operations.

Russia is not a party to multilateral or bilateral treaties for the mutual enforcement of court judgments with most Western countries. Consequently, if a judgment is obtained from a court in any such jurisdiction, it is highly unlikely to be given direct effect in Russian courts. However, Russia (as a successor to the Soviet Union) is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention). A foreign arbitral award obtained in a state which is a party to the New York Convention should be recognised and enforced by a Russian court (subject to the qualifications provided for in the New York Convention and in compliance with Russian civil procedure and other procedures and requirements established by Russian legislation). The Arbitration Procedural Code of the Russian Federation is in conformity with the New York Convention and thus has not introduced any substantial changes relating to the grounds for refusing to recognise and enforce foreign arbitral awards and court judgments. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of Russian courts or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in Russia.

The Russian tax system imposes substantial burdens on oil and gas companies, is not fully developed compared to Western systems and is subject to frequent change and significant uncertainty.

Oil and gas companies in Russia are subject to a broad range of taxes imposed at the federal, regional and local levels, including but not limited to export duties, corporate income tax, mineral extraction tax (“MET”), value added tax (“VAT”), excise tax, property tax, land tax and payroll related taxes.

In general, the quality of tax legislation in Russia has improved with the introduction of the Russian Tax Code (the “**Tax Code**”) between 1999 and 2002 and its subsequent amendments. While this has resulted in an improved tax climate (e.g., the corporate profits tax, whose top rate in 2001 was 35%, was reduced in 2009 to a maximum of 20%), Russian federal, regional and local tax laws and regulations are still subject to frequent change, varying interpretations and inconsistent enforcement. They have been in force for a short period relative to tax laws in more developed market economies, and, accordingly, relatively few precedents with respect to the interpretation of these laws have been established.

The Russian tax system mechanism relies heavily on the judgement of local tax officials for enforcement and fails to address clearly and fairly many significant tax issues, and local tax officials have in the past made a number of material tax claims against major Russian companies (such as for example various challenges raised to the tax optimisation schemes used by many Russian companies). Taxpayers and the Russian tax authorities often interpret tax laws differently, and differing opinions regarding legal interpretation often exist both within Russian Government ministries and organisations, such as the Federal Tax Service, the Ministry of Finance and various tax inspectorates, creating uncertainties and areas of conflict. Taxpayers often have to resort to court proceedings to defend their position against the tax authorities. Recent court practice and interpretation of tax laws suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and in making assessments. Historically, the system of tax collection has been relatively ineffective, with the tax authorities making varying interpretations of the existing laws in an attempt to increase revenues. This increases the likelihood that Russia may impose arbitrary or onerous taxes and penalties in the future, which could adversely affect the business of TNK-BP.

In some instances, even though unconstitutional, Russian tax authorities have applied certain taxes retroactively, have issued tax claims for periods for which the statute of limitations had expired and have reviewed the same tax period repeatedly.

In its decision of 25 July 2001, the Constitutional Court of the Russian Federation (the “**Constitutional Court**”) introduced the concept of “a taxpayer acting in bad faith” without clearly stipulating the criteria for it. Similarly, this concept is not defined in Russian tax law. Nonetheless, this concept has been used by the tax authorities to deny, for instance, the taxpayer’s right to rely on a literal interpretation of the Tax Code. The tax authorities and courts have in the past often exercised significant discretion in interpreting this concept in a manner that is unfavourable to taxpayers.

On 12 October 2006, the Plenum of the Supreme Commercial Court of the Russian Federation (the “**Supreme Commercial Court**”) issued ruling No. 53 which introduced a new concept of “unjustified tax benefit” which is defined mainly by reference to specific examples of such tax benefits (e.g. absence of business purpose) which may be disallowed. While the tax authorities and courts have provided only limited guidance on the interpretation of this new concept, the tax authorities nonetheless have actively sought to apply this concept when challenging tax positions taken by taxpayers. Although the intention of this ruling was to combat abuse of tax law, the tax authorities have started applying the “unjustified tax benefit” concept in a broader sense than may have been intended by the Supreme Commercial Court. To date, in the majority of cases where this concept has been applied, the courts have ruled in favor of taxpayers, but it is too early to determine whether the courts will follow these precedents in the future. Ruling No. 64 of the Plenum of the Supreme Court of the Russian Federation “Concerning the Practical Application by Courts of Criminal Legislation Concerning Liability for Tax Crimes” dated 28 December 2006 may also be interpreted to facilitate the trend to broaden the application of criminal liability for tax violations. This can include the imposition of criminal liability on, among others, actual decision-makers, advisors and accountants.

Furthermore, in addition to the usual tax burden imposed on Russian companies, oil companies operating in Russia face an uncertain tax environment which complicates tax planning and related business decisions, as well as certain tax burdens (such as Russian export duties on crude oil and oil products and the MET) which are particular to the industry in which these companies operate and

which track fluctuations of the Urals crude oil prices (and therefore increased over the past few years in response to a rise in world prices for crude oil).

Federal Law No. 126-FZ of 8 August 2001, which became effective on 1 January 2002, amended the previously existing regime of mineral resource restoration payments, royalties and excise taxes on the production of crude oil and gas condensate and replaced all such taxes with the unified MET, a tax on the extraction of commercial minerals. Since 2002, the MET on crude oil (dewatered, desalinated and stabilised oil) has been assessed on the extracted quantity of crude oil at a rate that has been linked to the average world prices for Urals crude oil and the average U.S.\$/rouble exchange rate during the relevant calendar tax period. Furthermore, in 2001, 2004, 2006 and 2008, the Law No. 5003-1 of 21 May 1993 “On Customs Tariff” was amended to establish the current procedure for determination of the export duty for crude oil. According to this procedure, the export duty is set by the Russian Government based on the average world price of Urals crude oil during the previous “monitoring period” (the period of one month prior to the date on which the export duty rate is established). The rate set is then applicable during the “monitoring period” then commencing. Therefore, when oil prices are high, the MET and export customs duty significantly increase the amounts payable to the tax authorities. See “*Operating and Financial Review—Key Factors Affecting Operating Results—Taxation—Export Custom Duty*”.

Current Russian laws and regulations do not contemplate the consolidation of Russian companies' financial statements for tax purposes. As a result, each entity in TNK-BP pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity in TNK-BP. The Russian Ministry of Finance in its Main Directions of Russian Tax Policy for 2009-2011 has proposed the introduction of consolidated tax reporting to enable the consolidation of the financial results of Russian taxpayers which are part of one group for corporate income tax purposes. At this stage, it is impossible to predict whether, when or how such consolidated tax reporting principles will be enacted.

A Russian company is not subject to tax on dividends it receives if the relevant dividends are received on at least a 50% stake, the acquisition costs of such stake exceeded RUB 500 million, the stake has been held for at least 365 calendar days, and the dividend paying entity is not a resident of jurisdiction black-listed by the Russian Ministry of Finance (i.e., is not a resident of an offshore jurisdiction). However, if such criteria are not satisfied payments of dividends between two Russian companies are subject to a withholding tax of 9%. Accordingly, although as of the date of this Base Prospectus dividends paid by most of TNK-BP's subsidiaries are exempt from any withholding tax, there is a risk of additional tax liabilities and inefficiencies in multi-level Russian groups such as TNK-BP.

Furthermore current, Russian tax legislation does not contain a concept of corporate tax residency. The Russian Ministry of Finance in its Main Directions of Russian Tax Policy for 2009-2011 has proposed the introduction in the Tax Code of a concept of tax residency for legal entities. According to the proposals, a company would be deemed a Russian tax resident based on the place of its effective management and control and/or based on the residence of its shareholders. No assurance can be currently given as to whether and when these amendments will be enacted, their exact nature, their potential interpretation by the tax authorities and the possible impact on the Issuer or other foreign companies of TNK-BP. It cannot be ruled out that, as a result of the introduction of these changes to Russian tax legislation, the tax position of the Issuer or other foreign subsidiaries of TNK-BP might change.

The foregoing conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on TNK-BP's operations, including management resources. There can be no assurance that current taxes will not be increased or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. In addition to TNK-BP's substantial tax burden, these risks and uncertainties complicate TNK-BP's tax planning and related business decisions, potentially exposing TNK-BP to significant fines and penalties and enforcement measures despite its best efforts at compliance, and could materially adversely affect TNK-BP's business and results of operations and the value of the Notes.

TNK-BP may be subject to repeated audits and investigations by the Russian tax authorities, even with respect to tax offences for which the statute of limitations has expired.

Tax returns, together with related documentation, are subject to review and investigation by the tax authorities, which are enabled by Russian law to impose severe fines and interest charges. Generally,

tax returns remain open and subject to inspection by the tax authorities for a period of three years immediately preceding the year in which the decision to conduct a tax audit is adopted. The fact that a year has been reviewed by the tax authorities does not close that year, or any tax returns applicable to that year, from further review during the three year period. In particular, a repeated tax audit may be conducted by a higher level tax authority as a measure of control over the activities of lower level tax authorities, as audited in connection with the reorganisation/liquidation of a taxpayer, or as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable. On 17 March 2009, the Constitutional Court issued a decision that prevents Russian tax authorities from issuing additional decisions as a result of subsequent tax audits for an audited tax period if a court decision taken in respect of disputed taxation matters raised during the initial tax audit has not been revised or discharged. Currently, it is unclear how this decision will be applied and followed in practice by the Russian tax authorities.

Under the Tax Code, the statute of limitations for tax penalties for the commission of a tax offence is generally three years from the date on which the offence was committed or from the date of the end of the tax period during which the tax offence was committed (depending of the nature of the offence). However, on 14 July 2005, the Constitutional Court issued a decision that allows the statute of limitations for tax penalties to be extended beyond the three year term set forth in the Tax Code if a court determines that a taxpayer has obstructed or hindered a field tax audit. Moreover, amendments introduced to the Tax Code which came into effect on 1 January 2007, provide for the extension of the three year statute of limitations for tax penalties if the actions of a taxpayer create insurmountable obstacles for a tax audit. Because the terms “hindered”, “obstructed” and “create insurmountable obstacles” are not defined under Russian law, the tax authorities may attempt to interpret this term broadly, effectively linking any difficulty experienced in the course of their tax audit with obstruction by the taxpayer, and use that as a basis to seek tax adjustments and penalties beyond the three year term. Therefore, the statute of limitations for tax penalties may not be able to be relied upon. See “—*Risks Relating to TNK-BP and the Oil and Gas Industry in Russia and Ukraine—TNK-BP is routinely subject to reviews and challenges by Russian tax authorities*”.

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may affect TNK-BP's results of operations.

TNK-BP conducts a significant number of intra-group transactions among its controlled subsidiaries. Transfer pricing legislation in Russia allows the tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all “controlled” transactions, provided that the transaction price, such as the selling price between the producer and the trading company or between the trading company and the purchaser, differs from the market price (e.g., the relevant market price for crude oil or refined products) by more than 20%. “Controlled” transactions include transactions with related parties, barter transactions, foreign trade transactions and any transactions with unrelated parties and significant price fluctuations (i.e., if the price of such transactions differs from the prices on similar transactions by more than 20% within a short period of time). The Russian transfer pricing rules are vaguely drafted, generally leaving wide scope for interpretation by Russian tax authorities and courts. Moreover, in the event that a transfer pricing adjustment is assessed by Russian tax authorities, the Russian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction that is subject to adjustment (although recently-proposed amendments, if approved, would tighten further these requirements, for example by requiring that offsetting adjustments be made by the related counterparty). The uncertainty and possible arbitrary application of these rules could have a materially adverse impact on TNK-BP's commercial operations and results of operations.

Selective or arbitrary government action could materially adversely affect TNK-BP's business, financial condition and results of operations.

Governmental authorities in Russia have a high degree of discretion and at times exercise their discretion arbitrarily, without hearing or prior notice, and sometimes in a manner that is contrary to law or influenced by political or commercial considerations. Selective or arbitrary governmental actions have included unscheduled inspections by regulators, suspension or withdrawal of licences and permissions, unexpected tax audits, criminal prosecutions and civil actions. In addition, governmental authorities have also tried, in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Furthermore, federal and local government entities have used common defects in matters surrounding the documentation of business activities as pretexts for court claims and other demands to invalidate such activities or to void transactions, often for

political purposes. Any of such actions could have a material adverse effect on TNK-BP's business, financial condition.

Instability in the Russian economy could materially adversely affect TNK-BP's business.

Since the dissolution of the Soviet Union in 1991, the Russian economy has been subject to abrupt downturns and has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of a black and grey market economy;
- extensive capital flight;
- corruption and increased organised crime;
- unstable credit conditions;
- a weakly diversified economy which depends significantly on global prices for raw materials;
- significant increases in unemployment and underemployment; and
- significant poverty levels amongst the Russian population.

The recent global financial turmoil has also adversely affected the Russian economy. In the past few years, the Russian economy has been characterised by extreme volatility in the debt and equity markets (which experienced significant declines in the second half of 2008), causing market regulators to temporarily suspend trading multiple times on the Moscow Interbank Currency Exchange (MICEX) and Russian Trading System (RTS) stock exchanges. The Russian economy has also been characterised by significant reductions in foreign investment and sharp decreases in GDP. In light of these recent developments, two international rating agencies downgraded Russia's sovereign credit rating in 2008 and 2009 (Standard & Poor's to BBB and Fitch to BBB) which reflects an assessment by such agencies that there is an increased credit risk that Russia may default on its obligations. This may lead to a further reduction of foreign investment and an increased cost of borrowing for the Russian Government. In late 2008, the Russian Government announced plans to institute more than U.S.\$200 billion in emergency financial assistance measures in order to ease taxes, refinance foreign debt and encourage lending. There can be no assurance that these measures will result in a short-term recovery of the Russian economy.

As Russia produces and exports large quantities of crude oil and natural gas, the Russian economy is also particularly vulnerable to fluctuations in the prices of crude oil and natural gas on the world market, which reached record high levels in the first six months of 2008 and have since continued to experience significant fluctuations. Any further deterioration or the continuation of the current economic situation in Russia and the markets in which TNK-BP operates could have a material adverse effect on TNK-BP's business, financial condition and result of operations and may also inhibit TNK-BP's ability to obtain financing.

TNK-BP faces inflation and exchange rate risks that could materially adversely affect its business, financial condition and results of operations.

The Russian economy has been characterised by high rates of inflation. Inflation in Russia was 9.0% in 2006, 11.9% in 2007 and 13.3% in 2008 and is forecast by the International Monetary Fund to reach 12.3% by the end of 2009. TNK-BP operates mostly in Russia and the majority of its costs are denominated in roubles. A significant portion of these costs, such as salaries, electricity costs and transportation costs for crude oil, gas and refined products, are sensitive to inflation trends in Russia. Most of TNK-BP's revenues are either denominated in U.S. dollars or are linked to the U.S. dollar. Therefore, the relative movement of inflation and exchange rates significantly affects the TNK-BP's

results of operations as this may cause TNK-BP's costs to increase relative to its sale revenues. See “*Operating and Financial Review—Key Factors Affecting Operating Results—Inflation and rouble/U.S. dollar Exchange Rate*”). TNK-BP's operating margins could be materially adversely affected if the inflation of its rouble costs in Russia is not balanced by a corresponding devaluation of the rouble against the U.S. dollar or an increase in oil prices. A relatively high inflation rate would also result in a decline of TNK-BP's rouble-denominated monetary assets, such as rouble deposits, domestic debt instruments and accounts receivable.

Limitations on TNK-BP's ability to convert roubles into other currencies may materially adversely affect its business, financial condition and results of operations.

The Russian Government and the Central Bank of Russia may impose burdensome requirements governing currency operations, as they have done in the past. If these restrictions were re-introduced, they could prevent or delay any acquisition opportunities outside Russia that TNK-BP might wish to pursue. Additionally, any delay or other difficulty in converting roubles into a foreign currency to make a payment or any practical difficulty in the transfer of foreign currency could limit TNK-BP's ability to meet its payment and debt obligations, which could result in the acceleration of debt obligations and cross defaults. Any balances maintained in roubles will give rise to losses if the rouble devalues against major foreign currencies.

The Russian Government has been increasing its influence in the Russian oil and gas sector.

Over the past several years, the Russian Government has progressively increased its control over the Russian oil and gas sector and increased the strength of the companies that it controls. For example, in December 2004 the Russian Government effectively nationalised approximately 10% of Russia's crude production capacity through the sale of OAO NK Yukos's primary production subsidiary, OAO Yuganskneftegaz, to state-controlled Rosneft, and, in September 2005 state-owned Gazprom acquired a 72.6% stake in Sibneft (which was renamed Gazpromneft in May 2006) thereby increasing its ownership interest in Sibneft from 3% to 75.6%.

On a number of other occasions, the Russian Government has (through its relevant governmental bodies or state-owned enterprises) acquired, directly or indirectly, controlling interests in various companies in various industrial sectors on the premise that those companies were experiencing financial difficulties or facing insolvency. In some instances, the price of such distressed acquisition was unilaterally imposed by the Russian Government on the sellers. Although Russian government officials, including the Russian Prime Minister, have on several occasions in the past noted that state intervention measures are temporary and limited to companies with significant social obligations, the scope and scale of the Russian Government's further intervention in the private section during the economic downturn may not be predicted with certainty. The Russian Government may enact laws applicable to oil companies in particular, including limits on the price of oil or restrictions on export or sale. In addition, State-owned oil and gas companies may have a significant advantage in obtaining rights to develop Russia's natural resources and utilisation of the existing transportation infrastructure which may limit TNK-BP's growth opportunities in Russia.

The Russian Government has enacted legislation to protect property against expropriation and nationalisation. Furthermore, in the event that TNK-BP's property is expropriated or nationalised, legislation provides for fair compensation to be paid to TNK-BP. However, there can be no certainty that such protections will be enforced. This uncertainty is due to several factors, including the lack of an independent judicial system, sufficient mechanisms to enforce judgments and corruption among Russian state officials.

The concept of property rights is not well developed in Russia and there is a lack of experience in enforcing legislation enacted to protect private property against nationalisation and expropriation. As a result, TNK-BP may not be able to obtain proper redress in the courts and may not receive adequate compensation if, in the future, the Russian Government decides to nationalise or expropriate some or all of TNK-BP's assets. The expropriation or nationalisation of any of TNK-BP's or its subsidiaries' assets without fair compensation may have a material adverse effect on TNK-BP's business, prospects, financial condition and results of operations.

TNK-BP's ownership in privatised companies may be challenged and, if these challenges are successful, TNK-BP could lose its ownership interests in these companies or their assets.

Many of the Russian subsidiaries of TNK-BP were privatised in the mid 1990s, and Slavneft was privatised in 2002. Russian subsidiaries of TNK-BP have also acquired a number of privatised companies in Russia. Furthermore, TNK-BP's business strategy may involve the acquisition of

additional privatised companies. Many privatisations are arguably deficient and, therefore, vulnerable to challenge because the relevant privatisation legislation is vague, inconsistent or in conflict with other legislation. To the extent such conflicts exist, including conflicts between federal and local privatisation legislation, most, if not all, privatisations are arguably deficient and therefore vulnerable to challenge, at least on formal grounds. The statute of limitations for the invalidation of privatisations has recently been decreased from ten to three years. In the event that the privatisation of any of TNK-BP's companies is successfully challenged, TNK-BP could risk losing its ownership interest in that company or its assets, which could materially adversely affect TNK-BP's business, financial condition and results of operations.

In addition, under Russian law, transactions with shares may be invalidated on many grounds, including a sale of shares by a person without the right to dispose of such shares, breach of interested party or major transaction rules and failure to register the share transfer in the securities register. As a result, defects in earlier transactions with shares in TNK-BP's subsidiaries (where such shares were acquired from third parties) may raise questions as to the validity of TNK-BP's title to such shares.

In the past, there have been allegations of certain violations of legislation in the privatisation of TNK, Sidanco and Onako (former subsidiaries of TNK-BP International that were acceded to TNK-BP Holding in 2005) and Slavneft, as has been the case for many other major Russian companies. See "*Business—Corporate Activities—Corporate Restructuring Project in Russia*". However, no actions had been taken towards the invalidation of their status as privately owned companies. Currently, there are no material pending challenges to the privatisation of any of TNK-BP's subsidiaries in Russia or Ukraine. TNK-BP believes that the risk of such a challenge succeeding is minimal and it will defend its position against the relevant claim. In the event that any of TNK-BP's privatised subsidiaries come under attack as having been improperly privatised and TNK-BP is unable to prevail against such claims, TNK-BP might face a risk of losing its ownership interests in, or the assets of, such subsidiaries, which could have a material adverse effect on TNK-BP's business, financial condition and results of operations.

Russia's physical infrastructure is in poor condition, which could disrupt or impair TNK-BP's normal business activity, and efforts by the Russian Government to improve the country's infrastructure may result in increased costs for TNK-BP.

Russia's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Particularly affected are the road networks, power generation and transmission systems, communication systems and building stock. Road conditions in many areas of Russia are also poor, with many roads not meeting minimum requirements for usability and safety.

The deterioration of Russia's physical infrastructure harms the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in Russia and generally impairs TNK-BP's business operations.

The Russian Government is actively considering plans to strengthen and enhance the nation's rail, electricity and telephone systems. Any such effort, while supporting and enhancing TNK-BP's commercial operations, would also likely result in increased charges and tariffs. On the other hand, in the event the recent economic downturn delayed or reduced those expansion plans, this could lead to a further deterioration in Russia's infrastructure network. These factors could have a material adverse effect on TNK-BP's business, financial condition and results of operations.

Crime and corruption could disrupt TNK-BP's ability to conduct its business and could materially adversely affect its business, financial condition and results of operations.

The political and economic changes in Russia since the early 1990s have resulted in reduced policing of society and increased lawlessness. Organised criminal activity and property crime have increased significantly since the dissolution of the Soviet Union, particularly in large metropolitan centres. In addition, the Russian and international press have reported frequent instances of official corruption, including the bribing of officials for the purpose of initiating investigations by government agencies. There have been instances in which government officials have engaged in selective investigations and prosecutions to further interests of the government officials and certain individuals. The effects of organised or other crime, demands of corrupt officials or any claims of involvement in corruption activities could result in negative publicity and could disrupt TNK-BP's ability to conduct its business effectively and could, thus, have a material adverse effect on its business, financial condition and results of operations.

Social instability could materially adversely affect TNK-BP's business, financial condition and results of operations.

Increased unemployment resulting from weakening economic conditions in Russia, the failure of the government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could continue to lead in the future, to labour and social unrest. Labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism (with restrictions on foreign involvement in the economy of Russia) and increased violence. Any of these consequences could adversely impact TNK-BP's operations and lead to the loss of revenue, materially adversely affecting TNK-BP's business, financial condition and results of operations.

The Russian banking system remains underdeveloped, and another banking crisis in Russia could place severe liquidity constraints on TNK-BP's business, materially adversely affecting its business, financial condition and results of operations.

Russia's banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent applications. There are currently a limited number of creditworthy Russian banks, most of which are headquartered in Moscow. Although the Central Bank of Russia has the mandate and authority to suspend banking licences of insolvent banks, many insolvent banks still operate. Aided by inadequate supervision by the regulators, many banks do not follow existing Central Bank of Russia regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector still does not meet internationally accepted norms.

The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to the current worldwide credit market downturn and economic slowdown. The credit crisis that began in the United States in the autumn of 2008 has resulted in decreased liquidity in the Russian credit market and weakened the Russian financial system. Efforts by the Russian government to increase liquidity have been stymied by the unwillingness or inability of major banks to transfer money to the economy in the form of loans. The current lack of liquidity and economic slowdown have raised the possibility of Russian corporate defaults and led to bank failures and downgrades of Russian banks by credit rating agencies. More bank failures and credit downgrades may result in a crisis throughout the Russian banking sector. Starting from the fourth quarter of 2008, the majority of Russian banks experienced difficulties with funding on domestic and international markets and interest rates increased significantly. Some of the banks were unable to service their obligations and were sold to larger banks. Credit ratings of several banks have been lowered. A prolonged or serious banking crisis or the bankruptcy of a number of Russian banks could materially adversely affect TNK-BP's business and its ability to complete banking transactions in Russia.

Some transactions between TNK-BP and interested parties or affiliated companies require the approval of disinterested directors or shareholders.

TNK-BP's is required by Russian law and its charter to obtain the approval of disinterested directors or shareholders for certain transactions with "interested parties". Under Russian law, the definition of an "interested party" includes members of the board of directors; members of any management body of a company; the chief executive officer of the company; the managing company of the company (if any) any shareholder that owns, together with that person's close relatives and affiliates, at least 20% of the company's voting shares; or a person who has the right to give binding instructions to the company if any of the above listed persons, or a close relative or affiliate of such person, is:

- a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary to the transaction;
- the owner (individually or collectively) of at least 20% of the shares in the company that is a party to or beneficiary, intermediary or representative in a transaction; or
- a member of the board of directors or any management body of the company or the managing company of such company that is a party to or beneficiary, intermediary or representative in a transaction.

Due to the technical requirements of Russian law, entities within the TNK-BP group of companies may be deemed to be "interested parties" with respect to certain transactions between them. The

failure to obtain necessary approvals for transactions within TNK-BP could make such transactions subject to challenge and invalidation. In addition, the concept of “interested parties” is defined with reference to the concepts of “affiliated persons” and “group of persons” under Russian law, which are subject to many different interpretations. Moreover, the provisions of Russian law defining the transactions which must be approved as “interested party” transactions are subject to different interpretations. Although TNK-BP has generally taken a reasonably conservative approach in applying these concepts, its application of these concepts may be subject to challenge. Any such challenge could result in the invalidation of transactions that are important to TNK-BP’s business, which could materially adversely affect its business, financial condition and results of operations.

Risks Relating to the Issuer, the Notes and the Trading Market

The Issuer has limited assets with which to meet its obligations under the Notes.

The Issuer is a finance subsidiary within the TNK-BP group of companies without independent operations or revenues. As such, its ability to meet its obligations under the Notes will be dependent upon the support of other TNK-BP companies.

The Issuer and the Guarantor are dependent on payments from subsidiaries to fund payments on the Notes.

The Issuer and Guarantor do not directly conduct any business operations. Consequently, the Issuer and Guarantor will be dependent on dividends and other payments from subsidiaries of the Guarantor (including offshore subsidiaries) and Slavneft to make payments on the Notes and, if required, the guarantee with respect to the Notes. Investors in the Notes will not have any direct claim on the cash flows or assets of the Guarantor’s subsidiaries or Slavneft, and such operating subsidiaries or Slavneft have no obligation, contingent or otherwise, to pay amounts due under the Notes or the Guarantee or to make funds available to the Issuer or the Guarantor for these payments.

The ability of such subsidiaries to make dividends and other payments to the Issuer will depend on their cash flows and earnings which, in turn, will be affected by all of the factors discussed in this “*Risk Factors*” section. In addition, under Russian corporate law, such Russian subsidiaries may not pay dividends in excess of their distributable profits – in general, the accumulated earnings of the relevant subsidiary. Consequently, if amounts that the Issuer and the Guarantor receive from their subsidiaries are not sufficient, the Issuer and the Guarantor may not be able to service their obligations under the Notes.

Holders of the Notes are effectively structurally subordinated to any creditors of the Guarantor’s subsidiaries.

A significant amount of the TNK-BP group of companies’ assets are held, and revenue generated, by subsidiaries of the Guarantor. In general, claims of a subsidiary’s creditors, including secured and unsecured creditors, for indebtedness incurred, and against any guarantee issued, by such subsidiary, will have priority with respect to the assets of that subsidiary over the claims of its parent company, except to the extent that such parent company is also a valid creditor of that subsidiary under the laws of the relevant jurisdiction. Thus, a Noteholder’s right to receive payment of any amounts which at any time become due and payable in respect of the Notes from the Guarantor may be structurally subordinated to the prior ranking claims of creditors (secured or unsecured) of subsidiaries of the Guarantor, except to the extent that the Guarantor is a valid creditor of such subsidiary. The Notes do not limit the ability of the subsidiaries of the Guarantor to incur additional indebtedness, all of which would also be structurally senior to the Notes.

Holders of the Notes may not be adequately protected against corporate restructurings or highly leveraged transactions.

The terms of the Notes do not contain provisions that would afford Noteholders protection in the event of a decline in TNK-BP’s credit quality resulting from highly leveraged or other similar transactions in which TNK-BP may engage. TNK-BP is also not limited in the amount of other indebtedness or other liabilities that it may incur or securities that it may issue. Holders of the Notes do not have the right to require TNK-BP to repurchase or redeem the Notes in the event of many types of highly leveraged transactions.

The lack of a public market for the Notes could reduce their value.

There may not be an existing market for the Notes. Notes under the Programme may be listed on the official list and traded on the Regulated Market of the Luxembourg Stock Exchange. However, there can be no assurance that a liquid market will develop for the Notes, that holders of the Notes

will be able to sell their Notes or that such holders will be able to sell their Notes for a price that reflects their value.

Financial instability in emerging markets could cause the price of the Notes to suffer.

Financial instability in Russia and other emerging market countries in 1997 and 1998 adversely affected market prices in the world's securities markets for the debt and equity securities of companies that operated in those and similar countries. Future financial instability in emerging market countries other than Russia could adversely affect the market price of the Notes, even if the Russian economy remains relatively stable.

Credit ratings may be subject to revision or withdrawal.

Outstanding Eurobonds of the Russian Federation are rated "Baa1" (outlook stable) by Moody's, "BBB" (outlook stable) by Standard & Poor's and "BBB" (outlook negative) by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. TNK-BP International has received a long term foreign currency debt rating of "Baa2" (outlook stable) from Moody's, "BBB-" (outlook stable) from Standard & Poor's and "BBB- " (outlook stable) from Fitch. Any change in the credit rating of either TNK-BP or the Russian Federation could adversely affect the trading price of the Notes. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

Internal Revenue Service Circular 230 Disclosure

Pursuant to Internal Revenue Service Circular 230, investors are hereby informed that the description set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any investor for the purpose of avoiding any penalties that may be imposed on investor as a taxpayer under the U.S. Internal Revenue Code. Such description was written to support the marketing of the Notes. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

USE OF PROCEEDS

The Issuer will lend the net proceeds it receives from each issue of Notes to TNK-BP. TNK-BP will use such proceeds for general corporate purposes including the funding of investment programmes aimed at increasing TNK-BP's production of oil and gas and its oil and gas reserves as well as for refinancing of its short term debt.

CAPITALISATION

The table below shows TNK-BP's consolidated capitalisation as of 30 September 2009 and 31 December 2008, 2007 and 2006. This information should be read in conjunction with "Operating and Financial Review".

	As of		As of 31 December	
	30 September		2006	
	2009	2008	2007	2006
(unaudited)				
Obligations to banks.....	2,131	2,432	3,636	3,300
Corporate bonds.....	4,477	4,475	4,469	2,197
Other.....	251	238	174	47
Less: current portion of long term debt.....	(1,331)	(1,051)	(1,355)	(703)
Total long term debt	5,528	6,094	6,924	4,841
Noncontrolling interest	1,220	1,106	1,056	851
Ordinary share capital ⁽¹⁾	—	—	—	—
Additional paid in capital.....	2,890	2,976	2,976	2,976
Retained earnings.....	13,083	10,831	9,827	7,130
Accumulated other comprehensive loss.....	(83)	(124)	—	—
Total Group shareholders' equity	15,890	13,683	12,803	10,106
Total capitalisation	22,638	20,883	20,783	15,798

Notes:

(1) Ordinary share capital figures are shown as nil in this table due to rounding. As of 31 December 2008 and as of 30 September 2009, TNK-BP's International's authorised and issued ordinary share capital consisted of 54,000 shares with par value of U.S.\$1.00 each. As of 31 December 2006 and 2007, TNK-BP's authorised and issued ordinary share capital consisted of 53,000 shares with par value of U.S.\$1.00 each.

As of 30 September 2009, TNK-BP's total long-term debt totalled U.S.\$5,528 million. For details of TNK-BP's long-term debt, see "Operating and Financial Review—Liquidity and Capital Resources—Indebtedness".

Save as disclosed above, since 30 September 2009 there has been no material change in TNK-BP's capitalisation.

SELECTED CONSOLIDATED FINANCIAL DATA OF TNK-BP

The following tables present selected consolidated financial data of TNK-BP as of the dates and for the periods indicated. The balance sheet data as of 31 December 2008, 2007 and 2006 and statement of income data and cash flow data for the years ended 31 December 2008, 2007 and 2006 has been derived from TNK-BP's Audited U.S. GAAP Financial Statements included elsewhere in this Base Prospectus. The balance sheet data as of 30 September 2009 and statement of income data and cash flow data for the nine months ended 30 September 2009 and 2008 has been derived from TNK-BP's Unaudited Nine Months Interim Financial Statements included elsewhere in this Base Prospectus. The financial results for the nine months ended 30 September 2009 are not necessarily indicative of future financial results. This information should be read in conjunction with “*Use of Proceeds*”, “*Operating and Financial Review*”, and TNK-BP's Financial Statements.

Statement of Income Data:

	Nine months ended 30 September	
	2009	2008
	<i>(Unaudited)</i> <i>(U.S.\$ millions)</i>	
Revenues		
Sales and other operating revenues.....	24,747	43,900
Total revenues	24,747	43,900
Costs and other deductions		
Export duties.....	5,554	12,633
Taxes other than income tax.....	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 amortisation.....	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 from equity investments, net.....	35	315
Gain from disposals of subsidiaries.....	204	60
Interest income and net other income.....	65	120
Exchange loss, net.....	(125)	(45)
Interest expense.....	(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	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

	Year ended 31 December		
	2008	2007	2006
(U.S.\$ millions)			
Revenues			
Sales and other operating revenues ⁽¹⁾	51,886	38,926	35,725
Total revenues	51,886	38,926	35,725
Costs and other deductions			
Export duties ⁽¹⁾	15,974	10,196	10,087
Taxes other than income tax ⁽¹⁾	11,182	7,821	7,461
Operating expenses	5,240	3,868	2,810
Cost of purchased products	4,261	3,311	3,574
Transportation expenses	3,208	2,653	2,375
Selling, general and administrative expenses	1,825	1,712	1,417
Depreciation, depletion and amortisation	1,564	1,414	1,249
Loss on disposals and impairment of assets	173	88	47
Exploration expenses	85	156	127
Total costs and other deductions	43,512	31,219	29,147
Other income and expenses			
Earnings from equity investments, net	278	309	507
Gain from disposals of subsidiaries	60	135	2,921
Interest income and net other income/(expense)	(15)	65	221
Exchange (loss)/gain, net	(229)	75	(50)
Interest expense	(500)	(546)	(350)
Total other income and expenses	(406)	38	3,249
Income before income taxes	7,968	7,745	9,827
Income taxes			
Current tax expense	2,439	2,115	2,748
Deferred tax benefit	(116)	(122)	(26)
Total income tax expense	2,323	1,993	2,722
Net income	5,645	5,752	7,105
Less: net income attributable to noncontrolling interest	361	410	427
Net income attributable to Group shareholders	5,284	5,342	6,678

Notes:

(1) Effective 1 January 2007, TNK-BP changed its presentation of excise tax and export duties in its financial statements. Excise tax is now presented in taxes other than income tax, rather than as a deduction in arriving at net revenues. Export duties are now presented in Costs and other deductions, rather than as a deduction in arriving at net revenues. For comparative purposes, the financial statements for the year ended 31 December 2006 have been changed to conform with this presentation with no effect to total equity or net income.

Balance Sheet Data:

	As of 30 September		As of 31 December	
	2009	2008	2007	2006
	(U.S.\$ millions) (Unaudited)			
Assets				
Cash and cash equivalents.....	1,766	1,745	3,224	1,740
Restricted cash.....	19	6	6	13
Bank deposits with maturity of more than 3 months.....	100	—	—	—
Short-term investments.....	479	—	—	—
Trade and other receivables, net.....	3,801	3,553	5,520	5,938
Inventories	847	786	1,405	878
Assets held for sale	704	715	748	—
Other current assets	161	192	213	189
Total current assets	7,877	6,997	11,116	8,758
Long term investments	2,789	2,763	2,306	2,194
Property, plant and equipment, net.....	17,404	17,188	14,678	12,339
Goodwill and intangible assets	879	918	407	100
Other long term assets	794	841	832	377
Total assets.....	29,743	28,707	29,339	23,768
Liabilities and equity				
Short term debt and current portion of long term debt	1,491	1,898	1,624	2,093
Trade accounts and notes payable	1,532	1,556	1,491	841
Other accounts payable and accrued expenses	707	1,247	1,445	971
Taxes payable	891	812	1,612	2,330
Liabilities associated with assets held for sale.....	44	42	86	—
Total current liabilities	4,665	5,555	6,258	6,235
Long term debt	5,528	6,094	6,924	4,841
Asset retirement obligations	350	341	335	231
Deferred income tax liability	1,798	1,659	1,773	1,332
Other long term liabilities.....	292	269	190	172
Total liabilities.....	12,633	13,918	15,480	12,811
Ordinary share capital (authorised and issued 54,000 shares, per value U.S.\$1 each, as of 30 September 2009 and 31 December 2008, and 53,000 shares, par value U.S.\$1 each, as of 31 December 2007 and 31 December 2006).....	—	—	—	—
Additional paid in capital.....	2,890	2,976	2,976	2,976
Retained earnings	13,083	10,831	9,827	7,130
Accumulated other comprehensive loss.....	(83)	(124)	—	—
Total Group shareholders' equity.....	15,890	13,683	12,803	10,106
Noncontrolling interest	1,220	1,106	1,056	851
Total equity	17,110	14,789	13,859	10,957
Total liabilities and equity	29,743	28,707	29,339	23,768

Cash Flow Data:

	Nine months ended 30 September		Year ended 31 December		
	2009	2008	2008	2007	2006
	(U.S.\$ millions) (Unaudited)				
Net cash provided by operating activities.....	4,606	7,898	8,611	7,097	3,076
Net cash provided by (used for) investing activities.....	(2,067)	(4,456)	(5,141)	(4,403)	889
Net cash used for financing activities	(2,501)	(4,242)	(4,906)	(1,248)	(3,581)

Other Financial Data:

Net Debt

	As of 30 September		As of 31 December		
			2009	2008	2007
			(U.S.\$ millions)		
Net debt ⁽¹⁾		(Unaudited)	5,134	6,361	5,478
Net debt/Net debt plus total Group shareholders' equity.....			24.4%	31.7%	30.0%
					33.9%

Notes:

(1) Net debt as of the end of the relevant period, is defined as total debt (long-term and short-term), minus cash and cash equivalents, restricted cash and bank deposits with maturity of more than 3 months plus deferred consideration.

EBITDA

	Nine months ended 30 September		Year ended 31 December		
	2009	2008	2008	2007	2006
			(U.S.\$ millions)		
EBITDA ⁽¹⁾⁽²⁾	6,663	10,918	10,093	9,565	11,255

Notes:

(1) EBITDA is defined as earnings before income taxes, depreciation, depletion and amortisation, exchange (loss) gain, interest income and other. TNK-BP utilises EBITDA because it is considered to be an important supplemental measure of TNK-BP's operating performance and it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the oil and gas industry. EBITDA has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of TNK-BP's operating results as reported under U.S. GAAP. Some of these limitations are as follows:

- EBITDA does not reflect the impact of financing costs, which are significant and could further increase if TNK-BP incurs more debt, on its operating performance.
- EBITDA does not reflect the impact of income taxes on TNK-BP's operating performance.
- EBITDA does not reflect the impact of depreciation, depletion and amortisation on TNK-BP's operating performance.
- Other companies in the oil and gas industry may calculate EBITDA differently or may use it for different purposes than TNK-BP does, limiting its usefulness as a comparative measure.
- EBITDA is a measure of TNK-BP's operating performance that is not required by, or presented in accordance with U.S. GAAP.

EBITDA is not a measurement of operating performance under U.S. GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with U.S. GAAP or as an alternative to cash flow from operating activities or as a measure of TNK-BP's liquidity. In particular, EBITDA should not be considered as a measure of discretionary cash available to TNK-BP to invest in the growth of its business.

(2) The calculation of EBITDA is not adjusted for Export Custom Duty Lag or for acquisitions or disposals. The effect of Export Custom Duty Lag tends to cause an increase in earnings during periods of rising oil prices and cause a decrease in earnings during periods of falling oil prices. However, these effects are regarded as normal operating conditions. TNK-BP estimated that the effect of the gain on the Udmurteft disposal on EBITDA for the year ended 31 December 2006 was U.S.\$2.9 billion.

The following table presents a reconciliation of TNK-BP's EBITDA to income before income taxes for the periods shown.

	Nine months ended 30 September		Year ended 31 December		
	2009	2008	2008	2007	2006
			(U.S.\$ millions)		
Income before income taxes.....	4,995	9,428	7,968	7,745	9,827
Add back:					
Interest expense.....	184	386	500	546	350
Exchange loss/(gain), net.....	125	45	229	(75)	50
Interest income.....	(25)	(96)	(116)	(100)	(116)
Other expense/(income).....	(5)	(35)	(52)	35	(105)
Depreciation, depletion and amortisation	1,389	1,190	1,564	1,414	1,249
EBITDA	6,663	10,918	10,093	9,565	11,255

OPERATING AND FINANCIAL REVIEW

The following review should be read in conjunction with the “Selected Consolidated Financial Data” and TNK-BP’s Financial Statements included in this Base Prospectus. This review includes forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in the forward-looking statements as a result of numerous factors, including the risks discussed in “Risk Factors” appearing elsewhere in this Base Prospectus.

This review represents TNK-BP management’s discussion and analysis of the consolidated financial position of TNK-BP as of 30 September 2009 and as of 31 December 2008, 2007 and 2006 and of the results of operations for the nine month periods ended 30 September 2009 and 2008 and for the years ended 31 December 2008, 2007 and 2006.

Overview

TNK-BP is one of the largest vertically integrated oil and gas groups in Russia in terms of both proved oil reserves and crude oil production. Its operations are located primarily in Russia’s Western Siberian and Volga Ural basins.

Formation and Evolution of TNK-BP

Formation of TNK-BP

In June 2003, after agreeing to combine their oil assets in the Russian Federation and Ukraine in a strategic partnership, BP and AAR incorporated TNK-BP Limited, a British Virgin Islands holding company, of which BP and AAR each own a 50% interest. Specifically, AAR contributed its 100% interest in TNK Industrial Holdings Limited (“**TNK Industrial Holdings**”), a parent company of TNK-BP International Limited, which in turn held a 96.1% interest in OAO TNK (“**TNK**”), a 98.8% interest in OAO ONAKO (“**Onako**”), and a 68.0% interest in OAO Sidanco (“**Sidanco**”). Similarly, BP contributed its 29.6% interest in Sidanco, its 33.4% interest in Russia Petroleum, its 75.0% interest in STBP Holdings Ltd (“**STBP**”), as well as a further consideration in the form of cash and BP shares. On 29 August 2003, TNK-BP Limited commenced its independent operations. See: “*TNK-BP History and Organisational Structure—Formation of TNK-BP*”.

TNK-BP interest in Slavneft

In January 2003, TNK Industrial Holdings along with companies affiliated with Sibneft (which was renamed Gazpromneft in May 2006) completed the acquisition of the Russian company Slavneft in privatisation auctions held by the Russian and Belarussian Governments. This acquisition brought Sibneft’s and TNK Industrial Holdings combined ownership interest in Slavneft to 99%. This ownership was divided almost equally between TNK Industrial Holdings and companies affiliated with Sibneft. In September 2003, AAR and BP agreed that the interest in Slavneft would continue to be held by TNK-BP Limited. As of 30 September 2009, TNK-BP’s effective ownership was 49.9%. TNK-BP accounts for its investment in Slavneft using the equity method. For further details see section “*Business—Upstream Business—Slavneft Joint Venture*”.

Corporate Restructuring and Disposals Prior to 2006

Since its formation in 2003, TNK-BP has consolidated its core holdings through corporate restructuring, buy-out of noncontrolling interests and divestment of assets to optimise its portfolio as well as to simplify TNK-BP’s corporate structure. Corporate restructuring included the accession of the key holding companies of TNK-BP in Russia to the newly created holding company OAO TNK-BP Holding (“**TNK-BP Holding**”) and the consolidation of most of the noncontrolling shareholdings held by TNK-BP in 14 key subsidiaries in Russia into TNK-BP Holding during 2005. As a result, noncontrolling shareholders acquired approximately 5% of the share capital of TNK-BP Holding. In addition, TNK-BP also completed the sale of its Saratov oil producing assets and Orenburg refinery and oil product marketing assets to Russneft in December 2005 for cash consideration of U.S.\$832 million.

Changes in TNK-BP’s Structure in the 2006-2009 Period

Set forth below is a description of the most significant changes in TNK-BP’s corporate structure that occurred between 2006 and 2009.

Acquisition of Noncontrolling Interests

In October 2007, TNK-BP completed the compulsory buy-out of shares from noncontrolling shareholders in the following five subsidiary companies of TNK-BP Holding in which TNK-BP held

more than 95% of the voting shares: OAO “Orenburgneft”, OAO “Orenburggeologia”, OAO “Ryazannefteproduct”, OAO “Kaluganefteproduct”, OAO “Novosibirskneftegaz”. The aggregate purchase consideration paid for these shares amounted to U.S.\$175 million. After the completion of these transactions, these subsidiaries became wholly-owned by TNK-BP.

In April 2008, TNK-BP acquired an additional equity interest in Linik, the TNK-BP’s refining subsidiary in Ukraine, thus increasing TNK-BP’s interest from 58.2% to 71.4%. In July 2009, this interest was further increased to 95.2% following the acquisition of a 25% noncontrolling interest in its parent company.

In December 2008, TNK-BP acquired the remaining 25% equity interest in STBP for U.S.\$153 million in cash. STBP held 56 stations in the Moscow region operating under the BP brand at the time of acquisition.

Acquisitions and Divestments

In August 2006, TNK-BP completed the sale of OAO Udmurtneft (“**Udmurtneft**”), an oil producing entity located in the Volga-Urals area, to Sinopec. Udmurtneft produced 5.99 million tonnes (123 mbd) of crude oil in 2005. As of 31 December 2005, Udmurtneft had total proved oil and gas reserves of 721 mmboe, representing approximately 6.6% of TNK-BP’s total proved oil and gas reserves on a PRMS basis. TNK-BP received a payment of U.S.\$3,525 million for this sale, and recognised a pre-tax gain of U.S.\$2,899 million. This sale was made in line with TNK-BP’s strategy to optimise its portfolio of producing assets and to dispose of assets which are not considered strategic, or are not believed to have long-term upside potential.

In November 2006, TNK-BP and OAO SIBUR Holding (“**SIBUR**”) created a joint venture to process associated gas at the Nizhnevartovsk and Belozerny gas processing plants in West Siberia. Their joint venture, OOO Yugragazpererabotka, processes associated petroleum gas that TNK-BP and other gas companies produce in the Nizhnevartovsk area. SIBUR owns 51% of the joint venture and TNK-BP owns 49%, but management control is shared equally. As their respective contributions to the joint venture, SIBUR transferred the Nizhnevartovsk and Belozerny gas processing plants and the infrastructure to transport associated gas to these facilities, while TNK-BP contributed U.S.\$88 million in cash. See “*Business—Gas Business—Associated Gas*”.

In January 2007, TNK-BP successfully completed the acquisition of the 50% equity interest in OAO JV Vanyoganneft (“**Vanyoganneft**”) held by its joint venture partner Occidental Petroleum. Vanyoganneft is involved in oil and gas exploration and development in the Khanty-Mansiisky autonomous district-Yugra (the “**KhMAO-Yugra**”). TNK-BP paid U.S.\$485 million for this additional 50% interest and from 18 January 2007 Vanyoganneft became a consolidated subsidiary. Following the purchase, the Vanyoganneft total proved oil and gas reserves of 175 mmboe represented approximately 1.7% of TNK-BP’s total proved oil and gas reserves on a PRMS basis. In 2007, Vanyoganneft produced 2.06 million tonnes (42 mbd) of crude oil.

Between December 2007 and March 2008, TNK-BP acquired, through a series of transactions, a retail business, which owned 148 gasoline filling stations and other retail assets in Russia and Ukraine, for a total consideration of U.S.\$891 million. See “*Business—Downstream Business—Marketing: Retail Network and Business to Business Sales—Retail Network: Operating under two brands*”.

In August 2008, pursuant to an agreement with OAO OGK-1 (“**OGK-1**”), a Russian power generating company, TNK-BP has entered into a joint venture in the Nizhnevartovsk region: NVGRES Holding Limited. At the beginning of 2009, OAO “Inter RAO EES,” a Russian power company, acquired control of OGK-1. OGK-1 has contributed the Nizhnevartovsk power plant, which currently includes two power units, to the venture, while TNK-BP contributed approximately Euro 230 million in cash, in return for 25% plus one share of the share capital. Construction of an additional power unit is planned to be completed in 2013. See: “*Business—Gas Business—Associated Gas—Principal Gas Production Operations—Power Generation Project in Nizhnevartovsk*”.

In May 2009, TNK-BP entered into an agreement with Weatherford International Ltd. (“**Weatherford**”) for the sale of TNK-BP’s oil field services business in exchange for 24.3 million of Weatherford common stock shares. The sale was completed in July 2009. As part of the acquisition, Weatherford provided a price guarantee through to 29 June 2010, whereby Weatherford is obligated to compensate TNK-BP for any losses arising from the sale of any shares up to that point, relative to a floor value of U.S.\$18.4972 per share.

Assets Held for Sale (Kovykta)

TNK-BP holds a 62.9% interest in Rusia Petroleum, an entity holding the exploration and production licence to develop the Kovykta gas field in the Irkutsk Region. In cooperation with the local

administration, TNK-BP also established East-Siberian Gas Company (“ESGC”) to operate a regional gasification project. In June 2007, TNK-BP entered into a “heads of terms” agreement with Gazprom and BP whereby TNK-BP agreed to sell to Gazprom its interests in Rusia Petroleum and ESGC. Under the terms of the agreement, the sale was subject to the negotiation of a full purchase and sale agreement. Options for a satisfactory conclusion of negotiations are being explored with the assistance of the Russian Government. While negotiations continue, the assets remain classified as “assets held for sale”. See “*Business—Gas Business—Gas Reserves and Production—Kovykta Project*”.

Recent Developments

In July 2009, TNK-BP acquired the majority stake in OAO TNK-Yaroslavl held by Slavneft. Through this acquisition, TNK-BP obtained control over a number of retail stations and oil depots in the Yaroslavl, Kostroma and Ivanovo regions in Russia.

In 2009, TNK-BP and Gazpromneft agreed to divide between themselves the retail business and assets until then owned and operated by Slavneft in Belarus. It is expected that this process will be completed by the end of the first half of 2010.

In November 2008, five major Russian oil and gas companies (Rosneft, LUKOIL, TNK-BP, Surgutneftegaz, and Gazpromneft) formed the National Oil Consortium (the “**Consortium**”). In September 2009, an “Intergovernmental Agreement” was signed between the Russian Federation and the Bolivarian Republic of Venezuela, pursuant to which the Consortium is currently negotiating a joint venture agreement with Petróleos de Venezuela, S.A. in order to develop and operate an integrated heavy oil project on the JUNIN 6 oil field in Venezuela. If the project were to proceed, the Consortium expects to invest up to U.S.\$900 million, to be allocated equally among the Consortium members, to its development over the next three years.

In December 2009, TNK-BP entered into agreements to acquire a 100% interest in VikOil, a company engaged in the retail and wholesale distribution of petroleum products in Ukraine. VikOil controls 118 filling stations, 8 oil depots, 32 fuelling trucks and 122 land plots in various stages of development. Completion of the acquisition is expected to occur during the first quarter of 2010 and is subject to a number of conditions precedent, including among others the receipt of approval from the Ukraine Antimonopoly Committee and the completion of certain restructuring transactions within the VikOil group.

In the fourth quarter of 2009, TNK-BP International declared and paid dividends in the amount of U.S.\$1,873 million. These dividends represented ordinary course distributions in accordance with the shareholders’ agreement among AAR and BP.

At the extraordinary general shareholders meeting of TNK-BP Holding held on 10 December 2009, its shareholders approved a dividend payment in the total amount of RUR114.4 billion (U.S.\$3,860 million), of which approximately RUR6.1 billion (U.S.\$206 million) is payable to noncontrolling shareholders with the remainder payable to other TNK-BP companies.

Key Factors Affecting Operating Results

The results of TNK-BP’s operations and the period-to-period comparability of its financial results are affected by the external business environment in which it operates. In this respect, the most important factor is the volatility of international crude oil and petroleum products markets. Certain other factors relate to the business environment in Russia. These include, among others, inflation and exchange rate movements, pipeline access and changes in tax legislation.

Price of Crude Oil and Petroleum Products

TNK-BP’s operations are significantly affected by the price of crude oil, both internationally and domestically. Crude oil prices have historically been highly volatile and are sensitive to, among other things, OPEC production levels and the global economic environment. This volatility affects the operations of TNK-BP by influencing revenues and taxes linked to the Urals crude oil price. See “*Risk Factors Risks Relating to TNK-BP and the Oil and Gas Industry in Russia and Ukraine*” and “*Taxation*”.

There is no significant active commodity exchange market for domestic crude oil and, as a result, prices are contract specific. While domestic crude oil prices trade significantly below international market prices, the netbacks generated from domestic sales are generally consistent with the netbacks generated from export sales. This primarily reflects the Russian tax regime of export duties and additional transportation costs associated with crude oil export. See “*Business—Downstream Business—Supply, Trading and Logistics—Netbacks*”.

The following table represents average annual international and domestic crude and products prices for the years 2006 to 2008:

	Units	Year ended 31 December			Change	
		2008	2007	2006	2008-2007	2007-2006
International market⁽¹⁾						
Brent.....	U.S.\$/bbl	97.1	72.5	65.1	34	11
Urals (Med/NWE).....	U.S.\$/bbl	94.6	69.4	61.3	36	13
Gasoline (average NWE: Premium + Regular).....	U.S.\$/tonne	895.1	684.8	622.5	31	10
Diesel fuel (Med/NWE).....	U.S.\$/tonne	908.1	646.1	584.9	41	10
Fuel oil (Med/NWE).....	U.S.\$/tonne	461.0	342.0	285.7	35	20
Jet kero (Med/NWE).....	U.S.\$/tonne	997.2	703.6	640.7	42	10
Domestic market						
Crude oil ⁽²⁾	U.S.\$/bbl	39.7	33.0	29.7	20	11
Gasoline ⁽³⁾	U.S.\$/tonne	918.5	752.1	667.1	22	13
Diesel fuel ⁽³⁾	U.S.\$/tonne	851.3	595.2	551.2	43	8
Fuel oil ⁽³⁾	U.S.\$/tonne	337.9	224.6	207.5	50	8
Jet kero ⁽³⁾	U.S.\$/tonne	930.6	633.7	589.6	47	7

Notes:

(1) Prices obtained from Platt's, a division of the McGraw-Hill Companies, Inc.

(2) Prices obtained from Argus Media (averaged by regions).

(3) Prices obtained from Kortes (averaged by regions).

Until mid-2008, the Urals crude oil price demonstrated an overall increasing trend despite some short-term fluctuations. In 2007, the average Urals (Med/NWE) price increased by 13% to U.S.\$69.4 per barrel relative to U.S.\$61.3 per barrel in 2006. The domestic average crude price increased by 11% to U.S.\$33.0 per barrel compared with U.S.\$29.7 per barrel in 2006.

In 2008, Urals crude oil started trading at U.S.\$94 per barrel and continued to increase, reaching a peak of U.S.\$141 in early July. During the second half of 2008, following the crisis in the financial and credit markets and the global economic recession, prices for crude oil suffered a major decline. By September 2008, the price of Urals crude oil had fallen to U.S.\$86 per barrel and fell further to U.S.\$36 per barrel by the end of 2008, which represented a four-year low.

Despite this decline in the second half of the year, overall the average annual crude oil price in 2008 was significantly higher compared to 2007, both in the export and domestic markets. The average Urals crude oil price increased by 36% to U.S.\$94.6 per barrel in 2008 relative to U.S.\$69.4 per barrel in 2007. Similarly, the average price for domestic crude oil increased by 20% to U.S.\$39.7 per barrel in 2008 compared with U.S.\$33.0 per barrel in 2007.

The following table represents average international and domestic crude and products prices for the nine months periods ended 30 September 2008 and 2009:

	Units	Nine months ended		Change
		30 September	2008	
International market⁽¹⁾				
Brent	U.S.\$/bbl	57.2	111.1	(49)
Urals (Med/NWE)	U.S.\$/bbl	56.6	108.1	(48)
Gasoline (NWE: Premium + Regular)	U.S.\$/tonne	545.7	1,015.2	(46)
Diesel fuel (Med/NWE).....	U.S.\$/tonne	488.1	1,023.7	(52)
Fuel oil (Med/NWE).....	U.S.\$/tonne	316.5	532.1	(41)
Jet Kero (Med/NWE)	U.S.\$/tonne	525.2	1,120.4	(53)
Domestic market				
Crude oil ⁽²⁾	U.S.\$/bbl	24.0	46.8	(49)
Gasoline ⁽³⁾	U.S.\$/tonne	631.9	995.3	(37)
Diesel fuel ⁽³⁾	U.S.\$/tonne	475.1	932.5	(49)
Fuel oil ⁽³⁾	U.S.\$/tonne	226.9	386.1	(41)
Jet Kero ⁽³⁾	U.S.\$/tonne	462.5	1,015.2	(54)

Notes:

(1) Prices obtained from Platt's, a division of the McGraw-Hill Companies, Inc.

(2) Prices obtained from Argus Media (averaged by regions).

(3) Prices obtained from Kortes (averaged by regions).

At the beginning of 2009, oil markets started to recover with prices strengthening due to a slight increase in demand. As of 30 September 2009, the Urals crude oil price was trading at U.S.\$65.8 per barrel. Nevertheless, the average Urals crude oil price of U.S.\$56.6 per barrel for the nine months ended 30 September 2009 was 48% lower than in the corresponding period of 2008. Similarly, average domestic crude oil price of U.S.\$24.0 per barrel was 49% lower than the average for the nine-month period ended 30 September 2008.

Gas Prices

The domestic natural gas market is dominated by Gazprom and the rouble-denominated prices for Gazprom's natural gas sales are set by the Federal Tariff Service ("FTS"). As a result, TNK-BP's ability to set natural gas prices is significantly constrained. In the regions where TNK-BP sells gas, the FTS average price decreased by 16% to U.S.\$42 per thousand cubic metres for the nine months ended 30 September 2009 compared to U.S.\$51 per thousand cubic metres for the nine months ended 30 September 2008. This decrease represents the effect of a weaker rouble which was offset in part by a 13% increase in rouble-denominated prices. In 2008, the regulated gas price increased by 33% to U.S.\$51 per thousand cubic metres compared to U.S.\$38 per thousand cubic metres for 2007 primarily due to a 25% increase in the rouble-denominated price. During 2007, the price increased by 22% to U.S.\$38 compared to U.S.\$31 per thousand cubic metres for 2006 mainly due to a 15% increase in the rouble-denominated price.

Inflation and the Rouble/US Dollar Exchange Rate

The U.S. dollar is the reporting currency of TNK-BP and the functional currency for the majority of its subsidiaries. For reporting purposes, amounts denominated in currencies other than the U.S. dollar are converted into U.S. dollars. TNK-BP has not historically used exchange rate swaps or other similar instruments to manage its exchange rate exposure. As a result, TNK-BP reported financial results include exchange gains and losses primarily resulting from fluctuations in the rate of exchange of the rouble to the U.S. dollar.

TNK-BP operates mainly in the Russian Federation and the majority of its costs are denominated in roubles. A certain portion of revenues is also denominated in roubles, although the majority of TNK-BP's revenue is denominated in U.S. dollars. The effects of exchange rates movements on revenues, costs and also on working capital, impact TNK-BP's earnings, in particular with respect to the following items:

- Revenues: the rouble-denominated portion of domestic product sales as well as sales of gas, gas products and gas condensate;
- Costs: the rouble-denominated portion of operating, transportation costs, selling, general and administrative expenses and taxes;
- Current income tax: tax on rouble-based taxable RAS foreign exchange differences arising from conversion of U.S. dollar balances and transactions;
- Deferred income tax: deferred tax liability relating to conversion of the rouble denominated undistributed retained earnings in TNK-BP's RAS accounts (primarily the 5% withholding tax provision related to expected future dividends);
- Net income attributable to noncontrolling interest: effect of changes resulting from disproportionate foreign exchange gains/losses in subsidiaries where noncontrolling share is significant; and
- Working capital: foreign exchange gains/losses from the period-end revaluation of the rouble-denominated monetary working capital.

See "*—Net Exchange Gain (Loss)*" and "*—Income Tax Expense*".

The following table sets out rates of inflation and foreign exchange movements for the periods indicated:

Inflation and rouble to U.S.\$ exchange rate	Six months ended 31 December 2008	Six months ended 30 June 2008	2008	2007	2006
Rouble/U.S.\$ exchange rate at the beginning of the period ⁽¹⁾	23.46	24.55	24.55	26.33	28.78
Rouble/U.S.\$ exchange rate at period end ⁽¹⁾	29.38	23.46	29.38	24.55	26.33
Average rouble/U.S.\$ exchange rate ⁽¹⁾	25.76	23.94	24.86	25.58	27.19
Change in Rouble/U.S.\$ exchange rate, period-end, %	(25.2)	4.4	(19.7)	6.8	8.5
Rouble inflation (CPI), % ⁽²⁾	4.6	8.7	13.3	11.9	9.0
Real appreciation/(depreciation) of the rouble against U.S.\$, %.....	(16.5)	13.8	(5.3)	20	19.1

Notes:

(1) Information obtained from the Central Bank of Russian Federation.

(2) Information obtained from the Federal State Statistics Service.

For the periods under discussion, TNK-BP's rouble-denominated operating costs exceeded its rouble-denominated revenues. As a result, TNK-BP's financial results experienced a net benefit from any rouble depreciation against the U.S. dollar, and a net adverse effect during periods when the rouble was appreciating against the U.S. dollar.

In the first half of 2008, as well as in 2007 and 2006, operating margins were generally adversely affected by the appreciation of the rouble against the U.S. dollar. Conversely, in the second half of 2008, TNK-BP's operating margins were favorably affected by a depreciation of the rouble against U.S. dollar.

The following table sets out rates of inflation and foreign exchange movements for the nine months of 2008 and 2009:

Inflation and rouble to U.S.\$ exchange rate	Nine months ended 30 September	
	2009	2008
Rouble/U.S.\$ exchange rate at the beginning of the period ⁽¹⁾	29.38	24.55
Rouble/U.S.\$ exchange rate at period end ⁽¹⁾	30.09	25.25
Average rouble/U.S.\$ exchange rate ⁽¹⁾	32.48	24.05
Change in Rouble/U.S.\$ exchange rate, period-end, %.....	(2.4)	(2.8)
Rouble inflation (CPI) (%) ⁽²⁾	8.1	10.6
Real appreciation of rouble against U.S.\$ (%).....	5.6	7.5

Notes:

(1) The Central Bank of the Russian Federation.

(2) The Federal State Statistics Service.

In early 2009 the rouble further weakened to around RUR36 per U.S. dollar but strengthened to RUR29.4 per U.S. dollar as at 30 September 2009. While the opening and closing rates for the nine months of 2009 were very close, volatility during the period resulted in a higher average rate during the period. As a result, the average exchange rate for the nine month period ended 30 September 2009 was RUR32.5 per U.S. dollar, representing a decrease of 35% when compared to the average rouble/U.S. dollar exchange rate during the corresponding period of 2008. The relative weakness of the rouble in 2009 compared to 2008 had an overall favourable effect on TNK-BP's results primarily due to the associated reduction in rouble-denominated costs.

TNK-BP results are also affected by inflation, both in terms of the effect of general inflation on rouble-denominated costs measured through the Consumer Price Index ("CPI") as well as sector-specific inflation in respect of certain significant cost elements. In particular, for the periods under discussion, increased transportation and electricity tariffs, set by the Russian regulators, have exceeded the level of increase in the official CPI.

Constraints on Pipeline Exports of Crude Oil

The majority of TNK-BP's crude oil production is transported via the Transneft system (a state-owned monopoly network of crude oil trunk pipelines in Russia). TNK-BP delivers its crude oil to the Transneft network mainly through own field gathering pipelines and then through Transneft gathering systems. Historically, the Transneft system did not have sufficient capacity to meet the total demand for crude oil pipeline exports from Russian oil producers. However, Transneft has made substantial investments in the development of additional export routes and trans-shipment terminals (such as the Primorsk port) in order to increase capacity. As a result of these investments, and also in light of the increased tendency of higher quality crude producers to rely on transportation means alternative to the Transneft system (as discussed below), the export constraint has largely been removed. When necessary and economically convenient, TNK-BP also purchases additional capacity on the Transneft system from other producers who are not intending to use their entire allocation.

Transneft does not operate a quality bank system and it is unable to segregate higher quality grade crude oil from lower quality crudes. As a result, exporters of lighter crude oils with low sulphur content are not able to secure a premium when transporting their product via the Transneft system. In order to secure this premium, Russian producers of higher quality crudes export these grades via rail and seasonal river barge shipments to sea terminals or CIS countries. While the costs of these options are higher than transportation via the Transneft system, they are economically more attractive to producers because of the higher price that can ultimately be obtained from the end user. This move to rail exports for higher quality crude oils has been encouraged by OAO Russian Railways, who have made significant investments in their systems and offered tariff discounts to certain new routes, while also freeing capacity for the transportation of lower quality crude oil on the Transneft system.

TNK-BP also transports a limited amount of crude oil by river transport or by railway. In 2008 TNK-BP commenced railway deliveries of higher quality crude oil from the rail terminal of Barabinsk, for transportation to southern export destinations. Crude oil deliveries by railway currently represent approximately 6% of the total volume of crude oil transported.

Pipeline and railway transportation tariffs are defined annually by the Federal Tariff Service which regulates tariff policy for natural monopolies such as Transneft and Russian Railways. The tariffs are set in roubles and depend upon delivery route and volume, distance and some other factors.

See "*Risk Factors—Risks Relating to TNK-BP and the Oil and Gas Industry in Russia and Ukraine*".

Access to Gas Pipeline System

TNK-BP produces natural gas mainly in the Yamal region (through its Rospan subsidiary) and produces associated gas in its main oil producing areas in Orenburg and West Siberia.

The Russian natural gas transmission system, which includes gas trunk pipelines for gas exports, is currently owned and operated by Gazprom, which has a de facto monopoly to export Russia's gas. Currently, Russian independent gas producers such as TNK-BP are only able to access the gas transmission system to make domestic deliveries within Russia pursuant to an agreement with Gazprom and subject to the availability of spare capacity and the satisfaction of a number of other criteria. In the absence of an independent gas regulator, Gazprom effectively has the sole discretion over whether an independent gas producer meets the necessary criteria to have its gas transported through Gazprom's gas transmission system and Gazprom has on a number of occasions used its power to limit transmission system access to independents. TNK-BP currently has a framework agreement with Gazprom under which offtake levels are agreed on a short-term basis. See "*Risk Factors—Risks Relating to TNK-BP and the Oil and Gas Industry in Russia and Ukraine*".

The Russian Government has been discussing plans to allow Russian independent gas producers greater access to the gas transmission system to help fill an emerging supply shortfall from Gazprom's gas fields. The success of TNK-BP's strategy relating to the development of its gas operations is in part dependent upon the implementation of these plans.

Associated petroleum gas is produced as a by-product of oil production. Where possible, such gas is used or sold by TNK-BP, which in turn minimises volumes of gas flared. Russian law has set targets for the utilisation of associated gas on oil producers, and in response to these requirements TNK-BP has developed a long term plan for the utilisation of its associated gas, with the aim to achieve a 95% utilisation rate. In the first nine months of 2009, an average utilisation rate of 83% was achieved. See "*Business—Environmental Matters*".

Taxation

TNK-BP is subject to numerous taxes which have had a significant impact on TNK-BP's results of operations. Export duties apply to the sale of crude oil and refined petroleum products to markets outside of Russia. Excise tax is levied on petroleum products produced by refineries in Russia for supply into the domestic market. Mineral extraction tax ("MET"), unified social tax, property and other taxes also affect costs. See "*Risk Factors—Risks Relating to TNK-BP and the Oil and Gas Industry in Russian and Ukraine—Taxation Risks*".

In June and November 2008, Russian tax legislation was amended, resulting primarily in a reduction of MET and income tax rates. This had a positive impact on TNK-BP's results for the nine months ended 30 September 2009 compared to the corresponding period in 2008.

TNK-BP's overall tax burden (total amount of all taxes and duties, divided by income before income tax adjusted for other taxes and duties) was 74% for the nine months ended 30 September 2009 and 78% for the nine months ended 30 September 2008. For the years 2008, 2007 and 2006, TNK-BP's overall tax burden was 84%, 78% and 74%, respectively.

Corporate Income Tax

TNK-BP does not pay corporate income tax on a consolidated basis; rather TNK-BP entities are assessed individually. The corporate income tax rate in the Russian Federation in 2008, 2007 and 2006 was 24%. This is comprised of a federal rate of 6.5% and a regional rate of 17.5%. As of January 2009, the corporate income tax rate was reduced to 20% with a federal rate of 2% and a regional rate of 18%.

Regional authorities, however, have the ability to grant a concession, reducing regional income tax rates from 18% to as low as 13.5%. TNK-BP entered into such agreements in Tyumen and Orenburg in 2004 and 2006 respectively, whereby certain subsidiaries of TNK-BP were granted tax concessions of 4 percentage points, reducing their regional income tax rates to 14%. These concessions are subject to TNK-BP making qualified capital investments in these regions.

Outside of Russia, TNK-BP also pays taxes in Ukraine, where the corporate income tax rate has been set at 25% since 2006.

Export Custom Duty

Crude oil and petroleum products sold for export are subject to export custom duty which is set with reference to the average Urals crude oil price.

The export custom duty rates for crude oil are based on a progressive scale as set out in the following table:

Urals price, U.S.\$/bbl	Urals price, U.S.\$/tonne	Export custom duty rate per tonne – calculation formula
Less than 15	Less than 109.50	0%
Between 15 – 20	Between 109.50 – 146.00	35.0% x (Urals price – U.S.\$109.50)
Between 20 – 25	Between 146.00 – 182.50	U.S.\$12.78 + 45.0% x (Urals price – U.S.\$146.00)
Greater than 25	Greater than 182.50	U.S.\$29.20 + 65.0% x (Urals price – U.S.\$182.50)

"Urals price" in the above table (also known as the "duty reference price") means the Urals (Med/NWE) crude oil average price.

The table below represents the average export custom duty rates for the periods indicated:

	Nine months ended 30 September		Change	
	Units	2009	2008	
Export duties				
Crude oil	U.S.\$/bbl	21.4	51.9	(59)
Crude oil	U.S.\$/tonne	156.6	379.0	(59)
Light and middle distillates product.....	U.S.\$/tonne	117.8	267.6	(56)
Fuel oil.....	U.S.\$/tonne	63.4	144.2	(56)

	Units	Year ended 31 December			Change	
		2008	2007	2006	2008-2007	2007-2006
					%	%
Export duties						
Crude oil.....	U.S.\$/bbl	48.7	28.3	27.0	72	5
Crude oil.....	U.S.\$/tonne	355.2	206.5	196.9	72	5
Light and middle distillates product	U.S.\$/tonne	251.6	151.5	143.4	66	6
Fuel oil	U.S.\$/tonne	135.6	81.6	77.2	66	6

Prior to 2009, export custom duty rates were based on the average Urals price for a two-month monitoring period. The rate was announced during the month immediately following the end of the monitoring period and became effective from the first day of the next month. As a result, there was a three-month time lag between the first day of the monitoring period and the first day of the period during which the updated duty rate came into effect. From December 2008, the monitoring period has been reduced to one month (from 15th of the previous month to 14th of the current month) and the rate becomes effective from the first day of the following month. This mechanism for setting the export custom duty rates results in a difference between the duty reference price and the actual Urals price for a given period, known as the “duty lag effect”. In periods when prices are rising, this normally results in a benefit to TNK-BP as export duties are levied on a price per barrel which is lower than the actual market price per barrel as of that time (positive duty lag effect). Conversely, falling prices normally result in a negative duty lag effect.

The recent reduction in the length of the monitoring period has reduced the effect of the duty lag.

Crude oil and petroleum products sold for export to those CIS countries which are members of a Custom Union (Kazakhstan, Tadzhikistan, Kirgyzstan) were not subject to export duties in the period under discussion. In addition, pursuant to an agreement between Russia and Belarus, export customs duty rates are reduced for crude oil exported to Belarus.

Excise Tax

Excise tax is applied to petroleum products produced by refineries and sold in the domestic market. The rouble-denominated excise tax rates for the petroleum products sold in the domestic market were the same across all periods presented. See “*General Tax Regime Related to Russian Oil and Gas Companies—Property-related Taxes—Current Excise Tax on Petroleum Products*.”

The table below represents the excise tax rates for the periods indicated applied for sales in the domestic market:

	Units	Nine months ended		Year ended 31 December	
		30 September		Year ended 31 December	
		2009	2008	2007	2006
Excise tax⁽¹⁾					
Gasoline with octane not exceeding “80”.....	U.S.\$/tonne	82	107	104	98
Gasoline with octane exceeding “80”	U.S.\$/tonne	112	146	142	133
Straight-run gasoline.....	U.S.\$/tonne	121	107	103	97
Diesel fuel.....	U.S.\$/tonne	33	43	42	40
Motor oil.....	U.S.\$/tonne	91	119	115	109

Notes:

(1) Rouble-denominated rates were converted on the basis of the average rouble/U.S.\$ exchange rates established by the Central Bank of Russia for the respective periods.

The excise rates in Ukraine did not change in the years 2006, 2007 and 2008. In 2009, the excise rates increased for certain petroleum products. In particular, the excise rate for gasoline increased by 83.3% to Euro 110 per tonne from Euro 60 per tonne.

Mineral Extraction Tax

MET is levied on extracted crude oil, gas condensate, natural gas and a number of other mineral resources.

In 2006, 2007 and 2008 the MET rate on crude oil was levied at the rate of RUR419 per tonne adjusted by the oil price coefficient ("K_c") which was determined pursuant the following formula:

$$K_c = (\text{Urals price} - 9) \times (\text{Average rate RUR/U.S.\$}) / 261$$

Starting from 1 January 2007, changes in MET introduced a reduction of the tax charges on depleted fields by applying a special coefficient to the above formula, reflecting the degree of field depletion ("K_v"). The K_v coefficient is calculated for each particular oil field with accumulated depletion above 80% as follows:

K_v = 3.8 - 3.5 x (cumulative production for the year preceding tax period / initial oil reserves of A, B, C1/2), where A, B, C1 and C2 stand for the Russian national definition of reserves categories, which are different from SEC or PRMS definitions.

The table below represents the average MET rates:

	Units	Year ended 31 December			Change	
		2008	2007	2006	2008-2007	2007-2006
MET⁽¹⁾						
Crude oil.....	U.S.\$/bbl	18.7	13.3	11.4	41	16
Crude oil.....	U.S.\$/tonne	136.5	97.0	83.3	41	16
Natural gas.....	U.S.\$/ 1000 m ³	5.9	5.7	5.4	3	6
Crude oil.....	RUR/tonne	3,329.2	2,470.5	2,264.4	35	9
Natural gas.....	RUR/1000m ³	147.0	147.0	147.0	—	—

Notes:

(1) Rouble-denominated rates were converted on the basis of the average rouble/U.S.\\$ exchange rates established by the Central Bank of Russia for the respective periods.

Before 2009, TNK-BP was not able to use tax relief for depleted fields due to the inability to meet technical requirements established by law to qualify for this relief. Starting from 1 January 2009, these requirements were amended and TNK-BP became eligible for such tax benefit and commenced the application of the K_v coefficient to oil production from certain fields in the Orenburg and Nizhnevartovsk regions. The realised benefit amounted to U.S.\$73 million.

From January 2009, the non-taxable threshold used in MET formula increased from U.S.\$9 per barrel to U.S.\$15 per barrel.

In addition, further tax relief, establishing a zero MET tax rate, was granted for the development of new fields in frontier areas such as Eastern Siberia. VCNG, a TNK-BP subsidiary operating the Verkhnechonskoe field in Eastern Siberia, benefited by U.S.\$49 million from this relief for the period ended 30 September 2009.

The table below represents the average MET rates:

	Units	Nine months ended 30 September		Change
		2009	2008	
MET⁽¹⁾				
Crude oil.....	U.S.\$/bbl	9.1	21.7	(58)
Crude oil.....	U.S.\$/tonne	66.4	158.5	(58)
Natural gas.....	U.S.\$/1000m ³	4.5	6.1	(26)
Crude oil.....	rouble/tonne	2,135.8	3,803.1	(44)
Natural gas.....	rouble /1000m ³	147.0	147.0	—

Notes:

(1) Rouble-denominated rates were converted on the basis of the average rouble/U.S.\\$ exchange rates established by the Central Bank of Russia for the respective periods.

For all periods presented, the natural gas MET rate was a flat rate set at RUR147 per thousand cubic meters of natural gas extracted. Associated gas is not subject to MET.

Corporate Property Tax

The corporate property tax rate is set by the Russian Government at a maximum of 2.2% of the net book value of the relevant fixed assets. Local administrative authorities in Russia are able to set lower tax rates and grant reliefs.

Results of Operations

Nine Months Ended 30 September 2009 Compared to Nine Months Ended 30 September 2008

The following table sets out certain key operating and financial information of TNK-BP for the periods indicated.

	Nine months ended 30 September		Change
	2009	2008	
Operational information			
Liquids production – consolidated subsidiaries (mmbd).....	1,481	1,451	2
Liquids production including share in equity affiliates (mmbd)	1,673	1,650	1
Refining throughput ⁽¹⁾ (mmbd)	0.678	0.703	(4)
Financial information			
<i>U.S.\$ millions (except as indicated)</i>			
Revenues.....	24,747	43,900	(44)
EBITDA ⁽²⁾	6,663	10,918	(39)
Net income attributable to Group shareholders	3,691	6,552	(44)
Net cash flows from operating activities	4,606	7,898	(42)
Organic capital expenditures	2,098	3,613	(42)
Return on average capital employed – ROACE ⁽²⁾ (%) (annualised).....	24	42	(43)

Notes:

(1) Including volumes processed by TNK-BP subsidiaries at the Yanos refinery, controlled by Slavneft.

(2) See: “—Other Financial Metrics”.

Production Overview

Liquids Production. For the nine months ended 30 September 2009, TNK-BP’s daily liquids production (crude oil, condensate and NGL) from consolidated subsidiaries increased by 2.0% relative to the same period of 2008 and reached 1,481 mbd (404 mmboe). This increase was achieved both due to the development of new projects (“**Greenfields**”) and the selective application of relevant technologies to support production at mature oil fields (“**Brownfields**”). See “*Business—Upstream Business—Liquids Production*”.

TNK-BP’s share in Slavneft’s liquids production for the nine months ended 30 September 2009 and the nine months ended 30 September 2008 amounted to 192 mbd and 199 mbd, respectively. See “*Business—Upstream Business—Slavneft Joint Venture*”.

Refining. For the nine months ended 30 September 2009, TNK-BP’s refining throughput amounted to 678 mbd, with an effective utilisation rate of 88%, compared to 91% in the first nine months of 2008. This decrease primarily reflects a decline in utilisation at the Linik refinery in Ukraine, a general decline in market demand and the turnaround works at the Ryazan refinery in 2009, which restricted the plant’s production capacity. See “*Business—Downstream Business—Refining*”.

Financial Results Overview

The following table sets out information on TNK-BP's results of operations for the periods indicated:

	Nine months ended 30 September				
	2009		2008		Change
	U.S.\$ millions	% of revenues	U.S.\$ millions	% of revenues	
Revenues	24,747	100	43,900	100	(44)
Costs and other deductions					
Export duties.....	(5,554)	22	(12,633)	29	(56)
Taxes other than income tax	(4,167)	17	(9,354)	21	(55)
Operating expenses.....	(2,945)	12	(3,914)	9	(25)
Cost of purchased products	(2,431)	10	(3,667)	8	(34)
Transportation expenses	(2,311)	9	(2,353)	5	(2)
Depreciation, depletion and amortisation	(1,389)	6	(1,190)	3	17
Selling, general and administrative expenses ..	(857)	3	(1,325)	3	(35)
Loss on disposals and impairment of assets..	(62)	—	(34)	—	82
Exploration expenses.....	(31)	—	(66)	—	(53)
Income from operating activities	5,000	20	9,364	21	(47)
Other income and expenses					
Earnings from equity investments.....	35	—	315	1	(89)
Gain on disposals of subsidiaries.....	204	1	60	—	240
Interest income and net other income	65	—	120	—	(46)
Exchange loss.....	(125)	1	(45)	—	178
Interest expense.....	(184)	1	(386)	1	(52)
Income before income taxes	4,995	20	9,428	21	(47)
Income tax expense	(1,098)	4	(2,446)	6	(55)
Net income	3,897	16	6,982	16	(44)
Less: net income attributable to noncontrolling interest	(206)	1	(430)	1	(52)
Net income attributable to Group shareholders	3,691	15	6,552	15	(44)

Economic conditions, and in particular the crude oil market, were significantly weaker in the nine months ended 30 September 2009 than for the same period in 2008. Although the markets experienced some recovery from the four-year low levels reached at the beginning of the year, the average international prices for crude oil and petroleum products in the first nine months of 2009 were still significantly lower compared to the average prices during the first nine months of 2008. The average Urals price for the nine months ended 30 September 2009 was 48% lower at U.S.\$56.6 per barrel, while the domestic crude price was 49% lower, at U.S.\$24.0 per barrel, when compared to U.S.\$108.1 per barrel and U.S.\$46.8 per barrel, respectively, for the nine months ended 30 September 2008. Prices of refined products followed the Urals trend and fell between 34-55% depending on the product type. As a result, average prices realised by TNK-BP ("realisations"), decreased by 46% to U.S.\$53.3 per barrel.

Relatively stable markets for the first nine months of 2009, together with legislative changes, resulted in a reduction of the differential between the Urals price and the export custom duty reference price. This in turn led to a reduction in the extent of the effect of export custom duty lag. For the period ended 30 September 2009, a positive duty lag effect of U.S.\$4.8 per barrel represented a U.S.\$4.6 per barrel decrease relative to the U.S.\$9.4 per barrel of positive duty lag effect in the first nine months of 2008. Export custom duty costs for the nine months of 2009 decreased by 56% compared to the corresponding period in 2008, primarily due to the lower Urals price, partly offset by the reduced duty lag benefit. For the same period, MET costs decreased by 60% reflecting the effect of the lower Urals price and positive changes in tax laws.

A weaker rouble in the nine months ended 30 September 2009 as compared to the first nine months of 2008 had a significant positive impact on TNK-BP's costs. With the average rouble/U.S. dollar exchange rate being 35% weaker relative to the same period in 2008, operating expenses, transportation costs and selling, general and administrative expenses collectively fell by 21%. In the

case of transportation costs, the foreign exchange benefit was partially offset by higher costs associated with increased production volumes and higher transportation tariffs. For operating costs and selling, general and administrative expenses, however, additional benefits were realised due to the positive effect of cost management initiatives taken by TNK-BP. Overall, operating expenses, transportation costs and selling, general and administrative expenses in the nine months ended 30 September 2009 decreased by 20% or U.S.\$1.5 billion, compared to the corresponding period in 2008.

In terms of other income and expenses, earnings from equity affiliates fell by 89% or U.S.\$280 million, largely due to weaker prices in the domestic crude market and lower sales volumes. Foreign exchange losses, largely related to the conversion of rouble-denominated working capital balances, increased by 178% or U.S.\$80 million. In addition, the divestment of the OFS business in July 2009 generated a pre-tax gain on disposal of U.S.\$204 million for the nine months of 2009.

The reduction in realisations of 46% which was partly offset by a corresponding reduction in taxes other than income tax and costs, resulted in a net 39% decrease in EBITDA, to U.S.\$6.7 billion, for the nine months ended 30 September 2009.

Income tax expenses for the nine months of 2009 decreased by 55% primarily due to the fall in pre-tax profit and a 4% reduction in the statutory tax rate, effective from the beginning of 2009.

For the nine months of 2009, net income attributable to Group shareholders amounted to U.S.\$3.7 billion, representing a decrease of 44% compared to the corresponding period in 2008.

Sales and Other Operating Revenues

TNK-BP's revenues comprise crude oil and petroleum products sales and other operating revenues.

The following table represents a breakdown of sales and other operating revenues by type of products and sales channels:

	Nine months ended 30 September				
	2009		2008		Change
	U.S.\$ millions	%	U.S.\$ millions	%	
Revenues					
Crude oil export other than CIS.....	11,077	45	19,330	44	(43)
Crude oil export CIS.....	1,020	4	1,920	4	(47)
Crude oil domestic	1,224	5	1,942	4	(37)
Total crude oil	13,321	54	23,192	52	(43)
Petroleum products export other than CIS ...	5,207	21	9,573	22	(46)
Petroleum products export CIS	1,601	7	2,610	6	(39)
Petroleum products domestic	3,808	15	7,484	17	(49)
Total petroleum products	10,616	43	19,667	45	(46)
Condensate.....	92	—	234	1	(61)
Gas.....	450	2	507	1	(11)
Other sales.....	268	1	300	1	(11)
Sales and other operating revenues	24,747	100	43,900	100	(44)

The following table sets out a breakdown of sales volumes of crude oil and petroleum products:

	Nine months ended 30 September				
	2009		2008		Change
	Thousands of tonnes	%	Thousands of tonnes	%	
Volumes					
Crude oil export other than CIS.....	27,605	45	24,889	42	11
Crude oil export CIS.....	3,711	6	3,878	7	(4)
Crude oil domestic.....	5,768	9	5,085	9	13
Total crude oil	37,084	60	33,852	58	10
Petroleum products export other than CIS ...	13,322	22	13,142	22	1
Petroleum products export CIS	2,923	5	2,571	4	14
Petroleum products domestic.....	8,191	13	9,436	16	(13)
Total petroleum products	24,436	40	25,149	42	(3)
Total crude oil and petroleum products.....	61,520	100	59,001	100	4

The following table represents average realisations for the various categories of crude oil and petroleum product sales:

	Nine months ended 30 September			
	Units	2009	2008	Change
		%		
Average realisation⁽¹⁾				
Crude oil export other than CIS	U.S.\$/bbl	55.0	106.4	(48)
Crude oil export CIS	U.S.\$/bbl	37.7	67.8	(44)
Crude oil domestic.....	U.S.\$/bbl	29.1	52.3	(44)
Petroleum products export other than CIS	U.S.\$/tonne	390.8	728.4	(46)
Petroleum products export CIS	U.S.\$/tonne	547.7	1,015.1	(46)
Petroleum products domestic.....	U.S.\$/tonne	464.9	793.2	(41)
Average realisation	U.S.\$/bbl	53.3	99.5	(46)

Notes:

(1) Represents sales of a particular product divided by volumes sold.

In the nine months ended 30 September 2009, TNK-BP's revenues decreased by 44% to U.S.\$24,747 million and average realisations decreased by 46% to U.S.\$53.3, compared to revenues of U.S.\$43,900 and average realisations of U.S.\$99.5 for the nine months ended 30 September 2008. This was primarily due to the lower prices for crude oil and petroleum products partially offset by a 4% increase in sales volumes due to production growth and increased purchases.

Crude Oil Sales. Sales of crude oil decreased by 43% to U.S.\$13,321 million for the nine months ended 30 September 2009 compared to U.S.\$23,192 million for the nine months ended 30 September 2008, primarily due to lower crude oil prices. The effect of weaker markets was partly offset by an increase in the total volume of crude oil sold in the nine months ended 30 September 2009 to 37,084 thousand tonnes, representing an increase of 10% compared to the nine months ended 30 September 2008.

Petroleum Products Sales. TNK-BP sells a wide range of petroleum products, including gasoline, diesel fuel, fuel oil and lubricants. Revenues from the sale of petroleum products decreased by 46% to U.S.\$10,616 million for the nine months ended 30 September 2009 compared to U.S.\$19,667 million for the nine months ended 30 September 2008, largely due to lower market prices. The volume of petroleum products sales also decreased by 3% to 24,436 thousand tonnes, primarily due to a decline in the global demand for refined products as a result of weaker economic conditions and, to a lesser extent, to a turnaround project undertaken at the Ryazan refinery.

Sales of Gas and Condensate. Sales of gas, gas products and gas condensate decreased by 27% to U.S.\$542 million for the nine months ended 30 September 2009, compared to U.S.\$741 million for the nine months ended 30 September 2008. This was primarily due to the negative effect of a weaker

rouble against the U.S. dollar, partly offset by increased volumes of gas sales, a 14% increase in gas products sales and a 13% increase in rouble-denominated prices.

Other Sales. Other sales include consumer goods sold through TNK-BP's retail network, refining fees and other goods and services not related to TNK-BP's core business, such as electricity, transportation and oil-field services. Other sales decreased by 11% to U.S.\$268 million for the nine months ended 30 September 2009, compared to U.S.\$300 million for the nine months ended 30 September 2008, primarily due to the loss of revenue following the disposal of TNK-BP's OFS business in July 2009 (see “—Formation and Evolution”).

Export Duties

The following table represents a breakdown of export duties for the periods presented.

	Nine months ended 30 September				
	2009		2008		Change
	U.S.\$ millions	% of total export duties	U.S.\$ millions	% of total export duties	
Crude oil export custom duty.....	4,560	82	10,368	82	(56)
Petroleum products export custom duty.....	994	18	2,265	18	(56)
Total export duties.....	5,554	100	12,633	100	(56)

Total export duties decreased by 56% to U.S.\$5,554 million for the nine months ended 30 September 2009. The 48% decrease in Urals crude oil prices translated in a 59% reduction in the export custom duty rate, including the offsetting effect of the lower duty lag benefit. This was partially offset by increased export sales volumes.

Taxes Other Than Income Tax

The following table shows a breakdown of taxes other than income tax for the periods presented.

	Nine months ended 30 September				
	2009		2008		Change
	U.S.\$ millions	%	U.S.\$ millions	%	
MET.....	3,266	78	8,134	87	(60)
Excise taxes.....	621	15	804	8	(23)
Property tax.....	145	3	151	2	(4)
Pension fund and other social taxes.....	109	3	165	2	(34)
Other taxes.....	26	1	100	1	(74)
Taxes other than income tax.....	4,167	100	9,354	100	(55)

Taxes other than income tax decreased by 55% to U.S.\$4,167 million for the nine months ended 30 September 2009, compared to U.S.\$9,354 million for the nine months ended 30 September 2008. This was primarily due to a decrease in MET and the weaker rouble against the U.S. dollar, which reduced taxes calculated in roubles.

MET decreased by U.S.\$4,868 million, or 60%, to U.S.\$3,266 million for the nine months ended 30 September 2009, compared to U.S.\$8,134 million for the nine months ended 30 September 2008. This was due to the reduction in the average statutory MET rate by 58% in turn due to lower level of crude oil prices and changes in tax laws. See “—Taxation”. The average statutory MET rates for the nine months ended 30 September 2009 and the nine months ended 30 September 2008 were U.S.\$9.1 per barrel and U.S.\$21.7 per barrel, respectively.

Excise tax decreased by U.S.\$183 million, or 23%, to U.S.\$621 million for the nine months ended 30 September 2009, from U.S.\$804 million for the nine months ended 30 September 2008. This decrease was primarily associated with the weakening of the rouble against the U.S. dollar for the nine months ended 30 September 2009, partly offset by the negative effect of an increased gasoline tax rate in Ukraine.

Operating Expenses

Operating expenses include expenditures associated with crude oil, gas and condensate production, crude oil transportation to refineries, refining costs and other operating expenses.

The following table represents a breakdown of operating expenses by activities for the first nine months of 2009 and the first nine months of 2008:

	Nine months ended 30 September				
	2009		2008		Change
	U.S.\$ millions	%	U.S.\$ millions	%	%
Hydrocarbon production costs	1,923	65	2,617	67	(27)
Crude oil transportation to refineries	444	15	519	13	(14)
Refining costs	403	14	521	13	(23)
Other	175	6	257	7	(32)
Operating expenses	2,945	100	3,914	100	(25)
	=====	=====	=====	=====	=====

Operating expenses decreased by 25% to U.S.\$2,945 million for the nine months ended 30 September 2009 compared to U.S.\$3,914 million for the nine months ended 30 September 2008. This decrease was primarily due to the following factors:

- the weaker rouble against U.S. dollar during the period, resulting in a cost benefit of U.S.\$844 million, which was partly offset by a U.S.\$225 million increase due to higher electricity tariffs and other specific inflationary pressures; and
- a cost benefit of U.S.\$350 million due to a lower level of activity in the nine months ended 30 September 2009 with a decreased number of workovers, sidetracks, hydrofracturing and current well services as well as the impact of cost management initiatives.

Hydrocarbon production costs. Hydrocarbon production costs decreased by 27% to U.S.\$1,923 million for the nine months ended 30 September 2009, compared to U.S.\$2,617 million for the nine months ended 30 September 2008, primarily due to the weaker rouble against U.S. dollar and lower activity levels. Hydrocarbon production costs per barrel decreased by 28% to U.S.\$4.8 for the nine months ended 30 September 2009, compared to U.S.\$6.6 for the nine months ended 30 September 2008.

Crude oil transportation to refineries. The cost of crude oil transportation to refineries decreased by 14% to U.S.\$444 million for the nine months ended 30 September 2009, compared to U.S.\$519 million for the nine months ended 30 September 2008. The reduction in transportation costs was driven by the weaker rouble against U.S. dollar during the period, partly offset by an increase in pipeline and railway transportation tariffs.

Refining costs. Refining costs decreased by 23% to U.S.\$403 million for the nine months ended 30 September 2009 compared to U.S.\$521 million in the period ended 30 September 2008. This decrease was primarily due the weaker rouble against U.S. dollar during the period and a decrease in the unit cost of purchased consumables, as well as lower volumes refined.

Other operating expenses. Other operating expenses include costs associated with gas processing, manufacturing of lubricants, change in operating expenses related to crude oil and oil products produced within TNK-BP in the reporting period but not sold to third parties, and other costs, not related to core activities of TNK-BP. These costs decreased by 32% to U.S.\$175 million for the nine months ended 30 September 2009, compared to U.S.\$257 million for the nine months ended 30 September 2008. The reduction was primarily due to the weaker rouble against U.S. dollar during the period and the positive impact of cost management initiatives.

Cost of Purchased Products

Cost of purchased products mainly comprises crude oil and petroleum products purchased from Slavneft and third parties in Russia.

The table below represents a breakdown of the cost of purchased products by types of products:

	Nine months ended 30 September				
	2009		2008		Change
	U.S.\$ millions	%	U.S.\$ millions	%	
Purchases of crude oil.....	1,631	67	2,564	70	(36)
Purchases of petroleum products.....	595	25	857	23	(31)
Purchases of gas and condensate.....	108	4	111	3	(2)
Other purchases.....	97	4	135	4	(28)
Cost of purchased products.....	2,431	100	3,667	100	(34)

Cost of purchased products decreased by 34% to U.S.\$2,431 million for the nine months ended 30 September 2009, compared to U.S.\$3,667 million in the same period of 2008, primarily due to the fall in domestic crude oil prices. This was partly offset by additional purchases of crude oil for refining.

Transportation Expenses

Transportation expenses decreased by 2% to U.S.\$2,311 million for the nine months ended 30 September 2009, compared to U.S.\$2,353 million in the same period of 2008. This decrease resulted from a U.S.\$477 million beneficial effect of the weakening of the rouble against U.S. dollar in the period, partly offset by a U.S.\$328 million increase in transportation tariffs by pipeline and railway state-owned monopolies, as well as a U.S.\$107 million increase due to additional throughput from higher production levels.

Depreciation, Depletion and Amortisation

Depreciation, depletion and amortisation (“DD&A”) increased by 17% to U.S.\$1,389 million for the nine months ended 30 September 2008, compared to U.S.\$1,190 million for the nine months ended 30 September 2008. DD&A per barrel of production increased by 13% to U.S.\$3.4 from U.S.\$3.0 for the nine months ended 30 September 2009 and 2008 respectively. The increase largely resulted from additional capital investments for the further development of Brownfields, primarily in the Orenburg and Nizhnevartovsk regions. The growth in production volumes in the period also contributed to higher DD&A charges. See “*Business—Upstream Business*”.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of payroll costs, selling and distribution expenses (including those related to storage depots), rent and maintenance expenses, consulting and legal fees and other general expenses. In the nine months ended 30 September 2009, selling, general and administrative expenses declined significantly due to a U.S.\$276 million decrease attributable to the weakening of the rouble against U.S. dollar in the period, as well as the positive impact of cost management measures which resulted in a further saving of U.S.\$192 million. In the aggregate, selling, general and administrative expenses decreased by 35% to U.S.\$857 million for the nine months ended 30 September 2009, compared to U.S.\$1,325 million for the nine months ended 30 September 2008.

Earnings from Equity Investments

Earnings from equity investments decreased by 89% to U.S.\$35 million from U.S.\$315 million for the nine months ended 30 September 2009 and 2008, respectively. The decrease primarily resulted from a lower level of equity earnings from Slavneft, which amounted to U.S.\$24 million in the nine months period ended 30 September 2009 compared to U.S.\$309 million in the nine months ended 30 September 2008. This reduction was mainly due to a decrease in Slavneft’s margins as a result of the weaker domestic crude market, as well as a decline in Slavneft’s production volumes.

Exchange Loss

Net foreign exchange loss amounted to U.S.\$125 million for the nine months ended 30 September 2009 compared to a loss of U.S.\$45 million for the nine months ended 30 September 2008. The higher loss in 2009 resulted from the conversion of the rouble-denominated working capital balances following the significant fluctuations of the rouble against the U.S. dollar.

Interest Expense

Interest expense decreased by 52% from U.S.\$386 million to U.S.\$184 million for the nine months ended 30 September 2009, compared to the nine months ended 30 September 2008. The decrease was primarily due to the release of a provision in respect of tax interest of U.S.\$126 million, following a successful court resolution in January 2009, as well as an overall decrease in the level of indebtedness and the lower LIBOR during the period ended 30 September 2009.

Income Tax Expense

Income tax expense decreased by 55% to U.S.\$1,098 million for the nine months ended 30 September 2009 compared to U.S.\$2,446 million for the nine months ended 30 September 2008, primarily due to lower taxable profit, a reversal of tax provisions by U.S.\$124 million and the 4% reduction in the statutory income tax rate. As a result of this reduction in the income tax rate, TNK-BP realised a benefit of around U.S.\$250 million during the period ended 30 September 2009.

The effective income tax rate of TNK-BP during the period ended 30 September 2009 was 22%, compared to 26% for the nine months ended 30 September 2008. This primarily resulted from the 4% reduction in the statutory income tax rate effective from 1 January 2009. For the periods ended 30 September 2009 and 2008 TNK-BP effective income tax rates were 2% higher than the statutory rate in Russia. This was mainly due to foreign exchange differences determined under RAS and U.S. GAAP, deferred income taxes for unremitting earnings of subsidiaries and equity affiliates, offset in part by the benefit from tax relief rates in Orenburg and Tyumen Regions. See “*Taxation*”.

Net Income Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest decreased by 52% to U.S.\$206 million for the nine months ended 30 September 2009, compared to U.S.\$430 million for the nine months ended 30 September 2008, reflecting the overall decline in income and buy-outs of noncontrolling interests. See “*Formation and Evolution of TNK-BP*”.

Comparison of Years Ended 31 December 2008, 2007 and 2006

The following table sets out certain key operating and financial information of TNK-BP for the years indicated.

	Year ended 31 December			Change	
	2008	2007	2006	2008-2007	2007-2006
Operational information					
<i>U.S.\$ millions (except as indicated)</i>					
Proved reserves of consolidated subsidiaries ⁽¹⁾ (billions of boe)	10.253	9.982	8.949	3	12
Reserve replacement ratio ⁽¹⁾ (%)	146	297	156	(51)	90
Liquids production of consolidated subsidiaries (mmbd)	1.454	1.452	1.494	—	(3)
Liquids production including share in equity affiliates (mmbd)	1.651	1.664	1.752	(1)	(5)
Refining throughput ⁽³⁾ (mmbd)	0.698	0.701	0.661	(1)	6
Financial information					
Revenue	51,886	38,926	35,725	33	9
EBITDA ⁽⁴⁾	10,093	9,565	11,255	6	(15)
Net income attributable to Group shareholders	5,284	5,342	6,678	(1)	(20)
Net cash flows from operating activities	8,611	7,097	3,078	21	131
Organic capital expenditures	4,683	4,233	2,948	11	44
Return on average capital employed – (ROACE) ⁽⁴⁾ (%)	27	31	48	(13)	(35)

Notes:

(1) Based on the PRMS standard.

(2) Reserve replacement ratio is a measure of percentage of production replaced by new reserves additions.

(3) Including volumes processed by TNK-BP subsidiaries at Slavneft's Yanos refinery.

(4) See “*Other Financial Metrics*”.

Production and Resources Overview

Resource Base. Total proved reserves for TNK-BP's consolidated subsidiaries as of 31 December 2008 were 10.3 billion boe on a PRMS basis and 8.1 billion boe on a SEC-LOF basis.

On a PRMS basis, TNK-BP added 878 million of barrels of proved reserves in 2008, effectively replacing 146% of its annual oil and gas production of its consolidated subsidiaries. On an SEC-LOF basis, TNK-BP in 2008 added 494 million barrels of new proved reserves which represents a reserve replacement ratio of 82% of its annual oil and gas production from its consolidated subsidiaries. TNK-BP's average reserve replacement ratio for total proved reserves for the three years ended 31 December 2008 was 200% on a PRMS basis and 130% on a SEC-LOF basis for its consolidated subsidiaries.

In 2008, the average exploration success rate (defined as a number of successful exploration wells relative to a total number of exploration wells drilled) was 74% compared to a 3-year average rate of 72% for the period ended 31 December 2008. Finding and development costs in the same three year period averaged U.S.\$4.0 per barrel of total proved reserves added.

TNK-BP's share in proved reserves of its equity-accounted affiliate, Slavneft, amounted to 0.8 billion boe and 0.7 billion boe at 31 December 2008 on a PRMS and a SEC-LOF basis, respectively. See: "*Business—Upstream Business—Reserves*".

Liquids Production. Daily liquids production by TNK-BP's consolidated subsidiaries in 2008 amounted to 1,454 mbd which was 2 mbd higher than the 1,452 mbd in 2007. Production in 2006 amounted to 1,494 mbd, including 74 mbd contribution in 2006 from Udmurtneft which was sold in August 2006. Excluding this effect, 2007 represented an increase of 32 mbd relative to 2006, reflecting also the consolidation of Vanyoganneft from January 2007. See "*Business—Upstream Business—Liquids Production*".

Total TNK-BP's daily liquids production, including the share in equity affiliates, decreased by 0.7% in 2008 compared to 2007 and by 5.1% in 2007 compared to 2006, reflecting a decline in Slavneft's production. See "*Business—Upstream Business—Slavneft Joint Venture*".

Refining. In 2008, TNK-BP's refineries throughput was 698 mbd, with the effective utilisation rate increasing to 91% in 2008 from 92% in 2007 and 87% in 2006 respectively. Since April 2006, TNK-BP has processed crude oil at the YANOS refinery under a processing arrangement with subsequent direct sales of refined products on the market. See: "*Business—Downstream Business—Refining*".

Financial Results Overview

The following table sets out information on TNK-BP's results of operations for the periods indicated:

	Year ended 31 December						Change	
	2008		2007		2006		2008-2007	2007-2006
	U.S.\$ millions	% of revenues	U.S.\$ millions	% of revenues	U.S.\$ millions	% of revenues	%	%
Revenues	51,886	100	38,926	100	35,725	100	33	9
Costs and other deductions								
Export duties.....	(15,974)	31	(10,196)	26	(10,087)	28	57	1
Taxes other than income tax	(11,182)	22	(7,821)	20	(7,461)	21	43	5
Operating expenses	(5,240)	10	(3,868)	10	(2,810)	8	35	38
Cost of purchased products	(4,261)	8	(3,311)	9	(3,574)	10	29	(7)
Transportation expenses	(3,208)	6	(2,653)	7	(2,375)	7	21	12
Selling, general and administrative expenses.....	(1,825)	4	(1,712)	4	(1,417)	4	7	21
Depreciation, depletion and amortisation	(1,564)	3	(1,414)	4	(1,249)	4	11	13
Loss on disposals and impairment of assets.....	(173)	—	(88)	—	(47)	—	97	87
Exploration expenses	(85)	—	(156)	—	(127)	—	(46)	23
Income from operating activities	8,374	16	7,707	20	6,578	18	9	17
Other income and expenses								
Earnings from equity investments	278	1	309	1	507	2	(10)	(39)
Gain on disposals of subsidiaries..	60	—	135	—	2,921	8	(56)	(95)
Interest income and net other income/(expense)	(15)	—	65	—	221	1	(123)	(71)
Exchange gain/(loss).....	(229)	—	75	—	(50)	—	(405)	(250)
Interest expense.....	(500)	1	(546)	1	(350)	1	(8)	56
Income before income taxes	7,968	15	7,745	20	9,827	28	3	(21)
Income tax expense.....	(2,323)	4	(1,993)	5	(2,722)	8	17	(27)
Net income	5,645	11	5,752	15	7,105	20	(2)	(19)
Less: net income attributable to noncontrolling interest	(361)	1	(410)	1	(427)	1	(12)	(4)
Net income attributable to Group shareholders	5,284	10	5,342	14	6,678	19	(1)	(20)

Comparison of years ended 31 December 2008 and 2007

TNK-BP's results for the year ended 31 December 2008 reflected the volatility of the crude oil market during the year. The Urals crude oil price in 2008 ranged from an opening level of U.S.\$94 per barrel as of 2 January 2008 to a peak of U.S.\$141 per barrel on 11 July 2008 and closed at U.S.\$36 per barrel on 30 December 2008. Overall, the trading environment in 2008 was significantly stronger than in 2007. Urals (MED/NWE) crude oil prices averaged approximately U.S.\$95 per barrel in 2008, representing an increase of 36% as compared to the 2007 average price. Similarly, domestic crude price increased by 20% and petroleum product markets showed increases of between 20% and 50% depending on product type. As a result, TNK-BP's revenues in 2008 increased by 33% to U.S.\$51.9 billion compared to the U.S.\$38.9 billion in 2007.

Costs were also affected by external factors, with higher Urals crude oil prices in 2008 causing export duties to increase by 57% to U.S.\$16.0 billion and MET costs to increase by 49% to U.S.\$9.6 billion. With respect to export duties, increasing prices in 2007 also resulted in a significantly higher positive duty lag effect, amounting to U.S.\$6 per barrel. In addition, other costs (operating, transportation expenses, SG&A and cost of purchased products) increased by 26% to U.S.\$14.5 billion largely due to the effect of inflationary pressures associated with higher commodity prices in the first half of 2008 and the effect of the stronger rouble against U.S. dollar in the same period.

The benefit from stronger markets was partly offset by associated tax effects and other cost increases. This resulted in a net 6% increase in EBITDA in 2008 compared to 2007, to U.S.\$10.1 billion. Income tax expense was higher in 2008 reflecting an increase in pretax profit and the one-off release of a deferred tax provision in 2007 in the amount of U.S.\$170 million. In addition, a 20%

devaluation of the year-end rouble exchange rate against the U.S. dollar caused a higher charge due to the revaluation of the rouble-denominated monetary working capital in 2008. As a result, net income attributable to Group shareholders for 2008 was flat at U.S.\$5.3 billion compared to 2007.

Comparison of years ended 31 December 2007 and 2006

In 2007, TNK-BP's underlying performance resulted in an increase of EBITDA and net income attributable to Group shareholders by 22% and 24% respectively. This excludes the profit on the Udmurtneft divestment and trading operations in 2006. Reported EBITDA of U.S.\$9.6 billion and net income attributable to Group shareholders of U.S.\$5.3 billion decreased by 15% and 20%, respectively, as compared to 2006.

The divestment of TNK-BP's interest in Udmurtneft, which was sold in August 2006, was a significant factor affecting the comparative results between 2006 and 2007. In 2006, Udmurtneft had contributed oil production of 74 mbd, net income attributable to Group shareholders of around U.S.\$400 million from trading operations and U.S.\$2,899 million as a one-off pre-tax gain on divestment. See “—Changes in TNK-BP Structure 2006-2009—Acquisitions and Divestments” above.

The trading environment in 2007 was more favorable than in 2006 with a 13% increase in Urals crude oil price and an 11% increase in domestic crude oil prices. As a result, average TNK-BP realisations in 2007 increased by 15%, although the divestment of Udmurtneft in 2006 diluted the reported increase in revenues to 9%. Export custom duty and MET costs increased by 3% compared to 2006, largely due to the increased positive duty lag benefit of U.S.\$6 per barrel and the elimination of taxes related to Udmurtneft operations.

The business environment was also affected by other external factors which had an adverse effect on costs. A 6% appreciation of the rouble relative to the U.S. dollar in 2007 caused an increase in dollar terms of rouble-denominated costs. In addition, inflationary effects resulted into a general increase in transportation tariffs and the cost of oil field services. The level of activity related to production operations also increased in 2007 with additional wellwork, fracturing and sidetracking. Overall, the effect of external factors, combined with the higher level of activities caused TNK-BP costs, including operating, transportation expenses, SG&A and cost of purchases, to rise by 12% in 2007 relative to 2006.

While revenues increased by 9%, total reported costs and other deductions, including export duties and MET, increased by 7%. As a result, the year-on-year income from operating activities reported an increase of 17%. However, this was diluted by the effect of the Udmurtneft divestment in 2006 which caused reported 2007 net income attributable to Group shareholders to decrease by 20%.

Sales and Other Operating Revenues

TNK-BP revenues comprise crude oil and petroleum products sales and other operating revenues.

The following table represents a breakdown of sales and other operating revenues by type of products and sales channels:

	Year ended 31 December						Change	
	2008		2007		2006		2008-2007	2007-2006
	U.S.\$ millions	%	U.S.\$ millions	%	U.S.\$ millions	%	%	%
Revenues								
Crude oil export other than CIS ..	22,456	43	18,168	47	17,471	49	24	4
Crude oil export CIS	2,156	4	1,594	4	866	2	35	84
Crude oil domestic.....	2,302	4	1,763	5	1,984	6	31	(11)
Total crude oil	26,914	51	21,525	56	20,321	57	25	6
Petroleum products export other than CIS.....	11,312	22	7,697	20	6,850	19	47	12
Petroleum products export CIS	3,090	6	2,447	6	2,229	6	26	10
Petroleum products domestic.....	9,224	18	6,390	16	5,635	16	44	13
Total petroleum products	23,626	46	16,534	42	14,714	41	43	12
Condensate.....	263	1	143	0	171	0	84	(16)
Gas.....	684	1	407	1	238	1	68	71
Other sales.....	399	1	317	1	281	1	26	13
Sales and other operating revenues	51,886	100	38,926	100	35,725	100	33	9

The table below sets out information on TNK-BP's sales volumes of crude oil and petroleum products for the years indicated:

	Year ended 31 December						Change	
	2008		2007		2006		2008-2007	2007-2006
	Thousands of tonnes	%	Thousands of tonnes	%	Thousands of tonnes	%	%	%
Volumes								
Crude oil export other than CIS ..	32,945	42	36,568	46	39,812	47	(10)	(8)
Crude oil export CIS	5,162	6	4,446	6	3,093	4	16	44
Crude oil domestic.....	7,547	10	6,716	8	8,803	10	12	(24)
Total crude oil	45,654	58	47,730	60	51,708	61	(4)	(8)
Petroleum products export other than CIS.....	18,058	23	16,487	21	16,405	20	10	0
Petroleum products export CIS	3,303	4	3,605	4	3,625	4	(8)	(1)
Petroleum products domestic.....	12,272	15	11,974	15	12,536	15	2	(4)
Total petroleum products	33,633	42	32,066	40	32,566	39	5	(2)
Total crude oil and petroleum products	79,287	100	79,796	100	84,274	100	(1)	(5)
	=====	=====	=====	=====	=====	=====	=====	=====

The following table represents average realisations for the various categories of crude oil and petroleum products sales:

	Units	Year ended 31 December			Change	
		2008	2007	2006	2008-2007	2007-2006
					%	%
Average realisation						
Crude oil export other than CIS.....	U.S.\$/bbl	93.4	68.1	60.1	37	13
Crude oil export CIS.....	U.S.\$/bbl	57.2	49.1	38.3	16	28
Crude oil domestic	U.S.\$/bbl	41.8	36.0	30.9	16	17
Petroleum products export other than CIS.....	U.S.\$/tonne	626.4	466.9	417.5	34	12
Petroleum products export CIS.....	U.S.\$/tonne	935.5	678.8	615.0	38	10
Petroleum products domestic.....	U.S.\$/tonne	751.6	533.7	449.5	41	19
Average realisation	U.S.\$/bbl	87.3	65.3	56.9	34	15

In 2008, TNK-BP's total revenues increased by 33% to U.S.\$51,886 million compared to U.S.\$38,926 million in 2007. In the first half of 2008, the increase in revenues was primarily attributable to the increasing crude oil and petroleum products prices in both the export and domestic markets. In the second half of 2008, the sharp decline in crude oil prices was partly compensated by additional volumes of petroleum products sold.

In 2007, TNK-BP's revenues increased by 9% to U.S.\$38,926 million compared to U.S.\$35,725 million in the year 2006, primarily as a result of higher crude oil and petroleum products prices.

Crude Oil Sales. In 2008, sales of crude oil increased by 25% to U.S.\$26,914 million compared to U.S.\$21,525 million for the year 2007, primarily due to 37% higher realisations, partly offset by reduced sales volumes. The total volume of crude oil sold decreased by 4% to 45,654 thousand tonnes in 2008 relative to 47,730 thousand tonnes in 2007. This decrease primarily resulted from higher volumes of crude oil refined to yield higher margins on petroleum product sales in the second half of 2008.

In 2007, sales of crude oil increased by 6% to U.S.\$21,525 million compared to U.S.\$20,321 million in 2006 largely due to a 13% increase in crude oil prices, partly offset by a decrease in crude oil volumes sold. The total volume of crude oil sold decreased by 8% to 47,730 thousand tonnes in 2007 compared to 51,708 thousand tonnes in 2006 primarily due to the reported decrease in production following the Udmurtneft disposal.

The “period-on-period” effect related to the Udmurtneft disposal in August 2006 was a decrease in production volumes by around 3.0 million tonnes with a corresponding effect on sales volumes (see “Formation and Evolution of TNK-BP”). The effect of the Udmurtneft disposal was partly offset by the acquisition of the additional 50% stake in Vanyoganneft (see “Formation and Evolution of TNK-BP”) which provided an increase in both production and sales of approximately 0.5 millions tonnes of crude oil in 2007.

Petroleum Products Sales. In 2008, sales of petroleum products increased by 43% to U.S.\$23,626 million compared to U.S.\$16,534 million in 2007, primarily due to higher petroleum products prices both on the export and domestic markets. In addition, the volume of petroleum products sold increased by 5% to 33,633 thousand tonnes in 2008 compared to 32,066 thousand tonnes in 2007 due to increased volumes of crude oil refined in 2008.

In 2007, sales of petroleum products increased by 12% to U.S.\$16,534 million compared to U.S.\$14,714 million in 2006, primarily due to stronger demand and increased prices in the global markets. The effect of a higher prices was partly offset by a 2% decrease in sales volumes to 32,066 thousand tonnes in 2007 compared to 32,566 thousand tonnes in 2006.

Sales of Gas, Gas Products and Gas Condensate. In 2008, sales of gas, gas products and gas condensate increased by 72% to U.S.\$947 million relative to U.S.\$550 million in 2007. This largely resulted from a 28% increase in average prices for gas, gas products and condensate and a 34% increase in volumes sold.

In 2007, sales of gas, gas products and gas condensate increased by 34% to U.S.\$550 million compared to U.S.\$409 million in 2006, largely as a result of 20% higher average realised prices and a 12% increase in sales volumes.

Other Sales. Other sales in 2008 increased by 26% to U.S.\$399 million compared to U.S.\$317 million for 2007. During 2007, other sales increased by 13% to U.S.\$317 million compared to U.S.\$281 million in 2006. The increase in other sales in both periods was primarily due to the further expansion of TNK-BP’s retail network.

Export Duties

The following table presents a breakdown of export duties for the periods presented.

	Year ended 31 December						Change	
	2008		2007		2006		2008-2007	2007-2006
	U.S.\$ millions	%	U.S.\$ millions	%	U.S.\$ millions	%	%	%
Crude oil export custom duty.....	13,017	81	8,598	84	8,537	85	51	1
Petroleum products export custom duty.....	2,957	19	1,598	16	1,550	15	85	3
Total export duties.....	15,974	100	10,196	100	10,087	100	57	1

In 2008, total export duties increased by 57% to U.S.\$15,974 million from U.S.\$10,196 million in 2007, reflecting the considerably higher Urals prices and the effect of a lower positive export custom duty lag. The average export custom duty lag benefit in 2008 amounted to U.S.\$0.9 per barrel which is U.S.\$6.1 per barrel lower than the average export custom duty lag benefit in 2007 of U.S.\$7 per barrel.

In 2007, total export custom duty costs increased by 1% to U.S.\$10,196 million compared to U.S.\$10,087 million in 2006. This was due to an increase in custom duty rates due to higher Urals crude oil prices, with an offsetting effect from the higher positive export custom duty lag in 2007. The positive average export custom duty lag benefit in 2007 equaled U.S.\$7 per barrel representing an increase of U.S.\$6 per barrel relative to the average positive export custom duty lag benefit realised in 2006 (U.S.\$1 per barrel).

Taxes Other than Income Tax

The following table sets out a breakdown of taxes other than income taxes for the periods presented.

	Year ended 31 December						Change	
	2008		2007		2006		2008-2007	2007-2006
	U.S.\$ millions	%	U.S.\$ millions	%	U.S.\$ millions	%	%	%
MET	9,627	86	6,476	83	6,082	82	49	6
Excise taxes	1,026	9	976	12	765	10	5	28
Property tax.....	187	2	134	2	107	1	40	25
Pension fund and other social taxes.....	201	2	188	2	199	3	7	(6)
Other taxes	141	1	47	1	308	4	200	(85)
Taxes other than income tax	11,182	100	7,821	100	7,461	100	43	5

In 2008, taxes other than income tax increased by 43% to U.S.\$11,182 million from U.S.\$7,821 million in 2007, primarily due to increase in MET charges and the appreciation of the rouble against the U.S. dollar in 2008.

MET costs increased by U.S.\$3,151 million, or 49%, to U.S.\$9,627 million in 2008 from U.S.\$6,476 million in 2007 primarily as a result of higher crude oil prices. The average statutory MET rates for 2008 and 2007 were U.S.\$18.7 per barrel and U.S.\$13.3 per barrel, respectively.

Excise tax increased by U.S.\$50 million, or 5% to U.S.\$1,026 million in 2008 compared to U.S.\$976 million in 2007. This increase was primarily associated with the appreciation of the Russian rouble against the U.S. dollar in 2008 and increased volumes of petroleum products sold in the domestic market.

In 2007 MET increased by U.S.\$394 million, or 6%, to U.S.\$6,476 million compared to U.S.\$6,082 million in 2006, primarily as a result of a higher crude oil prices. The average statutory MET rates for 2007 and 2006 were U.S.\$13.3 per barrel and U.S.\$11.4 per barrel, respectively.

Excise tax increased by U.S.\$211 million, or 28% to U.S.\$976 million in 2007 compared to U.S.\$765 million in 2006, primarily due to additional sales volumes of petroleum products and the strengthening of the rouble against the U.S. dollar in 2007.

Property tax increased by 40% in 2008 relative to 2007 and 25% in 2007 compared to 2006, due to an increase in fixed assets capital investments.

Other taxes in 2006 were largely affected by additional tax provisions in amount of U.S.\$165 million recognised by TNK-BP following assessment of the tax claims on completion of the tax field audits. Reduction of other taxes in 2007 is primarily associated with a one-off gain in the amount of U.S.\$57 million related to a successful appeal of the tax claims by TNK-BP. See “*Risk Factors—Risks Relating to TNK-BP and the Oil and Gas Industry in Russia and Ukraine—Taxation Risks*”.

Operating Expenses

The following table represents a breakdown of operating expenses by activities for 2008, 2007 and 2006:

	Year ended 31 December						Change	
	2008		2007		2006		2008-2007	2007-2006
	U.S.\$ millions	%	U.S.\$ millions	%	U.S.\$ millions	%	%	%
Hydrocarbon production costs	3,562	68	2,587	67	1,738	62	38	49
Crude oil transportation to refineries.....	687	13	528	14	419	15	30	26
Refining costs	667	13	583	15	439	16	14	33
Other	324	6	170	4	214	7	90	(20)
Operating expenses	5,240	100	3,868	100	2,810	100	35	38

Operating expenses in the periods presented increased largely due the growth in hydrocarbon production costs, which contributed around 71% to the total increase in operating expenses in 2008 compared to 2007 and 62% in 2007 compared to 2006.

Hydrocarbon production costs. Hydrocarbon production costs increased by 38% to U.S.\$3,562 million in 2008 compared to U.S.\$2,587 million in 2007. Hydrocarbon production costs per barrel increased by 37% to U.S.\$6.7 in 2008 compared to U.S.\$4.9 in 2007. This increase was primarily attributable to:

- effect of in-country inflation combined with the appreciation of the rouble against the U.S. dollar, partly offset by the positive effect of cost management initiatives in the fourth quarter of 2008;
- higher level of activity, including workovers and hydrofracturing;
- higher level of provisions booked in 2008 following a reassessment of environmental obligations;

Hydrocarbon production costs increased by 49% to U.S.\$2,587 million in 2007 compared to U.S.\$1,738 million in 2006. Hydrocarbon production costs per barrel increased by 54% to U.S.\$4.9 in 2007 compared to U.S.\$3.2 in 2006. This was largely driven by higher activity levels on wellworks, hydrofracturing, sidetracks, cost inflation and the rouble appreciation against the U.S. dollar.

Crude oil transportation to refineries. In 2008, expenses of crude oil transportation to refineries increased by 30% to U.S.\$687 million compared to U.S.\$528 million in 2007, primarily due to an increase in transportation tariffs.

In 2007, expenses of crude oil transportation to refineries increased by 26% to U.S.\$528 million compared to U.S.\$419 million in 2006. This was due to an increase in transportation tariffs as well as an increase in the volume of crude oil transported.

Refining costs. In 2008, refining costs increased by 14% to U.S.\$667 million compared to U.S.\$583 million in 2007, primarily due to general inflationary pressure and the appreciation of the rouble against U.S. dollar in 2008 compared to 2007.

In 2007, refining costs increased by 33% to U.S.\$583 million relative to U.S.\$439 million in 2006, primarily due to general inflationary pressure, appreciation of the rouble against U.S. dollar and higher processing fees due to additional volumes refined.

Other operating expenses. In 2008, other costs increased by 90% to U.S.\$324 million compared to U.S.\$170 million in 2007, primarily due to the change in operating expenses related to crude oil and oil products produced within TNK-BP in the reporting period but not sold to third parties.

In 2007, other costs decreased by 20% to U.S.\$170 million compared to U.S.\$214 million in 2006, primarily due to the decrease in oil-field services provided to third parties and changes in operating expenses related to crude oil and oil products produced within TNK-BP in the reporting period but not sold to third parties.

Cost of Purchased Products

The table below represents a breakdown of the cost of purchased products by types of products:

	Year ended 31 December						Change	
	2008		2007		2006		2008-2007	2007-2006
	U.S.\$ millions	%	U.S.\$ millions	%	U.S.\$ millions	%	%	%
Purchases of crude oil	2,905	68	2,611	79	2,401	67	11	9
Purchases of petroleum products	1,034	24	539	16	996	28	92	(46)
Purchases of gas and condensate	158	4	94	3	43	2	68	119
Other purchases	164	4	67	2	134	3	145	(50)
Cost of purchased products .	4,261	100	3,311	100	3,574	100	29	(7)

In 2008, the cost of purchased products increased by 29% to U.S.\$4,261 million compared to U.S.\$3,311 million in 2007, primarily due to higher crude oil and petroleum products prices and additional volumes of products purchased in 2008.

In 2007, the cost of purchased products decreased by 7% to U.S.\$3,311 million relative to U.S.\$3,574 million in 2006. This was primarily due to lower purchases of crude oil and products from Slavneft (10,390 thousand tonnes in 2007 compared to 11,487 thousand tonnes in 2006) as a result of a decline in Slavneft's production in its maturing fields. This reduction was partly offset by higher crude oil and products prices in 2007 compared to 2006.

Transportation Expenses

In 2008, transportation expenses increased by 21% to U.S.\$3,208 million compared to U.S.\$2,653 million in 2007. The increase in transportation costs primarily resulted from transportation tariff increases. See "*Risk Factors—Risks Relating to TNK-BP and the Oil and Gas Industry in Russia and Ukraine*".

In 2007, transportation expenses increased by 12% to U.S.\$2,653 million compared to U.S.\$2,375 million in 2006. The increase in transportation costs was due to an increase in transportation tariffs as well as increase in sales volumes resulting from the acquisition of the remaining 50% stake in Vanyoganneft in January 2007, partly offset by the effect of the disposal of Udmurtneft in August 2006. See "*Formation and Evolution of TNK-BP*" above.

Selling, General and Administrative Expenses

In 2008, selling, general and administrative expenses increased by 7% to U.S.\$1,825 million compared to U.S.\$1,712 million in 2007. This was primarily due to the inflationary effect on general and administrative costs and the rouble appreciation against the U.S. dollar in 2008 compared to 2007, partially mitigated by the impact of cost management initiatives in the fourth quarter.

In 2007, selling, general and administrative expenses increased by 21% to U.S.\$1,712 million compared to U.S.\$1,417 million in 2006, primarily due to the inflationary effect and the rouble appreciation against the U.S. dollar in 2007 compared to 2006.

Depreciation, Depletion and Amortisation

In 2008, DD&A increased by 11% to U.S.\$1,564 million compared to U.S.\$1,414 million in 2007, which represented an increase of 7% in terms of DD&A per barrel of liquids production (from U.S.\$2.7 per barrel in 2007 to U.S.\$2.9 per barrel in 2008). DD&A increased by 13% to U.S.\$1,414 million in 2007 relative to U.S.\$1,249 million in 2006, which represented an increase of 17% in terms of DD&A per barrel of liquids production (from U.S.\$2.3 per barrel in 2006 to U.S.\$2.7 per barrel in 2007). The increase in both periods was primarily due to the increased capital expenditure to support the further development of Brownfields.

Earnings from Equity Investments

Earnings from equity investments decreased by 10% to U.S.\$278 million in 2008 compared to U.S.\$309 million in 2007. The decrease resulted mainly from a lower level of equity earnings from Slavneft, amounting to U.S.\$251 million and U.S.\$305 million for 2008 and 2007, respectively. This decrease was primarily due to the weaker domestic crude market in the second half of 2008 and declining production.

Earnings from equity investments decreased by 39% to U.S.\$309 million in 2007 compared to U.S.\$507 million in 2006. Earnings from Slavneft decreased to U.S.\$305 million in 2007 compared to U.S.\$436 million in 2006 primarily due to declining production and cost pressures. In addition, equity earnings from Vanyoganneft decreased to U.S.\$4 million in 2007 compared to U.S.\$71 million in 2006 reflecting acquisition of the remaining 50% in Vanyoganneft in January 2007.

Net Exchange Gain (Loss)

The net foreign exchange loss amounted to U.S.\$229 million in 2008, compared to a gain of U.S.\$75 million in 2007. Net exchange losses in 2008 resulted from the conversion of the rouble-denominated working capital balances in U.S. dollar amounts following the significant rouble depreciation against U.S. dollar in the second half of 2008. Conversely, the net gain recorded in 2007 reflected the rouble appreciation against the U.S. dollar compared to 2006, when TNK-BP reported a net foreign exchange loss of U.S.\$50 million.

Interest Expense

In 2008, interest expense amounted to U.S.\$500 million compared to U.S.\$546 million in 2007 and U.S.\$350 million in 2006. The decrease in 2008 compared to 2007 primarily originated from a decrease in outstanding indebtedness as well as a decline in LIBOR, while the increase of interest

expense in 2007 compared to 2006 was mainly due to an increase in the amount of outstanding indebtedness. See “—*Indebtedness*”.

Income Tax Expense

In 2008, income tax expense increased by 17% to U.S.\$2,323 million compared to U.S.\$1,993 million in 2007 primarily due to the increase in taxable profit. This also reflected a one-off release of a deferred tax provision in 2007 in the amount of U.S.\$170 million, related to unremitted earnings of certain TNK-BP subsidiaries due to a change in tax legislation in Russia.

Effective from 1 January 2009, a new statutory corporate income tax rate of 20% was introduced in Russia. Accordingly, the recalculation of deferred tax liabilities and assets of TNK-BP as of 31 December 2008 generated an income tax benefit of U.S.\$78 million.

In 2007 income tax expense decreased by 27% to U.S.\$1,993 million compared to U.S.\$2,722 million in 2006, largely due to a lower level of taxable profit, since taxable income in 2006 included the gain from the sale of Udmurtneft. In addition, in 2006 tax provisions of U.S.\$263 million had been made in respect of prior year tax audits.

The effective income tax rate of TNK-BP was 29%, 26% and 28% for the years 2008, 2007 and 2006, respectively. The main factors affecting the effective income tax rate were foreign exchange differences determined under RAS and U.S. GAAP, deferred income taxes for unremitted earnings of equity affiliates and subsidiaries and a 4% benefit from tax relief in Orenburg and Tyumen Regions. See “*Taxation*”.

Net Income Attributable to Noncontrolling Interest

In 2008, net income attributable to noncontrolling interests was U.S.\$361 million compared to U.S.\$410 million in 2007 and U.S.\$427 million in 2006. The decrease of 12% in 2008 mainly resulted from buy-outs of noncontrolling interests. See “—*Formation and Evolution of TNK-BP*” above.

Liquidity and Capital Resources

Cash Flows

Cash Flows for the Nine Months Ended 30 September 2009 and 2008

The following table represents principal items of cash flows for the periods analysed:

	Nine months ended 30 September	
	2009	2008
<i>U.S.\$ millions</i>		
Net cash from operating activities	4,606	7,898
Net cash used for investing activities	(2,067)	(4,456)
Net cash used for financing activities.....	(2,501)	(4,242)

Net Cash Provided by Operating Activities. Net cash provided by operating activities is the primary source of cash flow for TNK-BP. Cash from operating activities amounted to U.S.\$4,606 million for the nine months ended 30 September 2009 compared to U.S.\$7,898 million for the nine months ended 30 September 2008, and consisted of the following:

	Nine months ended 30 September	
	2009	2008
<i>U.S.\$ millions</i>		
Cash from operations before changes in working capital.....	5,253	8,161
Changes in working capital, excluding cash	(647)	(263)
Net cash provided by operating activities	4,606	7,898

Cash from operations before changes in working capital decreased by 36% from U.S.\$8,161 million for the nine months of 2008 to U.S.\$5,253 million for the nine months of 2009, in line with the reduction in EBITDA.

Net cash from operating activities was also impacted by the increases in working capital of U.S.\$647 million and U.S.\$263 million for the nine months ended 30 September 2009 and 2008, respectively. In the nine months of 2009, TNK-BP net working capital increased primarily due to a decrease in accounts payable of U.S.\$428 million and an increase in trade and other receivables by U.S.\$222 million reflecting higher oil prices at the end of September 2009 relative to December 2008.

Net Cash Used for Investing Activities. Net cash used for investing activities decreased by 54% in the nine month period ended 30 September 2009, to U.S.\$2,067 million from U.S.\$4,456 million for the nine months of 2008 reflecting TNK-BP's strategy in the period ended 30 September 2009, which focused on a containment of both organic and inorganic capital expenditures.

	Nine months ended 30 September	
	2009	2008
	U.S.\$ millions	
Capital expenditures ⁽¹⁾	(1,739)	(3,356)
Acquisition of subsidiaries, joint ventures and noncontrolling interests	(257)	(1,167)
Other investing activities	(71)	67
Net cash used for investing activities	(2,067)	(4,456)

Notes

(1) Presented net of grants received and used in connection with exploration and the development of Greenfields and includes expenditures related to purchases of intangible assets.

Capital investment in the period was mainly aimed at the development of selected exploration and production projects as well as refining as indicated in the table below:

	Nine months ended 30 September			
	2009		2008	
	U.S.\$ millions	% of capital expenditures accrued	U.S.\$ millions	% of capital expenditures accrued
Exploration and production	1,919	92	3,202	89
Refining, marketing and distribution.....	176	8	305	8
OFS and other	3	—	106	3
Subtotal: Capital expenditure accrued	2,098	100	3,613	100
Changes in advances issued and accounts payable for capital expenditures.....	(88)		87	
Total cash used for capital expenditures	2,010		3,700	
Less: Grants received ⁽¹⁾	(271)		(344)	
Net cash used for capital expenditures	1,739		3,356	

Notes

(1) See “—Key Factors Affecting Operating Results—Taxation—Corporate Income Tax” for details on local government subsidies.

Acquisitions of noncontrolling interests in the first nine months of 2009 mainly consisted of U.S.\$235 million paid to buyout the interests of noncontrolling shareholders in various subsidiaries between December 2008 and July 2009. Net cash used for other investing activities largely relates to a bank deposit made in the amount of U.S.\$100 million.

During the first nine months of 2008, net cash used for acquisitions related primarily to the U.S.\$791 million acquisition of a Jobber company which owned a network of gasoline filling stations and other retail assets in Moscow, the Moscow region and Ukraine as well as to the U.S.\$358 million cash contribution as TNK-BP's share in the newly established with OGK-1 joint venture NVGRES Holding Ltd. See “Formation and Acquisition of TNK-BP—Acquisitions and Divestments”.

Net Cash Used for Financing Activities. Net cash used for financing activities amounted to U.S.\$2,501 million for the nine months 2009 compared to U.S.\$4,242 million for the nine months of 2008, and consisted of the following:

	Nine months ended 30 September	
	2009	2008
<i>U.S.\$ millions</i>		
Net debt repayments	(971)	(1,197)
Dividends paid	(1,530)	(3,045)
Net cash used for financing activities	(2,501)	(4,242)

Net debt repayments amounted to U.S.\$971 million for the nine months 2009 and U.S.\$1,197 million for the nine months of 2008. Strong cash generation from operating activities as discussed in “*Net Cash Provided by Operating Activities*” above allowed TNK-BP to reduce debt levels in the nine months of 2008 and 2009. See “—*Indebtedness*”.

Dividends paid in the periods under discussion include dividends paid to TNK-BP International shareholders and the cash outflow to noncontrolling shareholders related to dividends paid by subsidiaries. The total amount of dividends paid in the nine months of 2009 amounted to U.S.\$1,530 million, a decrease of 50% relative to U.S.\$3,045 million in the nine months of 2008, reflecting lower income generated in the period.

Dividends paid to TNK-BP International shareholders amounted to U.S.\$1,439 million for the nine months of 2009 compared to U.S.\$3,000 million for the nine months of 2008. Of the U.S.\$1,439 million dividends paid to TNK-BP International shareholders in the nine months ended 30 September 2009, U.S.\$238 million was in respect of earnings generated in the second half of 2008 and U.S.\$1,201 million in respect of earnings generated in first half of 2009. Of the U.S.\$3,000 million dividends paid to TNK-BP International shareholders in the nine months ended 30 September 2008, U.S.\$2,400 million was in respect of earnings generated in 2007 and U.S.\$600 million in respect of earnings generated in first half of 2008.

The cash outflow to noncontrolling shareholders related to dividends paid by subsidiaries amounted to U.S.\$91 million for the nine months of 2009 compared to U.S.\$45 million for the nine months of 2008.

TNK-BP’s financial strategy provides for dividends to be paid in an amount of 40% of TNK-BP’s net income attributable to Group shareholders, with any additional cash in excess of its business or investment requirements also to be available for distribution to shareholders. The dividends paid represented a normal course of business distribution in accordance with performance targets and financial strategy.

Cash Flows for the Years Ended 31 December 2008, 2007 and 2006

The following table represents principal items of cash flows for the periods analysed:

	Year ended 31 December		
	2008	2007	2006
<i>U.S.\$ millions</i>			
Net cash from operating activities.....	8,611	7,097	3,078
Net cash from/used for investing activities.....	(5,141)	(4,403)	889
Net cash used for financing activities.....	(4,906)	(1,248)	(3,581)

Net Cash Provided by Operating Activities. Cash from operating activities amounted to U.S.\$8,611 million in 2008 compared to U.S.\$7,097 million in 2007 and U.S.\$3,078 million in 2006, and consisted of the following:

	Year ended 31 December		
	2008	2007	2006
<i>U.S.\$ millions</i>			
Cash from operations before changes in working capital.....	7,114	6,819	5,411
Changes in working capital, excluding cash.....	1,497	278	(2,333)
Net cash provided by operating activities.....	8,611	7,097	3,078

Cash from operations before changes in working capital increased to U.S.\$7,114 million in 2008 from U.S.\$6,819 million in 2007 and U.S.\$5,411 million in 2006 reflecting increased EBITDA.

The increase in operating cash flows in 2008 and 2007 was also supported by the decrease in working capital of U.S.\$1,497 million and U.S.\$278 million, respectively.

In 2008, TNK-BP's net working capital decreased primarily due to:

- a decrease in trade and other receivables of U.S.\$1,914 million as a result of management efforts in accelerating export VAT refunds and a decrease in trade receivables primarily due to lower oil prices;
- a decrease in inventories of U.S.\$586 million primarily resulting from the effect of lower MET on the unit cost of stock;
- an offsetting effect from a decrease in taxes payable of U.S.\$802 million, mostly MET, and a decrease in accounts payable of U.S.\$255 million.

In 2007, the working capital decrease largely reflected:

- a decrease in trade and other receivables of U.S.\$503 million primarily due to significant VAT recovery on export sales, partly offset by increase in trade receivables and advances due to higher crude oil prices;
- an increase of accounts payable of U.S.\$945 million driven by higher level of capital investments, current activities and advances from customers; and
- an offsetting effect from an increase in inventories of U.S.\$519 million and taxes payable of U.S.\$498 million largely driven by higher MET.

In 2006, the increase of working capital largely reflected settlements of income tax claims, as well as an increase in VAT receivable balances due to a combination of higher crude oil prices and a generally slow process of VAT refund from the Russian Government.

Net Cash Used for Investing Activities. Net cash outflow on investing activities amounted to U.S.\$5,141 million in 2008 and U.S.\$4,403 million in 2007, compared to inflow of U.S.\$889 million in 2006, and consisted of the following:

	Year ended 31 December		
	2008	2007	2006
<i>U.S.\$ millions</i>			
Capital expenditures ⁽¹⁾	(3,940)	(3,721)	(2,553)
Acquisition of subsidiaries, joint ventures and noncontrolling interests.....	(1,263)	(819)	(207)
Other investing activities	62	137	3,649
Net cash used for investing activities.....	(5,141)	(4,403)	889

Notes

(1) Presented net of grants received and used in connection with exploration and the development of Greenfields and includes expenditures related to purchases of intangible assets.

In 2008, acquisitions related primarily to the U.S.\$791 million acquisition of a retail business which owned a network of gasoline filling stations and other retail assets in Moscow, the Moscow region

and Ukraine as well as to the U.S.\$358 million cash contribution as TNK-BP's share in the newly established with OGK-1 joint venture NVGRES Holding Ltd. See "*Formation and Acquisition of TNK-BP—Acquisitions and Divestments*".

In 2007, acquisitions related primarily to the purchase of the remaining stake in Vanyoganneft in January 2007 for U.S.\$485 million, the compulsory buy-out of shares for U.S.\$175 million from noncontrolling shareholders in five subsidiaries: OAO "Orenburgneft", OAO "Orenburggeologia", OAO "Ryazannefteproduct", OAO "Kaluganefteproduct", OAO "Novosibirskneftegaz", and U.S.\$100 million payment related to acquisition of gasoline filling stations and other retail assets in Moscow, the Moscow region and Ukraine. See "*Formation and Evolution of TNK-BP*".

The cash proceeds from investing activities in 2006 of U.S.\$3,649 million primarily related to the proceeds of U.S.\$3,525 million from the sale of Udmurtneft in August 2006 as described in "*Formation and Evolution of TNK-BP*".

	Year ended 31 December					
	2008		2007		2006	
	U.S.\$ millions	%	U.S.\$ millions	%	U.S.\$ millions	%
Exploration and production.....	4,154	89	3,710	88	2,489	84
Refining, marketing and distribution.....	464	10	390	9	343	12
OFS and other.....	65	1	133	3	116	4
Subtotal: capital expenditure accrued	4,683	100	4,233	100	2,948	100
Changes in advances issued and accounts payable for capital expenditures	(70)		(26)		(105)	
Total cash used for capital expenditure	4,613		4,207		2,843	
Less: Grants received ⁽¹⁾	(673)		(486)		(290)	
Net cash used for capital expenditures.....	3,940		3,721		2,553	

Notes

(1) See "*Key Factors Affecting Operating Results—Taxation—Corporate Income Tax*" for details on local government subsidies

Capital investments increased in 2008 to U.S.\$3,940 million compared to U.S.\$3,721 million in 2007 and U.S.\$2,553 million in 2006, reflecting TNK-BP's strategy to support its production activities with focused capital expenditure. Capital expenditures were directed at maintaining and expanding TNK-BP's core oil and gas business through investment in exploration activities, up-to-date drilling and recovery technology, upgrades to oil production and refinery facilities as well as the improvement of export infrastructure and other investments in marketing and distribution operations, as set forth in the table above.

Net Cash Used for Financing Activities. Net cash used for financing activities amounted to U.S.\$4,906 million in 2008 compared to U.S.\$1,248 million in 2007 and U.S.\$3,581 million in 2006 and consisted of the following:

	Year ended 31 December		
	2008	2007	2006
	U.S.\$ millions		
Net debt proceeds/(repayments)	(525)	1,602	3,259
Dividends paid.....	(4,381)	(2,850)	(6,840)
Net cash used for financing activities.....	(4,906)	(1,248)	(3,581)

In 2008, net debt repayments amounted of U.S.\$525 million compared to net debt proceeds of U.S.\$1,602 million in 2007 and of U.S.\$3,259 million in 2006. Increased levels of cash generation from operating activities and significant optimisation of working capital in 2008, as discussed above

in *Net Cash Provided by Operating Activities* allowed TNK-BP to reduce its borrowing needs during the year, compared to 2007 and 2006.

The total amount of dividends paid in 2008, 2007 and 2006 amounted to U.S.\$4,381 million, U.S.\$2,850 million and U.S.\$6,840 million, respectively. Dividend payout level followed the changes in a net income attributable to Group shareholders for the respective periods.

Dividends paid by TNK-BP International shareholders amounted to U.S.\$4,280 million, U.S.\$2,645 million and U.S.\$6,540 million for the years 2008, 2007 and 2006, respectively. The cash outflow to noncontrolling shareholders related to dividends paid by subsidiaries amounted to U.S.\$101 million, U.S.\$205 million and U.S.\$300 million for the years 2008, 2007 and 2006, respectively.

Indebtedness

TNK-BP utilises a variety of financial instruments to ensure the flexibility of its financing strategy. This includes maintaining a debt portfolio with a balance of short-term and long-term financing, as well as a mix of fixed interest rate and floating interest rate instruments.

The table below represents outstanding debt balances as of 30 September 2009 and 31 December 2008:

	As of 30 September 2009	As of 31 December 2008		
	<i>U.S.\$ millions</i>	<i>% of total debt</i>	<i>U.S.\$ millions</i>	<i>% of total debt</i>
Short-term obligations to banks ⁽¹⁾	160	2	545	7
Euro denominated secured loans with fixed interest.....	—	—	297	4
Other short-term debt.....	—	—	5	—
Weighted-average interest rate on short-term debt	4.9%		9.8% ⁽³⁾	
Current portion of long-term debt	1,331	19	1,051	13
Total short-term debt and the current portion of long-term debt	1,491	21	1,898	24
Medium-term uncollateralised finance – variable interest debt ⁽²⁾	2,131	30	2,432	30
Corporate bonds, including:	4,477	64	4,475	56
Eurobond TNK-BP 2011 – fixed interest debt (coupon interest rate – 6.875%, effective interest rate – 6.98%).....	499	7	499	6
Eurobond TNK-BP 2016 – fixed interest debt (coupon interest rate – 7.50%, effective interest rate – 7.55%).....	997	14	997	13
Eurobond TNK-BP 2012 – fixed interest debt (coupon interest rate – 6.125%, effective interest rate – 6.15%).....	500	7	500	6
Eurobond TNK-BP 2017 – fixed interest debt (coupon interest rate – 6.625%, effective interest rate – 6.74%).....	795	11	795	10
Eurobond TNK-BP 2013 – fixed interest debt (coupon interest rate – 7.50%, effective interest rate – 7.69%).....	597	9	596	7
Eurobond TNK-BP 2018 – fixed interest debt (coupon interest rate – 7.875%, effective interest rate – 8.06%).....	1,089	16	1,088	14
Other long-term debt	251	4	238	3
Weighted-average interest rate on long-term debt	5.6%		5.7%	
Less: current portion of long-term debt	(1,331)	(19)	(1,051)	(13)
Total long-term debt	5,528	79	6,094	76
Total debt	7,019	100	7,992	100

Notes:

(1) Represents debt repayable within one year.

(2) Represents debt repayable from one to five years.

(3) Primarily due to a 13.5% interest rate on a facility agreement entered into with Sberbank in December 2008 and which was prepaid by TNK-BP in February 2009.

The table below represents outstanding debt balances as of 31 December 2008, 2007 and 2006:

	As of 31 December					
	2008		2007		2006	
	U.S.\$ millions	%	U.S.\$ millions	%	U.S.\$ millions	%
Short-term obligations to banks ⁽¹⁾	545	7	210	2	1,390	20
Euro denominated secured loans with fixed interest.....	297	4	—	—	—	—
Other short-term debt.....	5	—	59	1	—	—
Weighted-average interest rate on short-term debt.....	9.8%	5.4%	6.0%			
Current portion of long-term debt	1,051	13	1,355	16	703	10
Total short-term debt and the current portion of long-term debt	1,898	24	1,624	19	2,093	30
Medium-term uncollateralised finance – variable interest debt ⁽²⁾	2,432	30	3,636	43	3,300	47
Corporate bonds, including:.....	4,475	56	4,469	52	2,197	32
Eurobond TNK-BP 2011 – fixed interest debt (coupon interest rate – 6.875%, effective interest rate – 6.98%).....	499	6	498	6	703	10
Eurobond TNK-BP 2016 – fixed interest debt (coupon interest rate – 7.50%, effective interest rate – 7.55%).....	997	13	997	11	498	7
Eurobond TNK-BP 2012 – fixed interest debt (coupon interest rate – 6.125%, effective interest rate – 6.15%).....	500	6	499	6	996	15
Eurobond TNK-BP 2017 – fixed interest debt (coupon interest rate – 6.625%, effective interest rate – 6.74%).....	795	10	794	9	—	—
Eurobond TNK-BP 2013 – fixed interest debt (coupon interest rate – 7.50%, effective interest rate – 7.69%).....	596	7	595	7	—	—
Eurobond TNK-BP 2018 – fixed interest debt (coupon interest rate – 7.875%, effective interest rate – 8.06%).....	1,088	14	1,086	13	—	—
Other long-term debt	238	3	174	2	47	1
Weighted-average interest rate on long-term debt.....	5.7%	6.4%	7.0%			
Less: current portion of long-term debt	(1,051)	(13)	(1,355)	(16)	(703)	(10)
Total long-term debt.....	6,094	76	6,924	81	4,841	70
Total debt.....	7,992	100	8,548	100	6,934	100

Notes:

(1) Represents debt repayable within one year.

(2) Represents debt repayable from one to five years.

Short-term Debt

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.

Medium-term Uncollateralised Finance

Medium-term uncollateralised finance as of 30 September 2009 in the amount of U.S.\$ 2,131 million comprises three loan facilities, arranged by a consortium of international banks during 2006-2007, and pre-export finance, discussed below.

In June 2006, TNK-BP signed a U.S.\$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 was U.S.\$491 million.

In November 2006, TNK-BP entered into an agreement for a U.S.\$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 instalments on a

quarterly basis starting from November 2009. In March 2007, U.S.\$100 million under this facility was repaid ahead of schedule. Thus, the loan amount outstanding as of 30 September 2009 was U.S.\$900 million.

In November 2007, TNK-BP entered into an agreement for a U.S.\$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 was U.S.\$200 million.

Pre-export Collateralised Finance

In December 2008, TNK-BP entered into an agreement for up to U.S.\$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 the assignment of certain crude oil export contracts. As of 31 December 2008, the loan was drawn for U.S.\$150 million. In April, June and July 2009, TNK-BP drew down additional U.S.\$165 million, U.S.\$180 million and U.S.\$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 was U.S.\$540 million.

Eurobonds

As of the 30 September 2009 TNK-BP had U.S.\$ 4.5 billion of Eurobonds issued and outstanding.

In July 2006, TNK-BP placed U.S.\$1.5 billion Eurobonds split into 5 and 10 year tranches maturing in 2011 and 2016 respectively.

In March 2007, TNK-BP placed U.S.\$1.3 billion Eurobonds split into 5 and 10 year tranches maturing in 2012 and 2017 respectively.

In October 2007, TNK-BP placed U.S.\$1.7 billion Eurobonds split into 5.5 and 10.5 year tranches maturing in 2013 and 2018, respectively.

Liquidity Management

The nature and scale of TNK-BP's business benefits from a common approach to liquidity management across TNK-BP. In order to improve efficiency of cash flow management, TNK-BP operates a centralised liquidity management system and cash forecasting process. The liquidity management system implemented for TNK-BP's subsidiaries provides that subsidiaries' cash balances are minimised and monitored daily to satisfy their cash needs. The system allows TNK-BP to optimise management of cash flows and their distribution between TNK-BP members, as well as reduce bank service costs, minimise risk of cash dispersion and loss. In addition, TNK-BP maintains a portfolio of undrawn committed lines of up to U.S.\$500 million in order to enhance its financial flexibility.

Other Financial Metrics

EBITDA

EBITDA is defined as earnings before income taxes, depreciation, depletion and amortisation, exchange (loss) gain, interest income and other. EBITDA is not a U.S. GAAP measure and has limitations as an analytical tool. It should not be considered in isolation or as a substitute for analysis of TNK-BP's operating results as reported under U.S. GAAP.

EBITDA is used by TNK-BP as a supplemental measure of TNK-BP's operating performance and it is frequently referred to by securities analysts, investors and other interested parties in the evaluation of companies in the oil and gas industry.

The following tables present a reconciliation of TNK-BP EBITDA to income before income taxes for the periods presented.

	Nine months ended 30 September	
	2009	2008
<i>U.S.\$ millions</i>		
Income before income taxes	4,995	9,428
Add back:		
Interest expense	184	386
Exchange loss	125	45
Interest and other income	(25)	(96)
Other income	(5)	(35)
Depreciation, depletion and amortisation	1,389	1,190
EBITDA	6,663	10,918

	Year ended 31 December		
	2008	2007	2006
<i>U.S.\$ millions</i>			
Income before income taxes	7,968	7,745	9,827
Add back:			
Interest expense	500	546	350
Exchange gain/(loss)	229	(75)	50
Interest income	(116)	(100)	(116)
Other expense/(income)	(52)	35	(105)
Depreciation, depletion and amortisation	1,564	1,414	1,249
EBITDA	10,093	9,565	11,255

Return on Average Capital Employed (ROACE)

Return on average capital employed (“ROACE”) is the ratio of adjusted net income (calculated as net income before interest expense on debt, net of income tax) to average capital employed for the period. Average capital employed is defined as total debt (long-term and short-term) plus total equity, calculated as a simple average of the balances as of beginning and end of the relevant period.

ROACE is not a U.S. GAAP measure. It is used by TNK-BP as a measure of the efficiency with which capital is being utilised to generate income.

The following tables present a calculation of TNK-BP’s ROACE for the periods presented:

	Nine months ended 30 September	
	2009	2008
<i>U.S.\$ millions</i>		
Net income	3,897	6,982
Interest expense on debt, net of income tax	273	328
Adjusted net income	4,170	7,310
Average capital employed	23,458	23,045
ROACE (annualised)	24%	42%

	Year ended 31 December		
	2008	2007	2006
<i>U.S.\$ millions</i>			
Net income	5,645	5,752	7,105
Interest expense on debt, net of income tax.....	431	459	298
Adjusted net income.....	6,076	6,211	7,403
Average capital employed.....	22,594	20,150	15,423
ROACE	27%	31%	48%

The reduction in ROACE in the years 2008, 2007 and 2006, and for the nine months to 2009 reflects changes in net income as discussed above and increases in the average capital employed.

Critical Accounting Policies

TNK-BP's significant accounting policies are discussed in the Notes to TNK-BP's Audited Financial Statements included in the Base Prospectus. TNK-BP's Audited Financial Statements are prepared in accordance with U.S. GAAP. Inherent in the application of many of these accounting policies is the need for TNK-BP to make judgments and estimates in the determination of certain revenues, expenses, assets and liabilities. As such, different financial results can occur as circumstances change and additional information becomes available. The following summary provides further information concerning the critical accounting policies.

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

The U.S. dollar is the reporting currency for the purposes of financial reporting under U.S. GAAP. For the majority of subsidiaries of TNK-BP, the functional currency is the U.S. dollar as a significant portion of TNK-BP's business is conducted in U.S. dollars; management uses the U.S. dollar to manage TNK-BP's financial risks and exposures, and to measure its performance. The local currency of certain subsidiaries of TNK-BP is either the Russian roubles or the Ukrainian Hryvnia depending on the location and nature of the activities of the particular business. Any remeasurement of the Russian rouble amounts to the U.S. dollars should not be construed as a representation that such Russian rouble amounts have been, could be, or will in the future be converted into the U.S. dollars at the exchange rates applied or at any other exchange rate.

The consolidated financial statements include the operations of all entities in which TNK-BP directly or indirectly owns or controls more than 50% of the voting stock and variable interest entities in which TNK-BP is the primary beneficiary.

Joint ventures and investments in which TNK-BP has voting ownership interests between 20 and 50% and where TNK-BP exerts significant influence are accounted for using the equity method.

Investments in other companies are accounted for at cost and subject for regular tests for potential impairment.

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

Inventories are valued at the lower of cost, using the average method, or net realisable value. Costs include applicable purchase costs and production costs.

TNK-BP follows the successful efforts method of accounting for its oil and gas properties whereby property acquisitions, successful exploratory wells, all development costs (including development dry holes), and support equipment and facilities are capitalised.

Depreciation, depletion and amortisation of capitalised costs of proved oil and gas properties and equipment is calculated using the unit-of-production method for each field based upon proved reserves for property acquisitions and proved developed reserves for exploration and development costs. In both cases the proved reserves data used is estimated on a "life of field" basis as management believes it will continue to be successful in the renewal of its oil and gas licences.

TNK-BP incurs retirement obligations for its upstream assets. The fair values of these obligations are recorded as liabilities on a discounted basis, which is typically at the time the assets are installed. The costs associated with these liabilities are capitalised as part of the related assets and depleted as the reserves are produced. Over time, the liabilities are accreted for the change in present value. Asset retirement obligations are not recorded for downstream facilities, because such potential obligations cannot be measured since it is not possible to estimate the settlement dates.

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

TNK-BP recognises all derivatives as either assets or liabilities in the balance sheet and measures those instruments at fair value.

The accounting for changes in fair value depends on its intended use and designation and could entail recording the gain or loss through earnings of the current period or as part of other comprehensive income and subsequently reclassifying into earnings when the gain or loss is realised.

TNK-BP recognises goodwill as the excess of the purchase price over the estimated fair value of assets acquired and liabilities incurred in a business combination. The goodwill is not amortised, but rather is tested for impairment annually and when events or changes in circumstances indicate that the fair value of a reporting unit with goodwill has been reduced below carrying value.

Revenues from the production and sale of crude oil and petroleum products are recognised when title has transferred and collectability is reasonably assured.

THE ISSUER

General

TNK-BP Finance S.A. (the “Issuer”) was incorporated on 11 April 2005 as a public limited liability company (*société anonyme*) under the laws of the Grand Duchy of Luxembourg, and registered with the Luxembourg Register of Commerce and Companies under number B 107428. The principal purpose of the Issuer is to finance the business operations of TNK-BP, as described in this Base Prospectus. TNK-BP International holds a 100% interest in the Issuer through Novy Investments Limited, a wholly owned subsidiary of TNK-BP International, and Martanco Holdings Company Limited, another wholly owned subsidiary of TNK-BP International. Since incorporation, the Issuer has, in accordance with its articles of incorporation, acted as the borrower in unsecured, guaranteed loan facilities established to finance the operations of TNK-BP. It has no subsidiaries or significant business other than the issuance of debt through unsecured, guaranteed loan facilities, the Notes and, potentially, other debt securities in the future.

The Issuer has its registered office at 23, boulevard Charles Marx, L-2130 Luxembourg, Grand Duchy of Luxembourg, and its telephone number is +352-36-724133. The share capital of the Issuer is U.S.\$58,938 divided into 47 ordinary shares with a par value of U.S.\$1,254.00 each. The Issuer has issued a total of 47 ordinary shares, all of which have been fully paid up. The Issuer has no other authorised or issued shares.

Since the incorporation of the Issuer on 11 April 2005, the Issuer’s articles of incorporation were amended by one extraordinary general meeting of the shareholders dated 20 July 2006 and one extraordinary general meeting of the shareholders dated 4 December 2006. The articles of incorporation of the Issuer and the above extraordinary general meetings of shareholders of the Issuer were published in the *Memorial C, Recueil des Sociétés et Associations*.

Shareholders

Novy Investments Limited, a wholly owned subsidiary of TNK-BP International, owns two shares of the Issuer and Martanco Holdings Co. Limited, a wholly owned subsidiary of TNK-BP International, owns 45 shares. The Issuer is not aware of any arrangements, the operation of which may result in a change in control of the Issuer.

Articles of Incorporation

Pursuant to Article 3 of the Issuer’s articles of incorporation, the corporate object of the Issuer is: the acquisition, holding and disposal of participations directly or indirectly, in any form whatsoever, in Luxembourg companies and/or foreign companies or other entities; the direct and/or indirect financing of the companies and/or entities in which it holds a participation or which are members of the group to which it belongs; the acquisition by purchase, subscription or in any other manner as well as the transfer by sale, exchange or otherwise of stock, bonds, debentures, notes or other securities of any kind of instrument and contracts thereon or relative thereto; and the ownership, administration, development and management of its portfolio holdings.

It may in particular:

- (i) acquire by way of subscription, purchase, exchange or in any other manner any stock, shares and other participation securities, bonds, debentures, certificates of deposit and other debt instruments and more generally any securities and financial instruments representing ownership rights, claims or transferable securities issued by any public or private issuer whatsoever;
- (ii) exercise all rights whatsoever attached to these securities and financial instruments;
- (iii) grant any direct and/or indirect financial assistance whatsoever to the companies and/or enterprises in which it holds a participation or which are members of the group to which it belongs, in particular by granting loans, facilities, security interests over its assets or guarantees in any form and for any term whatsoever and provide them any advice and assistance in any form whatsoever;
- (iv) make deposits at banks or with other depositaries and invest it in any other manner; and
- (v) in order to raise funds which it needs to carry out its activity within the frame of its object, take up loans in any form whatsoever, accept any deposit from companies or entities in which it holds a participation or which are part of the group to which it belongs, and to issue debt instruments in any form whatsoever.

The above list is not exhaustive.

The Issuer may carry out any transactions, whether commercial or financial which are directly or indirectly connected with its object at the exclusion of any banking activity. In general, the Issuer may carry out any operation which it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

Management

The Issuer has a board of directors, currently consisting of three directors. The directors at present are:

Name	Address	Principal Outside Activities
Rossana Di Martino	23, boulevard Charles Marx, L-2130 Luxembourg	Member of the Italian Luxembourg Chamber of Commerce
Axel Rust	23, boulevard Charles Marx, L-2130 Luxembourg	Partner of Audex S.à.r.l. and Director of Amicorp Luxembourg SA
Vincent Villem	35, rue Letellier L-1932 Luxembourg	Partner of Audex S.à.r.l. and member of the internal quality control committee of the Ordre des Experts-Comptables in Luxembourg

The Issuer confirms that there are no potential conflicts of interest between any duties to the Issuer of the members of the Issuer's board of directors and their private interests.

Annual General Meeting

The annual general meeting of the Issuer takes place at the registered office of the Issuer or at such other place as may be specified in the convening notices on the last business day of April of each year at 2 p.m.

Accounts

The Issuer's financial year begins on 1 January and ends on 31 December of each year. The Issuer prepares annual financial statements which are prepared in accordance with Luxembourg legal and regulatory requirements. The Issuer's financial statements as of 31 December 2007 included in this Base Prospectus have been audited by PricewaterhouseCoopers S. à r.l, as statutory auditors. The Issuer's financial statements as of and for the year ended 31 December 2008 included in this Base Prospectus have been audited by PricewaterhouseCoopers S. à r.l, as independent auditors.

Principal Activities and Competitive Position

As the principal purpose of the Issuer, as a subsidiary of TNK-BP, is to finance the business operations of TNK-BP, as described in this Base Prospectus, it is not meaningful to compare the competitive position of the Issuer in relation to other entities.

THE GUARANTOR

Foundation

The Guarantor (initially incorporated under the name of TNK International Limited and renamed TNK-BP International Limited on 11 April 2005) was incorporated as a limited company under the laws of the British Virgin Islands on 9 August 2001, and is registered with the Registrar of Companies of the British Virgin Islands under number 457338. TNK-BP International is incorporated for an indefinite period. Pursuant to Clause 4(1) of its Memorandum of Association, the object of the Guarantor is to engage in any act or activity that is not prohibited under any law for the time being in force in the British Virgin Islands. The Guarantor was established as a holding company for TNK and other assets. Since its incorporation, the Guarantor has been engaged in activities commensurate with its status as a holding company. The registered office of the Guarantor is Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands, and its telephone number is (+1284) 494-2233. For a further description of TNK-BP International's principal activities, see "*Operating and Financial Review—Formation and Evolution of TNK-BP*".

Share Capital

The Guarantor's issued and paid up capital is U.S.\$54,000. The issued share capital consists of one series of shares divided into 54,000 shares, par value U.S.\$1.00 per share. TNK Industrial Holdings Limited ("TNK Industrial Holdings") is the sole owner of the Guarantor's issued and paid up share capital and TNK-BP Limited is the sole owner of TNK Industrial Holdings' issued and paid up voting share capital. The table below shows the ownership of TNK-BP Limited's issued and paid up share capital as of 1 October 2009. TNK-BP Limited's share capital is U.S.\$50,000. The share capital consists of 50,000 shares, par value U.S.\$1.00 per share.

Shares Owned		
	Number	Percentage
AAR	25,000	50.0%
BP	25,000	50.0%

Management

Presently, the Guarantor has the following five directors:

Name	Address	Principal Outside Activities
Mr. Richard Parsons	Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands	Consultant to law firm Harney Westwood & Riegels, British Virgin Islands, and Director of Crossroads Capital Trustee Limited, British Virgin Islands
Mr. Audley Maduro	Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands	Director of CFI Limited, British Virgin Islands
Mr. Kris Sliger	1, Arbat St., Moscow, Russia 119019	none
Mr. Igor Maydannik	1, Arbat St., Moscow, Russia 119019	Executive Vice President Legal Support at OAO TNK-BP Management, Moscow, Russia
Mr. Colin D. Riegels	Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands	Partner in the law firm Harney Westwood & Riegels, British Virgin Islands

Meetings and Consents of Members

The directors of the Guarantor may convene meetings of the members of the Guarantor at such times and in such manner and places as the directors consider necessary or desirable. Convening notices must be given to the members not later than seven days prior to a meeting. The Articles of Association of the Guarantor do not stipulate any obligation for the Guarantor to hold any annual general meeting.

Accounts

The Guarantor's financial year begins on 1 January and ends on 31 December of each year.

Since its date of incorporation, the Guarantor has prepared annual consolidated financial statements in respect of each financial year, beginning with the year ended 31 December 2002 and ending with the year ended 31 December 2008. It also has prepared interim condensed consolidated financial statements for interim periods including the three-month period ended 31 March 2009, the six-month period ended 30 June 2009 and the nine-month period ended 30 September 2009. Apart from the annual consolidated financial statements and the interim unaudited condensed consolidated financial statements that have been prepared for certain interim periods, the Guarantor does not prepare and publish any other financial statements. The Guarantor confirms, to the best of its knowledge, that there are not recent events particular to the Guarantor which are to a material extent relevant to the evaluation of the Guarantor's solvency.

Material Contracts

There are no contracts which would be material in relation to the solvency of the Guarantor.

Forward-Looking Statements

Forward-looking statements of the Guarantor are discussed in the "Business" section of this Base Prospectus.

TNK-BP HISTORY AND ORGANISATIONAL STRUCTURE

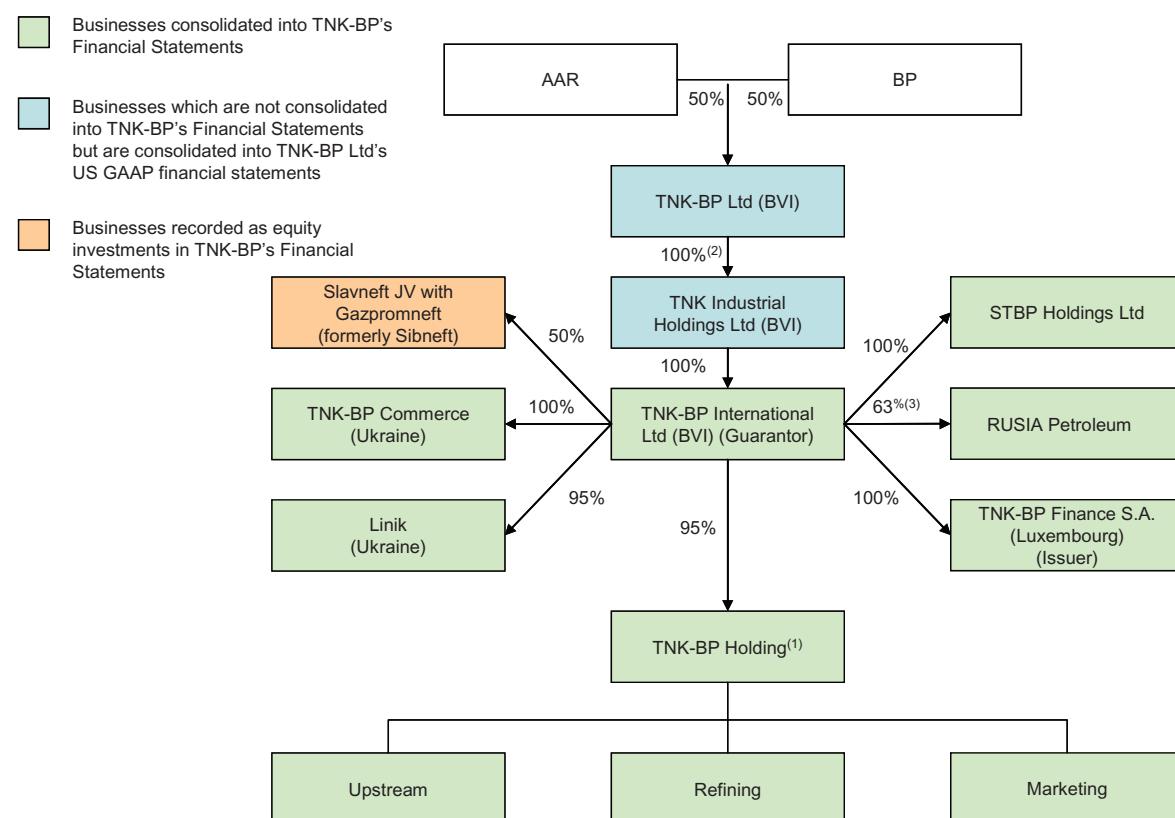
Formation of TNK-BP

On 11 February 2003, the global oil company BP and AAR, announced their intention to combine their oil assets in Russia and Ukraine in one strategic partnership. In June 2003, BP and AAR incorporated TNK-BP Limited, a British Virgin Islands holding company, of which BP and AAR each own a 50% interest, to act as the ultimate holding company of the two entities' oil and gas interests in Russia and Ukraine. Specifically, AAR contributed its 100% stake in TNK Industrial Holdings, which held a 100% interest in TNK-BP International, which at that time in turn directly and indirectly held a 96.1% interest in TNK, a 98.8% interest in Onako, and a 68.0% interest in Sidanco. BP contributed its 29.6% interest in Sidanco, its 33.4% interest in Rusia Petroleum and its 75.0% interest in STBP, which owns a network of BP branded retail sites in Moscow. The transaction did not include the transfer of BP's interest in its Sakhalin or Castrol operations in Russia. BP also agreed to make payments, of cash and BP shares, to AAR over a period of three years. On 29 August 2003, TNK-BP commenced its independent operations.

In addition, upon the formation of TNK-BP Limited, TNK Industrial Holdings owned a 49.5% interest in the Russian company Slavneft, which was effectively transferred to TNK-BP International at the time of formation. In September 2003, AAR and BP agreed that Slavneft would continue to be held by TNK-BP in return for a cash payment by BP of U.S.\$1.35 billion, subject to adjustments. This transaction was completed in January 2004. At 1 October 2009, TNK-BP's effective ownership in Slavneft was 49.9% reflecting treasury noncontrolling stock holdings in Slavneft.

Present Structure of the TNK-BP Group

TNK-BP Limited is the ultimate holding company of TNK-BP. TNK-BP Limited is jointly controlled by AAR and BP, which are represented equally in the management of TNK-BP Limited. Below is a simplified chart showing the current corporate and shareholding structure of the TNK-BP Group.



Notes

(1) As a result of accessions of TNK, ONAKO and Sidanco to TNK-BP Holding and completion of the voluntary share exchange programme, minority shareholders have received about 5% of TNK-BP Holding shares as of the end of 2005.

(2) Voting share capital.

(3) In June 2007, TNK-BP entered into a heads of terms agreed with Gazprom and BP, whereby TNK-BP has agreed to sell to Gazprom its interest in Rusia Petroleum. The sale has not yet been finalised and negotiations continue. See "**Business—Gas Business—Principal Gas Production Operations—Kovyktka Project**".

TNK-BP International

TNK-BP International is a holding company, incorporated in the British Virgin Islands, whose current principal direct and indirect holdings include: (i) a 94.7% interest in TNK-BP Holding, (ii) a 62.9% interest in Rusia Petroleum, (iii) a 49.9% effective interest in Slavneft, (iv) a 100% interest in TNK-BP Commerce, (v) a 95.2% interest in Linik and (vi) a 100% interest in STBP.

TNK-BP Holding

TNK-BP Holding was incorporated in Russia in November 2004 principally to serve as the top holding company for most of TNK-BP's upstream, downstream and refining assets in Russia. TNK-BP Holding indirectly accounts for 100% of the proved oil reserves and production operations (of TNK-BP's consolidated subsidiaries). Until December 2005, TNK-BP Holding held, directly and indirectly, (i) a 96.1% interest in TNK, (ii) a 98.8% interest in Onako and (iii) a 97.6% interest in Sidanco. In December 2005, these three companies acceded to TNK-BP Holding. Each of these companies held upstream, downstream and refining assets in Russia, which have been transferred to TNK-BP Holding as a result of this accession. After completion of the accession and the voluntary share exchange programme, as described in detail under "*Business—Corporate Activities—Corporate Restructuring Project in Russia*", noncontrolling shareholders now hold approximately 5% of TNK-BP Holding's outstanding share capital.

TNK-BP Holding currently directly holds more than 80 subsidiaries operating in the oil and gas industry. Set forth below is a list of the principal subsidiaries of TNK-BP Holding and its effective equity interest in these subsidiaries as of 1 October 2009.

Name	Effective equity interest (%)
Producing Companies	
OAO Nizhnevartovsk Oil and Gas Producing Enterprise (NNP)	100.0
OAO Samotlorneftegas (SNG).....	100.0
OAO TNK Nyagan	100.0
OAO Tyumenneftegaz	100.0
OAO Corporation Yugraeft	79.5
OAO Orenburgneft.....	91.2
OAO Novosibirskneftegaz.....	100.0
OAO TNK Nizhnevartovsk	100.0
OAO Varieganeftegaz.....	85.0
ZAO Rospan International.....	100.0
OOO JV Vanyoganneft ⁽¹⁾	100.0
OOO TNK-Uvat	99.9
OAO Verkhnechonskneftgas ⁽²⁾	68.5
Refineries	
ZAO Ryazan Refining Company.....	100.0
OOO Nizhnevartovsk Refining Association.....	100.0
OOO Krasnoleninsk Refinery.....	100.0
OAO Saratov Refinery	83.8
Marketing Companies	
OAO Kaluganefteprouduct	90.7
ZAO Karelianefteprouduct	100.0
OOO Kurskoblnefteproduct	100.0
OAO Ryazannefteproduct	92.9
OAO Tulanefteprouduct.....	85.7
OAO TNK Stolitsa.....	100.0
OOO Zapsibnefteproduct	100.0
OAO Saratovnefteproduct.....	60.0
ZAO TNK Yug.....	50.1
OOO TNK-BP Severnaya Stolitsa	100.0
OAO TNK-Yaroslavl	66.6

Notes:

(1) In January 2007, TNK-BP acquired the 50% interest in Vanyoganneft that it did not already own. See "*Operating and Financial Review—Formation and Evolution of TNK-BP—Acquisitions and Divestments*" in this Base Prospectus.

(2) In July 2007, TNK-BP Holding acquired a 5.6% stake in OAO Verkhnechonskneftgas from ESGC and therefore increased its stake to 68.5%.

TNK-BP's Assets Held Outside of TNK-BP Holding

- ***Slavneft.*** Slavneft is a Russian vertically-integrated oil and gas company which produced 19.6 million tonnes (0.4 mmbd) of crude oil in 2008 on a gross basis. As of 31 December 2008, it had gross proved oil and gas reserves of 1.3 billion boe under the SEC-LOF basis. As of 1 October 2009, TNK-BP held a 49.9% effective interest in Slavneft as a result of the 50-50 joint venture with Gazpromneft (formerly Sibneft).
- ***Rusia Petroleum and East Siberian Gas Company.*** As of 1 October 2009 TNK-BP owned a 62.9% interest in Rusia Petroleum and a 50% interest in ESGC. Rusia Petroleum holds an exploration and production licence for a large natural gas exploration and development project at the Kovykta field. The other shareholders of Rusia Petroleum include The Third Generation Company of the Wholesale Electricity Market and the Irkutsk Region. ESGC was established in March 2004 to supply gas from the Kovykta field to the local Irkutsk market in Eastern Siberia. ESGC is a 50-50 joint venture between TNK-BP International (as an indirect shareholder) and the Irkutsk Region. In June 2007, TNK-BP entered into a Heads of Terms with OAO Gazprom and BP whereby TNK-BP has agreed to sell to OAO Gazprom its interests in Rusia Petroleum and ESGC. While negotiations continue, the assets remain classified as “assets held for sale”. See “*Operating and Financial Review—Formation and Evolution of TNK-BP—Changes in TNK-BP Structure 2006-2009—Assets Held for Sale (Kovykta)*” and “*Business—Gas Business—Kovykta Project*”.
- ***TNK-BP's Ukrainian Businesses.*** TNK-BP holds a number of interests in Ukraine including a 95% effective interest in Linik (Ukraine) and a 100% effective interest in TNK-BP Commerce (Ukraine).
- ***STBP.*** TNK-BP holds a 100% effective interest in STBP, which owns a network of BP branded retail sites in Moscow.

Ongoing Changes in the Structure of TNK-BP

Beginning in 2004, TNK-BP has engaged in a number of corporate activities that are intended to considerably simplify TNK-BP's structure. These activities include corporate restructuring projects in both Russia and Ukraine and a project relating to the liquidation of dormant corporate entities.

The restructuring was aimed at achieving the following key objectives:

- simplify TNK-BP Holding group's corporate structure and provide for more efficient management;
- consolidate the noncontrolling shareholdings in certain of TNK-BP Holding's subsidiaries into TNK-BP Holding to enable noncontrolling shareholders to participate in the success of the entire TNK-BP group; and
- provide greater transparency and improved corporate governance within the TNK-BP group.

For further details on the steps taken as part of this corporate restructuring project, see “*Business—Corporate Activities—Corporate Restructuring Project*.”

Liquidation Project

The corporate restructuring projects described above have resulted in many of TNK-BP's currently existing legal entities becoming dormant. As a consequence, TNK-BP has set up a corporate liquidation project, the objective of which is to liquidate TNK-BP companies that no longer have any function.

History of TNK, Onako and Sidanco

Privatisation of TNK

TNK was established as a state-owned Russian joint stock company in August 1995 for the purpose of holding a number of formerly state-owned upstream and downstream assets, and with a view to its further privatisation. From 1995 to 2001, TNK underwent several privatisation proceedings before it became a fully privately-owned joint stock company. Beginning in 1997, entities owned by AAR acquired interests in TNK through successful participation in tenders organised by the Russian Government and through purchases from existing private shareholders. As a result of this series of share acquisitions and a subsequent corporate reorganisation and restructuring programme, at the time of formation of TNK-BP, AAR investment vehicles together indirectly owned a total of 97% of the voting shares of TNK.

Acquisitions of Onako and Sidanco

TNK-BP predecessor entities controlled by AAR acquired an 85% voting interest in Onako in 2000 through a privatisation tender. The Russian Government established Onako as an open joint stock company in 1994 to hold certain state-owned oil and gas assets, including a majority voting interest in Orenburgneft, its principal asset. In 2000, TNK-BP predecessor entities also acquired, through private transactions, an additional 12.8% interest in Onako and a 3.2% interest in Orenburgneft. As a result of a share exchange and consolidation and subsequent share acquisitions, TNK-BP predecessor entities held a 98.8% interest in Onako and an 88.1% interest in Orenburgneft from March 2003 up to the time of formation of TNK-BP.

In May and August 2001 AAR, through investment vehicles, acquired an 84% interest in Sidanco from the Interros Group for U.S.\$1,257 million. Sidanco was established by the Russian Government in 1994 as an open joint stock company to hold certain state-owned oil and gas assets and then was privatised in 1995 through an auction. In 2002, BP acquired a 15% interest in Sidanco from AAR for U.S.\$375 million, bringing BP's interest to 25% plus one share. AAR initially held its interest in Sidanco through TNK Industrial Holdings, the parent of TNK-BP International. In May 2003, TNK Industrial Holdings contributed its 68.0% effective interest in Sidanco to TNK-BP International. BP contributed its 29.6% effective interest in Sidanco to TNK-BP Limited in May 2003, which interest was subsequently transferred to TNK-BP International.

Acquisition of Interests in Slavneft, Rusia Petroleum and Rospan

In 2002, TNK-BP predecessor entities acquired a 25% share of 13.2% of the share capital of Slavneft, a Russian vertically-integrated oil and gas company, through a trust with three other beneficiaries, including Sibneft (which was renamed Gazpromneft in May 2006). In November 2002, TNK-BP predecessor entities and Sibneft each increased their interests in the trust to 50% by purchasing the interests of the other two beneficiaries in the trust. In December 2002, Sibneft and TNK-BP predecessor entities acquired another 10.8% interest in Slavneft in a tender organised by the Belorussian Government. Also in December 2002, a joint venture company in which TNK-BP predecessor entities and Sibneft each had a 50% interest successfully bid U.S.\$1.86 billion in a privatisation auction organised by the Russian Government for 74.9% of Slavneft. In total, the aggregate cost to TNK-BP predecessor entities to increase their interest in Slavneft through the increase in their interest in the trust and the acquisitions of the Belorussian and Russian Governments' respective interests amounted to approximately U.S.\$1.2 billion. In September 2005, Sibneft's former majority shareholders sold approximately 72% of Sibneft's voting shares to Gazprom. As a consequence of this and related transactions, Gazprom acquired control of over 75% of the voting shares of Sibneft (Gazpromneft).

In 2001, Rusia Petroleum, an operator of a large natural gas exploration and development project at the Kovykta field in the Irkutsk region of Eastern Siberia (then co-owned by BP, the Administration of Irkutsk Region and other shareholders) consolidated its exploration and production licences for the Kovykta field with those for two adjacent deposits held by TNK in consideration for which TNK received a 29% voting interest in Rusia Petroleum. In June 2007, TNK-BP entered into a memorandum of understanding with BP and Gazprom, which includes an agreement to sell its interest in Rusia Petroleum to Gazprom. See "*Business—Gas Business—Kovykta Project*".

In May 2002, TNK-BP predecessor entities initially acquired a 44% interest in Rospan from OAO NK Yukos ("Yukos"). Rospan was established in 1991 for the purpose of developing the deep-seated gas layers of the Novo-Urengoisk and East-Urengoisk condensate fields in the Yamal-Nenets Autonomous District of Northern Russia. In October 2004, TNK-BP acquired the remaining 56% interest in Rospan from Yukos for U.S.\$355 million and is now the sole owner of Rospan.

BUSINESS

Business and Strategy Overview

Business Overview

TNK-BP is one of the largest vertically-integrated oil and gas groups in Russia in terms of both proved oil reserves and crude oil production. TNK-BP is the result of a strategic partnership and business combination of certain oil and gas exploration and production operations held by AAR and BP in Russia and Ukraine, which was completed in August 2003. TNK-BP's main exploration and production operations are located primarily in Russia's Western Siberian and Volga-Ural basins. TNK-BP is led by a management team comprised of experienced Russian and international managers.

In 2008, TNK BP recorded sales and other operating revenues of U.S.\$51,886 million, EBITDA of U.S.\$10,093 million and net income attributable to Group shareholders of U.S.\$5,284 million as compared to sales and other operating revenues of U.S.\$38,926 million, EBITDA of U.S.\$9,565 million and net income attributable to Group shareholders of U.S.\$5,342 million in 2007. In 2006, TNK BP recorded sales and other operating revenues of U.S.\$35,725 million, EBITDA of U.S.\$11,255 million and net income attributable to Group shareholders of U.S.\$6,678 million. As of 31 December 2008, TNK BP had outstanding indebtedness of U.S.\$7,992 million, net debt of U.S.\$6,361 million and a gearing ratio of 31.7% (calculated as the ratio of net debt to net debt plus total Group shareholders' equity), as compared to outstanding indebtedness of U.S.\$8,548 million, net debt of U.S.\$5,478 million and a gearing ratio of 30.0% as of 31 December 2007. As of 31 December 2006, TNK BP had outstanding indebtedness of U.S.\$6,934 million, net debt of U.S.\$5,181 million and a gearing ratio of 33.9%.

For the nine months ended 30 September 2009, TNK BP recorded sales and other operating revenues of U.S.\$24,747 million, EBITDA of U.S.\$6,663 million and net income attributable to Group shareholders of U.S.\$3,691 million as compared to sales and other operating revenues of U.S.\$43,900 million, EBITDA of U.S.\$10,918 million and net income attributable to Group shareholders of U.S.\$6,552 million for the nine months ended 30 September 2008. As of 30 September 2009, TNK BP had outstanding indebtedness of U.S.\$7,019 million, net debt of U.S. \$5,134 million and a gearing ratio of 24.4%.

The following are certain of TNK-BP's business and operational highlights which underpin its financial performance (excluding, for the purposes of TNK-BP's operational data described below, data relating to TNK-BP's interest in Slavneft but including data relating to TNK-BP's consolidated subsidiaries):

- *Reserves.* Under the SEC-LOF basis, TNK-BP's total proved oil and gas reserves held through its consolidated exploration and production subsidiaries as of 31 December 2008 amounted to approximately 8.1 billion boe. In 2008, TNK-BP replaced 82% of its annual production with new proved reserves under the SEC-LOF basis.
- *Production.* In 2008, total liquids production (crude oil, condensate and NGL) and gas sales of TNK-BP's consolidated subsidiaries were 1.642 millions barrels of oil equivalent per day, representing an increase of 2.6% compared to the 2007 production levels. In the first nine months of 2009 total liquids production and gas sales of TNK-BP's consolidated subsidiaries were 1.676 mmboed, representing a 2.6% increase compared to the same period in 2008.

In 2008, the total liquids production of TNK-BP's consolidated subsidiaries was 70,453 thousand tonnes (or 1.454 mmbd) compared to 70,387 thousand tonnes (or 1.452 mmbd) in 2007. In the first nine months of 2009 total liquids production by TNK-BP's consolidated subsidiaries was 53,527 thousand tonnes (or 1.481 mmbd), representing a 2% increase compared to the same period in 2008. In general, TNK-BP either exports crude oil or uses it as a feedstock for its refineries.

TNK-BP's consolidated subsidiaries' commercial gas sales totalled 11.3 billion cubic meters (or 189 million boe per day) in 2008, and 8.9 bcm (or 149 million boe per day) in 2007 and 10.9 bcm (or 177 million boe per day) in 2006. The contribution of gas sales to TNK-BP's overall revenues and EBITDA is currently not material, but Management expects this contribution to increase significantly going forward in line with TNK-BP's strategic focus on this business area.

- *Refining.* TNK-BP owns five refineries, four of which are located in Russia in the cities of Ryazan, Nizhnevartovsk, Krasnoleninsk and Saratov, with the fifth located in Lisichansk, Ukraine. Together, as of the date of this Base Prospectus, these five refineries have an effective capacity of approximately 31.5 million tonnes per year. In 2008, TNK-BP refined 28.2 million

tonnes of crude oil and other feedstock, representing an effective average refinery utilisation rate of 90%, compared to 28.7 million tonnes of crude oil and other feedstock refined in 2007, representing an effective average refinery utilisation rate of 92%. In the first nine months of 2009, TNK-BP refined 20.3 million tonnes of crude oil and other feedstock representing an effective average utilisation rate of 86% compared to 21.3 million tonnes and effective average utilisation rate of 90% in the first nine months of 2008. TNK-BP's refineries produce a variety of refined products, including gasoline, diesel fuel (gas oil), jet fuel (kerosene), fuel oil (mazut), lubricants and bitumen.

- *Exports.* In 2008, TNK-BP exported 38.1 million tonnes of crude oil (to Europe and the CIS), which was the equivalent of 54% of its total liquids production and 47% of its total sales in volume terms that year, compared to 41.0 million tonnes of crude oil in 2007 which was the equivalent of 58% of its total liquids production and 50% of its total sales in volume terms in that year. In the first nine months of 2009, TNK-BP's oil exports (to Europe and CIS) were 31.3 million tonnes, accounting for 59% of its total liquids production and 50% of its total sales, compared to 28.8 million tonnes, accounting for 55% of its total liquids production and 48% of its total sales, in the first nine months of 2008. TNK-BP also exported 21.4 million tonnes and 20.1 million tonnes of petroleum products in, respectively, 2008 and 2007 and 16.2 million tonnes and 15.7 million tonnes in, respectively, the first nine months 2009 and the first nine months of 2008, which for each period represented 26% its total sales in volume terms.
- *Domestic Marketing and Retail.* Domestically, TNK-BP sells its products through a variety of distribution channels. Gasoline and most of the diesel fuel TNK-BP produces is sold through TNK-BP's network of retail stations (including non-owned outlets managed by independent operators under the "TNK" brand who are tied to exclusive arrangements with TNK-BP, or "jobbers") and on the wholesale market. Other TNK-BP refined products are for the most part sold directly to large wholesale customers.

TNK-BP operates a network of retail filling stations in Russia and Ukraine, operating under two distinct customer brands: TNK and BP. Through these stations, TNK-BP markets a range of fuel products in Russia (mainly in the Northern, Central and Urals regions) and throughout Ukraine. As of 30 September 2009, TNK-BP's retail network in Russia and Ukraine included 1,399 filling stations, 822 of which are owned and operated by TNK-BP's marketing subsidiaries (including 62 filling stations under the BP brand). The remainder are independently owned and operated by jobbers.

In Moscow and the Moscow region, TNK-BP has over 270 branded retail sites (including 56 owned sites under the BP brand) as of 30 September 2009, which TNK-BP estimates represent an approximate 26% share (in terms of sales volume) of the Moscow retail market as of that date. TNK-BP is also a widely recognised retailer in Ukraine, with a network of 50 of its own and 250 jobber filling stations as of 30 September 2009. As a part of its downstream strategy, TNK-BP is focused on expanding its operations into two new targeted growth regions: Rostov, through a joint venture, and St. Petersburg, through acquisitions and building its own retail sites.

- *Slavneft Joint Venture.* Slavneft is a Russian vertically-integrated oil and gas company which produced 19.6 million tonnes (or 0.4 mmbd) of crude oil in 2008. As of 31 December 2008, it had proved oil and gas reserves of 1.3 billion boe, under the SEC-LOF basis. Slavneft's reserves are not included in TNK-BP's oil and gas reserves. TNK-BP holds a 49.9% effective interest in Slavneft as a result of the 50-50 joint venture with Gazpromneft. TNK-BP and Gazpromneft purchase the bulk of crude oil produced by Slavneft on a 50:50 basis, at domestic market prices. TNK-BP processes approximately 40% of the crude oil it purchases from Slavneft at Slavneft's refinery YANOS. TNK-BP receives dividend payments from Slavneft, when, and in the amounts, declared and approved by the Slavneft shareholders. See "*Business—Upstream Business—Slavneft Joint Venture*".
- *Portfolio Management.* TNK-BP manages its portfolio so as to acquire and develop assets where it believes it can create and access new value and apply distinct skills and capabilities. Assets are acquired and developed in Russia and Ukraine, as well as in select international locations, which are value-accretive to TNK-BP's existing portfolio and are expected to support growth over the medium and long-term. TNK-BP's portfolio management also involves

divestment of non-strategic assets thereby enabling higher activity, greater asset efficiencies and investment levels. For additional details about TNK-BP's portfolio management strategy see “*Operating and Financial Review—Formation and Evolution of TNK-BP*”.

- *Awards.* In 2008, TNK-BP was awarded first prize as a “High Social Performance Organisation” in a national competition organised by the Russian Ministry of Economic Development and Trade and the Ministry of Public Health and Social Development. In 2006, TNK-BP's Eurobond issue, comprising U.S.\$500 million 6.875% Notes due 2011 and U.S.\$1 billion 7.50% Notes due 2016, was voted the best corporate bond deal in eastern Europe in 2006 by market participants in *Euroweek* magazine. In 2005, TNK-BP was named one of the “Best Companies in Russia” (and the best company in the oil and gas sector) by *Global Finance* magazine. Also in 2005, TNK-BP was noted by the British Energy Institute for its safety and environmental protection standards for operations on the Volga River.
- *Credit Rating.* TNK-BP International is currently rated “Baa2” (outlook stable) by Moody's, “BBB-” (outlook stable) by Standard & Poor's and “BBB-” (outlook stable) by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

Strategic Objectives

TNK-BP's principal strategic objective is to become a world class oil and gas group that is an industry leader in Russia with a clear focus on the sustainability and renewal of its resources and the efficiency of its operations. TNK-BP will pursue this objective by continuing with the strategy it has had in place since 2003, namely to:

- convert resources to reserves to production;
- enhance the netback (defined as the sales price of crude oil or refined products less all costs such as transportation, refining costs, taxes and duties) of the products it produces;
- grow a gas business; and
- build a corporate governance system on the basis of international standards.

To achieve these goals, TNK-BP is focusing on a number of key strategic priorities, including:

- *Upstream.* TNK-BP aims to grow its upstream production over time while replacing at least 100% of annual production with new proved reserves to create a sustainable basis for future production and to improve its production cost efficiency at the same time. In 2008, TNK-BP replaced 82% of its production, measured on the SEC-LOF basis, and 146% of its production, measured under the PRMS standard. To this end, TNK-BP will continue the disciplined acquisition of new subsoil use licences.
- *Downstream.* TNK-BP seeks to enhance the flexibility and profitability of its downstream operations, principally through the continued development of new export options for its production and higher margin products, the enhancement of its refining capabilities, and a targeted growth of its retail operations and business to business sales.
- *Gas Business.* TNK-BP aims to significantly increase the contribution of gas sales to its overall business and transform itself from an oil group into a major integrated oil and gas group. TNK-BP aims to achieve this by exploiting TNK-BP's significant gas and associated gas resources and by efficiently delivering gas to the domestic gas market and export markets in accordance with Gazprom and/or Russian Federation policies. TNK-BP may increase its participation in power generation projects in the future, by exploiting the synergies between its status as a major consumer of electricity and as a significant producer of gas and associated gas.
- *Portfolio Management.* TNK-BP also intends to continue to manage its portfolio of assets in furtherance of its strategic goals and in so doing may, among other things, evaluate opportunities to acquire assets that management believes will enhance value or divest assets that are deemed to have limited or no opportunity to grow value.
- *Corporate Governance and Other Internal Initiatives.* TNK-BP intends to continue to focus on increasing its transparency and performance through improved corporate governance, organisational simplification and enhanced audit and financial reporting capabilities.

- *Employee Training.* TNK-BP is taking steps to increase its organisational capabilities and skills through programmes with leading world class universities (such as Skolkovo, INSEAD and Herriot-Watt) implementing best-practices for the oil and gas industry, improving internal and external training programmes, and benchmarking against international standards.
- *Health, Safety and Environmental Policies.* TNK-BP strives to continuously improve its safety and environmental performance and it aims to ensure that all its activities are conducted with due regard for health, safety and the surrounding environment.
- *Financial.* TNK-BP plans to implement a financial strategy that is focused on contributing to the group's growth while maintaining a strong balance sheet and enhancing its financial flexibility.

Upstream Business

Overview and Strategic Focus

In the first nine months of 2009, TNK-BP's liquids production (crude oil, condensate and NGL) from consolidated subsidiaries was 53,527 thousand tonnes (or 1.481 mmboed), representing a growth of 2% when compared to the production levels in the first nine months of 2008. In 2008, TNK-BP's liquids production from consolidated subsidiaries was 70,453 thousand tonnes (or 1.454 mmboed). Liquids production volumes were broadly flat over 2008, 2007 and 2006 (after adjustment for the sale, in late 2006, of OAO Udmurtneft, an oil producing entity located in the Volga-Urals area, to an affiliate of China Petroleum & Chemical Corporation). NGL production was commenced by TNK-BP in 2007. TNK-BP aims to maintain a reserves replacement rate at or above 100% of annual production on a boe basis.

At its mature oil fields ("**Brownfields**"), located in Western Siberia and in the Orenburg region, TNK-BP continues to focus on efficiency and technology improvements in order to sustain and, where possible, grow production volumes. Initiatives to improve efficiencies and manage lifting costs include such initiatives as working with contractors to improve drilling performance, accessing the lower-cost wholesale electricity and power market for certain of its energy needs, improving the performance of submersible equipment, developing and implementing its supply chain procurement policy and leveraging its purchasing power through programs combining long-term and short-term contracts. TNK-BP expects that through the implementation of technology initiatives at mature fields such as waterflood management, electric submersible pump optimisation, sidetracking, horizontal and multilateral drilling, idle well recovery and recompletion and hydraulic fracturing, TNK-BP will be able to sustain its production at such fields. At the same time, TNK-BP also plans to expand its development and exploration programmes with respect to new reservoirs associated in and around existing fields, which TNK-BP believes can be converted into production at relatively low cost.

TNK-BP expects that production will grow moderately until 2012, and that such growth will be driven by production from new fields currently being explored and developed ("**Greenfields**") and in particular by new projects now coming into operation ("**Producing Greenfields**"). TNK-BP estimates that Producing Greenfield developments may account for up to 10% of total liquids production by 2012 and that Brownfields' share of total production will be reduced to approximately 73% by 2014. Production has already started at the Verkhnechonskoe field, the Eastern Uvat fields and the Kamennoe field in Nyagan.

In the long term, TNK-BP expects that further growth will be driven by production from new projects that are largely located in remote regions and are at an early development and exploration stage ("**Early Development Greenfields**"). These Early Development Greenfields are primarily located in the Yamal region and in Central Uvat. These are vast and isolated regions with minimal or no infrastructure and therefore requiring considerable capital investments and the application of advanced technologies. The Yamal group of projects includes the Suzun and Tagul projects in the Krasnoyarsk/Taimyr region and the Russkoe field in the Yamal-Nenets Autonomous Area. TNK-BP plans to implement development techniques utilised successfully by BP to improve TNK-BP's reserve recovery capabilities at these fields. TNK-BP also seeks to carefully monitor opportunities to develop other areas for which licences have yet to be allocated as a means of increasing reserves and production. See "**—Licences**". TNK-BP aims to invest between U.S.\$3.3 billion and U.S.\$3.5 billion in its upstream operations in 2010.

Licences

As of 30 September 2009, TNK-BP held a total of 210 licences relating to its oil and gas exploration and production activities, comprising 126 production licences, 64 combined exploration and production licences, and 20 exploration licences. None of TNK-BP's material existing licences will, under its existing terms, expire prior to 2013. TNK-BP has established a programme to actively manage the process of licence renewal at the time such licences expire. This programme includes a periodic review of existing licence terms to help ensure that TNK-BP is in compliance with those terms. TNK-BP believes that all of the licences that it intends to retain will be renewed upon or before expiration.

TNK-BP is obliged to meet the requirements relating to exploration activity and the levels of oil and gas production for each field set forth in its exploration licences and to ensure that fields are developed in accordance with agreed upon schedules and in accordance with an annual work program which must be approved by the Federal Service on Ecological, Technological and Nuclear Supervision. See "*Risk Factors—Risks Relating to TNK-BP and the Oil and Gas Industry in Russia and Ukraine—Subsoil Licensing; Governmental Permits and Authorisations*" and "*Regulation of the Oil and Gas Industry—Licensing*".

In managing its licence portfolio, TNK-BP monitors upcoming auctions for new licences and aims to tender for licences it considers may add value and which are consistent with its strategy and business focus. With respect to its existing portfolio of licences, TNK-BP monitors its compliance with the key delivery targets provided for in each licence and it seeks to obtain any necessary amendments or renewals of the licence's terms, including the design documentation and mineral extraction permissions. TNK-BP also continuously strives to focus its efforts on the licences it deems most profitable and productive, while identifying and then divesting from any unproductive licence. In the period from the beginning of 2006 to 30 September 2009, as a result of this portfolio optimisation effort:

- 42 new licences were acquired in federal auctions (of which, 23 were acquired in 2006, 10 in 2007, five in 2008 and four in the first nine months of 2009);
- 18 new licences were acquired through the purchase of ownership interests in existing operators (of which two were acquired in 2006 and 16 in 2007);
- one production licence was granted by the federal authorities in 2007 with respect to an area for which TNK-BP had held an exploration licence;
- two licences to conduct geological studies were granted by the federal authorities (of which, one was acquired in 2007 and the other in 2008); and
- 88 non-productive licences were divested, of which 64 were divested in 2006 (including 57 licences owned by Udmurtneft, which was sold to an affiliate of China Petroleum and Chemical Corporation that year), 14 in 2007 (including 8 licences held by minor subsidiaries which were sold), eight in 2008 and two in the first nine months of 2009.

In particular, in 2008 and in the first nine months of 2009:

- 15 licences were extended to dates ranging from 2025 to 2048 (of which, eight were extended until 2038);
- licence agreements covering 61 areas were amended (of which, licences relating to 41 areas were amended in 2009), which involved the adjustment of the exploration scope and/or an update of commercial operation start dates and/or a revision of production and/or gas utilisation level targets;
- approvals were obtained in respect of design documents for the development of 63 fields within existing licenced areas (including 23 fields in 2009); and
- rights were renewed in respect of 58 fields (including 27 fields in 2009) until the expiration of the current licences.

Since the formation of TNK-BP in 2003 until 30 September 2009, 24 renewal applications have been successfully approved and no applications have been declined.

Samotlor field is TNK-BP's largest oil field and accounted for almost 43% of TNK-BP's consolidated subsidiaries crude oil production in 2008 and 40% in the first nine months of 2009. In 2006, the two key licences to develop Samotlor field held by TNK-BP's production subsidiaries Samotlorneftegaz ("SNG") and TNK-Nizhnevartovsk were extended to 2038.

The table below sets forth information with respect to the licences which were extended in 2008 and during the first nine months of 2009:

Licence Area	Licence Holder	New licence term, through
		Year ended 31 December 2008
1 Verkhnechonskoe	OAO "Verknechonskneftegas"	2042
2 Talinskoe	OAO "TNK-Nyagan"	2038
3 Verkhne-Kolik-Yoganskoe	OAO "Varyoganneftegaz"	2038
4 Van-Yoganskoe	OOO "Vanyoganneft"	2038
5 Samodurovskoe	OAO "Orenburgneft"	2038
6 Tokskoe	OAO "Orenburgneft"	2025
7 Kichkasskoe	OAO "Orenburgneft"	2048
8 Kodyakovskoe (Carboniferous)	OAO "Orenburgneft"	2038
9 Kodyakovskoe (Devonian)	OAO "Orenburgneft"	2043
10 Donetsko-Syrtovskoe	OAO "Orenburgneft"	2038
Nine months ended 30 September 2009		
1 Ermakovskoe	OAO "Tyumenneftegaz"	2033
2 Zagorskoe	OAO "Orenburgneft"	2038
3 Bobrovskoe	OAO "Orenburgneft"	2037
4 Garshinskoe	OAO "Orenburgneft"	2038
5 Pron'kinskoe	OAO "Orenburgneft"	2037

The table below sets forth the number of licences owned as of 30 September 2009 by TNK-BP's five largest production subsidiaries, which accounted for over 82% of TNK-BP consolidated subsidiaries' total oil production in the first nine months of 2009.

Subsidiary	No. of production licences as of 30 September	Percentage of TNK-BP's total production				
		Nine months ended 30 September		Year ended 31 December		
		2009	2009 (%)	2008	2007 (%)	2006 (%)
SNG (Samotlor).....	1	30	30	32	33	33
Orenburgneft	72	24	24	23	22	22
TNK-Nizhnevartovsk.....	5	11	11	12	12	11
TNK-Nyagan	7	9	9	9	8	8
NNP	6	6	6	7	7	8

For a discussion of the typical duration of TNK-BP's licences, see "*Regulation of the Oil and Gas Industry—Licensing—Term of licence*".

Reserves

TNK-BP uses two main global reserves classification systems for external reserves reporting and internal reserves management:

- the U.S. Society of Petroleum Engineers, Inc.'s Petroleum Resource Management System ("PRMS") standards (formerly called SPE standards); and
- the standards of reserves measurement applied by the U.S. Securities and Exchange Commission (the "SEC"), including such standards on the basis of reserves being calculated through the current licence period (the "SEC-LE basis") and such standards on the basis of reserves being calculated through the economic life of the fields (the "SEC-LOF basis").

The SEC-LOF basis is the primary basis used for reserves management within TNK-BP, except with respect to exploration activities and the assessment of Greenfield projects' potential, where the PRMS standard is primarily used.

Based on the evaluation of DeGolyer & MacNaughton as set out in the 2008 Reserves Report, as of 31 December 2008:

- under the SEC-LOF basis, whereby reserves are calculated through the economic life of fields (and thus on the assumption that the relevant licence will be renewed), TNK-BP had total proved reserves of 8.1 billion boe on a consolidated basis, of which 5.2 billion boe comprised proved developed reserves;
- under the SEC-LE basis, in which reserves are calculated through current licence renewal dates, TNK-BP had total proved reserves of approximately 7.2 billion boe on a consolidated basis, of which 4.6 billion boe comprised proved developed reserves; and
- under PRMS standards, TNK-BP had total proved reserves of 10.3 billion boe, of which 5.6 billion boe comprised proved developed reserves. In addition, TNK-BP had 9.3 billion boe of probable reserves and 11.8 billion boe of possible reserves.

Information on reserves throughout the remainder of this section is presented on an SEC-LOF basis.

The following table presents certain oil and gas reserves data as of 31 December 2008, 2007 and 2006 for TNK-BP's consolidated subsidiaries and excluding the Slavneft joint venture. The data in the table has also been presented to provide a breakdown of reserves for the respective categories shown that are estimated to be producible up to the primary terms of TNK-BP's respective licences and reserves that are estimated to be producible beyond the primary terms of TNK-BP's respective licences. The data presented with respect to reserves that are estimated to be producible up to the primary terms of TNK-BP's respective licences have been extracted from the Reserves Reports prepared by DeGolyer and MacNaughton as it relates to the review of TNK-BP's oil and gas fields using the SEC-LOF basis. The other data presented in the table has either been extracted or extrapolated from the Reserves Reports prepared by DeGolyer and MacNaughton as it relates to the review of TNK-BP's oil and gas fields on the SEC-LOF basis. The 2008 Reserves Report as it relates to the review of TNK-BP's oil and gas fields using the SEC-LE basis and PRMS standards are not included in this Base Prospectus. The summary 2008 Reserves Report as it relates to the review of TNK-BP's oil and gas fields using the SEC-LOF basis is included as Annex A to this Base Prospectus. See “*Presentation of Financial and Other Information—Oil and Gas Reserves Data*” and “*Annex A: Summary Reserves Report of DeGolyer and MacNaughton*”.

As of 31 December ⁽¹⁾									
2008			2007			2006			
Up to Licence Expiry	Post Licence Expiry	Total	Up to Licence Expiry	Post Licence Expiry	Total	Up to Licence Expiry	Post Licence Expiry	Total	
<i>Reserves (million barrels of oil equivalent, mmboe)</i>									
Total proved reserves	7,198	915	8,113	6,299	1,926	8,225	5,732	2,078	7,810
Developed.....	4,558	614	5,172	4,300	1,174	5,474	4,324	1,310	5,634
Undeveloped.....	2,640	301	2,941	1,999	752	2,751	1,408	768	2,176
<i>Reserves (million tonne of oil equivalent, MMToe)⁽²⁾</i>									
Total proved reserves	960	122	1,082	840	257	1,097	764	277	1,041
Developed.....	608	82	690	573	157	730	577	175	752
Undeveloped.....	352	40	392	267	100	367	187	102	289

Notes:

(1) Reserves of Slavneft are not included. No reserves are recorded in relation to Rusia Petroleum for the Koyvka field. See “—*Gas Business—Principal Gas Production Operations—Koyvka Project*”

(2) Estimated at approximately 7.5 barrels per tonne.

TNK-BP's strategic objective continues to be to replace at least 100% of its production every year with new proved reserves. In 2007 and 2006 TNK-BP replaced 179% and 129% of its annual production, respectively, with new proved reserves, as measured under the SEC-LOF basis and after adjustments for asset disposals. Notwithstanding the significant decline in global crude oil prices in the fourth quarter of 2008, TNK-BP replaced 82% of its 2008 production with new proved reserves when measured under the SEC-LOF basis, or 146% of its 2008 production, when measured under the PRMS standard. The new reserves which were revealed between 2006 and 2008 originated primarily from TNK-BP's existing mature fields (Brownfields), as a result of continued improvement in reservoir management and greater certainty around gas sales, although substantial additions to reserves were also registered at Producing Greenfields such as the new Verkhnechonskoye development and the Kamennoe redevelopment. At current production levels, TNK-BP's reserve life

index (“RLI”) is 13 years for proved reserves under the SEC-LOF basis and 17 years under the PRMS standard. Including probable reserves, as calculated under the PRMS standard, TNK-BP’s RLI is over 30 years, and over 50 years for proved, probable and possible reserves combined (under the PRMS standard).

For further information relating to TNK-BP’s reserves, prospective investors should refer to the following:

- The summary of the 2008 Reserves Report included at “*Annex A: Summary Reserves Report of DeGolyer and MacNaughton*” beginning on page A-1;
- “*Presentation of Financial and Other Information—Oil and Gas Reserves Data*” in this Base Prospectus for a discussion of reserve classification standards, including a discussion of differences between PRMS standards and SEC standards and differences between the SEC-LE basis and SEC-LOF basis; and
- “*Risk Factors—Risks Relating to TNK-BP and the Oil and Gas Industry in Russia and Ukraine—Oil and gas reserves in the Base Prospectus are only estimates, and TNK-BP’s actual production, revenues and expenditures with respect to its reserves may differ materially from those estimates*”.

Liquids Production

During the first nine months of 2009, TNK-BP’s total liquids production (crude oil, condensate and NGL) from consolidated subsidiaries increased by 2% compared to the same period of 2008. TNK-BP’s total liquids production volumes were broadly flat between 2006 and 2008 (after adjustment for the sale, in late 2006, of OAO Udmurtneft, an oil producing entity located in the Volga-Urals area, to an affiliate of China Petroleum & Chemical Corporation).

TNK-BP started to produce NGL in 2007, as a result of entering into the YugraGasPererabotka gas processing joint venture with Sibur-Holding and inaugurating a new NGL loading facility at TNK-BP’s Zaikinski gas processing plant in the Orenburg region. TNK-BP’s NGL production was 580 thousand tonnes in 2007 and 1,029 thousand tonnes in 2008. NGL production for the nine months ended 30 September 2009 was 831 thousand tonnes, compared to 732 thousand tonnes in the same period in 2008.

The table below sets forth TNK-BP’s liquids production for 2008, 2007 and 2006, as well as for the first nine months of 2009 and 2008 (excluding production at the Slavneft joint venture).

	Nine months ended 30 September		Year ended 31 December		
	2009	2008	2008	2007	2006 ⁽²⁾
Liquids production (thousand tonnes) ⁽¹⁾	53,527	52,682	70,453	70,387	72,822
Liquids production (mmbd) ⁽¹⁾	1.481	1.451	1.454	1.452	1.494

Notes:

(1) TNK-BP commenced production of NGL in 2007.

(2) Excludes production by Vanyoganneft, in which TNK-BP acquired the remaining 50% interest in January 2007 but includes production by Udmurtneft, which was sold towards the end of 2006. Udmurtneft produced 3,626.7 thousand tonnes of liquid prior to its date of sale in 2006. See “*—Operating and Financial Review—Formation and Evolution of TNK-BP—Acquisitions and Divestments*”.

TNK-BP has historically derived approximately 60% of its production from West Siberia and 20% from Orenburg, with the remaining production originating from its other Brownfield and Greenfield developments. While TNK-BP has many fields and production subsidiaries, oil production within TNK-BP is relatively concentrated. In 2008, five subsidiaries accounted for 80% of production.

The table below shows liquids production by subsidiary and by field for the first nine months ended 30 September 2009 and 2008.

Subsidiary	Nine months ended 30 September	
	2009	2008
	(thousand tonnes)	
SNG	15,929.8	16,656.5
Samotlor	15,929.8	16,656.5
Orenburgneft	12,514.2	11,605.5
Sorochinsko-Nikolskoe	2,264.4	2,356.0
Rostashinskoe	412.5	469.3
Bobrovskoe	1,112.2	939.7
Pokrovskoe	1,249.5	1,208.5
Others	7,475.6	6,632.0
TNK-Nizhnevartovsk	5,822.0	6,170.4
Samotlor	5,097.9	5,282.0
Others	724.2	888.4
NNP	2,988.0	3,434.3
Khokhryakovskiy	1,366.2	1,619.0
Koshilskiy	552.4	635.8
Permyakovskiy	736.2	687.0
Others	333.3	492.5
TNK-Nyagan	4,549.6	4,428.5
EM-Egovskoe	1,652.3	1,702.1
Talinskiy	1,595.1	1,787.3
Kamennoe field	1,302.2	939.1
Varyoganneftegaz	2,197.3	2,311.1
Bakhilovskoe	329.8	361.7
Verkhne-Kolik-Yoganskoe	1,391.9	1,439.5
Severo-Varyeganskoe	370.4	390.3
Other	105.1	119.6
Tyumenneftegaz	1,575.1	1,816.0
Orehovo-Ermakovskoe	823.2	872.7
Kalchinskoe	731.3	931.6
Other	20.6	11.7
TNK-Uvat	1,255.8	6.0
Ust-Tegusskoe	534.5	4.6
Urnenskoe	721.4	1.4
Tyamkinskoe	—	—
Vanyoganneft	1,337.5	1,501.5
Yugraneft Corporation	404.6	451.0
Novosibirskneftegaz	1,452.9	1,533.9
Severnoeneftegaz	144.6	98.6
Vercknechonskneftegas	740.7	20.4
Rospan International	406.0	485.9
Buguruslanneft	1,082.1	1,088.0
Bolshekhetkiy project (Tagulskoe, Suzun)	—	—
Orenbourggeologiya	—	240.9
TNK-BP Technologies	91.8	100.9
Tarkhovskoy	203.7	—
Total TNK-BP crude oil and condensate production	52,695.7	51,949.5
Natural gas liquids production	831.2	732.3
Total for TNK-BP liquids production	53,526.9	52,681.8

Notes:

(1) Orenbourggeologiya was merged with Orenburgneft in 2008.

The table below shows liquids production by subsidiary and by field for the years ended 31 December 2008, 2007 and 2006.

Subsidiary ⁽¹⁾⁽²⁾	Year ended 31 December		
	2008	2007 ⁽³⁾	2006 ⁽⁴⁾
	(thousand tonnes)		
SNG	22,194.4	22,562.6	23,676.7
Samotlor	22,194.4	22,562.6	23,676.7
Orenburgneft	15,628.7	15,341.5	15,825.9
Sorochinsko-Nikolskoe	2,848.5	2,567.7	2,182.8
Rostashinskoe	620.7	670.8	694.1
Bobrovskoe	1,260.3	1,156.3	1,059.1
Pokrovskoe	1,583.7	1,636.5	1,589.7
Others	9,315.5	9,310.2	10,300.1
TNK-Nizhnevartovsk	8,275.5	8,137.3	7,949.6
Samotlor	7,112.2	7,032.7	7,065.9
Others	1,163.3	1,104.6	883.7
NNP	4,549.8	5,092.7	5,560.5
Khokhryakovskiy	2,117.9	2,391.6	2,774.0
Koshilskiy	835.1	993.9	1,039.4
Permyakovskiy	936.6	1,004.6	1,002.6
Others	660.2	702.6	744.5
TNK-Nyagan	5,897.5	5,830.8	5,662.3
Em-Egovskiy	2,272.5	2,334.0	2,197.9
Talinskiy	2,349.0	2,615.5	2,644.6
Kamennoe field	1,276.0	881.2	819.8
Varyoganneftegaz	3,087.1	3,224.8	3,469.0
Bakhilovskoe	492.8	291.7	250.0
Verkhne-Kolik-Yoganskoe	1,910.9	2,237.1	2,586.3
Severo-Varyeganskoe	526.3	501.5	436.1
Other	157.1	194.5	196.5
Tyumenneftegaz	2,384.2	2,548.9	2,769.1
Orehovo-Ermakovskoe	1,162.8	1,178.4	1,305.7
Kalchinskoe	1,209.5	1,368.7	1,461.9
Other	11.9	1.8	1.5
TNK-Uvat	6.0	1.1	0.3
Ust-Tegusskoe	4.6	0.7	—
Urnenskoe	1.4	0.3	0.3
Tyamkinskoe	—	0.1	—
Varyoganneft⁽³⁾	1,973.3	2,110.9	—
Yugraeft Corporation	600.6	625.2	634.8
Novosibirskneftegaz	2,077.9	2,004.5	1,804.5
Severnoenftegaz	140.8	36.8	—
Vercknechonskneftegas	156.3	37.6	2.5
Rospan International	629.1	438.8	739.5
Buguruslanneft ⁽⁵⁾	1,446.9	756.9	—
Bolshekhetkiy project (Tagulskoe LLC, Suzun LLC)	0.2	0.5	—
Orenbourggeologia ⁽⁶⁾	240.9	937.0	944.6
TNK-BP Technologies	134.3	118.0	155.6
Udmurtneft (including licences of Udmurtskaya neftyanaya kompaniya) ⁽⁴⁾	—	—	3,626.7
Ural oil company	—	—	0.6
Total TNK-BP crude oil and condensate production	69,423.3	69,806.0	72,821.2
Natural gas liquids production	1,029.4	580.9	—
Total for TNK-BP liquids production	70,452.7	70,386.9	72,821.8

Notes:

(1) A full year of production has been included for each of TNK-BP's subsidiaries.

(2) TNK-BP commenced production of NGL in 2007.

- (3) In TNK-BP acquired a 50% interest in Vanyoganneft that it had not previously own in January 2007. Prior to that date, production volumes by Vanyoganneft had not been included within TNK-BP's production figures. See "*Operating and Financial Review—Formation and Evolution of TNK-BP—Acquisitions and Divestments*".
- (4) In June 2006, TNK-BP announced the sale of Udmurtneft and the transaction was completed in late 2006.
- (5) Buguruslanneft was spun off from Orenburgneft in 2007.
- (6) Orenbourggeologia was merged with Orenburgneft in 2008.

Wells

As of 31 December 2008, TNK-BP had a total of 40,685 wells (including wells under conservation and other wells), 15,407 of which were active producer wells and 6,206 of which were active injector wells, as compared to a total of 39,801 wells as of 31 December 2007, including 15,322 active producer wells and 5,652 active injector wells, and 15,291 active producer wells and 5,747 active injector wells as of 31 December 2006. Producer wells are used to extract oil and associated gas, while injector wells are used to pump water or other agents into subsurface reservoirs in order to maintain pressure and enhance oil recovery. For the year ended 31 December 2008, TNK-BP put into operation (i) 401 new producer wells, compared to 386 in 2007 and 334 in 2006 and (ii) 49 new injector wells, compared to 42 in 2007 and 50 in 2006. For the year ended 31 December 2008, TNK-BP completed 5,784 well work-overs and 19,246 well maintenance repairs, representing declines of 2% and 6%, respectively, compared to 2007.

As of 30 September 2009, TNK-BP had a total of 41,353 wells (including wells under conservation and other wells), 15,699 of which were active production wells and 6,331 of which were active injection wells. In the nine months ended 30 September 2009, TNK-BP brought into operation 426 new production wells compared to 328 in the nine months ended 30 September 2008 and completed 3,948 well work overs and 12,990 well maintenance repairs, representing declines of 11.4% and 10.5%, respectively, compared to the nine months ended 30 September 2008. This was primarily due to TNK-BP's strategy to focus on those interventions likely to be most effective and productive and also to the continued improved performance of electric submersible pumps, which reduced the need for well maintenance.

Principal Liquids Production Subsidiaries

The following is a summary of five of TNK-BP's principal liquids production subsidiaries, which together accounted for 80% of TNK-BP's production in the first nine months of 2009. All of these subsidiaries operate within TNK-BP's Brownfields.

- *Samotlorneftegaz (SNG)*. SNG's major asset is a licence to develop a large portion of the Samotlor field located in Western Siberia, one of the largest oil fields in the world. The term of the licence for this field expires in December 2038.

Production at the SNG's Samotlor field represented approximately 32% of TNK-BP's crude oil production by its consolidated subsidiaries in 2008. The Samotlor field was discovered in 1964 and commenced production in 1969. Its reservoir depth is between 5,500 and 9,100 feet.

As of 1 January 2009 and for the year ended 31 December 2008, SNG's field had the following characteristics:

- average watercut of 94%;
- oil production of 22.2 million tonnes (or 455 mbd); and
- a total of 15,270 wells (of which 6,379 are active production wells and 2,444 are active injection wells).

As of 1 October 2009 and for the nine months ended 30 September 2009, SNG's field had the following characteristics:

- average watercut of 94%;
- oil production of 15.9 million tonnes (438 mbd); and
- a total of 15,323 wells (of which 6,556 are active production wells and 2,539 are active injection wells).

- *Orenburgneft*. Orenburgneft holds licences to develop more than 70 fields located in the Southern Urals. The terms of Orenburgneft's licences for these fields range from 11 to 25 years. The fields were discovered starting in 1937 and initially entered into production in 1939. The average reservoir depth in the fields is 9,200 feet. Production at these fields represented approximately 23% of TNK-BP's total oil production in 2008 (excluding Slavneft).

Although Orenburg has recently celebrated its 70th anniversary of oil production, TNK-BP still considers this region to have high potential. Over the past five years, TNK-BP has managed to increase production from these fields from approximately 13 million tonnes per year to over 17 million tonnes in 2008. TNK-BP is currently exploring opportunities in the Orenburg region using a combination of high quality 3D seismic surveying, advanced drilling technology and access to international expertise and advice, with a view to unlock new reserves and increase production. TNK-BP believes that the Orenburg fields continue to have promising potential and TNK-BP intends to prioritise the development of these fields among its most significant projects. As a result, TNK-BP is re-organising its activities in the Orenburg region within the framework of a general “Greater Orenburg Project” which, among other initiatives, foresees the expansion of drilling activities at new wells across the fields, as well as the expansion of oil processing and transport capacity at the fields. TNK-BP aims to increase the level of oil production at the Orenburg fields to between 20 to 25 million tonnes per year within the next five years.

In the first nine months of 2009, TNK-BP obtained four new licences in the Orenburg area, and, based on the promising results of its exploration activities in the area since 2006, TNK-BP plans to continue to participate in federal auctions related to the Orenburg region.

As of 1 January 2009 and for the year ended 31 December 2008, Orenburgneft's fields had the following characteristics:

- average watercut of 70 %;
- oil production of 15.6 million tonnes (320 mbd); and
- a total of 6,529 wells (of which 1,875 are active production wells and 881 are active injection wells).

As of 1 October 2009 and for the nine months ended 30 September 2009, Orenburgneft's fields had the following characteristics:

- average watercut of 68.8%;
- oil production of 12.5 million tonnes (344 mbd); and
- a total of 6,676 wells (of which 1,794 are active production wells and 895 are active injection wells).

- *TNK-Nizhnevartovsk.* TNK-Nizhnevartovsk holds licences to develop six fields in Western Siberia including the northern part of the Samotlor field. These fields were discovered between 1965 and 1984 and entered into production between 1969 and 1986. The average reservoir depth in these fields is between 7,400 and 8,400 feet. The terms of TNK-Nizhnevartovsk's licences for these fields range from 13 to 38 years. Production at these fields represented approximately 12% of TNK-BP's crude oil total production by its consolidated subsidiaries in 2008.

As of 1 January 2009 and for the year ended 31 December 2008, TNK-Nizhnevartovsk's fields had the following characteristics:

- average watercut of 87%;
- oil production of 8.3 million tonnes (170 mbd); and
- a total of 3,631 wells (of which 1,881 are active production wells and 659 are active injection wells).

As of 1 October 2009 and for the nine months ended 30 September 2009, TNK-Nizhnevartovsk's fields had the following characteristics:

- average watercut of 87%;
- oil production of 5.8 million tonnes (160 mbd); and
- a total of 3,649 wells (of which 1,905 are active production wells and 675 are active injection wells).

- *NNP.* NNP holds licences to develop 12 fields located in Western Siberia. The terms of NNP's licences for these fields range from 13 to 38 years. These fields were discovered between 1971 and 1997 and entered into production between 1985 and 2004. The average reservoir depth in these fields is 8,800 feet. Production at these fields represented approximately 7% of TNK-BP's crude oil production by its consolidated subsidiaries in 2008.

As of 1 January 2009 and for the year ended 31 December 2008, NNP's fields had the following characteristics:

- average watercut of 84%;
- oil production of 4.5 million tonnes (93 mbd); and
- a total of 3,829 wells (of which 982 are active production wells and 526 are active injection wells).

As of 1 October 2009 and for the nine months ended 30 September 2009, NNP's fields had the following characteristics:

- average watercut of 87%;
- oil production of 3 million tonnes (82 mbd); and
- a total of 3,852 wells (of which 1,389 are active production wells and 674 are active injection wells).

- *TNK-Nyagan.* TNK-Nyagan holds licences to develop three fields located in Western Siberia. The terms of two of TNK-Nyagan's licences expire 2013 and a third one expires in 2038. These fields were discovered in 1962 and entered into production in 1980. The average reservoir depth in these fields is between 4,300 to 9,200 feet. Production at these fields represented approximately 9% of TNK-BP's crude oil total production by its consolidated subsidiaries in 2008.

As of 1 January 2009 and for the year ended 31 December 2008, TNK-Nyagan's fields had the following characteristics:

- average watercut of 85%;
- oil production of 5.9 million tonnes (121 mbd); and
- a total of 7,147 wells (of which 2,092 are active production wells and 710 are active injection wells).

As of 1 October 2009 and for the nine months ended 30 September 2009, TNK-Nyagan's fields had the following characteristics:

- average watercut of 83%;
- oil production of 4.5 million tonnes (125 mbd);
- a total of 7,251 wells (of which 2,146 are active production wells and 678 are active injection wells).

Slavneft Joint Venture

Slavneft is a Russian vertically integrated oil and gas company that was privatised in 2002.

As of 30 September 2009, TNK-BP held a 49.9% effective interest in Slavneft as the result of a 50-50 joint venture with Gazpromneft (formerly Sibneft). The financial and economic activity of Slavneft is conducted on the basis of a business plan subject to the approval of both shareholders. TNK-BP and Gazpromneft have equal representation on the Slavneft board of directors, as well as on the boards of directors of the principal Slavneft subsidiaries: OAO Slavneft Megionneftegaz, which is primarily engaged in oil and gas exploration and production, and YANOS, which owns a refinery plant.

Slavneft's oil and gas production areas are located principally in Western Siberia. As of 31 December 2008, Slavneft held a total of 37 production and exploration licences, most of which are licences for fields in the Megion region (in the KhMAO-Yugra). Based on reserves evaluation conducted by Miller and Lents, under PRMS standards, as of 31 December 2008, on a gross basis Slavneft had total proved reserves of 2.7 billion boe.

As of and for the year ended 31 December 2008, Slavneft's:

- total oil production amounted to 19.6 million tonnes (or 0.4 mmbd) of crude oil on a gross basis, representing a decline of 6.4% compared to 20.9 million tonnes produced in 2007 and 23.3 million tonnes (or 0.47 mmbd) in 2006.
- revenues were U.S.\$7,825 million compared to U.S.\$6,440 million in 2007;
- and net income attributable to Group shareholders was U.S.\$708 million compared to U.S.\$785 million in 2007; and
- outstanding indebtedness amounted U.S.\$698 million.

As of and for the nine months ended 30 September 2009, Slavneft's:

- total oil production was 14.2 million tonnes (or 0.38 mmbd), representing a decline of 3.9% compared to 14.7 million tonnes produced in the first nine months of 2008;
- revenues were U.S.\$3,097.1 million, compared with revenues of U.S.\$5,999.8 million in the first nine months of 2008;
- net income attributable to Group shareholders was U.S.\$201 million, compared to U.S.\$794 million in the first nine months of 2008; and
- outstanding indebtedness amounted to U.S.\$737 million.

Slavneft also operates two refineries, YANOS in Russia and Mozyr in Belarus, with a combined refining throughput of 13.6 million tonnes of oil in 2008.

The shareholders of Slavneft, including TNK-BP, have agreed to divide certain of Slavneft's retail operations between them and agreed on an arrangement to split the crude oil and refined product trading activities of Slavneft. Pursuant to these arrangements, Gazpromneft and TNK-BP purchase the bulk of crude oil produced by Slavneft (after satisfying the demand of Slavneft's refineries) on a 50:50 basis, at domestic market prices and on equal terms between them. Each party also receives an equal share of Slavneft's rights to transport oil via Transneft's pipelines. Gazpromneft and TNK-BP also directly refine crude purchased from Slavneft at the YANOS refinery on an equal basis. Approximately 40% of the crude oil purchased by TNK-BP from Slavneft is processed at YANOS and then sold by TNK-BP on the domestic and export markets.

In July 2009, TNK-BP acquired the majority stake in OAO TNK-Yaroslavl held by Slavneft. Through this acquisition TNK-BP obtained control over a number of retail stations and oil depots in the Yaroslavl, Kostroma and Ivanovo regions in Russia.

In 2009, TNK-BP and Gazpromneft agreed to divide between themselves the retail business and assets until then owned and operated by Slavneft in Belarus. It is expected that this process will be completed by the end of the first half of 2010.

TNK-BP receives dividend payments from Slavneft, when and in the amounts declared and approved by the Slavneft shareholders. TNK-BP's share of dividends declared by Slavneft and its subsidiaries amounted to U.S.\$657 million in 2005, U.S.\$252 million in 2006, U.S.\$139 million in 2007 and U.S.\$116 million in 2008.

Whilst the current Slavneft management structure remains in place, there can be no assurance that there will not be any changes to the management or ownership of Slavneft in the future. See "*Risk Factors—Risks Relating to TNK-BP and the Oil and Gas Industry in Russia and Ukraine—Uncertainties Relating to TNK-BP's Interest in Slavneft*".

Activities to Enhance Production and Reserves

TNK-BP's upstream and technology groups are engaged in a number of activities designed to meet production and reserve replacement targets. TNK-BP's strategic objective continues to be to replace at least 100% of its production every year with new proved reserves. TNK-BP's target over the next five years is to convert over 3.3 billion barrels of probable and possible reserves to proved reserves. TNK-BP plans to increase its proved reserves through drilling in proximity to existing fields, improved reservoir management and water-flooding of existing fields.

In 2007 and 2006 TNK-BP replaced 179% and 129% of its annual production, respectively, with new proved reserves, as measured under the SEC-LOF basis and after adjustments for asset disposals. Notwithstanding the significant decline in global crude oil prices in the fourth quarter of 2008, TNK-BP replaced 82% of its 2008 production, when measured under the SEC-LOF basis, or 146% of its 2008 production, when measured under PRMS standards. The new reserves which were revealed between 2006 and 2008 originated primarily from TNK-BP's Brownfields, as a result of continued improvement in reservoir management and greater certainty around gas sales, although substantial additions to reserves were also registered at Producing Greenfields such as the new Verkhnechonskoye development and the Kamennoe redevelopment.

In 2008, the average exploration success rate (defined as a number of successful exploration wells relative to a total number of exploration wells drilled) was 74% compared to a three-year average rate of 72% for the three years ended 31 December 2008. Finding and development costs in the same three-year period averaged U.S.\$4.0 per barrel of total proved reserves added.

TNK-BP is implementing a number of Greenfield development projects in Western and Eastern Siberia in order to bring new fields into production in the medium term. TNK-BP expects that long-term reserves replacement will be supported by on-going exploration plans. Currently, TNK-BP is

continuing to focus its new development and exploration and appraisal activities on fields within the Russian Federation.

The following subsections discuss TNK-BP's activities relating to increasing production from Brownfields, Greenfields, and frontier exploration and appraisal.

Existing Fields (Brownfields)

In its existing and mature fields, TNK-BP continues to focus on enhancing its ability to maximise the recovery of proven reserves and develop probable reserves through the application of latest technologies and improved reservoir management techniques, such as mobile and infill drilling, waterflood management, sidetracking, downhole pump equipment optimisation, well reactivation, well recompletion, and advanced hydraulic fracturing, as well as the application of state-of-the-art well survey and development efficiency monitoring technology.

TNK-BP has also introduced new injection management techniques to achieve improved reservoir pressure maintenance, such as the use of directional and horizontal wells which have been drilled using top drive rigs. Technologies aimed at optimising waterflooding are also constantly tested and introduced. TNK-BP has also completely discarded the formation-level approach and adopted instead the block-level management approach, and each well is being monitored on a regular basis through the application of this new approach, which over the past few years has translated into a significant production improvements, as witnessed by the decrease in the base production decline (which went from 38.2% in 2007, to 35.7%, in 2008, and is projected to be at 34.9% for 2009).

TNK-BP aims at preventing lost production and optimising operating costs by improving electric submersible pump meantime between failures ("ESP MTBF"), as well as through operating cost optimisation. In the period from 1 January 2006 to 1 October 2009, ESP MTBF improved by 66%, from 295 to 491 days. This resulted in an additional 0.8 million tonnes produced and U.S.\$77 million operational expenditures saved.

TNK-BP plans to focus its redevelopment efforts primarily on the recompletion of existing wells and, to a lesser extent, on the drilling of new wells. In the nine months ended 30 September 2009, TNK-BP put 426 wells into production, including 116 wells in the Nizhnevartovsk fields and 70 wells in Orenburg region.

New Developments (Greenfields)

Although production is principally underpinned by Brownfield enhancement and drilling, TNK-BP is pursuing a number of additional projects whose eventual realisation TNK-BP believes will support its future production levels. These are currently in various stages of exploration and development and each requires significant financial, technical, and human resources. In addition, all of these projects require careful application of technologies which, although often proven elsewhere, may be new to Russia and new to the type of project, physical environment, and climate where they are to be implemented.

The key large scale projects in the evaluation and pre-development phases are the Verkhnechonskoe field, the Uvat project, the Yamal group of projects (including the Bolshekhetskiy project in the Krasnoyarsk/Taimyr region and the Russkoe field in the Yamal-Nenets Autonomous Area), and the Kamennoe field in Nyagan.

Between late 2008 and the first half of 2009, TNK-BP has commenced production at its three major Producing Greenfields: the Verkhnechonskoe, Eastern Uvat and Kamennoe fields. These three fields collectively accounted for a significant percentage of TNK-BP's total production in 2009 (37.9 million boe, which is estimated to represent approximately 7% of TNK-BP's total liquids production for the year).

In addition to the Producing Greenfields mentioned above, TNK-BP has four major Early Development Greenfields which are in or close to begin the pilot oil production phase and which could move into full production and field development within the next three years. These Early Development Greenfields are: the Suzunkoe, Tagulskoe, and Russkoe fields in the Bolshekhetskiy area, and the Tyampkinskoe development area in Central Uvat field.

TNK-BP's success in developing its first generation of Greenfield projects, and in particular the Verkhnechonskoe and Eastern Uvat projects, underscores TNK-BP's ability to pursue and develop major projects in new and remote regions, and in an environmentally responsible manner. TNK-BP aims to learn from the experience gained in developing these initial projects to craft targeted strategies

for the development of future fields and establish more accurate schedules and targets for the development of, and production by, these further fields.

The following is a description of the phase of development of TNK-BP's Producing Greenfields which are now coming on to production:

- *Verkhnechonskoe field.* Verkhnechonskoe field is a Producing Greenfield project located in the Katangsky Region of the Irkutsk Oblast, in Eastern Siberia, approximately 1,000 kilometers to the north of Irkutsk. TNK-BP believes that it is the largest oil field discovered to date in Eastern Siberia. TNK-BP and Rosneft are the major shareholders of JSC Verkhnechonskneftegaz ("VCNG"), which holds the licence for development of the Verkhnechonskoe oil field. TNK-BP holds an approximately 68% interest in VCNG. Rosneft and TNK-BP provide financing to VCNG on equal terms and in amounts proportional to their interest in the share capital of VCNG. The field is estimated to contain proved, probable and possible reserves of approximately 1.9 billion barrels of oil according to PRMS standards as of 31 December 2008. Development of the field was hampered for many years by an absence of transportation infrastructure. However, development of the field is now underway, following the decision of the Russian Government to undertake the construction of an Eastern Siberia Pacific Ocean pipeline system ("ESPO"). ESPO is being developed by Transneft, and construction works commenced in 2005. Since then, VCNG has invested significantly to develop the necessary infrastructure, with aggregate capital expenditure since the beginning of 2005 of approximately U.S.\$1.3 billion.

The development of the project has been designed in three stages. The first stage was a pilot project to gather high quality reservoir data, to validate the field's reservoir potential and to determine the most efficient method for the full scale development of the field. The second stage was the early oil phase, which included pipeline construction to link the field with ESPO, field infrastructure construction and well drilling. Significant targets of the second phase included initial oil deliveries to the ESPO pipeline system by October 2008 and meeting licence commitments with respect to the commencement of operations of wells and initial production of oil. TNK-BP was able to meet these milestones as planned. Oil production commenced in October 2008, and amounted to 156,000 tonnes by the end of the year. 33 wells were in operation by the end of 2008. The third stage is the full field development, which was sanctioned at the beginning of 2009. In the first nine months of 2009, the field produced 741,000 tonnes of oil, and 41 new wells were put in operation. TNK-BP expects that oil production at the Verkhnechonskoe field will exceed two million tonnes in 2010 and will exceed three million tonnes in 2011. VCNG's capital expenditure at the field in the nine months ended 30 September 2009 amounted to U.S.\$264 million. TNK-BP has spent approximately U.S.\$1 billion in the development of the Verkhnechonskoe field as of the date of this Base Prospectus, and it expects to spend a further U.S.\$461 million in 2010. In the aggregate, VCNG expects to commit up to U.S.\$3.5 billion to the development of the Verkhnechonskoe.

Development techniques rely primarily on horizontal wells with 500-meter horizontal sections, Logging-While-Drilling ("LWD") geosteering technologies and waterflooding. 11 injector wells were in operation as of 30 September 2009. VCNG also expects to be able to commence interpretation of 3D seismic survey during 2010, while a new equaliser technology is being tested to modify the inflow profile along the horizontal wellbore. Further seismic data is being acquired and interpreted in a comprehensive programme to underpin TNK-BP's understanding of the VCNG reservoir.

TNK-BP exports oil extracted at the Verkhnechonskoe field via the ESPO pipeline in the eastward direction to Skovordino, from where oil is then shipped by rail to the Pacific coast port of Kozmino. Commencing from 2015, the ESPO pipeline is expected to reach the Kozmino port.

In recognition of the high development costs and uncertainties entailed by the exploration of East Siberian oil projects, and to encourage such projects, the Russian Government recently announced a suspension of export duty for oil generated from 13 East Siberian oil fields, including the Verkhnechonskoe field. TNK-BP estimates that netbacks for VCNG could significantly increase as a result of this measure, assuming global market prices for crude oil remain around the current levels of between U.S.\$60 and U.S.\$70 per barrel of Brent crude.

- *Eastern Uvat.* The Eastern Uvat project consists of two large fields, Ust-Tegusskoe and Urnenskoe, located in a remote and deserted area about 250 kilometers to the east of TNK-BP's Kalchinskoe field. Eastern Uvat is estimated to contain 684 million barrels of oil reserves in proved, probable, and possible categories, according to PRMS standards as of 31 December 2008.

Although the fields were discovered a few decades ago, their remote location and the challenging swampy environment deterred investment until recently. TNK-BP commenced the development of these fields in 2006, with support from the Tyumen regional government.

Oil production commenced in February 2009, when oil from the Urnenskoe and Ust-Tegusskoe wells was delivered to the pipeline which connects the fields to the Transneft pipeline network. By the end of August 2009, the fields had yielded their first million of tonnes of oil, and in the nine months ended 30 September 2009 oil production had reached 1.3 million tonnes, and daily production was 33,501 bpd. TNK-BP intends to increase oil production in the Eastern Uvat region to a level of approximately four million tonnes in 2010.

TNK-BP expects to invest a total of U.S.\$2.7 billion to develop the Eastern Uvat field and an additional U.S.\$800 million to develop the necessary supporting infrastructure, about half of which has already been invested. A major trunk pipeline, connecting the Eastern Uvat field with the existing infrastructure at Western Uvat at TNK-BP's Kalchinskoe field, started to operate in early 2009, allowing the Ust-Tegusskoe and Urnenskoe fields access to the Transneft pipeline network.

A reservoir pressure maintenance system was launched at the Ust-Tegusskoe field in August 2009 to optimise base production of crude oil. The introduction of new drilling technologies has cut drilling times from 31 to 19 days. Further production optimisation efforts planned or expected in 2010 include fracturing, horizontal well drilling, and dual completion.

- *Kamennoe field.* The Kamennoe field is part of the Nyagan group of fields located in Tyumen region. In May 2009 TNK-BP commenced the commercial development of the northern hub of the Kamennoe field in the KhMAO-Yugra in Western Siberia.

As of 31 December 2008, in accordance with PRMS standards, the field was estimated to have proved, probable and possible reserves of 2.4 billion boe.

TNK-BP is developing the field through the use of a combination of state-of-the-art technologies, such as 3D seismic surveys, reservoir modeling, advanced hydraulic fracturing techniques, and early water injection to enable effective recovery from these relatively low permeability reservoirs. In addition, the entire Kamennoe licence area was covered by 3D seismic surveys between 2006 and 2008. As a result of the application of these methods, the field's potential reserves are being re-assessed, and the results of this effort are expected to become available in 2011. The results of the 3D seismic surveys also enable TNK-BP to pursue more aggressive drilling across certain sites within the field.

In the nine months ended 30 September 2009, the Kamennoe field produced 1.3 million tonnes of oil, which represented a 39% increase over the production levels in the first nine months of 2008. As the exploration and development of the field continues, particularly in the northern section, TNK-BP expects production volumes to increase further in the next few years.

Because that the field lies in an environmentally sensitive flood-plain area and it extends into the wetlands of Verkhnee Dvuobie (Upper Ob area), which are environmentally protected areas, TNK-BP is developing the field in close cooperation with the local community and Federal agencies to continuously monitor the project's social and environmental impact. Measures already adopted by TNK-BP include the minimisation of infrastructure development in the Ramsar wetlands, the utilisation of associated gas and the implementation of waste treatment procedures.

TNK-BP has also a number of Early Development Greenfields which are fields in an earlier stage of exploration and development:

- *Central Uvat.* TNK-BP commenced exploration of the Central Uvat area in 2006 and since then it has discovered 11 new oil fields. Central Uvat includes two development hubs, the Tyamkinskoe hub which consists of the Tyamkinskoe, Kosukhinskoe, Severo-Tyamkinskoe, Yuzhno-Petyegskoe, Petyegskoe and Radonezhskoe fields, and the Protazanvskoe hub which consists of the Protazanvskoe, Severo-Tamarginskoe and Taltsiyskoe fields, and several other minor oil fields.

As of 31 December 2008, Central Uvat fields were estimated to have probable and possible reserves, under the PRMS standard, of up to 474 million barrels. The pipeline developed at the Eastern Uvat field crosses the Central Uvat field on its way to TNK-BP's Kalchinskoe field in Western Uvat. Access to this infrastructure enhances the development of the Central Uvat field. TNK-BP plans to launch pilot production at the Tyamkinskoe field in 2010, and plans to invest up to U.S.\$116 million between 2010 and 2012 in this effort. If successful, TNK-BP envisions moving to full field development of Tyamkinskoe and other Central Uvat fields, including Kosukhinskoe, during 2011.

- *Yamal group.* In the Yamal region, TNK-BP owns licences for the development of fields in the Suzunskoe, Tagulskoe and Russkoe fields. Development of these fields has so far been hampered by limited transportation infrastructure in the region and the lack of access to the nearby Vankor pipeline. In the long term, the Yamal project's fields are expected to significantly contribute to TNK-BP's production. As of 31 December 2008, the Yamal project's fields were estimated to have probable and possible reserves, under the PRMS standard, of up to 2.3 billion boe.

Suzunskoe is a medium-size field in the Yamal region with well-understood geology, promising production potential, and the possibility of generating high quality oil. On-going exploration of the existing licences may yield further production gains. TNK-BP expects to be able to commence production at this field in 2012.

Russkoe is TNK-BP's largest field in the region: It is a giant field of moderately heavy crude located in YaNAO, West Siberia. TNK-BP is conducting extensive testing and year-long pilot operations to properly assess the field's potential.

Tagulskoe field is a complex structure with numerous disjointed reservoirs. TNK-BP is designing a pilot project aimed at assessing the field's potential with more precision, as well as the feasibility of drilling horizontal and multilateral wells. This field is in the early-appraisal stage and the full production potential of Tagulskoe field is still uncertain. A programme of pilots is needed to remove and mitigate geological and production uncertainties.

Exploration and Appraisal

TNK-BP conducts exploration in the main regions where it operates, which include the Yamal Nenets and the KhMAO-Yugra, the Tyumen region in Western Siberia and the Orenburg regions, in European Russia. In 2007, TNK-BP spent U.S.\$313 million in exploration efforts and U.S.\$330 million in 2008. Exploration efforts slowed down in 2009, in response to the global decline in economic activity, and for the first nine months of 2009 TNK-BP's total exploration costs amounted to approximately U.S.\$86.5 million. However, TNK-BP expects exploration and appraisal drilling and seismic works to increase starting from 2010. TNK-BP aims to invest approximately \$300 million in exploration efforts in 2010.

TNK-BP aims to continuously enhance and expand its portfolio of new areas available for exploration. Between 2006 and 2008, TNK-BP acquired 39 new combined exploration and production licences. Among these, TNK-BP considers particularly promising the three licences adjacent to the giant Astrakhan gas field and the four licences at the eastern flank of Timano-Pechora basin. In 2008 environmental studies were successfully conducted in Astrakhan to assess the impact of exploration and appraisal activity in the sensitive Volga Delta region. Seismic works commenced in the Astrakhan region in 2008, while significant volumes of seismic activity are planned for the 2009-2010 winter season in Timano-Pechora. TNK-BP plans to commence drilling the first exploration wells in both of these areas by the end of 2011.

TNK-BP's exploration efforts rely primarily on 2D and 3D seismic surveys, rather than exploratory drilling, and particularly 3D seismic testing, which ensures comprehensive horizontal and vertical analysis of the sites under investigation.

The table below sets forth the amount of TNK-BP's seismic testing for the nine month periods ended 30 September 2009 and 2008 and the years ended 31 December 2008, 2007 and 2006.

	Nine months ended 30 September		Year ended 31 December		
	2009	2008	2008	2007	2006
2D method, km.....	107	5,213	5,536	5,391	2,298
3D method, sq. km	571	2,131	2,554	5,055	2,856

For the year ended 31 December 2008, TNK-BP's exploration and appraisal drilling activities increased to a total of 154 kilometres compared with 148 kilometres in 2007 and 93 kilometres in 2006. Consistent with the slowing down of the exploration efforts in 2009 in response to the global decline in economic activity in the period, the volume of drilling activities also declined in the first nine months of 2009, to approximately 37 kilometres, compared to 135 kilometres in the first nine months of 2008. However, TNK-BP expects drilling efforts to increase significantly in 2010.

The following is a description of the more significant exploration activities currently being undertaken by TNK-BP:

- *Yamal Nenets Autonomous District.* TNK-BP is pursuing a number of exploration projects in this region, including some key Greenfields projects at Suzunskoe, Tagulskoe and Russkoe fields. See “—Upstream Business—Activities to Enhance Production and Reserves—New Developments (Greenfields)”. In addition, TNK-BP is conducting exploration works in the areas adjacent to the Suzunskoe and Tagulskoe fields, as well as in the Rospan gas and condensate field. TNK-BP expects to commit up to U.S.\$130 million for these exploration activities in 2010.
- *Southern Tyumen.* TNK-BP is the main oil and gas producer in the South Tyumen region. The Tyumen region is characterised both by its vast area and promising resource potential. TNK-BP is conducting exploratory work to investigate the region's further production potential, primarily through the use of 3D seismic surveys and the appraisal of drilling results at existing fields such as the Ust Tegusskoye and Urnenskoye fields in the Uvat region. Exploration activities in the region are expected to be further supported by the recent inauguration of Vankor oil pipeline in February 2009. TNK-BP expects to commit up to U.S.\$100 million for these exploration activities in 2010.
- *KhMAO-Yugra, Orenburg and Samara Regions.* TNK-BP is exploring and searching for new satellite fields near its existing large Brownfield sites, employing a combination of 2D and 3D seismic exploration and exploratory drilling. TNK-BP is also conducting additional appraisal of existing reserves in these areas using 3D seismic surveys and appraisal drilling. TNK-BP expects to commit up to U.S.\$120 million for these exploration activities in 2010.

Exploration Activities in Venezuela

In July 2008, TNK-BP signed an agreement with Venezuela's state oil company PDVSA pursuant to which TNK-BP and PDVSA are evaluating the technical and commercial viability of a joint exploration and development effort of the Ayacucho-2 block in the Ayacucho area in the Orinoco oil belt in Venezuela. The project is envisioned to cover the production of extra heavy crude oil, the improvement of the crude quality and arrangements for the sale of the improved crude. The parties have established a working group which is currently carrying out an evaluation of the project's potential and manner of implementation, including by examining the available reserve data and by obtaining additional data through appraisal drilling and testing.

In November 2008, five major Russian oil and gas companies (Rosneft, LUKOIL, TNK-BP, Surgutneftegaz and Gazpromneft) formed the National Oil Consortium (the “**Consortium**”). In September 2009, an “Intergovernmental Agreement” was signed between the Russian Federation and the Bolivarian Republic of Venezuela, pursuant to which the Consortium is currently negotiating a joint venture agreement with Petróleos de Venezuela, S.A. in order to develop and operate an integrated heavy oil project on the JUNIN 6 oil field in Venezuela. If the project were to proceed, the Consortium expects to invest up to U.S.\$900 million, to be allocated equally among the Consortium members, to its development over the next three years.

Gas Business

Overview and Strategic Focus

Gas sales accounted for approximately 1% and 2% of TNK-BP's total revenues for, respectively, the year ended 31 December 2008 and the nine months ended 30 September 2009. TNK-BP aims to transform itself from an oil group into a major diversified oil and gas group and to this end it is actively seeking opportunities in the Russian gas sector to enhance the contribution of its gas business as a portion of its overall business. TNK-BP counts on a significant gas reserves base (See “—Gas Reserves and Production”), but critical factors for the growth of TNK-BP's gas business are the identification of end users with whom to establish long-term supply arrangements and, more importantly, the ability to secure sufficient access to the Russian national gas transmission system, which is owned and operated by Gazprom. Along with other independent Russian gas producers, TNK-BP continues to discuss arrangements with Gazprom and Russian regulatory authorities to

secure a larger and predictable allocation of capacity on Gazprom's gas transmission system. See “—*Distribution*”.

TNK-BP is currently focusing on the further development of gas fields in the Yamal Nenets Autonomous District, which TNK-BP controls through its wholly owned subsidiary Rospan (see “—*Principal Gas Production Operations-Rospan*”) as well as on associated gas production operations through its production subsidiaries in Western Siberia and Volga Urals (see “—*Principal Gas Production Operations—Associated Gas*”). Over the past few years, TNK-BP has committed significant resources and effort to the organisation and development of its gas business including, where necessary, acquiring the necessary know how and expertise from external sources, such as BP and other international operators and experts.

Gas production is synergistic with electricity generation and TNK-BP's gas business division intends to participate in power generation projects as a means to provide a stable and predictable market for its gas production. TNK-BP's participation in such projects depends on a number of factors, among them the availability of sufficient volumes of associated gas and the degree of liberalisation of the domestic electricity market. The Russian electricity market is slowly being liberalised, with a growing portion of the electrical power being sold at market price (with the balance being sold at Government-set prices). TNK-BP believes that a more competitive market among providers of electrical power would also create increased opportunities for independent suppliers of gas to service this market. TNK-BP's position as a major consumer of electric energy and a major producer of associated gas gives it a special role and unique opportunities in this sphere. As part of this strategy, in August 2008 pursuant to an agreement with OAO OGK 1 (“**OGK 1**”), a Russian power generating company, TNK-BP entered into a joint venture in the Nizhnevartovsk region. TNK-BP will supply gas to, and purchase electricity from the joint venture, pursuant to long term contractual arrangements. See “—*Associated Gas—Principal Gas Production Operations—Power Generation Project in Nizhnevartovsk*”.

Gas Reserves and Production

The reserves figures discussed in “—*Upstream Business—Reserves*” above include TNK-BP's gas reserves. TNK-BP believes that it employs a relatively conservative approach to calculating its gas reserves. At current production levels, TNK-BP estimates that its total gas forward sales represent only a fraction of TNK-BP's total gas resource base, which amounts to 635.8 bcm of proved, probable and possible reserves (or 3.8 billion of proved, probable and possible boe) according to the PRMS standard as of 31 December 2008 (excluding Rusia Petroleum reserves in the Kovykta field). Of this resource base, Rospan, which is a wholly owned subsidiary of TNK-BP, is estimated to have proved, probable and possible reserves of approximately 303.5 bcm of gas as well as 1.14 billion boe of proved, probable and possible liquid hydrocarbons. TNK-BP does not include in its gas reserve estimates and production figures the data relating to the Kovykta field in the Irkutsk Region, owned by Rusia Petroleum. See “—*Kovykta Project*”.

TNK-BP conducts its natural and associated gas production operations in the Yamal Nenets Autonomous District (Western Siberia) through Rospan and, in addition, in its key oil producing areas of Nizhnevartovsk (Western Siberia) and Orenburg (Volga Urals). TNK-BP sells the majority of gas it produces, although a portion is used to generate power for TNK-BP's own operations. TNK-BP's commercial gas sales increased to 11.3 bcm in 2008, a 27% increase compared to 8.9 bcm in 2007 (excluding Slavneft). Rospan accounted for approximately 16% of TNK-BP's total gas sales in 2008, with 2.5 bcm compared to 1.5 bcm in 2007. See “*Operating and Financial review—Results of Operations—Nine Months Ended 30 September 2009 Compared to Nine Months Ended 30 September 2008—Sales and Other Operating Revenues*” and “—*Comparison of Years Ended 31 December 2008, 2007 and 2006—Sales and Other Operating Revenues*” Gas sales currently do not account for a material percentage of TNK-BP's overall revenues and EBITDA, but Management expects this contribution to increase significantly in the future, in line with TNK-BP's strategic focus on this business area.

Gas Licences

For a description of TNK-BP's gas licence portfolio and strategy in managing its licence portfolio generally, see “—*Upstream Business—Licences*”.

Gas Distribution

The Russian natural gas transmission system, which includes gas trunk pipelines for gas exports, is currently owned and operated by Russia's vertically integrated gas monopoly, Gazprom, which has a

de facto monopoly over Russia's exports of gas. See “*Risk Factors—Risks Relating to TNK-BP and the Oil and Gas Industry in Russia and Ukraine—TNK-BP faces several risks with respect to the implementation of its strategy to develop natural gas operations*”. Currently, Russian independent gas producers such as TNK-BP are only able to access the gas transmission system to make domestic deliveries within Russia pursuant to an agreement with Gazprom and subject to the availability of spare capacity and the satisfaction of a number of other formal criteria. Over the past few years, independent producers, including TNK-BP, have been negotiating with Gazprom and the Russian regulatory authorities to increase the capacity allocated to them on Gazprom's trunk pipeline system, pursuant to long term arrangements which in turn would allow these independent producers to secure viable end users for their gas. In response to this, various initiatives are being considered by the Russian Government to secure non discriminatory access to the gas transportation system for independent producers. The “*Energy Strategy of Russian Federation for the period up to 2030*” approved by the Order of the Russian Government No. 1715-r on 13 November 2009 mandates the creation of a transparent and non discriminatory access to gas trunk pipeline for all the participants of the gas market. TNK-BP is currently preparing documentation evidencing its fulfillment of the requirements and criteria for the grant of long term access to Gazprom's trunk pipeline for TNK-BP's dry gas for the period from 2011 to 2016 (which would correspond to an allocated capacity of 3.0 bcma in 2011 up to 9.9 bcma in 2016).

Principal Gas Production Operations

The following is a summary of TNK-BP's principal gas production operations:

Rospan

After acquiring the remaining 56% stake in Rospan held by Yukos in October 2004, TNK-BP now owns a 100% interest in Rospan, a gas and condensate production asset located in Yamal Nenets Autonomous District of Northern Russia. Rospan is developing the deep gas reserves of the Valangin and Achimov formations in the Novo Urengoiskoe and Vostochno Urengoiskoe licence blocks.

Rospan's commercial gas sales amounted to 2.5 bcm in 2008, compared to 1.5 bcm in 2007. In the first nine months of 2009, commercial sales amounted to 1.7 bcm, compared to 1.9 bcm over the same period in 2008, due to the limited capacity made available on Gazprom's transmission system to independent producers, following falling demand domestically and abroad for gas.

In December 2007, TNK-BP reached an agreement with Gazprom's subsidiary Mezhregiongas to create a joint venture to market Rospan's gas and condensate. The joint venture started operations in March 2008 and it sells gas to industrial and commercial customers in the Russian market at prevailing market prices. The primary goal of the joint venture is to provide a stable outlet for Rospan's gas and to allow the field's production to increase over time, leveraging on Mezhregiongas' marketing expertise and established a presence in Russia's regional markets. TNK-BP sells the entire production of its Rospan gas through the joint venture.

TNK-BP invested U.S.\$51 million in 2008 and U.S.\$77 million in 2007 in the development of the Rospan field, primarily in the upgrade of the extraction equipment, the completion of new wells and the interpretation of 3D seismic surveys. Plans are now being finalised for the creation of the necessary pipeline infrastructure to allow direct connection to Gazprom's nationwide pipeline network. The scale and timing of the future full field development of and of further capital investments in Rospan is dependent on the outcome of the negotiations currently underway between, among others, TNK-BP and Gazprom, regarding the access by independent gas producers to the national transmission system. See “*—Distribution*” and “*Risk Factors—Risks Relating to TNK-BP and the Oil and Gas Industry in Russia and Ukraine—Failure to Obtain Access to Gas Transmission Systems*”.

New Developments and Exploration (Greenfields)

In addition to the Rospan field and the Kovykta field (which is discussed below), TNK-BP is exploring and developing further projects in Orenburg and in Western Siberia. See “*—Upstream Business—Liquids Production—Principal Liquids Production Subsidiaries*”. TNK-BP believes that there is potential for significant gas production growth at these fields.

Associated Gas

Utilisation of associated gas is currently becoming more important in the oil and gas industry in Russia, and the Russian Government has recently begun demanding increased utilisation of associated gas to reduce the environmental damage caused by gas flaring in the course of oil extraction.

TNK-BP produces associated gas in its key oil producing areas in Nizhnevartovsk in West Siberia and the Orenburg Region in the Volga Urals basin. In the nine months ended 30 September 2009, TNK-BP produced 9.3 bcm of associated gas, of which it was able to utilise 7.7 bcm (with the remaining 1.6 bcm being flared).

In the first nine months of 2009, TNK-BP's average utilisation rate of associated gas was 83% whereas development licences mandate 95% utilisation. As a result, TNK-BP treats enhancement of associated gas utilisation as a business priority and plans to invest approximately U.S.\$1 billion over the next three years to materially enhance its overall associated gas utilisation on Brownfields up to the rate of 95% by 2012. This programme involves the construction of new gas gathering and processing facilities and the potential application of gas re injection as well as the construction of "own use" new gas fired electric power facilities. The utilisation of associated gas is an essential part of TNK-BP's commitment to protecting the environment and fulfilling licence obligations.

In November 2006, TNK-BP and SIBUR Holding created a joint venture to process associated gas at the Nizhnevartovsk and Belozerny gas processing plants in West Siberia. Their joint venture, OOO Yugragazpererabotka ("Yugragazpererabotka"), processes associated petroleum gas that TNK-BP and other gas companies produce in the Nizhnevartovsk area, from which TNK-BP receives all dry lean gas which is produced and SIBUR receives all the liquid products which are produced. Yugragazpererabotka commenced commercial operations in April 2007. This project has already expanded associated gas processing capacity in the Nizhnevartovsk area with the commissioning of the new gas processing unit in September 2008 which has brought considerable environmental benefits by reducing gas flaring.

TNK-BP is also pursuing a project aimed at increasing the use of associated gas in its Orenburg fields through investments in gas gathering, compression, and treatment facilities. The project envisages a major expansion of associated gas gathering infrastructure, the construction of a gas fractionation unit and a railway terminal at the Zaikinskiy gas processing plant, the expansion of the railway connections and the development of several other gas treatment facilities.

Power Generation Project In Nizhnevartovsk

In August 2008, pursuant to an agreement with OGK-1, a Russian power generating company, TNK-BP entered into a joint venture in the Nizhnevartovsk region: NVGRES Holding Limited ("NVGRES"). At the beginning of 2009, OAO Inter RAO EES, a Russian power company, acquired control of OGK-1. OGK 1 has contributed to the venture the Nizhnevartovsk power plant, which currently includes two power units, while TNK-BP contributed approximately Euro 230 million in cash, in return for 25% plus one share of the share capital. TNK-BP will supply gas to, and purchase electricity from the joint venture, pursuant to long term contractual arrangements. The joint venture plans to construct a third power unit of up to 800 MW in two phases, the first phase of which is envisioned to include the inauguration of an initial approximately 400 MW additional power capacity by 2013.

Kovykta Project

Through its 62.9% interest in Rusia Petroleum and its 50% interest in ESGC, which is a company engaged in the construction of a regional gasification project, TNK-BP is currently the majority owner of the Kovykta field in the Irkutsk Region. In June 2007, TNK-BP signed an agreement with Gazprom and BP whereby TNK-BP agreed to sell Gazprom its full 62.9% interest in Rusia Petroleum and its 50% interest in ESGC. Under the terms of the agreement, the sale was subject to the negotiation of a full purchase and sale agreement. In June 2009, in light of the delay by the parties to finalise the transaction, the Russian Government authorised the Federal Agency of State Property and Ministry of Energy to consider alternative options for the acquisition of the Kovykta assets from TNK-BP. Negotiations are still in progress and various options are being considered, and as a result TNK-BP continues to operate the Kovykta field, although at minimum operating levels see "*Risk Factors—Risks Relating to TNK-BP and the Oil and Gas Industry in Russia and Ukraine—TNK-BP's business and prospects may be affected by laws restricting foreign participation in the development of mineral deposits of federal significance.*"

Downstream Business

Overview and Strategic Focus

The goal of TNK-BP's downstream operations is to maximise the returns TNK-BP generates from its upstream production. The downstream business has three principal areas of activity:

- *Supply, Trading, and Logistics:* TNK-BP's supply, trading and logistics activities are focused on managing the supply of crude oil and refined products to international and domestic customers, including supplying crude oil to TNK-BP's refineries and supplying refined products to TNK-BP's marketing subsidiaries.
- *Refining:* TNK-BP has significant refining operations through which it refines its crude oil production to supply refined products to the international and domestic markets.
- *Marketing:* TNK-BP markets its refined products through its retail network as well as to business customers. Gasoline and diesel are sold domestically mainly through a network of filling stations under the TNK and BP brands. Other refined products, such as jet fuel, marine fuel, lubricants and bitumen, are sold to business customers or through specialist manufacturing and sales organisations.

Supply, Trading and Logistics

Russian oil companies transport approximately 90% of their crude oil through the Russian national crude oil pipeline network that is operated by the state-controlled company Transneft. Each oil company delivers its crude oil to the Transneft system through gathering systems which are owned and operated by the respective oil companies, from which oil is transported to refineries or to sea terminals for shipment to various foreign destinations. Each Russian oil producer's allocation of pipeline capacity for exports is restricted, with allocations based on the company's respective share of total Russian crude oil production. Historically, the Transneft system did not have sufficient capacity to meet the total demand for crude oil pipeline exports from Russian oil producers. However, Transneft has made substantial investments in the development of additional export routes and transhipment terminals (e.g., at the Primorsk port) in order to increase capacity. As a result of these investments, and in light also of the increased tendency of higher quality crude producers to rely on transportation means alternative to the Transneft system (as discussed below), currently there is spare capacity in Transneft's pipeline network.

In 2005 Transneft commenced the construction of the Eastern Siberian – Pacific Ocean pipeline. The first phase of the project was completed in 2009, allowing crude oil from Eastern Siberian fields, such as TNK-BP's Verkhnechonskoe field, to be transported through the pipeline to Skovorodino and, from there, by rail to the Kozmino port. Assuming Transneft completes the project in accordance with current expectations, the pipeline is expected to reach the Kozmino port in 2015.

Transneft does not operate a quality bank system and it is unable to segregate higher quality grade crude oil from lower quality crudes. As a result, exporters of lighter crude oils with low sulphur content are not able to secure a premium when transporting their product via the Transneft system. In order to secure this premium, Russian producers of higher quality crudes export these grades via rail and seasonal river barge shipments to sea terminals or CIS countries. While the costs of these options are higher than transportation via the Transneft system, they are economically more attractive to producers because of the higher price that can ultimately be obtained from the end user. This move to rail exports for higher quality crude oils has been encouraged by OAO Russian Railways, who have made significant investments in their systems and offered tariff discounts to certain new routes, while also freeing capacity for the transportation of lower quality crude oil on the Transneft system. In 2008 TNK-BP commenced railway deliveries of higher quality crude oil from the rail terminal of Barabinsk, for transportation to southern export destinations.

Like other major Russian oil producers, TNK-BP either transports crude oil which is not exported to its own refineries for conversion to products for domestic or international use, or sells it to other Russian refineries.

Netbacks

TNK-BP's downstream operations are principally geared toward generating the highest netbacks for its crude oil production. Netbacks are defined as the sales price of crude oil or refined products less all costs such as transportation to customers, taxes and duties. As such, netbacks represent the aggregate economic return to TNK-BP of sales of its different products via different sales channels. The principal objective of TNK-BP's downstream operations is to maximise netbacks per tonne of produced crude oil. Various sale alternatives are available to TNK-BP, including export sales, domestic sales and sales to its own refineries or third party refineries. TNK-BP has established and regularly updates a sophisticated system to monitor and measure the netbacks available through TNK-BP's various sales channels. This proprietary system constantly analyses real-time operational, logistical, cost and pricing data to help determine the most favourable distribution or sale option for

TNK-BP's crude oil and refined products. On the basis of these findings, on a monthly basis TNK-BP assesses its utilisation of the various sale channels available to it. TNK-BP believes it is necessary to retain a flexible approach to the management of its sale options, and TNK-BP believes that it is well positioned to do so for the following reasons:

- TNK-BP has a good balance, in terms of capacity and location, between crude production and refining;
- two of TNK-BP's refineries, the Ryazan and Saratov refineries, are well placed to facilitate crude oil and refined product exports via rail and barge and TNK-BP is currently making investments at both refineries to increase its capacity for railway deliveries;
- in addition to its own network of refineries (four of which are in Russia and one of which is in Ukraine), TNK-BP owns approximately a 50% interest in another large Russian refinery, YANOS, together with Gazpromneft;
- TNK-BP aims to secure reliable and predictable demand for its domestic sales of crude oil and, with a view to this, in 2009 it has increased its volume of long-term contracts (with an average term of one year) for the supply to Russian third-party refineries;
- when necessary and economically convenient, TNK-BP purchases additional export capacity on the Transneft system from other producers who are not intending to use their entire allocation;
- TNK-BP's export sales are made pursuant to annual tenders or spot contracts, in order to allow TNK-BP to retain the flexibility to adjust the amounts, timing and utilisation of sale channels for its crude oil and oil product sales; and
- TNK-BP has entered into long-term agreements with export ports such as Kavkaz and Ventspils to ensure sustainable trans-shipment capacity.

The tables below show the distribution of TNK-BP's crude oil, including crude oil purchased from third parties (mostly Slavneft), between crude exports to CIS countries ("Near Abroad") and elsewhere ("Far Abroad"), to TNK-BP's refineries and domestic sales in the three years ended 31 December 2008, 2007 and 2006 and in the nine month periods ended 30 September 2009 and 2008. TNK-BP's crude oil exports volumes have accounted for 48% and 50% of crude sales and deliveries in 2008 and in 2007, respectively. Approximately 80% of exported crude in both 2008 and 2007 was shipped via the Transneft system, and the remainder was shipped by rail. In 2008 TNK-BP was able to allocate a greater share of its crude oil sales to the most profitable channels, such as its refineries (including YANOS) and Near Abroad customers where netbacks tend to be higher due to lower transportation costs.

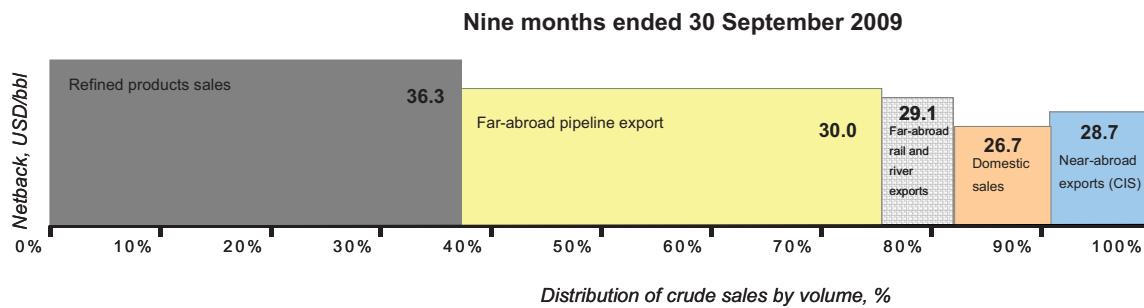
	Nine months ended 30 September				Year ended 31 December				2006	%
	2009	%	2008	%	2008	%	2007	%		
(thousand tonnes, except percentages)										
Group refineries feedstock	24,623	40%	25,442	43%	33,863	43%	33,906	42%	31,599	38%
Ryazan.....	10,711	17%	10,972	18%	14,909	19%	14,560	18%	14,569	17%
Saratov.....	4,712	8%	4,969	8%	6,606	8%	5,877	7%	5,855	7%
Nizhnevartovsk.....	888	2%	1,059	2%	1,385	2%	1,360	2%	1,360	2%
Krasnoleninsk.....	105	0%	114	0%	151	0%	145	0%	144	0%
LINIK	3,137	5%	3,282	6%	4,061	5%	5,646	7%	4,933	6%
YANOS ⁽¹⁾	5,070	8%	5,046	9%	6,750	9%	6,318	8%	4,738	6%
Third party refineries.....					—	0%	—	0%	—	0%
Exports	31,316	51%	28,767	48%	38,107	48%	41,014	50%	42,905	52%
Near Abroad (CIS), excl. LINIK	3,711	6%	3,878	6%	5,162	7%	4,446	5%	3,093	4%
Far Abroad (Europe)	27,605	45%	24,889	42%	32,945	41%	36,568	45%	39,812	48%
Domestic sales	5,768	9%	5,085	9%	7,547	9%	6,716	8%	8,803	10%
Total crude distribution	62,707	100%	59,294	100%	79,517	100%	81,636	100%	83,307	100%

Notes:

(1) YANOS is owned by Slavneft, a joint venture between TNK-BP and Gazpromneft. TNK-BP directly refines at YANOS approximately 40% of the crude oil it purchases from Slavneft and then sells the refined products in the Russian and export markets. See "—Upstream Business—Liquids Production—Slavneft Joint Venture".

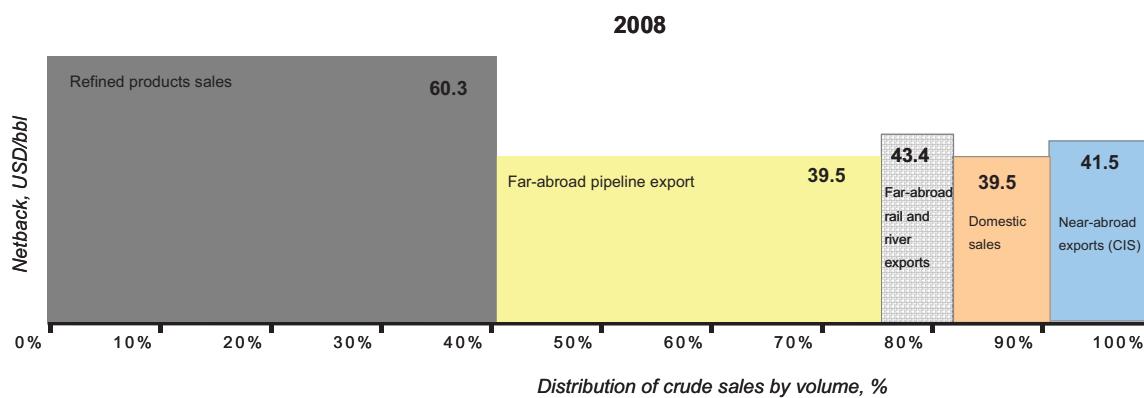
Netbacks in Nine Months to 30 September 2009 by Direction of Sales

The chart below sets forth, for each listed destination of TNK-BP's crude oil sales, the netbacks generated and the percentage of total sales in the nine month period to 30 September 2009.



Netbacks in 2008 by Direction of Sales

The chart below sets forth, for each listed destination of TNK-BP's crude oil sales, the netbacks generated (U.S.\$ per barrel) and the percentage of total sales in the year ended 31 December 2008.



While domestic crude oil prices trade significantly below international market prices, the netbacks generated from domestic sales are generally consistent with the netbacks generated from export sales. This primarily reflects the Russian tax regime of export duties and additional transportation costs associated with crude oil export. Sales of refined products, both in the domestic and in the export markets, tend to generate the highest netbacks for TNK-BP.

TNK-BP sells most of its exported crude oil on a one year term basis, utilising open market best-price basis, to major international companies, including BP, ENI S.p.A., NESTE Oil OYJ, Vitol and Gunvor. TNK-BP also aims to increase its customer base among Asian and eastern hemisphere customers, and it has recently begun sales to China Oil.

Crude oil is generally exported on an FOB Russian port basis (in case of shipment by oil carrier) or on DAF basis (in the case of transport by cross-border pipeline). In most cases, title over the crude oil is transferred at the date the carrier delivers a bill of lading with respect to the crude oil being transported or at the point of border crossing for DAF sales.

Refined products are delivered to sales outlets inside Russia and Ukraine or exported through a trunk pipeline network owned by the state-owned company Transnefteproduct, as well as by rail and sea.

In order to raise netbacks, TNK-BP is increasing the share of its crude oil production destined to refining, particularly with a view to develop higher quality products. In 2008, TNK-BP commenced production of new light products, such as clean diesel, at the YANOS and Ryazan refineries.

In 2008, TNK-BP was also the first producer to deliver low sulphur gasoil via the Primorsk pipeline owned by Transnefteproduct. The Primorsk gasoil pipeline was inaugurated in 2008 and TNK-BP believes that it represents the first significant expansion project undertaken by Transnefteproduct for the last 10-15 years.

The tables below show TNK-BP's refined products sales volumes for the years ended 31 December 2008, 2007 and 2006, for both export sales and domestic sales:

	Year ended 31 December					
	2008	%	2007	%	2006	%
(thousand tonnes, except percentages)						
Export Sales:						
Gasoline.....	3,326	16%	3,437	17%	3,195	16%
Diesel fuel (gas oil).....	5,904	28%	6,117	30%	6,339	31%
Jet fuel (kerosene).....	219	1%	308	2%	350	2%
Fuel oil (mazut).....	10,023	47%	8,934	45%	8,764	44%
Other.....	1,889	8%	1,296	6%	1,382	7%
Total	21,361	100%	20,092	100%	20,030	100%
	=====	=====	=====	=====	=====	=====

	Year ended 31 December					
	2008	%	2007	%	2006	%
(thousand tonnes, except percentages)						
Domestic Sales:						
Gasoline.....	4,957	40%	4,734	40%	4,593	37%
Diesel fuel (gas oil).....	3,815	31%	3,592	30%	3,649	29%
Jet fuel (kerosene).....	1,261	10%	1,270	11%	1,262	10%
Fuel oil (mazut).....	234	2%	422	3%	1,090	9%
Other.....	2,006	17%	1,956	16%	1,941	15%
Total	12,272	100%	11,974	100%	12,536	100%
	=====	=====	=====	=====	=====	=====

Total sales volumes of refined products were higher in 2006 than in 2007 primarily as a result of the fact that until 2006 TNK-BP would purchase a certain amount of refined products from third parties and then resell them to its end customers. Since 2007, TNK-BP has mainly been selling refined products produced from its own crude.

The tables below show TNK-BP's refined products sales volumes for the nine months ended 30 September 2009 and 30 September 2008, for both export sales and domestic sales:

	Nine months ended 30 September			
	2009	%	2008	%
(thousand tonnes, except percentages)				
Export Sales:				
Gasoline	2,616	16%	2,473	16%
Diesel fuel (gas oil).....	4,790	30%	4,522	29%
Jet fuel (kerosene).....	214	1%	201	1%
Fuel oil (mazut).....	7,000	43%	7,225	46%
Other	1,625	10%	1,292	8%
Total	16,245	100%	15,713	100%
	=====	=====	=====	=====

	Nine months ended 30 September			
	2009	%	2008	%
(thousand tonnes, except percentages)				
Domestic Sales:				
Gasoline	3,443	42%	3,779	40%
Diesel fuel (gas oil).....	2,402	29%	2,989	32%
Jet fuel (kerosene).....	867	11%	960	10%
Fuel oil (mazut).....	113	1%	157	2%
Other	1,366	17%	1,551	16%
Total	8,191	100%	9,436	100%
	=====	=====	=====	=====

TNK-BP's exports of refined products consisted primarily of heavy fuel oil and diesel fuel. In the first nine months of 2009, TNK-BP's refined product exports increased by 3% to 16.3 million tonnes (including volumes processed at YANOS) compared to 15.7 million tonnes in the first nine months of 2008.

TNK-BP's domestic sales of refined products consist primarily of gasoline and gas oil. TNK-BP's domestic sales decreased from 9.4 million tonnes in the first nine months 2008 to 8.2 million tonnes in the first nine months 2009, primarily due to a drop in domestic demand as a result of general market conditions, as well as improvement works related to scheduled turnaround measures being taken to upgrade the facilities and improve the performance at the Ryazan and Saratov refineries, which partially restricted production capacity.

Refining

TNK-BP owns five refineries, four of which are located in Russia, and one is located in Ukraine. Together, these refineries account for a total effective capacity of approximately 31.5 million tonnes per year. In 2008, TNK-BP's refineries processed 29.2 million tonnes, with an effective utilisation rate of 90%. Through its participation in the Slavneft joint venture, TNK-BP also indirectly holds approximately a 50% share in the YANOS refinery. See “—YANOS”.

The Ryazan, Lisichansk and YANOS refineries are large conversion refineries which utilise distillation and secondary conversion processes, such as cracking units, to produce a broad range of petroleum products. The Saratov Refinery is a smaller refinery with only a visbreaking upgrading and reformer process, which produces a more limited range of petroleum products. The Nizhnevartovsk and Krasnoleninsk refineries are small topping refineries which utilise atmospheric distillation to produce light fractions such as low octane gasoline, gas oil and kerosene. The by-product of extracting these light fractions is stabilised oil, which is returned to the Transneft crude oil pipeline system.

In its refining business, TNK-BP aims to enhance the volume and quality of its refined products to match domestic product demand and to increase sales of refined products in the international markets. Since exports of refined products are subject to lower export duties than sales of crude oil, TNK-BP generally realises higher netbacks on the sale of refined products and TNK-BP therefore aims to improve its operating margins by increasing the share its total sales accounted for by sales of refined products.

To achieve these aims, and to maintain its competitiveness in the long term, TNK-BP believes that it faces a number of challenges including the following:

- *Historical legacy of underinvestment.* Refineries are capital intensive assets with high fixed costs and Russian refineries lag Western counterparts in configuration and complexity. As a result, Russian refineries, including TNK-BP's refineries, have higher operating costs and inefficiencies than their Western European competitors with lower conversion and yields.
- *Introduction of new fuel specifications.* Demand for high octane fuels will continue to increase as car owners in Russia replace their old vehicles with newer vehicles. The Russian Government has recently published new quality specification requirements for gasoline and diesel ground fuels as well as deadlines for their effectiveness.

TNK-BP believes that it is well placed to respond to these challenges through the following measures:

- Continually modernising and upgrading the efficiency and safety of its refineries. TNK-BP has aimed to improve the effectiveness of its maintenance and turnaround programs to improve the reliability of plant performance and it is now leveraging on the experience gained by employing its planning and turnaround execution capabilities to manage large scale projects at its major refineries.
- Efficient investments in refinery units in order to produce higher quality fuels and meet the new regulatory requirements in a timely and cost effective manner. For example, TNK BP is in the process of upgrading its refineries at Ryazan, Saratov and Linik to meet the recently published domestic quality fuel specifications and the deadlines set for their application.
- Leveraging on the strategic location of its refineries, including the Ryazan refinery which is well placed to serve the Moscow and export market, TNK BP believes it is well placed to capture the attractive margins generated by high quality fuels when sold to these markets.

TNK-BP has developed plans for over U.S.\$2 billion of capital improvements to its refineries over the next five years.

In the first nine months of 2009, TNK-BP refineries processed 20.3 million tonnes with an effective utilisation rate of 86%. This decline in the effective utilisation rate from 2008 was primarily due to a decline in the global demand for refined products as a result of weaker economic conditions and a turnaround project undertaken at the Ryazan refinery. See “—Ryazan Refinery”.

The table below shows key data of TNK-BP’s refineries for the years ended 31 December 2008, 2007 and 2006 and for the nine months ended 30 September 2009 and 2008 (excluding YANOS).

	Nine months ended 30 September		Year ended 31 December		
	2009	2008	2008	2007	2006
	(thousand tonnes, except percentages)				
Effective annual capacity	N/A	N/A	31,462	31,100	31,000
Refinery input:					
Crude oil	19,553	20,397	27,113	27,588	26,861
Other feedstock	699	931	1,065	1,125	1,016
Total refinery input	20,252	21,328	28,178	28,713	27,877
Conversion ratio	66%	67%	67%	68%	67%
Light products output	55%	56%	56%	57%	57%
Utilisation	86%	90%	90%	92%	90%

The tables below show certain information with respect to the refined product output of TNK-BP’s refineries for the periods indicated.

	Year ended 31 December					
	2008	%	2007	%	2006	%
	(thousand tonnes, except percentages)					
Type of Product:						
Gasoline	6,771	25%	7,050	26%	6,609	26%
Diesel fuel (gas oil)	7,890	30%	8,068	30%	7,952	30%
Fuel Oil (mazut)	7,509	28%	7,643	28%	7,502	29%
Jet fuel (kerosene)	1,101	4%	1,220	4%	1,132	4%
Other products	3,417	13%	3,167	12%	2,941	11%
Total	26,687	100%	27,148	100%	26,136	100%

	Nine months ended 30 September			
	2009	%	2008	%
	(thousand tonnes, except percentages)			
Type of Product:				
Gasoline	4,818	25%	5,129	26%
Diesel fuel (gas oil)	5,576	29%	5,925	29%
Fuel oil (mazut)	5,555	29%	5,560	28%
Jet fuel (kerosene)	733	4%	872	4%
Other products	2,463	13%	2,701	13%
Total	19,145	100%	20,188	100%

TNK-BP continually modernises and upgrades its refineries to improve their efficiency and safety and to enable them to meet the growing demand from domestic and international customers for higher-quality, higher-octane, cleaner fuels.

During the last few years, TNK-BP has significantly upgraded the Ryazan refinery, installed a visbreaker unit at the Saratov refinery, which is used to convert heavier hydrocarbons into lighter hydrocarbons, and installed a bitumen unit at the Lisichansk refinery.

In the next three years, TNK-BP expects to focus on upgrades to comply with the Russian domestic fuel specification regulations. This is expected to consist of new isomerisation and revamped diesel hydrotreater units at Ryazan and Saratov; these investments are expected to reduce gasoline aromatics, including benzene and sulfur content in TNK-BP’s diesel fuel. In addition to the quality

projects, over the next five years TNK-BP expects the Ryazan Refinery to achieve incremental throughput and conversion with upgrades to the crude vacuum tower, fluid catalytic cracking and visbreaker unit. Upgrades at Saratov are expected to increase annual capacity to a target of 7 to 7.5 million tonnes.

To increase reliability and availability, Ryazan completed two successful major turnarounds in 2007, 2009 and endeavours to increase this major turnaround cycle from 2 to 3 years. Turnarounds entail the shutting down of operations at one or more units of a refinery for periodic repair work. The frequency of turnaround cycles depends primarily on the nature of the repair needed, the function of the unit as well as the effectiveness of previous turnarounds.

Ryazan Refinery

The Ryazan refinery is TNK-BP's largest refinery and one of the largest in Russia. It accounted for approximately 52% of TNK-BP's oil refining (excluding YANOS) in 2008 and represented approximately 6% of the total crude oil processed at all Russian refineries in 2008. As of end of 2008, the refinery had an effective annual capacity of 16.2 million tonnes. Located 230 kilometres southwest of Moscow, the refinery is well placed to supply the attractive Moscow market and export markets in northwest Europe.

The table below summarises key operating data for the Ryazan refinery for the years ended 31 December 2008, 2007 and 2006 and for the nine months ended 30 September 2009 and 2008.

	Nine months ended 30 September		Year ended 31 December		
	2009	2008	2008	2007	2006
(thousand tonnes, except percentages)					
Effective annual capacity	N/A	N/A	16,150	15,500	15,500
Refinery input:					
Crude oil	10,711	10,972	14,909	14,560	14,569
Other feedstock	157	304	363	409	517
Total refinery input	10,868	11,276	15,273	14,969	15,086
Conversion ratio	62%	63%	63%	63%	64%
Light products output	54%	55%	56%	55%	56%
Utilisation	90%	93%	95%	97%	97%

The refinery was commissioned in 1960 and it produces light fuels (such as gasoline, diesel, gas oil, jet fuel and solvents), heavy fuels (including heavy fuel oil, bitumen and lubricants) and some petrochemicals. In recent years, the refinery underwent extensive renovation. In 2006, TNK-BP completed a U.S.\$631 million modernisation programme which consisted of the reconstruction of the fluid catalytic cracking (FCC) unit, an upgrade of the sulphuric acid production plant, and the commissioning of the vacuum gasoil hydrotreatment (VGO) and alkylation units. As a result of this upgrade, the refinery is able to produce an incremental one million tonnes per year of high-octane gasoline and 1.6 million tonnes of diesel fuel while fuel oil production has declined by 8%. The upgraded refinery operations also deliver a substantial environmental benefit, including a 10% reduction of sulphur dioxide emissions compared to 2006 levels. The refinery has commenced the production of high octane alkylate and of 95 and 98 octane clean gasolines, to support BP Ultimate's introduction to the Moscow market. In 2008 a further upgrade of the diesel hydrotreater provided the capability to manufacture clean diesels (sulphur levels of not more than 10 ppm) for export. Future investments are planned to enable the refinery to adopt a more efficient configuration through the application of the latest available technologies.

Improvements to operating efficiency have also been implemented. In 2007, a project was commissioned utilising SAP for the automation of maintenance planning, warehouse inventory and accounting processes. Quality data on produced shipments is now recorded and processed via an automated system. Additionally, process units are simulated through linear program models to optimise supply, scheduling and planning processes.

Lisichansk Refinery (Linik)

TNK-BP's Ukrainian refinery, Lisichansk (or Linik), is one of the largest and most modern refineries in Ukraine, serving the domestic market as well as certain export markets, to which the products are delivered via the Black Sea. The refinery accounted for approximately 20% of TNK-BP's oil refining

operations (excluding YANOS) in 2008. The refinery had an effective annual capacity of 5.4 million tonnes and actually processed 4.7 million tonnes of oil and other feedstock in 2008.

The table below summarises key operating data for the Linik refinery for the years ended 31 December 2008, 2007 and 2006 and for the nine months ended 30 September 2009 and 2008.

	Nine months ended 30 September		Year ended 31 December		
	2009	2008	2008	2007	2006
(thousand tonnes, except percentages)					
Effective annual capacity	N/A	N/A	7,200	8,000	8,000
Refinery input:					
Crude oil	3,137	3,282	4,061	5,646	4,933
Other feedstock	542	627	702	714	433
Total refinery input	3,679	3,909	4,763	6,360	5,366
Conversion ratio	70%	73%	71%	69%	68%
Light products output	58%	59%	58%	58%	58%
Utilisation	63%	67%	61%	80%	67%

Due to persistent unfavourable market conditions, resulting in reduced demand, the volume actually processed at Linik remains well below the refinery's annual capacity. The refinery continues to follow a flexible processing regime utilising both crude and other feedstocks to optimise production economics given the available margin. In 2007, the refinery also inaugurated a tolling arrangement, whereby Russian crude oil supplied by TNK-BP is processed and then the products supplied for sale in the Russian and Ukrainian markets.

The refinery produces a wide variety of refined products including polypropylene, gasolines, benzene, diesel fuel, fuel oil (mazut) and bitumen. TNK-BP plans to leverage on the Linik refinery to expand into the Ukrainian and southern Russian markets. To that end, TNK-BP plans to expand the TNK-branded and BP-branded retail network in Kiev and other selected regions of Ukraine.

Over the past few years, significant upgrades were made to the refinery to enhance its capacity, efficiency and versatility. In particular, an isomerisation plant and a Mericat II plant were recently commissioned and the refinery commenced production of high-octane A-98 gasoline. At the end of 2006, the refinery received an ISO 14001 conformance certificate for its environmental management system. The refinery is also implementing a number of further upgrades to meet Ukrainian quality and environmental regulation requirements, including upgrades to its isomerisation capability and diesel hydrotreating.

Saratov Refinery

The Saratov refinery, located in Russia's Volga region and with access to important rail lines and river transportation facilities, was commissioned in 1933. The refinery accounted for approximately 23% of TNK-BP's oil refining operations (excluding YANOS) in 2008. The refinery's effective annual capacity has reached 6.6 million tonnes of crude oil. The refinery produces gasoline, diesel fuel, fuel oil, bitumen and other products. In July 2004, TNK-BP completed a visbreaker unit project that enabled the refinery to increase its crude oil conversion ratio, reaching 70% in 2008. Following the successful implementation of automation processes at the Ryazan refinery, a similar management automation programme was introduced at Saratov. Planned future upgrades include the launch of a new isomerisation unit to enable the refinery to meet the tightening of Russian domestic fuel specifications, an upgrade of the diesel hydrotreaters to produce low sulphur 10 ppm diesel and an expansion of annual capacity to a target of 7 to 7.5 million tonnes.

The table below summarises key operating data for the Saratov refinery for the years ended 31 December 2008, 2007 and 2006 and for the nine months ended 30 September 2009 and 2008.

	Nine months ended 30 September		Year ended 31 December		
	2009	2008	2008	2007	2006
(thousand tonnes, except percentages)					
Effective annual capacity	N/A	N/A	6,582	6,000	6,000
Refinery input:					
Crude oil	4,712	4,969	6,606	5,877	5,855
Other feedstock	—	—	—	3	66
Total refinery input	4,712	4,969	6,606	5,879	5,920
Conversion ratio	69%	70%	70%	71%	65%
Light products output	45%	44%	45%	47%	47%
Utilisation	95%	98%	100%	98%	99%

Nizhnevartovsk Refinery

The Nizhnevartovsk refinery, located in Western Siberia, commenced operations in late 1998. It had an effective capacity of 1.4 million tonnes of crude oil and actually processed 1.4 million tonnes in 2008. The Nizhnevartovsk refinery extracts light fractions such as straight run gasoline, gas oil and kerosene from the crude oil delivered by TNK-BP's production facilities located in Nizhnevartovsk region. The by product of extracting light fractions is stabilised oil which is returned to the crude oil pipeline system. TNK-BP sells a small portion of those light fraction volumes in the local market and delivers the remainder either to the Ryazan refinery by rail for further processing or sells it directly for export.

Krasnoleninsk Refinery

The Krasnoleninsk refinery, located in Western Siberia, commenced operations in late 1998. It had an effective capacity to process 0.15 million tonnes of crude oil and actually processed 0.14 million tonnes in 2008. The refinery extracts light fractions from the crude oil delivered by NNP and SNG. The by-product of extracting light fractions is stabilised oil which is returned to the crude oil pipeline system. TNK-BP sells its light fraction volumes in the local market.

YANOS Refinery

YANOS is the principal Slavneft refinery located in Central Russia, with total effective capacity of 15 million tonnes. Since April 2006 TNK-BP has processed crude oil at YANOS under a processing arrangement whereby approximately 40% of the crude oil purchased from Slavneft is processed at YANOS and refined products are then sold by TNK-BP directly to the Russian and export markets. See “—Upstream Business—Liquids Production—Slavneft Joint Venture”.

Marketing: Retail Network and Business to Business Sales

Domestically, TNK-BP sells its refined products through a number of distribution channels. The gasoline and approximately 50% of the diesel produced by TNK-BP is sold within Russia through TNK-BP's own retail networks (including jobbers) and in the wholesale market. TNK-BP also sells specialised refined products directly to large wholesale customers.

In the domestic market for jet fuel, bitumen, fuel oil and gasoline/diesel, TNK-BP mainly competes with other Russian oil and gas vertically-integrated groups, including LUKOIL, Rosneft, Gazpromneft, Tatneft and Surgutneftegas. Due to the geographic location of the main oil refineries and marketing companies in Russia, sales of refined oil products are typically focused on the customer base existing within the regions in which an oil producer's refineries are located. As a result, many regions tend to be principally served by not more than one or two retail networks. An exception to this practice is Moscow and the Moscow region, the largest regional market, where all major Russian oil companies have a presence.

TNK-BP operates one of the largest retail networks in Ukraine. TNK-BP's main competitors are the Ukrainian-government owned Kremenchug refinery, LUKOIL and other nation-wide retail networks with the ability to switch supply sources for crude oil or refined products between imports and domestic sources. TNK-BP expects competition in the Ukrainian market to increase and in order to secure and expand its market position and increase the profitability of its Ukrainian operations,

TNK-BP plans to further develop its retail network as well as to invest into its refinery capability enhancing both product quality and refining depth.

In Belarus, TNK-BP and Gazpromneft have divided between themselves the business formerly owned by Slavneft in the country. TNK-BP intends to leverage on this refinery capacity and network of retail outlets to develop a modern and sophisticated marketing network in Belarus for its TNK and BP brands, capitalising on the experience gained in its Russian and Ukrainian operations.

Retail Network: Operating Under Two Brands

TNK-BP operates and markets under two distinct customer brands, TNK and BP. TNK branded fuel stations are located in 20 regions across Russia, including in Moscow, Ryazan, Tula, Kaluga, Kursk, Karelia, Rostov-on-Don, Saratov, Krasnodar and St. Petersburg, as well as in Ukraine and Belarus, while BP branded fuel stations are concentrated in Moscow (with a smaller number in Saint Petersburg) and in Kiev, Ukraine. By marketing its products under these two brands, TNK-BP believes it is better able to address different customer needs and choices in the rapidly growing Russian and Ukrainian markets.

As of 30 September 2009, TNK-BP's retail network in Russia, Ukraine and Belarus included 1,399 filling stations, 822 of which are owned and operated by TNK-BP's marketing subsidiaries (including 62 filling stations under the BP brand) and the remainder of which are operated by independent owners through jobber arrangements. In December 2009, TNK-BP entered into agreements to acquire a 100% interest in VikOil, a company engaged in the retail and wholesale distribution of petroleum products in Ukraine which controls 118 filling stations in Ukraine. Completion of the acquisition is expected to occur during the first quarter of 2010. See "*Operating and Financial Review—Formation and Evolution of TNK-BP—Recent Developments*".

BP is a globally successful brand well-recognised and with a significant presence within the Russian market. The network of BP-branded stations performs on average over 3.3 million retail customer transactions every month. Building on the brand's successful performance in Moscow and the Moscow Region, TNK-BP has recently extended BP's retail network with the opening of BP-branded retail stations in St. Petersburg and Kiev (Ukraine).

In 2006, TNK-BP launched a new marketing initiative aimed at rebranding TNK stations in order to reposition them in the market. The goal was to consistently and visibly improve the quality of services and products to create a distinct and relevant TNK brand positioning and increase customer trust and loyalty. Between 2006 and 2009, approximately 360 stations have been rebranded to the "new look" under this programme and approximately another 120 filling stations are expected to be rebranded over the next 3 years.

TNK-BP believes the TNK brand is increasingly associated with quality, professionalism and reliability. New visual standards have been developed and are being introduced across the outlet network to illustrate these features. The quality and range of TNK's services has also been expanded, with a particular focus on frequent drivers and long-haul drivers. In addition to the more typical services, such as fuelling, motor oil and water, tire inflation, vacuum cleaning services and free restroom access, the majority of the rebranded TNK outlets also include well-maintained TNK-Express stores. A variety of foods, non-food goods and car care products are available for sale. Customers also have access to cash machines. Fuel and goods are paid at a single point of sale terminal in cash or by major credit cards.

TNK-BP also believes that its ability to offer quality fuels meeting the higher specifications being introduced in Russia and required by drivers of modern vehicles strongly enhances its brands and market appeal. Since 2006, TNK-BP has launched BP "*Ultimate*" unleaded fuel with octane grades 95 and 98 at all BP's retail stations in Moscow and the Moscow region. The BP Ultimate fuel delivers increased engine power, cleans engine deposits and prevents their formation, providing fuel economy while also reducing sulphur emissions by up to 66%. Currently over a third of all the BP branded retail stations customers use BP Ultimate motor fuel. In October 2009, TNK-BP launched TNK "*Pulsar*", an innovative fuel with advanced cleaning characteristics with octane 95 grade. The TNK Pulsar fuel meets the Euro IV fuel specifications and cleans up to 60% of engine deposits while reducing the formation of further deposits in the future by 90%. Currently, TNK Pulsar is being offered at TNK's filling stations in the Moscow region, but TNK plans to introduce it across its entire retail network if the results of this initial focussed campaign are encouraging.

TNK-BP has also used loyalty programs to enhance its brand appeal. Since 2006, all BP filling stations in Moscow and in the Moscow region participate in the "*Malina*" loyalty program. Malina is

a unique program in Russia and combines several partners across various retail sectors. BP customers collect points while purchasing fuel, associated goods and services and may then exchange points for bonus goods and services. About 40% of BP customers in Russia are Malina-card holders.

In addition to company-owned sites, the TNK brand is also marketed through “jobbers”. These non-owned outlets managed by independent operators under the “TNK” brand who are tied to exclusive arrangements with TNK-BP pursuant to which they are supplied fuel, carry the TNK brand and agree to comply with TNK-BP’s standards and procedures. Jobbers allow TNK-BP to extend its brand into areas where TNK-BP has yet to, or does not intend to, make capital investments. Currently, TNK-BP counts 577 jobber sites in its retail network across Russia and Ukraine. In particular, 328 stations are located within Russia, and TNK-BP expects approximately 80% of these to have been upgraded to match TNK’s new branding standards by 2012. The initial cost for these upgrades and improvements is carried by the jobber companies, although at a later stage TNK-BP compensates them through discounts and other contractual provisions provided for in their agreements.

Strategic Focus in Marketing

In its retail business, TNK-BP plans to focus its investments on company-owned and company-operated outlets under both the TNK and BP brands in the largest metropolitan growth markets in Russia and Ukraine.

TNK-BP believes that Moscow and the Moscow region, which together accounted for the largest regional percentage of refined products consumption in Russia in the first nine months of 2009, represent a particularly attractive opportunity due to the Ryazan refinery’s geographic proximity and direct pipeline access to Moscow. With its combined retailing under TNK and BP brands, TNK-BP is the market leader in Moscow, with over 270 branded retail sites (which includes owned sites as well as stations managed by jobbers), which TNK-BP estimates represent an approximate 26% share (in terms of sales volume) of the Moscow retail market in the first nine months of 2009. TNK-BP’s strategy in the Moscow region includes developing its customer base by enhancing its commitment to high quality and service standards, expanding and optimising its retail network and increasing revenue from the sale of gasoline and convenience store products.

Between the end of 2007 and the beginning of 2008, TNK-BP expanded its retail network of owned stations, primarily in the Moscow region, following its acquisition of a Russian jobber company which operated 112 outlets in Moscow and in the Moscow region and six outlets in St. Petersburg, and also owned land plots (available for further outlet development). Through this acquisition, TNK-BP also acquired three oil depots in the Moscow region, a loyalty cards business and several retail outlets in Ukraine. TNK-BP is currently upgrading and, in part, rebranding these newly acquired outlets, consistently with its program of revamping of the TNK brand and expansion of the BP retail network.

Beyond Moscow and the Moscow region, TNK-BP will continue to work to expand its retail network and increase its market share. This effort is particularly focussed on St. Petersburg, the second largest metropolitan market in Russia, and on Krasnodar, located in a region anticipated to experience significant economic growth in preparation for the 2014 Winter Olympic Games to be held in nearby Sochi. TNK-BP also intends to expand its retail network in regions with significant fuel demand, such as the Volga area and the Urals. TNK-BP continues to rely on jobbers, which it considers an effective approach to the expansion of its retail network and the introduction of its brand in new areas and markets. Jobbers are permitted to use the brand name “TNK” and are required to sell only refined products purchased from TNK-BP.

In those areas where it already counts on a well established market presence, TNK-BP aims to further enhance and strengthen its position by targeted investments to acquire new assets and to upgrade existing assets. In particular, TNK-BP is planning significant investments aimed at optimising the number and location of oil depots, upgrading and where necessary redeveloping or divesting those facilities, and with a view to introduce increased automation.

In Ukraine, TNK-BP’s owned retail network is primarily concentrated in Kiev and includes 44 outlets operating under the TNK or BP brand in Kiev, and six more outlets across Eastern Ukraine, in proximity to the Linik refinery. In addition, TNK-BP counts on nearly 250 filling stations operated under its jobber program across Ukraine.

TNK-BP has established its presence in Ukraine through a combination of organic growth and acquisitions. Between the end of 2007 and the beginning of 2008, TNK-BP completed the acquisition

of a Russian jobber company, which also controlled 36 retail outlets in Ukraine, in addition to three oil depots and a loyalty card business. TNK-BP is currently upgrading these newly acquired locations in Ukraine, consistently with its program of revamping of the TNK brand and expansion of the BP retail network.

Business to Business Sales

In pursuing opportunities in the “Business-to-Business” market, TNK-BP aims to maximise the value of its refined products range by identifying customers for specialised products, where sales margins are higher than when exporting or selling to wholesale domestic customers, with a view also to develop long-term relationships with these customers.

Airline sector

TNK-BP is one of the largest suppliers of jet fuel in Russia, with the third largest market share in the industry in 2008. TNK-BP's main customers are major airlines, the Russian Government and military agencies. TNK-BP is particularly well positioned to service the Moscow airport region, due to the geographical proximity of its refineries and the ability to access the jet fuel pipeline. In recent years, TNK-BP has transformed itself from a jet fuel wholesaler to a full service jet fuel supplier to the airline industry. In October 2009 TNK-BP entered into a joint venture which allowed it the use of set fuelling facilities at the Sheremetievo airport thus allowing it for the first time to sell jet fuel directly to airlines. TNK-BP intends to further expand its presence in key Russian hubs through the acquisition of existing refuelling facilities and by exploiting opportunities presented by the increased opportunities to enter the airport fuelling industry. TNK-BP also intends to continue to service the state sector, by participating in specialised tenders and auctions.

Bitumen

In 2008, TNK-BP became the second largest supplier of bitumen in Russia as a result of improved winter sales and the optimisation of its sales channels. In addition, during 2008, TNK-BP developed a prototype of thermally insulated rail tank cars to facilitate railway deliveries; it patented a new PMB-based product; its distributors have acquired bitumen tank trucks to improve the quality of the transported bitumen; and health and safety measures were adopted to improve the efficiency and reliability of transport vehicles.

Bunkering (marine fuel)

In 2008, TNK-BP established a marine fuel unit to specifically target the marine fuel market for river and sea vessels. In addition to domestic sales, TNK-BP also exports marine fuels outside of Russia, particularly to the Azov-Don basin, the Northwest District (around St. Petersburg) and the Black Sea basin. Over the next few years, TNK-BP aims to develop and launch the sale of proprietary marine fuel oils; commence sales of marine gasoil products; acquire tankers and bunkering facilities meeting international specifications and standards, and complete the roll-out of health and safety measure across its bunkering facilities. In addition, to better serve its existing customers and further expand its market share in the Azov-Don region and the Black Sea basin, TNK-BP intends to acquire its own bunkering facilities in those regions.

Lubricants

TNK-BP supplies oils and lubricants to the Russian and CIS markets. Its main competitors in the market are well established international suppliers, such as ExxonMobil, Shell, Castrol, and large Russian producers such as LUKOIL, Rosneft and Gazpromneft. However, while Russian producers, including TNK-BP, hold the largest market shares in the Russian market and in the middle to bottom price range in the CIS market, global companies have stronger market shares within the high-quality, higher-margin premium market. In order to secure higher margins for its lubricant business, TNK-BP intends to focus on the premium high-quality oils market, where it has begun to establish a recognisable presence. TNK-BP's share of the commercial vehicle market in Russia has grown to 6% in 2008, while in the same period its share of the industrial premium segment in Russia has grown to 7%. Over the next few years, TNK-BP also intends to strengthen its position in the higher-margin markets for private and commercial vehicle products. In January 2009, TNK-BP's lubricant division was awarded an ISO 9001 certificate of Compliance of System of Quality Management.

Corporate Activities

Overview of Strategic Focus

The main corporate objectives for TNK-BP are as follows:

- To set overall strategy and plans for TNK-BP. TNK-BP develops one, three and ten year business plans. Adherence to TNK-BP's one year plans are evaluated on a monthly basis throughout the year;
- To set corporate policies and standards. TNK-BP develops corporate policies in four areas Internal and Financial Control, Business Ethics, Health Safety and Environmental, and Human Resources. These standards are widely disseminated amongst staff and are available on TNK-BP's website; and
- To achieve, over time, the highest standards of transparency and corporate governance. TNK-BP believes that several of TNK-BP's corporate initiatives described below, including, in particular, the Corporate Restructuring Project in Russia, the Accounting Transformation Project, and the Internal Control Initiatives will contribute to improving TNK-BP's corporate governance standards.

Financial Strategy

TNK-BP's financial strategy, which has been developed in consultation with TNK-BP's board of directors, is focused on supporting the group's growth while minimising financial risks, maintaining a strong financial position, providing adequate liquidity, and increasing financial flexibility. TNK-BP's principal financial objectives include:

- Maintaining strong debt coverage ratios, with the aim of achieving and maintaining investment grade status over time; and
- Paying dividends of not less than 40% of TNK-BP's annual net income attributable to Group shareholders, unless otherwise approved by TNK-BP Board of Directors. TNK-BP also aims to return to shareholders cash that is in excess of its business requirement, subject to maintaining TNK-BP's gearing ratio within a range of 25% to 35%, as established by the shareholders' agreement;

As part of its financial strategy, TNK-BP has the following medium term debt financing objectives:

- To maintain financial ratios broadly in line with oil and gas groups with strong investment grade ratings;
- To continue to borrow primarily in U.S. dollars, which is the functional currency of the majority of TNK-BP's subsidiaries;
- To broaden the investor base so as to reduce refinancing risks and costs; and
- To increase the average life of TNK-BP's debt portfolio and continue to keep it largely unsecured.

These objectives will continue to be implemented centrally. TNK-BP believes that the establishment of the Programme described in this Base Prospectus has provided an important contribution to the achievement of these objectives.

Corporate Restructuring Project

As described in “*TNK-BP History and Organisational Structure—Ongoing Changes in the Structure of TNK-BP*”, in 2004 TNK-BP initiated a reorganisation aimed at simplifying its corporate structure, consolidating the noncontrolling shareholdings in certain of TNK-BP Holding's subsidiaries into TNK-BP Holding (to enable noncontrolling shareholders to participate in the success of the entire TNK-BP group) and at providing greater transparency and improved corporate governance within the TNK-BP group of companies.

The corporate restructuring involved the following steps:

- a merger by way of accession of TNK, Onako and Sidanco into TNK-BP Holding;
- a voluntary share exchange programme initiated by Novy Investments Limited, the majority shareholder of TNK-BP Holding, in respect of noncontrolling shareholders in 14 of TNK-BP Holding's operating subsidiaries, which allowed these noncontrolling shareholders to exchange their shares in these Subsidiaries for shares in TNK-BP Holding at certain conversion ratios and subject to other terms;
- the compulsory buy-out of noncontrolling shareholders in various key subsidiaries of TNK-BP Holding (OAO Novosibirskneftegaz, OAO Orenburggeologiya, OAO Ryazannefteproduct, OAO Orenburgneft and OAO Kaluganefteproduct) in accordance with procedures set out in Russian Law;

- a merger by way of accession of OAO Orenburggeologia into OAO Orenburgneft; and
- a merger by way of accession of Sidanco-Investments, Sidanco-Securities, Sborsare Management and Sidanco-Neftepererabotka into TNK-BP Holding.

In addition, although no decisions have been taken with respect to further restructuring, TNK-BP may determine and recommend to the shareholders, as appropriate, that additional restructuring be conducted. If any such additional corporate restructuring is approved, it could alter the organisational structure envisaged as a result of the proposed restructuring.

Financial Reporting Initiatives

TNK-BP currently produces consolidated U.S. GAAP financial statements, in addition to financial statements in accordance with Russian Accounting Standards for each Russian subsidiary. TNK-BP's objective in this area is to continue to improve the integrity and timeliness of its financial statements to facilitate monitoring and management of its business with modern standards of internal controls. Following a major initiative in 2005, TNK-BP reduced the time taken for preparing its group accounts from more than two months to 10 working days.

In 2009, in order to improve the external transparency and visibility of company's performance, TNK-BP has moved to reporting its results on a quarterly basis rather than on a semi-annual basis and also adopted a policy of releasing earning reports on the fourth Tuesday of the month after the close of each quarter, to be followed by the publication of the related interim financial statements and a presentation to investors via conference call.

Risk Management and Internal Controls

Enterprise Wide Risk Management System

TNK-BP has implemented an Enterprise Wide Risk Management System ("EWRM") to enhance internal control efficiency and improve the quality of its business decisions. The EWRM allows TNK-BP to perform a systematic review of major business risks. The risk management system has become an integral element of TNK-BP's corporate governance, short term and long term planning processes and performance assessments.

TNK-BP's risk management framework is detailed in the Enterprise Wide Risk Management System Standard approved in January 2006 and the Procedure for Enterprise Wide Risk Management adopted in July 2007. This framework was developed in collaboration with key employees throughout the TNK-BP group of companies and provides a uniform approach for identification, management, mitigation and reporting of risk within the TNK-BP group.

The corporate risk portfolio is updated regularly to reflect changes in the business environment and is reviewed by the Policies and Compliance Committee as a comprehensive quarterly corporate risk status report. Review and management of operational risks is the responsibility of the Operations Committee, whereas review and management of any risks associated with investment programs is the responsibility of the Corporate Investment Committee. A desired outcome is defined for each corporate risk which is to be accomplished through the implementation of appropriate risk management action plans. The status of plan delivery is monitored on a quarterly basis as part of Stream/Function Performance Reviews which are an element of the TNK-BP group's wider performance management system. Increased cooperation among employees responsible for specific risks aims to assure accurate evaluation of risk significance, development of risk response strategies and coordination of action taken by various units to respond to specific risks.

Internal Controls

TNK-BP's internal control and internal audit system underpins the preparation of the TNK-BP's group's financial statements and reliability of the financial statements produced by the TNK-BP group entities. The internal control system has been developed in accordance with the methodology of the Committee of Sponsoring Organizations of Tredway Commission (the COSO Framework).

TNK-BP ensures that all of its key business processes are aligned with the internal control framework and that appropriate controls are tested and documented. In 2008, TNK-BP completed a comprehensive internal control improvement project (the "ICP Project"), with assistance from an internationally recognised consulting firm. The ICP Project helped identify and remediate deficiencies in the TNK-BP group's internal control system, with emphasis on computer controls, an important area of internal control system's integrity.

The Internal Control Department is responsible for monitoring compliance with the internal control procedures. This department performs risk based analyses of key business processes and control across the TNK-BP group on an annual basis. During 2007-2008, the Internal Control Department implemented a sustainability plan which was intended to ensure regular updates and assessments of the internal control system and related processes with for purposes of determining and improving their operating efficiency. Fast response internal control teams were also established within individual business streams to support regular self assessment, internal control system testing and risk review processes. In 2007-2008, TNK-BP analysed over 90 business processes in nine of the regions where the TNK-BP group operates. This effort, undertaken jointly with process owners, included formalisation of processes and identification of key existing controls. The Internal Control Department supports a permanently functioning system of advice on internal control matters and best practices. Training is provided to key employees in each business stream, accountants, internal auditors and management.

A system of independent back offices has been established at each TNK-BP subsidiary to improve efficiency in contracting processes. Back office personnel are trained so that they perform these functions in the contracting activities at the regional and Corporate Center levels. Starting from 2007, back offices have been complemented by a comprehensive credit control function which comprises the Corporate Credit Committee and Stream Commissions. Based on a uniform methodology, the Commissions grant and monitor implementation of credit limits depending on counterparty credit standing. This effort further extends into the monitoring and control of accounts payable. Reports describing compliance with the contracting procedures and credit risks are submitted to the senior management on a regular basis.

Internal Audit

During 2008, TNK-BP continued improving its internal audit function core capabilities, level of competence and effectiveness. In the reporting year, the internal audit program is based on the Audit Universe of business processes and risks. This effort is considered critical for the support of the internal control sustainability program, initiated within the ICP Project framework. Management believes that coordinating the internal control function and the internal audit function significantly improves the quality of financial and management reporting.

Ethics and Compliance

Framework

TNK-BP has developed a Code of Business Policies and Corporate Standards (the “**Ethics Code**”) which establishes TNK-BP’s regulatory framework for ethics and compliance. All actions by TNK-BP’s employees are required to be consistent with the Ethics Code. The Policies and Compliance Committee is responsible for providing guidance on ethics issues and the resolution of conflicts of interest

Ethics and Compliance Controls

The Internal Control Function is responsible for managing TNK-BP’s system of internal controls designed to prevent and detect unethical behaviour, fraud and corruption. TNK-BP has established independent regional back offices, which are responsible for performing due diligence on counterparties, managing tender processes, reviewing contracts for compliance with applicable laws, including anti money laundering and corruption legislation and reporting incidents to senior management. These back offices are supported by stream and functional controller organisations, which assist in the application of compliance procedures, providing ethics advice and reporting incidents where ethical norms are violated.

Managers are subject to annual ethics assessments, the results of which are reviewed by the Policies and Compliance Committee.

Health and Safety

Occupational Safety

Maintaining high standards of work place safety and incident management remains one of the major priorities of TNK-BP. TNK-BP invests approximately U.S.\$90 million annually in projects targeted to improve occupational safety. As a result of these programs, the Days Away From Work Cases Rate, per 200,000 man hours worked, dropped from 0.191 in 2005 to 0.067 cases in the first nine months of 2009 representing a 65% improvement over this period.

TNK-BP has established the following occupational safety priorities: improving the leadership skills of our management to handle issues related to occupational safety, increasing overall HSE awareness, and improving the efficiency of our risk management process and has developed the “Golden Rules of Safety” following a thorough analysis of the causes of injuries at its sites. In 2008, over 80% of line managers received leadership training relating to health and safety.

TNK-BP’s Oil and Gas Production Sector Occupational Health Management System received the 2008 Health and Safety Award for the best innovative solution in the area of occupational safety. The award was granted by Etalon, the Interregional Association for Assisting Creation of Safe Working Conditions. TNK-BP currently plans on continuing its commitment to and investment in improving occupational safety.

Transportation Safety

TNK-BP puts particular focus on transportation safety, which it believes is the most significant health and safety risk it faces. TNK-BP has instituted several programs designed to address this risk, including entering into safety contracts with its drivers, installing seatbelts on all vehicles where technically and legally possible and training its drivers in defensive and/or winter driving.

The major vehicle accident rate (“MVAR”) decreased by 16% in 2006 as compared to 2005 and the severe vehicle accident rate (“SVAR”) decreased by 20%. In 2007 the trend continued with an 83% MVAR and 21% SVAR decrease recorded.

Since early 2008, TNK-BP has implemented more stringent requirements on safe driving skills and tightened vehicle passive safety requirements. These new requirements apply not only to TNK-BP employees, but to contractors as well. As a result, the rate of traffic accidents per 1 million kilometer driven fell 50% year on year from 0.162 in 2007 to 0.08 in 2008. This trend continued in the first nine months of 2009, with a 16% reduction in traffic accidents per 1 million kilometer driven over the corresponding period of 2008.

Health Protection

TNK-BP is implementing a five year employee health program and is currently improving its on site emergency medical assistance system. Within this program, over 40 on site first aid facilities have been upgraded and emergency medical personnel have been involved in professional development courses. As of 2009, TNK-BP’s subsidiaries have 63 medical units. TNK-BP has over 30 ambulances and approximately 7% (approximately 4,000) of TNK-BP’s employees have been trained as first aid volunteers.

TNK-BP has implemented a variety of programs to improve the quality of preventative health care for employees, including developing a cardiovascular disorders prevention program for employees in its oil and gas sector and a corporate health program at its West Siberian oil and gas production sites.

Environmental Matters

TNK-BP strives to ensure that all its activities are conducted with due regard for health, safety and the surrounding environment. In addition to complying with the environmental laws and regulations concerning its products, operations and activities, TNK-BP seeks to comply with its own Health, Safety and Environmental Policy (the “**HSE Policy**”). The HSE Policy provides the strategic framework for TNK-BP to strive to conduct its operations in accordance with international standards of environmental protection and to monitor its compliance with these principles.

TNK-BP plans to spend approximately U.S.\$2.4 billion on “integrity” management, which includes efforts to replace pipelines and aging infrastructure to prevent leaks, over the course of the next three years starting 2010. TNK-BP continuously seeks to minimise the impact of its operations on the environment by reducing waste, emissions and discharges, and by using energy efficiently. TNK-BP is dedicated to safely producing and delivering quality products that can be used safely by its customers. In addition, since its formation and the inception of its operations, TNK-BP has been involved in an effort to remedy the environmental damage caused predominantly during the times of the Soviet Union by the oil extraction activities of the previous developers of TNK-BP’s oil fields (the “**Legal Remediation and Decommissioning program**”).

Pursuant to the HSE Policy, any and all incidents which may result in damage to the environment, including potential hazards, are subject to transparent internal reporting, analysis and recording, and TNK-BP seeks to take appropriate steps to control environmental hazards and mitigate any damages.

TNK-BP's operations are subject to the environmental risks inherent in the oil and gas industry. Many oil production areas in Russia have been impacted by environmental problems, including areas where TNK-BP is conducting its oil and gas operations. These problems mainly relate to dilapidated infrastructure, including worn pipes. However, TNK-BP places particular importance on corrosion control and on the upgrade and replacement of dilapidated infrastructure. With the introduction of new BP technologies, TNK-BP has improved its ability to mitigate environmental problems including problems associated with ageing and low quality pipes.

TNK-BP's subsidiaries have prepared and implemented emergency control plans. These plans include a set of measures aimed at preventing and controlling oil spills. These plans are designed to enable TNK-BP's subsidiaries to react quickly to emergencies and take measures to localise and control the effects of environmental pollution from crude oil and refined products. Additionally, TNK-BP has implemented and tested a crisis management plan to provide executive oversight and management of major environmental incidents. TNK-BP monitors the number of its oil spills and reacts immediately to such spills by implementing appropriate measures within its technical capabilities to control them and to rehabilitate damaged resources.

In addition to mitigating air, water and soil pollution and replacing dilapidated or damaged infrastructure, TNK-BP plans to construct up to date environmental protection facilities to improve environmental performance.

As part of the Legacy Remediation and Decommissioning program, TNK-BP approved and implemented legacy remediation projects for a total of approximately U.S.\$19 million in 2006, U.S.\$19 million in 2007 and U.S.\$8 million in 2008. Remediation efforts in 2008 and 2009 have focussed on the use of natural self-restoration mechanisms as well as a balanced use of TNK-BP's own resources and services provided by contractors. TNK-BP aims to remediate at least 300 hectares of polluted land annually. Over 1,700 hectares of land have been handed over to Government commissions after successful rehabilitation, of which 460 hectares were handed over in 2008.

TNK-BP's environmental liabilities were U.S.\$226 million, U.S.\$235 million, U.S.\$167 million and U.S.\$173 million as of 30 September 2009, 31 December 2008, 31 December 2007 and 31 December 2006, respectively.

Pipeline Integrity

TNK-BP has implemented various programs intended to reduce oil leakage and it has invested approximately U.S.\$1 billion in pipeline integrity works, including pipeline inspection, replacement of worn pipes and prevention of pipeline corrosion, between 2004 and 2008. Currently, TNK-BP intends to replace approximately 4500 kilometers of pipeline and treat 50% of its existing pipeline with corrosion inhibitors by 2012. The use of corrosion inhibitors have been found to slow corrosion by approximately 90% and significantly increases the period of time before leakage occurs.

As a result of these maintenance programs, the number of oil spills decreased by 65% in 2008 compared to 2005. In 2008, 627 kilometers of pipeline was replaced, while over 9,000 kilometers was treated with corrosion inhibitors. As a result, TNK-BP recorded a 27% reduction in pipeline failure in 2008 compared with the previous year.

Associated Gas Utilisation

In 2008, TNK-BP's associated gas production volume exceeded 9,728 billion cubic meters, which represented an increase of 14.7% from production volumes in 2007 and, while TNK-BP's aggregate air emissions were reduced by 22.5% compared to 2007 levels. TNK-BP's current utilisation rate of associated gas is 84.8% whereas development licences mandate 95% utilisation. As a result, TNK-BP treats enhancement of associated gas utilisation as a business priority and plans to invest approximately U.S.\$1 billion over the next three years to materially enhance its overall associated gas utilisation on Brownfields up to the rate of 95% by 2012. See “—Gas Business—Principal Gas Production Operations—Associated Gas”.

Currently, TNK-BP is not subject to any penalty for excess gas flared. However, commencing from 2012 penalties will be levied on oil producers who achieve gas utilisation levels lower than 95%.

Work With Environmental NGOs

In 2008, TNK-BP held discussions with several leading environmental NGOs, including the World Wildlife Fund, the Russian Bird Conservation Union, the International Union for Conservation of Nature and the Biodiversity Conservation Center. As a result of these discussions, TNK-BP introduced new policies and procedures in connection with its environmental protection activities

relating to its Greenfields located in sensitive areas. The new policies and procedures meet Russian standards and are close to the highest international standards.

Insurance

TNK-BP has taken out an insurance policy covering property damage and business interruption for a number of assets, which provides protection against loss of revenues and assets due to an accident, fire or operational failure. The policy currently provides protection for catastrophic losses of up to U.S.\$1.4 billion for the Ryazan refinery, U.S.\$500 million for the Saratov refinery and U.S.\$300 million for a number of other subsidiaries, with a deductible of U.S.\$100 million and waiting period of 60 to 90 days per loss event.

TNK-BP also has directors and officers' liability insurance and third party liability insurance, each of which provide coverage on terms management believes to be consistent with international standards. TNK-BP's property and business interruption policy and its third party liability policy are underwritten by leading European insurance companies with AlfaStrakhovanie, a related party, acting as fronting insurer. TNK-BP's directors' and officers' liability policies are underwritten directly by internationally recognised insurers.

As required by Russian legislation, all of TNK-BP subsidiaries that handle or utilise hazardous materials and substances as part of TNK-BP's production, transportation and refining processes maintain the necessary compulsory insurance policies. TNK-BP believes that its current insurance policies are in line with insurance coverage typically obtained by international oil and gas companies.

In addition TNK-BP provides its employees with voluntary medical insurance policies according to its Comprehensive Health Insurance Programme. Furthermore, in 2000-2001, TNK-BP set up a non-governmental pension insurance policy for the employees of its Russian subsidiaries through non-state pension fund "Vladimir", which is 99.7% owned by TNK-BP.

Litigation

Norex Litigation. On 26 February 2002, Norex Petroleum Limited ("Norex") filed a lawsuit against TNK and certain other defendants in the United States District Court for the Southern District of New York. The complaint alleges that Norex was injured as a result of a purported illegal takeover of ZAO YugraNeft Corporation ("YugraNeft") involving TNK. YugraNeft was historically a subsidiary of ChernogorNeft, whose assets are currently owned by TNK-BP through Sidanco, and Norex was the majority shareholder of YugraNeft. Previously, the ownership of YugraNeft had been disputed by Norex and the shareholders of TNK-BP International in Russian courts. Prior to the commencement of the U.S. lawsuit, these disputes were resolved in favour of the shareholders of TNK-BP International and, as a result, TNK-BP International indirectly acquired an 80% stake in YugraNeft.

The complaint alleges claims for damages, which are based upon purported violations of the U.S. Racketeering Influenced Corrupt Organisations ("RICO") statute (18 U.S.C. 1961 et seq.). The complaint seeks compensatory damages in excess of U.S.\$1.5 billion. On 18 February 2004, the U.S. District Court granted defendants' motion to dismiss the complaint on the ground that the United States is not a suitable forum (*forum non conveniens*) for litigating the claims alleged. Thereafter, on 3 March 2004, the U.S. District Court dismissed the complaint in its entirety. Norex filed a notice of appeal to the Second U.S. Circuit Court of Appeals on 12 March 2004. The U.S. appellate court heard oral arguments on the case on 26 October 2004. On 21 July 2005, the U.S. Second Circuit Court of Appeals reversed the U.S. District Court's dismissal of Norex's complaint on the ground that the United States is not a suitable forum for litigating the claims alleged and remanded the case to the U.S. District Court and returned the decision for reconsideration by the U.S. District Court. The defendants filed a petition requesting reconsideration of the Court of Appeals' decision, but the petition was denied on 23 November 2005.

In December 2005, certain corporate restructuring steps were taken that led to TNK-BP Holding becoming, directly, a defendant in the action, as a legal successor to TNK under Russian law. On or about 21 December 2005 the plaintiff filed an amended complaint that names TNK-BP Holding and others as defendants. The amended complaint largely reiterates the allegations of the original complaint, but adds causes of action for tortious conduct and unjust enrichment under Russian law. A case conference in the U.S. District Court was held on 30 January 2006, where a two-part pleading schedule was agreed to, pursuant to which the defendants submitted motions to dismiss the amended complaint in March 2006 and in May 2006. All of these motions were fully briefed and submitted to the Court for decision.

On 24 September 2007, the District Court issued its decision dismissing all of Norex's claims on the ground that U.S. courts lack subject matter jurisdiction over the claims alleged. The Court also refused to grant Norex leave to amend its complaint on the ground that any such attempt to amend the complaint would be futile. The Court then directed that judgment be entered in favor of defendants, and that the case be closed. As a result of this decision, the District Court did not rule on any of the additional grounds that had been asserted by defendants for dismissal of Norex's claims. 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 TNK-BP.

Bankruptcy and liquidation of LiNOS. In 2000, TNK-BP acquired a 59.0 percent interest in OAO LiNOS ("LiNOS"), a refining company, located in Eastern Ukraine in a privatisation auction. As of the date of acquisition, LiNOS was under external management appointed in September 2000 by the Supreme Arbitration Court of Ukraine, for a period of up to 10 years. The external management was charged with restoring LiNOS to solvency through economic reform and restructuring the refinery's obligations. During the period of external management all claims against LiNOS were suspended. On 6 February 2003, the Ukrainian Court approved a plan by the external manager to restructure LiNOS. Under the restructuring plan, a new company, LINIK, was formed within the TNK-BP group of companies. In accordance with the plan, the refining assets of LiNOS were contributed to LINIK, while TNK-BP and noncontrolling shareholders also contributed cash and their equity interests in LiNOS. In November 2003, the external management obtained a final agreement with certain LiNOS creditors as to the completion of the restructuring plan. Those creditors with valid claims against LiNOS when declared bankrupt were granted an equity interest in LINIK resulting in the bankruptcy proceedings being cancelled in December 2003. In December 2006, further bankruptcy proceedings against LiNOS were initiated by the creditors who were not part of the initial agreement. On 9 October 2007, the Court ruled that liquidation of LiNOS can proceed. In April 2008, pursuant to the liquidation process, most of the remaining assets of LiNOS, primarily an equity interest in LINIK, have been sold to a TNK-BP subsidiary for U.S.\$43 million. On July 2008, the Court ruled that LiNOS was liquidated. Management believes that the ultimate resolution of this matter will not have a material impact on the financial position of TNK-BP.

FAS proceedings. In October 2008, the 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 U.S.\$44 million (RUR1.1 billion) against TNK-BP. In 2009, TNK-BP Holding appealed the decision and related fine, and has obtained to date a number of favourable court rulings. On 30 November 2009 the FAS appealed these rulings in the Supreme Commercial Court.

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 U.S.\$139 million (RUR4.2 billion). In December 2009, TNK-BP Holding successfully appealed the decision and the related fine. The court decision in favour of TNK-BP Holding is subject to appeal by the FAS.

Tax Audits. TNK BP has also faced a number of potential and actual tax claims arising from the audits of TNK BP's Russian subsidiaries. These claims have resulted in TNK BP paying additional taxes and penalties, in addition to costs related to disputing the amounts assessed. No claims are outstanding for periods prior to 2004. Currently, TNK BP is appealing, either at the higher tax authorities or in the Russian courts, tax claims in respect of the 2004 and 2005 tax period for an aggregate amount of U.S.\$92 million (RUR2.8 billion) and tax claims in respect of the 2006 and 2007 periods for an aggregate amount of U.S.\$93 million (RUR2.8 billion). TNK BP has made a provision of U.S.\$102 million (RUR3.1 billion) as at 30 September 2009, which represents TNK BP's estimate of its probable liability following the settlement of those claims.

Federal Customs Service ("FCS") proceedings. In August 2009, TNK-BP filed a suit against the FCS in relation to reimbursement of what it claims was an excess payment of U.S.\$214 million (RUR6.4 billion) in export duties. TNK-BP claims that it paid the export duty at the higher rate, although such rate was at that time no longer applicable, in order to avoid the risk that the regional customs authorities would not clear the export of certain amounts of crude oil and oil products. Under the Customs Code of the Russian Federation, TNK-BP is entitled to seek the reimbursement of such excessive export duty payment, and the case seeking such reimbursement was heard in September and November 2009, although no decision has yet been taken by the court. A further hearing is expected in early 2010.

VAT claims. TNK-BP and its Russian subsidiaries are currently contesting with the higher tax authorities and in the Russian courts the denials to reimburse VAT for the years 2006-2009. As of 30 September 2009, these claims amounted to U.S.\$122 million (RUR3.7 billion). A further claim for VAT reimbursement in the amount of U.S.\$92 million (RUR2.8 billion) for different periods of 2006 has been adjudicated in favor of TNK-BP.

Other Legal Proceedings. TNK-BP is a party to various other legal proceedings. TNK-BP does not, however, believe the pending legal proceedings, individually or taken together, will have a material adverse effect on its results of operations or financial condition.

MANAGEMENT AND EMPLOYEES

Management Framework

The management framework of TNK-BP is set forth in the Shareholders' Agreement relating to TNK-BP dated 29 August 2003 between its shareholders (AAR and BP) and amended and restated on 9 January 2009 (the "Shareholders' Agreement").

TNK-BP Limited's corporate governance structure comprises the Board of Directors of TNK-BP Limited (the "Main Board"), the Main Board Audit Committee, the Main Board Compensation Committee and the Main Board HSE Committee.

Day-to-day executive management of TNK-BP's operations in Russia and Ukraine is the responsibility of the TNK-BP Chief Executive Officer (the "CEO") (nominated by BP and unanimously approved by the Main Board), who is supported by the Senior Management Team.

Executive management duties are formally discharged through OAO TNK-BP Management ("TNK-BP Management"), a Russian subsidiary which is indirectly wholly owned by TNK-BP Limited. The members of the Senior Management Team are employees of TNK-BP Management. To discharge their duties, members of TNK-BP Senior Management Team have entered into management, accounting, and other services contracts with certain key subsidiaries of TNK-BP such as TNK-BP Holding.

Performance objectives are defined for TNK-BP through the setting of an annual performance contract for TNK-BP (the "Performance Contract of the CEO"). Objectives are further established through annual performance contracts (consistent with the Performance Contract of the CEO) for business stream leaders and heads of functional departments, who in turn set performance contracts for their staff. Performance against these annual contracts is evaluated throughout the year. At the end of each year, performance of all staff is evaluated according to these contracts and new objectives are set for the next year.

Management Recent Developments

During 2008 there was a dispute between TNK-BP's shareholders AAR and BP concerning TNK-BP's strategy and development. The dispute resulted in the resignation of certain senior members of TNK-BP's management team, including among others TNK-BP's CEO Robert Dudley. During this period TNK-BP continued to operate and trade as normal.

On 4 September 2008, AAR and BP signed a Memorandum of Understanding (the "MoU") which provided for a number of changes to TNK-BP's management framework, including changes to the corporate charters of TNK-BP Management, TNK-BP Holding and other key companies within TNK-BP as well as amendments to the Shareholders' Agreement. On 1 December 2008, Tim Summers, who had served as TNK-BP's COO since 2006, was appointed interim CEO pending the appointment of a new CEO not affiliated with TNK-BP's shareholders, as agreed in the MoU.

An amended and restated Shareholders' Agreement was signed by AAR and BP on 9 January 2009, establishing a new management framework whereby the Board of Directors of TNK-BP International now consists of four representatives from each of the two shareholders and three independent directors. In July 2009, Mikhail Fridman, the Chairman of the Board of Directors of TNK-BP International, was appointed the interim CEO of TNK-BP. In August 2009, as part of a rotation of TNK-BP's management team, William Schrader, who was at the time president of BP Azerbaijan, replaced Tim Summers as TNK-BP's COO.

In November 2009, the Board of Directors resolved that Maxim Barsky, who is currently serving as TNK-BP's Executive Vice President for Strategy and Business Development, will assume the position of CEO of TNK-BP on 1 January 2011, until which time Mr Fridman will continue to act as interim CEO. Mr. Barsky is expected to spend the first five months of 2010 working in various upstream businesses of BP and its London head office, and in June 2010 Mr Barsky is expected to return to TNK-BP in a senior executive role as part of the Senior Management Team.

TNK-BP Limited's Main Board and Board Committees

The Shareholders' Agreement defines the set up of the Main Board, which consists of 11 members, with 3 independent Directors and the remaining representation split equally between the two shareholders (4 from AAR, 4 from BP).

On behalf of the shareholders, the Main Board performs the following key functions:

- provides strategic direction to TNK-BP;
- reviews strategy implementation and company performance;
- appoints, terminates and evaluates the performance of the CEO and other key executives;
- ensures corporate compliance in accordance with the highest ethical standards;
- exercises financial controls in respect of certain high-value transactions; and
- advises on major acquisitions, divestitures and capital expenditure programmes.

As of the date of this Base Prospectus, the Main Board consists of the following 11 members:

Name	Position
Mikhail Fridman Viktor Vekselberg	Chairman of the Board of Directors (AAR) Member of the Board of Directors (AAR), Chairman of the Compensation Committee
Len Blavatnik	Member of the Board of Directors (AAR), Member of the Audit Committee, Member of the Compensation Committee
Alex Knaster	Member of the Board of Directors (AAR), Vice chairman of the Audit Committee, Member of the HSE Committee
Andy Ingles George Robertson (Lord Robertson of Port Ellen)	Member of the Board of Directors (BP) Deputy Chairman of the Board of Directors, Chairman of the Audit Committee (BP)
David Peattie	Member of the Board of Directors (BP), Chairman of the HSE Committee, Vice Chairman of the Compensation Committee
Iain Macdonald	Member of the Board of Directors (BP), Member of the Compensation Committee Member of Audit Committee
Gerhard Schröder	Member of the Board of Directors (Independent Director) Member of the HSE Committee
Alexander Shokhin	Member of the Board of Directors (Independent Director) Member of the Audit Committee
James Leng	Member of the Board of Directors (Independent Director) Member of the Compensation Committee

The Main Board Audit Committee advises the Main Board regarding the integrity of TNK-BP's Audited U.S. GAAP Financial Statements, the effectiveness of the external audit process and internal controls, and business ethics policies. The Audit Committee consists of five members who also serve on the Main Board: Lord Robertson (Chairman), Alex Knaster (Vice-chairman), Iain Macdonald, Len Blavatnik and Alexander Shokhin. The Main Board Compensation Committee advises the Main Board on compensation and strategic HR issues for TNK-BP, on the establishment of compensation packages for TNK-BP's CEO and senior management, on the evaluation of TNK-BP's performance against the Company Performance Contract and on determination of annual performance awards. The Compensation Committee consists of five members who also serve on the Main Board: Viktor Vekselberg (Chairman), David Peattie (Vice-chairman), Iain Macdonald, Len Blavatnik and James Leng. The Health, Safety and Environment Committee advises the Main Board on TNK-BP's strategy and policy in the area of HSE, reviews and monitors TNK-BP's HSE performance, targets, compliance and risks. The HSE Committee consists of David Peattie (Chairman), Alex Knaster and Gerhard Schröder.

TNK-BP Senior Management Team

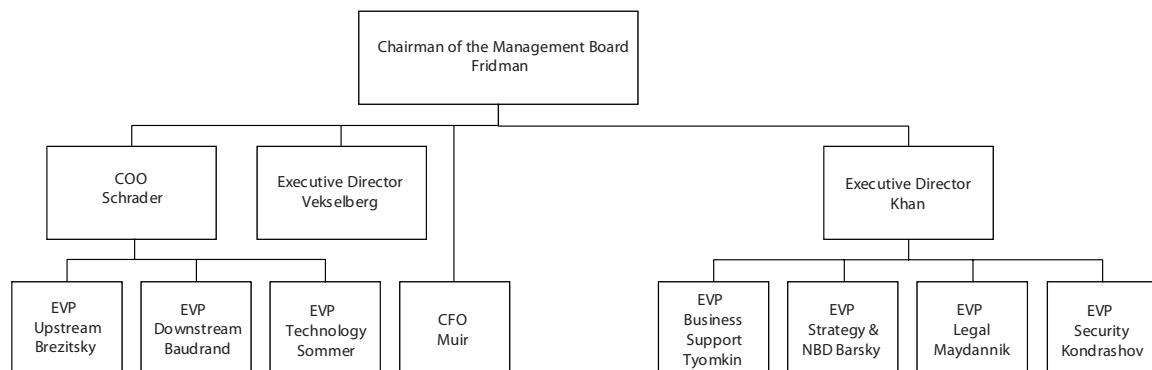
The TNK-BP Senior Management Team is represented by the CEO, the other members of the Management Board and the team of Executive Vice-presidents, leading the key business streams and functions. The Management Board consists of six members: the CEO, two Executive Directors, the Chief Operating Officer, the Chief Finance Officer and the Executive Vice-president Downstream. The Chief Executive Officer is the Chairman of the Management Board and is responsible for day-to-day management of TNK-BP's operations in Russia and Ukraine.

Currently, the Senior Management Team consists of the following members:

Name	Position
Mikhail Fridman	Interim Chief Executive Officer; Chairman of the Management Board
German Khan	Executive Director; Member of the Management Board
Viktor Vekselberg	Executive Director; Member of the Management Board
William Schrader	Chief Operating Officer; Member of the Management Board
Jonathan Muir	Chief Finance Officer; Member of the Management Board
Didier Baudrand	Executive Vice president, Downstream; Member of the Management Board
Sergey Brezitsky	Executive Vice president, Upstream
Francis Sommer	Executive Vice president, Technology
Maxim Barsky	Executive Vice president, Strategy and New Business Development
Anatoli Tyomkin	Executive Vice president, Business Support
Igor Maydannik	Executive Vice president, Legal Support
Boris Kondrashov	Executive Vice president, Security

Organisation and Employees

TNK-BP is organised into three business streams and five head office functional departments. The chart below shows the current organisational structure and the roles of the Senior Management Team within the organisation.



Members of the Board of Directors and the Senior Management Team

Brief biographies of the members of the Board of Directors and set forth below:

Mikhail Fridman Mr. Fridman has been a member of the Board of Directors of TNK-BP Limited since 2003. He graduated from the Moscow Institute of Steel and Alloys. After the creation of Alfa Eco Company in 1988, Mr. Fridman played a key role in transforming Alfa Eco into Alfa Group Consortium. Mr. Fridman is the Chairman of the Board of Directors of the Alfa Group Consortium and Chairman of the Board of Directors of Alfa Bank. Mr. Fridman is a member of the Bureau of the Management Board of the Russian Council of Industrialists and Entrepreneurs and oversees judicial issues. Mr. Fridman serves as the interim CEO and Chairman of the Management Board until the expiry of the interim period and the appointment of the next candidate to the post.

Viktor Vekselberg Mr. Vekselberg has been a member of the Board of Directors of TNK-BP Limited since 2003. Mr. Vekselberg graduated with high honours from the Moscow Institute of Transport Engineers in 1979 and subsequently received his Master's and Ph.D. degrees in mathematics. Mr. Vekselberg has held the post of Chairman of the Board of Directors of JV Renova since 1990. From 1996 to 2003, Mr. Vekselberg served as the President of the SUAL Group. From January 2003 to March 2007 he was Chairman of the Board of Directors of the SUAL Group. Currently Mr. Vekselberg serves as the Chairman of the Board of Directors of the United Company

RUSAL. Mr. Vekselberg is a member of the Bureau of the Management Board of the Russian Union of Industrialists and Entrepreneurs and serves on the Board of Directors of the Russian Industrialists Association.

Len Blavatnik

Mr. Blavatnik has been a member of the Board of Directors of TNK-BP Limited since 2003. Mr. Blavatnik holds a Master's degree from Columbia University and an MBA degree from Harvard Business School. He is the Chairman, founder and principal shareholder of Access Industries Inc. Mr. Blavatnik currently serves on the Board of Directors at OAO SUAL, Svenska Bredbandsbolaget AB and other companies. Mr. Blavatnik also serves on the Board of Directors of the Eurasia Group in New York and is the Vice Chairman of the Kennan Council at the Woodrow Wilson Center in Washington, D.C.

Alex Knaster.....

Mr. Knaster has been a member of the Board of Directors of TNK-BP Limited since 2003. Mr. Knaster holds a Bachelor's degree in electrical engineering and mathematics from Carnegie Mellon University, an MBA degree from Harvard Business School and a Ph.D. in economics from the Russian Academy of Science. Mr. Knaster has served as Managing Director and Partner at Simmons & Company (1985 1993), Managing Director at Bankers Trust Company (1993 1995), Managing Director, President and CEO of Credit Suisse First Boston in Russia and the CIS (1995 1998) and the CEO of Alfa Bank (1998 2004). In 2002 2003, he served as the General Director of Sidanco. Mr. Knaster, a Chartered Financial Analyst, is also a member of the Board of Directors of Alfa Bank and a member of the International Society of Financial Analysts and the Association of Petroleum Industry Analysts.

Andy Ingles

After gaining an MA in engineering from Pembroke College, University of Cambridge, Mr. Ingles joined BP Exploration in 1980, working on various North Sea projects. Following a series of commercial roles in exploration, he became chief of staff for BP Exploration in 1997. Later that year, he led BP's activities in the deepwater Gulf of Mexico and in 1999 became vice president of the U.S. western gas business. In 2004, Mr. Ingles was appointed an executive vice president and deputy chief executive of exploration and production. Mr. Ingles succeeded Tony Hayward as chief executive of BP's exploration and production segment on 1 February 2007. On the same date he also became an executive director of BP. He is a member of the BP board of directors and a member of the BP executive management team. Mr. Ingles is also responsible for BP's worldwide exploration and production activities and holds regional responsibility for Russia, the Caspian, the Middle East, North and West Africa, Canada, the Caribbean and South America, Indonesia and Vietnam. Mr. Ingles is a Fellow of the Royal Academy of Engineering and a Fellow of the Institute of Mechanical Engineers. He was appointed a non executive director of BAE Systems plc in June 2007.

George Robertson (Lord Robertson of Port Ellen)

Lord Robertson has been a member of the Board of Directors since 1 October 2006. He holds a Master's (Honours) degree from Dundee University in Scotland. Lord Robertson was formerly the Secretary General of NATO and British Defence Secretary and is presently Non Executive Chairman of Cable and Wireless International. From February 2004 to April 2006, he was Executive Deputy Chairman of Cable and Wireless plc. Lord Robertson is a Non Executive Director of the Weir Group plc and Western Ferries (Clyde) Ltd and Advisor to the Washington based

consultancy The Cohen Group and to private equity group Englefield Capital. Until February 2006, he was a Non Executive Director of The Smiths Group plc. Lord Robertson was the founding Chairman of the NATO Russia Council and is co Chairman of the UK Russia Round Table. He is also Joint President of the London based Royal Institute of International Affairs, Chairman of the John Smith Memorial Trust and a member of Her Majesty's Privy Council.

David Peattie

Mr. Peattie is the Head of Russia and Kazakhstan for BP. David joined BP in 1979 as a petroleum engineer, working in a series of technical positions in the North Sea, China, Australia and Papua New Guinea. In 1987, he moved into a new role as a commercial analyst, based in BP Exploration's offices in London. In 1993, Mr. Peattie moved to Antwerp in Belgium where he negotiated the sale of BP Nutrition. Following this, in 1995, Mr. Peattie became Business Unit Leader of the Algeria/Southern Europe Gas Business. After a period running the office of Lord Browne, BP's CEO, Mr. Peattie spent three and half years as Head of Investor Relations, leading teams across London, Frankfurt and New York. In 2001, Mr. Peattie was appointed Group Vice President and Executive Committee member of BP's Petrochemicals business. Responsible for BP's businesses in Asia, he was also Commercial Director for the Segment. Following this, in 2003, he became Group Vice President, Group Planning. In 2005, Mr. Peattie returned to Exploration and Production as Group Vice-President and in 2007 became a member of the E&P Operating Committee, as operational deputy to the E&P CEO, Andy Inglis. In this role, he had specific responsibility for driving Segment level projects and for the team of Technical Vice Presidents. In September 2008, Mr. Peattie was appointed to his current position as Head of Russia and Kazakhstan. He is responsible for BP's interests in TNK-BP as well as its businesses in the Russian Arctic, Sakhalin and Kazakhstan.

Iain Macdonald

Mr. Macdonald is Head of Finance and Deputy Group Chief Financial Officer for BP. Mr. Macdonald joined BP in 1979 as an engineer and spent the earlier part of his career within the Petrochemicals segment in business and marketing roles. He has also held a variety of project management and operational roles, including the field management of the Prudhoe Bay oil field in Alaska. He was the Business Unit Leader of the Acetils Business Unit and subsequently VP for Strategy and Development for the Petrochemicals segment. Prior to his appointment as the Deputy Group Chief Financial Officer, Mr. Macdonald led the Financial Control & Accounting function, having previously been head of Planning & Performance Management for TNK-BP.

Gerhard Schröder

Mr Schröder is a member of the Social Democratic Party (SPD) Gerhard Schröder read law in the University of Göttingen from 1966 to 1970. From 1980 to 1986 and 1998 to 2005 he was a member of the German Bundestag. From 1990 until 1998 Gerhard served as Minister President of the Federal State of Lower Saxony and then Federal Chancellor of the Federal Republic of Germany up to 2005. In 2006 he became the Chairman of the shareholder's committee of Nord Stream AG, Member of the European Advisory Council of Rothschild Group and Advisor to the Ringier publishing company.

Alexander Shokhin

Mr. Shokhin, a Russian politician and public figure, is currently the president of the Russian Union of Industrialists and Entrepreneurs (RSPP). He is also the president of the State University Higher

School of Economics. In the past, Mr. Shokhin was chairman of the supervisory board of Russian investment group “Renaissance Capital” (2002-2005), a State Duma deputy, as well as vice premier of the Russian government (1998), minister of economics and first deputy premier of the Russian government (1994), minister of labor and employment and vice premier of the Russian government (1991-1993) and minister of labor of the Russian Soviet Federative Socialist Republic (1991). Mr. Shokhin is also a non-executive member of the board of directors of LUKOIL.

James Leng.....

Mr. Leng is European Chairman of AEA, an American private equity partnership, and Chairman of Doncasters Ltd., an international, precision engineering company. As a Non Executive Director, he sits on the Boards of Alstom (French Engineering company), where he chairs the Nomination and Remuneration Committee, and TNK-BP. He is also a Senior Advisor to HSBC and Governor at Ashridge College and the National Institute of Economic & Social Research. From 2001 2009 he was Chairman of Corus Group plc, a global steel company sold to Tata Steel of India where he was also Deputy Chairman until July 2009. Past Non Executive Directorships include Pilkington plc (Glass), Hanson plc (Aggregates & Building Products) and IMI plc (Engineering). In an executive capacity he was CEO of Laporte plc, an international speciality chemicals company and before that he was an executive at Low & Bonar plc a diverse materials and packaging company. His early business years were spent at John Waddington plc where he was managing director of a number of their subsidiaries including consumer goods and packaging companies.

Brief biographies of the members of the Senior Management Team who are not members of TNK-BP Board of Directors are set forth below:

German Khan.....

Mr. Khan has been a member of the Senior Management Team since 2003. He graduated from the Moscow Institute of Steel and Alloys. From 1992 to 1998, Mr. Khan held various managerial positions in the Alfa Group. From 1995 to 1998, Mr. Khan served as the Director of the Department for Commodity Trading at Alfa Eko. Mr. Khan was appointed the Deputy Chairman of the Management Board of TNK in 2000. Currently, Mr. Khan is also a member of the Board of Directors of Alfa Bank and Slavneft.

William (“Bill”) Schrader.....

Mr. Schrader is TNK-BP Chief Operating Officer. He joined the company in October 2009. Mr. Schrader is a U.S. citizen and holds a B.Sc. in Chemical Engineering from the University of Cincinnati where he studied from 1975 to 1980. He earned his MBA degree at the University of Houston in 1984. Mr. Schrader began his career with BP in 1980 as a chemical engineer, working in a series of technical and marketing positions at BP petrochemical business in U.S. and UK. In 1991 he became Production Manager at BP Ferndale Refinery (USA). In 1993 he moved into a new role as General Manager of BP Global Marine Fuels, based in Houston, Texas. Three years later he moved to Aberdeen (UK) to manage the Greater Forties field, in the UK North Sea. From 1999 to 2004 Mr. Schrader was responsible for development of BP’s business in Asia Pacific region. In 2004 he was appointed as Chief Executive Officer of BP Angola and two years later (in 2006) – as President of BP Azerbaijan, based in Baku.

Sergey Brezitsky

Mr. Brezitsky graduated from the Ivano Frankovsk Oil and Gas Institute in 1984 with a degree in Technology and Comprehensive Mechanization of Oil and Gas Fields Development. Mr. Brezitsky

joined TNK in 1999, where he worked in a number of senior positions, including Head of Upstream. After TNK-BP was established in 2003, he served as head of Samotlor Business Unit and from January 2005 in position of Executive Vice President, Oilfield Services. In June 2006 he was appointed Executive Vice President, Upstream.

Didier Baudrand.....

Mr. Baudrand has a master degree Physics from the University of Paris and graduated as a Chemical Engineer at the Ecole Normale Supérieure de Chimie de Paris. Mr. Baudrand joined TNK-BP from BP where he held the position of Senior Vice President, BP Refining and Marketing Special Projects. Before that he had a long and successful career at various BP locations specialising in refining, marketing and petrochemicals. Mr. Baudrand joined BP in France in 1979. He held a series of managerial positions in BP's lubricants, refining and marketing business in France, the UK and China. Mr. Baudrand had performed a number of senior management roles in the petrochemicals sector, with a particular experience in leading joint ventures. In 2006 he was posted to Shanghai to serve as Chairman of SECCO, a 50/50 joint venture between BP and Sinopec, and BP's biggest investment in China. Mr. Baudrand has joined TNK-BP as EVP, Downstream in April 2009.

Francis Sommer

Mr. Sommer graduated from the University of Texas at Austin with Masters degree in Petroleum Engineering and from New York University with a Bachelors degree in Physics. Francis joined BP in 1986 and between that time and 1992 he held multiple engineering and technology roles in Alaska. In 1992 he worked as a lead engineer for the Cupiagua Development, from 1995 to 1998 as a subsurface team leader for the PTAC and the Northstar developments, in 1999 as an analyst, reserves and production potential and was the Asset manager for Greater Prudhoe Bay in Anchorage, Alaska, and in 2005 as BP Upstream PU, Aberdeen Scotland. Mr. Sommer joined TNK-BP as VP, Production Technology Division and in March 2009 was appointed as EVP, Technology.

Jonathan Muir.....

Mr. Muir graduated from the St. Andrews University with first class honors and subsequently became a member of the institute of chartered accountants of England and Wales. Mr. Muir joined Ernst & Young London office in 1985. At E&Y he worked in a number of senior positions, including Managing Partner in charge of Kazakhstan business operation, Director of Audit and Accounting, Indonesia, and Partner in charge of Oil and Gas sector, Moscow, Russia. In 2000 Jonathan joined Sidanco as Financial Director. Mr. Muir has been with TNK-BP since 2003 as Vice president, Financial Control and was appointed as CFO in April 2009.

Anatoli Tyomkin

Mr. Tyomkin graduated from the Perm State University, major in Law. From 1977 till 1997 he occupied a number of positions in State Executive Committees and AULYCL. In 1997 2004 he occupied a number of key positions in Perm Administration: Deputy Major of Perm, 1st Deputy of the Governor. In 2004 2008 he worked as Deputy Minister, Natural Resources Ministry. Mr. Tyomkin joined TNK-BP in 2008 as EVP Business Support.

Maxim Barsky

In 1997 Mr. Barsky graduated from St. Petersburg State University, where he majored in Theoretical economy. In 1992 he graduated from St. Petersburg Technical Consumer Industry College, where he majored in Accounting and Business analysis. From 1994 to summer 2009 Mr. Barsky occupied a number of key roles including

General Management in Major financial and investment companies: Economist, Yuganskneftebank, Troika Dialog, Citiline, Finartis, West Siberian Resources Ltd and others. Mr. Barsky joined TNK-BP in 2009 as Executive Vice President, Strategy and New Business Development. In November 2009, the Board of Directors resolved that Mr Barsky will assume the position of CEO of TNK-BP on 1 January 2011.

Igor Maydannik

Mr. Maydannik graduated from the Moscow State University in 1987 with a degree in jurisprudence. From 1987 to 1991, he held various positions at the Moscow City Prosecutor's office and at the Department of Public Prosecutions of the USSR. From 1992-1996, he worked as a senior lawyer in the Legal Department at VAO Legromexport and as the head of the Legal Department (1996 1998) at Alfa Eko. Mr. Maydannik has been with TNK since 1998, initially as head of the legal department and then in 2003 as TNK-BP Executive Vice President, Legal Support.

Boris Kondrashov

Mr. Kondrashov graduated from the Sverdlovsk Institute of Law in 1978. Mr. Kondrashov held a number of governmental and law enforcement agency positions including First class Justice Counsellor of State, Major General (Police) and Deputy Minister of Justice and Chief Bailiff of the Russian Federation. Since 1999, Mr. Kondrashov has been a First Vice President of TNK and is currently TNK-BP Executive Vice President, Security.

Compensation

The aggregate amount of remuneration, including base salary, bonuses and benefits in kind, and termination payments which was paid or granted by TNK-BP Limited to all members of the Main Board, the Main Board Audit Committee, the Main Board Compensation Committee and the Senior Management Team for the year ended 31 December 2008 was U.S.\$74.5 million (compared to U.S.\$43.8 million for the year ended 31 December 2007).

TNK-BP has established compensation policies for all staff of TNK-BP Management which provide for:

- a consistent approach to determining the pay grades of all staff in accordance with internationally accepted principles;
- consistent remuneration policies whereby salary levels for all staff are set by reference to competitive salary ranges determined for each staff pay grade; and
- a uniform annual bonus policy for all staff tied to company and individual performance against annual performance contracts.

Employees

The table below sets forth the numbers of employees employed by TNK-BP as of 31 December 2007 and 2008 and 30 September 2009:

	As of 30 September		As of 31 December	
	2009	2008	2008	2007
TNK-BP Management (Moscow based staff).....	1,369	1,533	1,880	
Upstream	21,127	22,541	22,193	
Downstream (including staff based in Ukraine)	23,909	24,626	24,884	
Technology centres	505	570	575	
Oil Field Services	—	7,053	6,652	
Gas.....	259	356	459	
Supporting Subsidiaries.....	6,099	6,328	6,664	
Total TNK-BP	53,269	63,007	63,316	

TNK-BP participates in programmes with leading world class universities, such as Skolkovo, INSEAD and Herriot-Watt, with a focus on implementing best-practices for the oil and gas industry,

improving internal and external training programmes, and benchmarking against international standards. In addition TNK-BP partners with other business schools such as The University of Warwick, London Business School, University of Antwerp Management School and Saint Catherine College Oxford University on business administration and energy seminars and projects for its employees. TNK-BP believes that its relationship with its employees is satisfactory.

Conflict of Interest

There are no potential conflicts of interest between any duties owed to TNK-BP by any member of the Main Board or the Senior Management Team and his or her private interests.

RELATED PARTY TRANSACTIONS

TNK-BP engages in transactions with affiliates of Alfa Group (one of TNK-BP's principal shareholders), BP (another of TNK-BP's principal shareholders), Slavneft (an equity affiliate of TNK-BP), TNK-BP Limited (TNK-BP's parent company) and other related parties in the ordinary course of business. The financial information reported in this section has been prepared in accordance with U.S. GAAP.

TNK-BP has the following balances in the ordinary course of business with affiliates of Alfa Group, as of the dates presented:

	As of 30 September		As of 31 December	
			2009	2008
			(U.S.\$ millions)	
Cash and cash equivalents with Alfa Bank	103	83	63	333
Deposits with a maturity of more than 3 months in Alfa Bank	100	—	—	—
Trade and other receivables, net.....	11	8	4	—
Insurance Expenses	9	14	8	10

In the ordinary course of business TNK-BP receives bank guarantees from Alfa Bank among other banks. According to Russian legislation TNK-BP is entitled to provide such guarantees to the customs authorities as a security of its obligations for customs payments. The guarantees received from Alfa Bank amounted to U.S.\$53 million in effect as of 30 September 2009 and U.S.\$88 million, U.S.\$147 million and U.S.\$35 million in effect as of 31 December 2008, 2007 and 2006 respectively.

TNK-BP had the following balances in the ordinary course of business due to and from BP as of the dates presented:

	As of 30 September		As of 31 December	
			2009	2008
			(U.S.\$ millions)	
Trade and other receivables, net.....	65	48	46	85
Accounts and notes payable	16	72	69	99

TNK-BP also engaged in the following transactions in the ordinary course of business with BP during the periods presented:

	Nine months ended 30 September		Year ended 31 December		
			2009	2008	2007
			(U.S.\$ millions, except as indicated)		
Sale of crude oil for export.....	832	1,389	1,615	102	1,592
Volumes (millions of tonnes)	2.1	1.8	2.4	0.2	3.6
Sales of refined products for export	516	965	1,267	816	1,070
Volumes (millions of tonnes)	1.4	1.3	2.0	2.1	1.9
Secondees and integration costs expensed	0.7	20	46	118	140
Loss on derivative contracts	—	—	51	—	—

TNK-BP had the following balances in the ordinary course of business due to and from Slavneft as of the dates presented:

	As of 30 September		As of 31 December	
			2009	2008
			(U.S.\$ millions, except as indicated)	
Trade and other receivables, net.....	19	25	20	30
Dividends receivable	96	97	98	23
Accounts and notes payable	55	58	95	69
Loans received	—	—	59	—

TNK-BP engaged in the following transactions in the ordinary course of business with Slavneft during the periods presented:

	Nine months ended 30 September		Year ended 31 December		
	2009	2008	2008	2007	2006
(U.S.\$ millions, except as indicated)					
Sale of crude oil for export.....	251	579	643	362	330
Volumes (millions of tonnes).....	0.8	1.1	1.5	1.1	1.2
Sales of refined products.....	0.3	48	92	258	202
Volumes (millions of tonnes).....	—	0.1	0.1	0.5	0.5
Purchases of crude oil and petroleum products.....	1,238	2,252	2,674	2,171	2,274
Volumes (millions of tonnes).....	7.4	7.5	10.1	10.6	11.6
Refining fee	157	177	234	193	129
Volumes (millions of tonnes).....	5.1	5.0	6.8	6.3	4.7

TNK-BP had the following balances with TNK-BP Limited and TNK Industrial Holdings Limited during the periods and as of the dates presented:

	As of 30 September		As of 31 December	
	2009	2008	2007	2006
(U.S.\$ millions, except as indicated)				
Accounts receivable and loans issued.....	16	14	10	19
Account payable and loans received.....	23	26	28	—

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

	As of 30 September		As of 31 December	
	2009	2008	2007	2006
(U.S.\$ millions, except as indicated)				
Trade receivables and loans issued	47	25	13	10
Accounts payable.....	25	15	10	—
Loan received from NVGRES	—	297	—	—

TNK-BP engaged in the following transactions in the ordinary course of business with other related parties during the periods presented:

	Nine months ended 30 September		Year ended 31 December		
	2009	2008	2008	2007	2006
(U.S.\$ millions, except as indicated)					
Sales of natural gas.....	188	71	122	—	—
Volumes (millions of tonnes).....	4.1	1.6	2.8	—	—
Crude oil refining fee	—	7	9	—	—
Volumes (millions of tonnes).....	—	0.2	0.2	—	—
Gas processing fee.....	68	76	103	57	—
Volumes (billions of cubic meters).....	2.9	2.4	3.4	1.8	—
Sale of crude oil and petroleum products.....	—	—	—	—	81
Volumes (millions of tonnes).....	—	—	—	—	0.3
Purchases of crude oil and petroleum products.....	—	—	—	—	89
Volumes (millions of tonnes).....	—	—	—	—	0.2
Agent commission	—	6	—	—	—

PRINCIPAL SHAREHOLDERS

TNK-BP International's issued and paid up capital is U.S.\$54,000. The issued share capital consists of one series of shares divided into 54,000 shares, par value U.S.\$1.00 per share. TNK Industrial Holdings is the sole owner of TNK-BP International's issued share capital and TNK-BP Limited is the sole owner of TNK Industrial Holdings' issued and paid up voting share capital. TNK-BP Limited's share capital is U.S.\$50,000. The share capital consists of 50,000 shares, par value U.S.\$1.00 per share. The table below shows the ownership of TNK-BP Limited's issued and paid up share capital as of 1 October 2009:

Shares Owned		
	Number	Percentage
Alfa Group, Access Industries and the Renova Group (together, "AAR")	25,000	50.00%
BP	25,000	50.00%

TNK-BP is the result of a strategic partnership and business combination of certain oil and gas exploration and production operations held by Alfa Group, Access Industries and the Renova Group (together, "AAR") and BP p.l.c. ("BP") in Russia and Ukraine, which was completed in August 2003.

The Alfa Group Consortium ("Alfa Group") is one of Russia's largest privately owned financial-industrial conglomerates with interests in oil and gas, commercial and investment banking, asset management, insurance, retail, trade, telecommunications, media, water supply and water disposal, as well as other industrial-trade and special-situation investments. OAO Alfa-Bank Russia ("Alfa Bank"), one of Russia's largest private banks, is Alfa Group's flagship company. Alfa-Bank provides a full range of corporate retail and investment banking services, asset management and trade finance; it has the second largest branch network in Russia and it also has subsidiaries in Kazakhstan, the Netherlands, Cyprus, the United States and the United Kingdom. Alfa Bank also controls Alfa-Bank Ukraine, one of the ten largest banks in Ukraine which provides a full range of banking and asset management services. The Alfa Group is also the owner of the AlfaStrakhovanie Group, one of the largest Russian insurers with a diversified portfolio of services comprising both business insurance coverage as well as retail insurance products. The Alfa Group owns Altimo, which is an investment company within the mobile and fixed-line communications industry, including investments in VimpelCom and MegaFon in Russia as well as Kyivstar GSM, a leading cellular provider in Ukraine. The Alfa Group owns an interest in Turkcell, a leading GSM operator in Turkey. Alfa Group's other interests include X5 Retail Group N.V., which in turn control Pyaterochka, one of the largest discount grocery retailers in Russia; Perekrestok, which runs a leading chain of supermarkets in Russia; Karusel, the fifth largest hypermarket operator in Russia; CTC Media, Inc., one of the largest commercial television broadcasters in Russia; A1, a leader in direct investment in the Russian, CIS and other emerging markets, and Rosvodokanal Group, a leading private operator of water supply and sewage in the CIS.

Access Industries is a privately-held U.S. industrial group with strategic investments in the U.S., Europe and South America. In addition to TNK-BP, investments in the Access Industries portfolio include LyondellBasell Industries, UC Rusal, Amedia and Ice.net, among others.

The Renova Group acts as both principal investor and operator in a variety of industries and projects including individually and jointly managed projects in the oil, metals and mining, electricity, housing and utilities, media, machine and engineering, construction, chemicals and telecommunications sectors in Russia, the CIS and worldwide. The Renova Group holds interests in a number of companies, such as UC Rusal, IES-Holding, Sulzer, Oerlikon, Energoprom, among others.

BP was created on 31 December 1998 by the merger of Amoco Corporation and The British Petroleum Company p.l.c. BP, a public limited company registered in England and Wales, is one of the world's leading oil companies on the basis of market capitalisation and proved reserves.

INDEPENDENT AUDITORS

TNK-BP's Audited U.S. GAAP Financial Statements included in this Base Prospectus have been audited by ZAO PricewaterhouseCoopers Audit ("PwC"), independent auditors, as stated in their report appearing herein dated 17 April 2009, except for the effects of the change in accounting as it relates to the reclassification of non controlling interest to equity discussed in Note 2 and for the subsequent events discussed in Note 23 to TNK-BP's Audited U.S. GAAP Financial Statements, as to which the date is 8 December 2009. PwC have audited the Guarantor since its formation up through 31 December 2008. The address of PwC is White Square Office Center, Butyrsky Val 10, 125047, Moscow, Russia. PwC is a member of the Russian Chamber of Auditors (*Auditorskaya Palata Rossii*).

The Issuer's Financial Statements included in this Base Prospectus have been audited by PricewaterhouseCoopers S.à r.l., statutory auditors, as stated in their report herein dated 9 June 2009. The address of PricewaterhouseCoopers S.à r.l. is 400, Route d'Esch L-1014 Luxembourg, Grand Duchy of Luxembourg. PricewaterhouseCoopers S.à r.l. is a member of the *Institut des Réviseurs d'Entreprises* ("IRE").

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions) shall be endorsed on the Notes in definitive form and the Global Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed or Part A of the relevant Final Terms. Those definitions will be endorsed on the Notes in definitive form or Global Notes, as the case may be. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by an Amended and Restated Trust Deed (as amended or supplemented as at the date of issue of the Notes (the "Issue Date"), the "Trust Deed") dated 20 January 2010 between the Issuer, the Guarantor, and Citicorp Trustee Company Limited (the "Trustee", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Notes referred to below. An Amended and Restated Agency Agreement (as amended or supplemented as at the Issue Date, the "Agency Agreement") dated 20 January 2010 has been entered into in relation to the Notes between the Issuer, the Guarantor, the Trustee, Citibank, N.A. London as calculation agent (the "Calculation Agent"), principal paying agent (the "Principal Paying Agent" and a "Paying Agent"), registrar (the "Registrar") and a transfer agent (a "Transfer Agent"), Dexia Banque Internationale à Luxembourg, société anonyme as Luxembourg paying agent (the "Luxembourg Paying Agent" and a "Paying Agent") and a transfer agent (a "Transfer Agent") and Citibank, N.A. New York as U.S. paying agent (the "U.S. Paying Agent" and a "Paying Agent") and a transfer agent (a "Transfer Agent"). Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours at the principal office of the Trustee (presently at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom) and at the specified offices of the Paying Agents and the Transfer Agents.

The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

As used in these Conditions, "Tranche" means Notes which are identical in all respects.

1. Form, Denomination and Title

The Notes are issued in registered form in the Specified Denomination(s) shown hereon, without interest coupons, provided that (i) the Specified Denomination(s) shall not be less than €50,000 or its equivalent in other currencies and (ii) with respect to Notes with a maturity of less than 365 days, a minimum Specified Denomination may apply as more fully set out in Part A of the relevant Final Terms.

So long as the Notes are represented by a Global Note and the relevant clearing system(s) so permit, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided hereon as provided in the relevant Final Terms.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Title to the Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "Register"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it or its theft or loss and no person shall be liable for so treating the holder.

In these Conditions, “Noteholder” means the person in whose name a Note is registered, “holder” shall be read accordingly and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2. Transfers of Notes

(a) Transfer of Notes

One or more Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the relevant Note or Notes, together with the form of transfer endorsed on such Note or Notes (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of a Note, a new Note shall be issued to the transferee in respect of the part transferred and a further new Note in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(b) Exercise of Options or Partial Redemption in Respect of Notes

In the case of an exercise of an Issuer’s or Noteholders’ option in respect of, or a partial redemption of, a holding of Notes, a new Note shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Notes of the same holding having different terms, separate Notes shall be issued in respect of those Notes of that holding that have the same terms. New Notes shall only be issued against surrender of the existing Notes to the Registrar or any Transfer Agent. In the case of a transfer of Notes to a person who is already a holder of Notes, a new Note representing the enlarged holding shall only be issued against surrender of the Note representing the existing holding.

(c) Delivery of New Notes

Each new Note to be issued pursuant to Conditions 2(a) or (b) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Note for exchange. Delivery of the new Note(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Note shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Note to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition (c), “**business day**” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(d) Transfer Free of Charge

Transfer of Notes on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(e) **Closed Periods**

No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

3. Guarantee and Status

(a) **Guarantee**

The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes. Its obligations in that respect (the “**Guarantee**”) are contained in the Trust Deed.

(b) **Status of Notes and Guarantee**

The Notes constitute (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer and the Guarantor respectively, present and future.

4. Covenants

(a) **Negative Pledge**

So long as any amount remains outstanding under the Notes, neither TIL nor the Issuer shall, and TIL shall not permit any of its Subsidiaries to, directly or indirectly, create, incur or suffer to exist any Encumbrances, other than Permitted Encumbrances, on any of its assets, now owned or hereafter acquired, securing any Consolidated Indebtedness, unless the Notes are secured equally and rateably with such other Consolidated Indebtedness.

(b) **Maintenance of Authorisations**

So long as any amount remains outstanding under the Notes, TIL and the Issuer shall take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations required in or by the laws of the British Virgin Islands or Luxembourg, respectively, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the British Virgin Islands or Luxembourg, respectively, for the execution, delivery or performance of the Contracts or for the validity or enforceability thereof, but only in any such case if the failure to obtain or ensure the continuance of such consents, licences, approvals and authorisations, registrations, recordings and filings would have a Material Adverse Effect.

(c) **Mergers**

So long as any amount remains outstanding under the Notes, (i) neither TIL nor the Issuer shall, without the prior written consent of the Trustee, (A) enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms are construed by applicable legislation or otherwise (“**reorganisation**”)), or (B) participate in any other type of corporate reconstruction unless after such reorganisation or corporate reconstruction, a Person which is wholly owned by TNK-BP Limited, which is organised and validly existing in a jurisdiction satisfactory to the Trustee (provided that (a) the Trustee shall have consented in writing to such jurisdiction, (b) the Issuer and TIL have complied with any other requirements that the Trustee, in its absolute discretion, shall deem necessary and (c) the provision of such legal opinions as the Trustee shall deem necessary, and which has, on terms satisfactory to the Trustee, expressly assumed in writing the due and punctual performance of all of the covenants, conditions and other obligations of the Issuer and/or TIL, as the case may be, in respect of the Notes) continues to own substantially all of the assets held by TIL or the

Issuer, as the case may be and (ii) TIL shall ensure that no other member of the TIL Group (A) enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable legislation in the jurisdiction of incorporation of the relevant member of the TIL Group), or (B) participates in any other type of corporate reconstruction where any such reorganisation or other type of corporate reconstruction referred to in (i) or (ii), after such reorganisation or corporate reorganisation, would result in a Material Adverse Effect.

(d) Disposals

So long as any amount remains outstanding under the Notes, each of TIL and the Issuer shall not and shall ensure that no member of the TIL Group shall (in each case disregarding sales of stock in trade on an arm's-length basis in the ordinary course of business and assignments of or other arrangements over the rights or revenues arising from contracts for the sale of gas, condensate, crude oil or hydrocarbon products) sell, lease, transfer or otherwise dispose of to a person that is not a member of the TIL Group, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets if such sale, lease, transfer or disposal has a Material Adverse Effect.

(e) Maintenance of Property

So long as any amount remains outstanding under the Notes, TIL and the Issuer will, and will procure that TIL's Subsidiaries will, cause all of the property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgement of TIL, the Issuer or any of TIL's Subsidiaries, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times provided, however, that nothing in this Condition 4(e) shall prevent TIL from discontinuing the operation or maintenance of any of such properties if such discontinuance is desirable in the conduct of its business or the business of TIL, the Issuer or such Subsidiary and could not reasonably be expected to have a Material Adverse Effect.

(f) Payment of Taxes and Other Claims

So long as any amount remains outstanding under the Notes, TIL, the Issuer and TIL's Subsidiaries shall pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or assets of TIL, the Issuer or any of TIL's Subsidiaries (which, in the context of any entity incorporated in the Russian Federation, shall mean the earlier of either a ruling of the tax inspection based on an act of audit (*reshenie, vynesennoye po aktu proverki*) or a request to pay taxes (*trebovanie ob uplate naloga*) and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become an Encumbrance (other than a Permitted Encumbrance) upon the property of TIL, the Issuer or any of TIL's Subsidiaries; provided, however, that none of TIL, the Issuer nor any of TIL's Subsidiaries shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment or charge (which, in the context of any entity incorporated in the Russian Federation, shall mean the earlier of either a ruling of the tax inspection based on an act of audit (*reshenie, vynesennoye po aktu proverki*) or a request to pay taxes (*trebovanie ob uplate naloga*)) or any such claim (i) whose amount, applicability or validity is being contested in good faith by appropriate proceedings or (ii) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed U.S.\$200 million.

(g) Maintenance of Insurance

So long as any amount remains outstanding under the Notes, TIL, the Issuer and any Subsidiary shall (except to the extent any Subsidiary is covered by insurance arranged by TIL) maintain insurance on those of their material properties which are of an insurable nature to the extent required under the laws of the relevant jurisdictions where such properties are located.

5. Interest and other Calculations

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date.

If a Fixed Coupon Amount or a Broken Amount is specified hereon, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified hereon.

(b) Interest on Floating Rate Notes and Index Linked Interest Notes

(i) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) Business Day Convention

If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) Rate of Interest for Floating Rate Notes

The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon
- (y) the Designated Maturity is a period specified hereon and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent at or about the Relevant Time on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

(x) if the Primary Source for Floating Rate is a Page, subject as provided below, the Rate of Interest shall be:

(I) the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one entity) or

(II) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Page,

in each case appearing on such Page at the Relevant Time on the Interest Determination Date

(y) if the Primary Source for the Floating Rate is Reference Banks or if subparagraph (x)(I) applies and no Relevant Rate appears on the Page at the Relevant Time on the Interest Determination Date or if sub paragraph (x)(II) above applies and fewer than two Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the Relevant Rates that each of the Reference Banks is quoting to leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent and

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Specified Currency that at least two out of five leading banks selected by the Calculation Agent in the principal financial centre of the country of the Specified Currency or, if the Specified Currency is euro, in Europe (the “**Principal Financial Centre**”) are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (I) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are so quoting to leading banks in Europe) (II) to leading banks carrying on business in the Principal Financial Centre; except that, if fewer than two of such banks are so quoting to leading banks in the Principal Financial Centre, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin, Rate Multiplier or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

(iv) *Rate of Interest for Index Linked Interest Notes*

The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

(c) Zero Coupon Notes

Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) Dual Currency Notes

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

(e) Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

(f) Accrual of Interest

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts, Rate Multipliers and Rounding

- (i) If any Margin or Rate Multiplier is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "unit" means the lowest amount of such currency that is available as legal tender in the country or countries (as applicable) of such currency.

(h) Calculations

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the

Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts**

As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, it shall determine such rate and calculate the Interest Amounts in respect of each Specified Denomination of the Notes for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer, the Guarantor, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) **Determination or Calculation by Trustee**

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

6. Redemption, Purchase and Options

(a) **Redemption by Instalments and Final Redemption**

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6 or the relevant Instalment Date (being one of the dates so specified hereon) is extended pursuant to any Issuer's or Noteholder's option in accordance with Condition 6(d) or 6(e), each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such

proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused on presentation of the related Receipt, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below or its maturity is extended pursuant to any Issuer's or Noteholder's option in accordance with Condition 6(d) or 6(e), each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) Early Redemption

(i) Zero Coupon Notes

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub paragraph shall continue to be made (as well after as before judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) Other Notes

The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) Redemption for Taxation Reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date or, if so specified hereon, at any time, on giving not less than 15 nor more than 30 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer (or, if the Guarantee was called, the Guarantor) satisfies the Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 8 as a result of any change in, or amendment to, the laws or regulations of Luxembourg (in the case of the Issuer) or the British Virgin Islands (in the case of the

Guarantor), or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Notes (or the Guaranteee, as the case may be) then due. Before the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer (or the Guarantor, as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it and the Trustee shall be entitled to accept such Note as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above in which event it shall be conclusive and binding on Noteholders.

(d) Redemption at the Option of the Issuer and Exercise of Issuer's Options

If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem, or exercise any Issuer's option (as may be described hereon) in relation to, all or, if so provided, some of the Notes on any Optional Redemption Date or Option Exercise Date, as the case may be. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed, or the Issuer's option shall be exercised, on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption or a partial exercise of an Issuer's option, the notice to Noteholders shall specify the nominal amount of Notes drawn and the holder(s) of such Notes, to be redeemed or in respect of which such option has been exercised, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements. So long as the Notes are listed on the Luxembourg Stock Exchange or any other stock exchange and the rules of the relevant stock exchange so require, the Issuer shall, once in each year in which there has been a partial redemption of the Notes, cause to be published in a leading newspaper of general circulation in Luxembourg or as specified by such other stock exchange, a notice specifying the aggregate nominal amount of Notes outstanding and a list of the Notes drawn for redemption but not surrendered.

(e) Redemption at the Option of Noteholders and Exercise of Noteholders' Options

If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option or any other Noteholders' option that may be set out hereon (which must be exercised on an Option Exercise Date) the holder must deposit the Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("Exercise Notice") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) **Partly Paid Notes**

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.

(g) **Purchases**

The Issuer, the Guarantor and any of their subsidiaries may at any time purchase Notes in the open market or otherwise at any price.

(h) **Cancellation**

All Notes purchased by or on behalf of the Issuer, the Guarantor or any of their subsidiaries may be surrendered for cancellation by surrendering the Notes to the Registrar and, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

7 Payments

(a) **Payments of Principal and Interest**

- (i) Payments of principal (which for the purposes of this Condition 7(a) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Notes shall be made against presentation and surrender of the relevant Notes at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest (which for the purpose of this Condition 7(a) shall include all Instalment Amounts other than final Instalment Amounts) on Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Note shall be made in the relevant currency by cheque drawn on a bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank.

(b) **Payments subject to Laws**

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders in respect of such payments.

(c) **Appointment of Agents**

The Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer and the Guarantor reserve the right at any time with the approval of the Trustee to vary or terminate the appointment of any Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) Paying Agents having specified offices in at least two major European cities, (v) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Trustee and (vi) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(d) **Calculation Agent and Reference Banks**

The Issuer shall procure that there shall at all times be four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and one or more Calculation Agents if provision is made for them in the Notes and for so long as any such Note is outstanding (as defined in the Trust Deed). If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer shall (with the prior written approval of the Trustee) appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, within seven days of the date upon which any such amount is due to be calculated, the Issuer shall (with the prior written approval of the Trustee) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

Notice of any such change shall promptly be given to the Noteholders.

(e) **Non-Business Days**

If any date for payment in respect of any Note is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “**Financial Centres**” hereon and:

- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or
- (ii) (in the case of a payment in euro) which is a TARGET Business Day.

8. Taxation

All payments of principal and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes or under the Guarantee shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Luxembourg or the British Virgin Islands, or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts as shall result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note:

(a) **Other connection**

to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Luxembourg or, in the case of payments by the Guarantor, the British Virgin Islands other than the mere holding of the Note or

(b) **Presentation more than 30 days after the Relevant Date**

presented (or in respect of which the Note representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day or

(c) **Payment to individuals**

where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

As used in these Conditions, “**Relevant Date**” in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) “principal” shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) “interest” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) “principal” and/or “interest” shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

9. Prescription

Claims against the Issuer and/or the Guarantor for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10. Events of Default

If any of the following events (each an “**Event of Default**”) occurs, the Trustee at its discretion may, and if so requested by holders of at least one-fifth in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, subject to it being indemnified to its satisfaction, give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together with accrued interest to the date of such notice.

- (a) Any amount payable hereunder is not paid within seven Business Days in respect of principal, or fourteen Business Days, in respect of interest, as and when such amount becomes payable in the currency and in the manner specified herein.
- (b) TIL or the Issuer fails to perform or observe any covenant or material agreement contained in these Conditions to be performed or observed by it and (except where in any such case that failure is not capable of remedy when no such notice as is hereinafter mentioned will be required) that failure continues for a period of 30 days following the submission by the Trustee to the Issuer or the Guarantor (as the case may be) of notice in writing requesting the same to be remedied.
- (c) Any Indebtedness of either TIL, the Issuer or any of TIL’s Subsidiaries is not paid when due (taking into account any applicable grace period), or any Indebtedness of either TIL, the Issuer or any of TIL’s Subsidiaries becomes due and payable prior to its specified maturity otherwise than at the option of TIL, the Issuer or any of TIL’s Subsidiaries (as the case may be) or (provided that no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; provided, however, that the total amount of such Indebtedness which is not paid when due or becomes due and payable prior to its specified maturity is equal to or greater than U.S.\$50,000,000 (or its equivalent in another currency) disregarding any guarantee of TIL, the Issuer or TIL’s Subsidiaries of such Indebtedness.

- (d) Any of TIL, the Issuer or TIL's Subsidiaries is unable to pay its debts as they fall due, commences negotiations with any one or more of its creditors with a view to the general readjustment or rescheduling of its indebtedness (other than in relation to negotiations solely relating to extending the terms of existing indebtedness in the ordinary course of business) or makes a general assignment for the benefit of or a composition with its creditors which, with respect to Subsidiaries only, would have a Material Adverse Effect.
- (e) The occurrence of any of the following events: (a) any of TIL, the Issuer or TIL's Subsidiaries seeking, consenting or acquiescing in the introduction of proceedings for its liquidation or bankruptcy or the appointment of a liquidation commission (*likvidatsionnaya komissiya*) or a similar officer of any of TIL, the Issuer or TIL's Subsidiaries as the case may be; (b) the presentation or filing of a petition in respect of any of TIL, the Issuer or TIL's Subsidiaries in any court, arbitration court or before any agency alleging or for the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceeding) of any of TIL, the Issuer or TIL's Subsidiaries; (c) the institution of the supervision (*nablyudenije*), financial rehabilitation (*finansovoye ozdorovlenie*), external management (*vneshnaye upravleniye*), bankruptcy management (*konkursnoye proizvodstvo*) over any of TIL, the Issuer or TIL's Subsidiaries; (d) the convening or announcement of an intention to convene a meeting of creditors of any of TIL, the Issuer or TIL's Subsidiaries for the purposes of considering an amicable settlement (*mirovoe soglashenie*), as the above terms are defined in the Federal Law of the Russian Federation No. 127-FZ "On Insolvency (Bankruptcy)" of 26 October 2002 (as amended or replaced from time to time); and/or (e) any extra-judicial liquidation or analogous act in respect of any of TIL, the Issuer or TIL's Subsidiaries by any governmental, regulatory or supervisory body in or of the Russian Federation or Luxembourg; and/or (f) any event which has an analogous effect to any of the events referred to in any of (a) to (e) of this Condition including, with respect to TIL, the Issuer or any Subsidiaries incorporated in a jurisdiction other than Russia, analogous events under the laws of such jurisdiction with respect to any such Subsidiary which, for the avoidance of doubt, in relation to the Issuer shall include bankruptcy (*faillite*), insolvency, voluntary or judicial liquidation (*liquidation volontaire ou judiciaire*), composition with creditors (*concordat preventif de faillite*), reprieve from payment (*sursis de paiement*), controlled management (*gestion contrôlée*), general settlement with creditors, reorganisation or similar laws affecting the rights of creditors generally, provided that, any of the events referred to in (a) to (f) above would have a Material Adverse Effect and provided further that (i) this Condition 10(e) shall not apply to the extent that such event relates to the actions of shareholders of TIL or the Issuer that would not constitute an event of default under Condition 10(g) and (ii) provided further that any action taken in connection with the TNK-BP Corporate Restructuring shall be excluded from the provision of this Condition 10(e).
- (f) The shareholders of TIL or the Issuer, as the case may be, shall have approved any plan of liquidation or dissolution of TIL or the Issuer, as the case may be, unless in connection with such plan of liquidation or dissolution of TIL or the Issuer, a Person which is wholly owned by TNK-BP Limited, and which is organised and validly existing in a jurisdiction satisfactory to the Trustee provided that (a) the Trustee shall have consented in writing to such jurisdiction, (b) the Issuer and TIL have complied with any other requirements that the Trustee, in its absolute discretion, shall deem necessary and (c) the provision of such legal opinions as the Trustee shall deem necessary, and which has, on terms satisfactory to the Trustee, expressly assumed in writing the due and punctual performance of all of the covenants, conditions and other obligations of TIL or the Issuer, as the case may be, in respect of the Notes continues to own substantially all of the assets held by TIL or the Issuer, as the case may be.
- (g) Any execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any part of, the property, undertaking, revenues or assets of any of TIL, the Issuer or TIL's Subsidiaries in respect of property, undertaking, revenues or assets which would have a Material Adverse Effect.
- (h) Any governmental authorisation necessary for the performance of any obligation of TIL or the Issuer under the Contracts fails to be in full force and effect and such failure would have a Material Adverse Effect.

- (i) Any governmental authority or court takes any action which would have a Material Adverse Effect.
- (j) The aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law enforcement bodies for the payment of money against TIL and its Subsidiaries (other than Excluded Judgments) exceeds an amount equal to U.S.\$200,000,000 less the aggregate amount of any Excluded Judgments, or the equivalent thereof in any other currency or currencies, unless (a) any such judgment, decree or order is being contested in good faith by TIL or the relevant Subsidiary, as the case may be, or (b) any such judgment, decree or order is discharged, waived or the execution thereof stayed within a period of 90 days following the entry thereof. In this Condition 10(j) "Excluded Judgments" means any unsatisfied judgments, decrees or orders in respect of taxes, assessments, charges or claims that would not, individually or in the aggregate, result in a breach of Condition 4(f) by virtue of proviso (ii) in that Condition.
- (k) At any time it is or becomes unlawful for TIL or the Issuer to perform or comply with any or all of their respective obligations under the Contracts, respectively, or any of such obligations are not, or cease to be, legal, valid, binding and enforceable, except where, without prejudice to Conditions 10(a) and 10(b), TIL or the Issuer is using best endeavours to obtain a licence or consent to make such performance or compliance lawful.
- (l) The TIL Group ceases to carry on the principal business it carries on at the date hereof.

11. Meetings of Noteholders, Modification, Waiver and Substitution

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent., in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, (vii) to take any steps that as specified hereon may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, (viii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, or (ix) to modify or cancel the Guarantee, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Final Terms in relation to such Series.

(b) Modification of the Trust Deed

The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Trust Deed that is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

(c) Substitution

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of the Issuer's successor in business or of the Guarantor or its successor in business or any subsidiary of the Guarantor or its successor in business in place of the Issuer or Guarantor, or of any previous substituted company, as principal debtor or Guarantor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

(d) Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer or the Guarantor any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

12. Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed or the Notes but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-fifth in nominal amount of the Notes outstanding, and (b) it shall have been indemnified to its satisfaction. No Noteholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

13. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit.

14. Replacement of Notes

If a Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Registrar or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note is subsequently presented for payment, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes) and otherwise as the Issuer may require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

15. Further Issues

The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

16. Notices

Notices to the Noteholders shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. In addition, so long as any Notes are listed on the Luxembourg Stock Exchange, notices to holders of Notes shall be published in a daily newspaper with general circulation in Luxembourg (which is expected to be *the Luxemburger Wort* or on the Luxembourg Stock Exchange website (www.bourse.lu)). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

17. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 except and to the extent (if any) that the Notes expressly provide for such Act to apply to any of their terms.

18. Governing Law and Jurisdiction

(a) Governing Law

The Trust Deed and the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law. The provisions of articles 86 to 94-8 of the Luxembourg law of 10 August 1915 on commercial companies, as amended, are excluded.

(b) Jurisdiction

The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes or the Guarantee and accordingly any legal action or proceedings arising out of or in connection with any Notes or the Guarantee (“Proceedings”) may be brought in such courts. Each of the Issuer and the Guarantor has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

(c) Service of Process

Each of the Issuer and the Guarantor has irrevocably appointed an agent in England to receive, for it and on its behalf, service of process in any Proceedings in England.

19. Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Agency Agreement**” means the amended and restated agency agreement dated 20 January 2010 between the Issuer, the Guarantor and the agents named in it relating to the Programme.

“**Business Day**” means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency and/or

- (ii) in the case of euro, a day on which the TARGET system is operating (a “**TARGET Business Day**”) and/or
- (iii) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

“**Capital Stock**” means, with respect to any Person, any and all shares or other equivalents (however designated) of corporate stock, partnership interests or any other participation, right, warrant, option or other interest in the nature of an equity interest in such Person, but excluding any debt security convertible or exchangeable into such equity interest.

“**Consolidated Indebtedness**” means, as at any date of determination, (and without duplication) all Indebtedness of the TIL Group outstanding on such date, determined on a consolidated basis in accordance with U.S. GAAP.

“**Contracts**” means the Trust Deed and the Agency Agreement.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the “**Calculation Period**”):

- (i) if “**Actual/Actual**” or “**Actual/Actual-ISDA**” is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)
- (ii) if “**Actual/365 (Fixed)**” is specified hereon, the actual number of days in the Calculation Period divided by 365
- (iii) if “**Actual/360**” is specified hereon, the actual number of days in the Calculation Period divided by 360
- (iv) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“ Y_1 ” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“ Y_2 ” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“ M_1 ” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“ M_2 ” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“ D_1 ” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

“ D_2 ” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

- (v) if “**30E/360**” or “**Eurobond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30;

(vi) if “30E/360 (ISDA)” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30; and

(vii) if “Actual/Actual-ICMA” is specified hereon,

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“Determination Period” means the period from and including a Determination Date in any year to but excluding the next Determination Date and

“Determination Date” means the date specified as such hereon or, if none is so specified, the Interest Payment Date.

“Effective Date” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such hereon or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates.

“Encumbrance” means (a) any mortgage, charge, pledge, lien or other encumbrance securing any obligation of any Person, (b) any sale, transfer or other disposal of receivables on recourse terms or (c) any other type of preferential arrangement (including any conditional sale or title retention arrangement) having a similar effect provided, however, that any mandatory reserves placed by any of the members of the TIL Group in accordance with the laws and regulations of the Russian Federation on currency control and currency regulation shall be excluded from this definition.

“Euro-zone” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

“Event of Default” has the meaning assigned to such term in Condition 10.

“Hedging Agreement” means in respect of any Person, any interest rate swap agreement, interest rate option agreement, interest rate cap agreement, interest rate collar agreement, interest rate floor agreement, currency exchange agreement, currency exchange option agreement, currency exchange cap agreement, currency exchange collar agreement, currency exchange floor agreement, forward sale, commodity swap or other similar agreement or arrangement designed to protect such Person against fluctuations in interest rates, currency exchange rates or commodity prices.

“Indebtedness” means any indebtedness, in respect of any Person for, or in respect of, moneys borrowed; any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any amount raised pursuant to any issue of shares which are expressed to be redeemable; any amount of money raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing; and the amount of any liability in respect of any guarantee or indemnity for any of the items referred to above provided that there shall be no double counting when calculating Indebtedness for the purposes of the definition of Consolidated Indebtedness or in respect of Conditions 4(a) and 10.

“Interest Accrual Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“Interest Amount” means: (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“Interest Commencement Date” means the Issue Date or such other date as may be specified hereon.

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“Interest Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“Interest Period Date” means each Interest Payment Date unless otherwise specified hereon.

“ISDA Definitions” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon.

“Issuer” means TNK-BP Finance S.A., a *société anonyme*, having its registered office at 23, boulevard Charles Marx, L-2130 Luxembourg, Grand Duchy of Luxembourg and registered with the Luxembourg Register of Commerce and Companies under number B-107428.

A condition, event or development having a **“Material Adverse Effect”** means a condition, event or development (i) having a material adverse effect on (a) the business, operations, property or financial condition of the TIL Group taken as a whole; (b) TIL’s ability to perform its obligations under the Contracts or (c) the validity or enforceability of the Contracts or the rights or remedies of the other parties thereto or (ii) that could reasonably be expected to have a material adverse effect on the business prospects of the TIL Group taken as a whole.

“Notes” means the notes issued by the Issuer from time to time under the Programme.

“Officers’ Certificate” means a certificate signed by two officers of TIL at least one of whom shall be a director of TIL or any other person duly authorised by such officer.

“Page” means such page, section, caption, column or other part of a particular information service (including, but not limited to, Reuters 3000 Xtra (“**Reuters**”)) as may be specified for the purpose of providing a Relevant Rate, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate.

“Permitted Encumbrance” means

- (a) any Encumbrance existing as at the date of the Trust Deed (provided that the principal, capital or other amount of the obligation secured by such Encumbrance is not increased beyond the amount secured by such Encumbrance as at the date of the Trust Deed);
- (b) any title transfer or retention of title arrangement entered into by any member of the TIL Group in the normal course of its trading activities on the counterpart’s standard or usual terms;
- (c) any Encumbrance arising solely by operation of law, including, without limitation, on pipelines or pipeline facilities, mechanics’, carriers’, warehousemens’, materialmens’, suppliers’ and vendors’ Encumbrances in the ordinary course of business;
- (d) any Encumbrance over or affecting any asset acquired by a member of the TIL Group after the date hereof and subject to which such asset is acquired, if: (i) such Encumbrance was not created in contemplation of the acquisition of such asset by a member of the TIL Group; (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by a member of the TIL Group; and (iii) such Encumbrance does not extend to any other assets or property (other than proceeds of such acquired assets or property),
- (e) any Encumbrance over or affecting any asset of any company which becomes a member of the TIL Group after the date hereof, where such Encumbrance is created prior to the date on which such company becomes a member of the TIL Group, if: (i) such Encumbrance was not created in contemplation of the acquisition of such company; (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such company; and (iii) if such Encumbrance does not extend to any assets or property of TIL or any Subsidiary other than the acquired company and its Subsidiaries;
- (f) any Encumbrance:
 - (i) securing reimbursement obligations of TIL or any of its Subsidiaries with respect to letters of credit encumbering only documents and other property relating to such letters of credit and the products and proceeds thereof;
 - (ii) on deposits made to secure obligations arising from statutory, regulatory, contractual or warranty requirements of TIL and its Subsidiaries;
 - (iii) in favour of TIL; or

- (iv) on any property or asset acquired, constructed or improved by TIL or any of TIL's Subsidiaries, which (A) is in favour of the seller of such property or assets, in favour of the Person constructing or improving such asset or property, or in favour of the Person that provided the funding for the acquisition, construction or improvement of such asset or property, (B) is created within 360 days after the date of acquisition, construction or improvement, (C) secures the purchase price or construction or improvement cost, as the case may be, of such asset or property in an amount up to 100% of the fair market value (as determined by the Board of Directors of TIL) of such acquisition, construction or improvement of such asset or property at the time of such acquisition or commencement of such construction or improvement, and (D) is limited to the asset or property so acquired, constructed or improved (including proceeds thereof, accessions thereto and upgrades thereof);
- (g) any Encumbrance securing or providing for the payment of, or any renewal, extension or refinancing of, Indebtedness incurred in connection with any Project Financing;
- (h) any Encumbrance over any rights, title or interest in, to or under any Product Delivery Contract, including the receivables generated under any such Product Delivery Contract and all other monies and proceeds arising in connection with any such Product Delivery Contract, and any Encumbrance over any bank accounts into which the receivables, monies and proceeds from any such Product Delivery Contract are paid or transferred (including (i) amounts standing to the credit of such bank accounts and (ii) any rights under any agreements establishing or opening such bank accounts);
- (i) any Encumbrance in respect of obligations arising under Hedging Agreements;
- (j) any Encumbrance incurred, or pledges and deposits in connection with workers' compensation, unemployment insurance and other social security benefits, and other obligations of like nature in the ordinary course of business;
- (k) any Encumbrance for *ad valorem*, income or property taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which TIL has set aside in its consolidated accounts books reserves to the extent required by U.S. GAAP;
- (l) any easement, right of way, restriction (including zoning restriction), reservation, permit, servitude, defect or irregularity in title and other similar charge or encumbrance, and any Encumbrance arising under a lease or sublease granted to others, in each case not interfering in any material respect with the business of TIL or any of its Subsidiaries and existing, arising or incurred in the ordinary course of business;
- (m) (i) any bankers' Encumbrance in respect of accounts, (ii) statutory landlords' Encumbrance, (iii) deposit to secure the performance of bids, privatisation auctions, trade contracts, government contracts, leases, statutory obligations, surety and appeal bonds, performance and return-of-money bonds or liabilities to insurance carriers under insurance or self-insurance arrangements and other obligations of like nature (so long as, in each case with respect to items described in sub-clauses (i), (ii) and (iii) above of this clause (m), such Encumbrances (X) except in the case of a banker's Encumbrance in respect of accounts do not secure obligations constituting Indebtedness for borrowed money and (Y) are incurred in the ordinary course of business), and (iv) any Encumbrance arising from any judgement, decree or other order which does not constitute an Event of Default;
- (n) any Encumbrance upon, or with respect to, any of its present or future assets or revenues or any part thereof which is created pursuant to (a) any securitisation, asset backed financing or like arrangement and whereby all payment obligations secured by such Encumbrance or having the benefit of such Encumbrance, are to be discharged solely from such assets or revenues or (b) any issue of secured bonds, secured debentures, secured notes or other secured securities;
- (o) any renewal of or substitution for any Encumbrance permitted by any of the preceding clauses (a) through (n) (whether in the context of refinancing or rolling over Indebtedness or otherwise and whether granted to the same or another Person or Persons); provided, however, that, with respect to any Encumbrance incurred pursuant to this clause (o) the principal amount secured has not increased and the Encumbrance has not been extended

to any additional property (other than proceeds of the property in question or any account that is established and operated solely for the purposes of and secured for the benefit of the Person(s) providing the Indebtedness or any of its or their Subsidiaries); and

(p) any Encumbrance or Encumbrances over or affecting the property, income or assets of TIL or any of its Subsidiaries provided that the aggregate value of such property, income or assets which are the subject of such Encumbrance or Encumbrances does not exceed 30 per cent., of the total assets of TIL (determined by reference to the most recently publicly available consolidated annual or interim financial statements of TIL prepared in accordance with U.S. GAAP). For the avoidance of doubt, this paragraph (p) does not include any Encumbrance created in accordance with paragraphs (a) through (o) hereof,

provided that the aggregate amount of Consolidated Indebtedness secured by such Permitted Encumbrances at any time shall not exceed 85 per cent., of the Consolidated Indebtedness of the TIL Group.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity.

“Product Delivery Contract” means any contract for the sale or delivery of crude oil or other hydrocarbon products, to a party or parties outside of Russia, entered into from time to time between TIL or any of its Subsidiaries and any other person, including any commission agency contracts, any spot sale contract and any transportation or other contracts related thereto.

“Programme” means the U.S.\$8,000,000,000 Debt Issuance Programme for the issuance of notes which the Issuer has authorised (or such other limit as agreed from time to time).

“Project Financing” means any financing of all or part of the costs of the acquisition, construction or development of a project if the Person or Persons providing such financing expressly agree to look to the project financed and the revenues derived from such project (together with credit support provided by third parties without recourse to TIL or any Subsidiary of TIL) as the principal source of repayment for the monies advanced.

“Rate of Interest” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

“Reference Banks” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

“Relevant Financial Centre” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the financial centre as may be specified as such hereon or, if none is so specified, the financial centre with which the relevant Benchmark is most closely connected (which, in the case of EURIBOR, shall be Europe) or, if none is so connected, London.

“Relevant Rate” means the Benchmark for a Representative Amount of the Specified Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date.

“Relevant Time” means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified hereon or, if no time is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Specified Currency in the interbank market in the Relevant Financial Centre or, if no such customary local time exists, 11.00 hours in the Relevant Financial Centre and, for the purpose of this definition, “local time” means, with respect to Europe as a Relevant Financial Centre, Brussels time.

“Representative Amount” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the amount specified as such hereon or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time.

“Specified Currency” means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

“Specified Duration” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the duration specified hereon or, if none is specified, a period of time equal to the relative Interest Accrual Period, ignoring any adjustment pursuant to Condition 5(b)(ii).

“Subsidiary” of any specified Person means any corporation, partnership, joint venture, association or other business entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which at least 50 per cent., of the total voting power of the Capital Stock is held by such first-named Person and/or any of its Subsidiaries and such first-named Person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business/entity, with respect to which such first-named Person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise if in accordance with U.S. GAAP such entity would be consolidated with the first-named Person for financial statements purposes.

“TARGET System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System which was launched on 19 November 2007 or any successor thereto.

“TIL” or the **“Guarantor”** means TNK-BP International Limited or any successor entity formed by a reorganisation or corporate reconstruction permitted pursuant to Condition 1.3(i).

“TIL Group” means TIL and its Subsidiaries taken as a whole.

“Trustee” means Citicorp Trustee Company Limited, as trustee under the Trust Deed, and any successor thereto as provided thereunder.

“U.S.\$” and **“U.S. Dollars”** denote the lawful currency for the time being of the United States of America.

“U.S. GAAP” means generally accepted accounting principles in the United States.

FORM OF FINAL TERMS

Final Terms dated [●]
TNK-BP FINANCE S.A

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

Guaranteed by TNK-BP International Limited

under the

U.S.\$[●] Guaranteed Debt Issuance Programme
Guaranteed by TNK-BP International Limited

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated [●] [and the supplement to the Base Prospectus dated [●]]' which [together] constitutes[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus dated [●] [and the supplement to the Base Prospectus dated [●]]. [The Base Prospectus [and the supplement to the Base Prospectus] is] [are] available for viewing at [address] [and] [website] and copies may be obtained from [address].]²

The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Base Prospectus dated [original date] [and the supplement to the Base Prospectus dated [●]]¹. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”) and must be read in conjunction with the Base Prospectus dated [current date] [and the supplement to the Base Prospectus dated [●]]¹, which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [original date] [and the supplement to the Base Prospectus dated [●]] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated [original date] and [●] [and the supplements to the Base Prospectuses dated [●] and [●]]. [The Base Prospectuses [and the supplements to the Base Prospectuses] are available for viewing at [address] [and] [website] and copies may be obtained from [address].]²

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.]

¹ Only include details of a supplement to the Base Prospectus in which the Conditions have been amended for the purposes of all future issues under the Programme.

² Article 14.2 of the Prospectus Directive provides that a Prospectus is deemed available to the public when, *inter alia*, made available (i) in printed form free of charge at the offices of the market on which securities are being admitted to trading; OR (ii) at the registered office of the Issuer and at the offices of the Paying Agents; OR (iii) in an electronic form on the Issuer's website. Article 16 of the Prospectus Directive requires that the same arrangements are applied to supplements to the Base Prospectus.

[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

1. (i) Issuer:	TNK-BP Finance S.A.
(ii) Guarantor:	TNK-BP International Limited
2. [(i)] Series Number:	[●]
[(ii)] Tranche Number:	[●]
(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]	
3. Specified Currency or Currencies:	[●]
4. Aggregate Nominal Amount of Notes admitted to trading:	[●]
[(i)] Series:	[●]
[(ii)] Tranche:	[●]
5. Issue Price:	[●] per cent of the Aggregate Nominal Amount [plus accrued interest from [insert date] [(if applicable)]
6. Specified Denominations:	[U.S. \$100,000 plus higher integral multiples of U.S.\$1,000]/[●] ³
7. [(i)] Issue Date:	[●]
[(ii)] Interest Commencement Date	[●]
8. Maturity Date:	[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]
9. Interest Basis:	[[(●) % Fixed Rate] [(specify reference rate] +/- [●] % Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (specify)] (further particulars specified below)]
10. Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (specify)]
11. Change of Interest or Redemption/ Payment Basis:	[Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis]
12. Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)]

³ Section 6: Add the following language if the programme allows for issues of securities with a maturity of less than one year and the issuer is not an authorised person permitted to accept deposits or an exempt person under the UK Financial Services and Markets Act 2000. Delete square bracketed text for issuers incorporated in the UK or within S 418 FSMA. The issue of securities with a maturity of less than one year by such issuers, where the issue proceeds are to be accepted in the United Kingdom, or, in the case of issuers incorporated in the UK or within S 418 FSMA, will be subject to S 19 FSMA unless their denomination is £100,000 or more (or its equivalent in other currencies) and they are only issued to “professionals” within Article 9(2)(a) of the Financial Services and Markets Act (Regulated Activities) Order 2001:

Notes [(including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the issuer in the United Kingdom or whose issue otherwise constitutes a contravention of S 19 FSMA and] which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

Add appropriate provisions to terms and conditions if included.

13.	<p>[(i)] Status of the Notes:</p> <p>[(ii)] Status of the Guarantee:</p> <p>[(iii)] [Date [Board] approval for issuance of Notes and Guarantee obtained:</p>	<p>[Senior/[Dated/Perpetual]/ Subordinated]</p> <p>[Senior/[Dated/Perpetual]/Subordinated]]</p> <p>[●] [and [●], respectively]]</p> <p><i>(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)]</i></p>
14.	Method of distribution:	[Syndicated/Non syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	Fixed Rate Note Provisions	<p>[Applicable/Not Applicable]</p> <p><i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i></p>
	(i) Rate[(s)] of Interest:	[●] per cent, per annum [payable [annually/semi-annually/ quarterly/monthly] in arrear]
	(ii) Interest Payment Date(s):	[●] in each year [adjusted in accordance with <i>[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]</i> /not adjusted]
	(iii) Fixed Coupon Amount[(s)]:	[●] per [●] in Nominal Amount
	(iv) Broken Amount(s):	<i>[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]]</i>
	(v) Day Count Fraction (Condition 19):	[30/360 /Actual/Actual / other]
		<i>(Day count fraction should be Actual/Actual for all fixed rate issues other than those denominated in U.S. dollars, unless requested otherwise)</i>
	(vi) Interest Determination Dates (Condition 19):	[●] in each year (<i>insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual</i>)
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/give details]
16.	Floating Rate Note Provisions	<p>[Applicable/Not Applicable]</p> <p><i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i></p>
	(i) Interest Period(s)	[●]
	(ii) Specified Interest Payment Dates:	[●]
	(iii) Business Day Convention:	[Floating Rate Business Day Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (give details)]
	(iv) Business Centre(s) (Condition 19):	[●]
	(v) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (give details)]
	(vi) Interest Period Date(s):	[Not Applicable/specify dates]
	(vii) Party responsible for calculating the Rate(s) of Interest and Interest	[●]

	Amount(s) (if not the Calculation Agent):	
(viii)	Screen Rate Determination (Condition 5(b)(iii)(B)):	
	– Relevant Time:	[●]
	– Interest Determination Date(s):	[●] [TARGET] Business Days in <i>[specify city]</i> for <i>[specify currency]</i> prior to [the first day in each Interest Accrual Period/each Interest Payment Date] [●]
	– Primary Source for Floating Rate:	[Specify relevant screen page or “Reference Banks”]
	– Reference Banks (if Primary Source is “Reference Banks”):	[Specify four]
	– Relevant Financial Centre:	[The financial centre most closely connected to the Benchmark—specify if not London]
	– Benchmark:	[LIBOR, LIBID, LIMEAN, EURIBOR or other benchmark]
	– Representative Amount:	[Specify if screen or Reference Bank quotations are to be given in respect of a transaction of a specified notional amount]
	– Effective Date:	[Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period]
	– Specified Duration:	[Specify period for quotation if not duration of Interest Accrual Period]
	– Relevant Screen Page:	[●]
(ix)	ISDA Determination (Condition 5(b)(iii)(A)):	
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
	– ISDA Definitions (if different from those set out in the Conditions):	[●]
(x)	Margin(s):	[+/-] [●] per cent per annum
(xi)	Minimum Rate of Interest:	[●] per cent per annum
(xii)	Maximum Rate of Interest:	[●] per cent per annum
(xiii)	Day Count Fraction (Condition 19):	[●]
(xiv)	Rate Multiplier	[●]
(xv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]

17. Zero Coupon Note Provisions

[Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

(i)	Amortisation Yield:	[●] per cent per annum
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(ii)	Reference Price:	[●]
(iii)	Day Count Fraction (Condition 19):	[●]
(iv)	Any other formula/basis of determining amount payable:	[●]
18.	Index-Linked Interest Note Provisions	[Applicable/Not Applicable]
		<i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i)	Index/Formula:	[give or annex details]
(ii)	Calculation Agent responsible for calculating the interest due and its address:	[●]
(iii)	Provisions for determining Coupon where calculated by reference to Index and/or Formula:	[●]
(iv)	Interest Determination Date(s):	[●]
(v)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise disrupted:	[●]
(vi)	Interest or calculation period(s):	[●]
(vii)	Specified Interest Payment Dates:	[●]
(viii)	Business Day Convention:	[Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
(ix)	Business Centre(s):	[●]
(x)	Minimum Rate/Amount of Interest:	[●] per cent per annum
(xi)	Maximum Rate/Amount of Interest:	[●] per cent per annum
(xii)	Day Count Fraction (Condition 19):	[●]
	(xiii) Method and time limits for paying up the securities and for delivery of the Notes:	[●]
19.	Dual Currency Note Provisions	[Applicable/Not Applicable]
		<i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i)	Rate of Exchange/method of calculating Rate of Exchange:	[give details]
(ii)	Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[●]
(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
(iv)	Person at whose option Specified Currency(ies) is/are payable:	[●]
(v)	Day Count Fraction (Condition 19):	[●]

PROVISIONS RELATING TO REDEMPTION

20. Call Option	[Applicable/Not Applicable]
<i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>	
(i) Optional Redemption Date(s):	[●]
(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Note of [●] specified denomination
(iii) If redeemable in part:	
(a) Minimum Redemption Amount:	[●]
(b) Maximum Redemption Amount:	[●]
(iv) Option Exercise Date(s):	[●]
(v) Description of any other Issuer's option:	[●]
(vi) Notice period ⁴	[●]
21. Put Option	[Applicable/Not Applicable]
<i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>	
(i) Optional Redemption Date(s):	[●]
(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Note of [●] specified denomination
(iii) Option Exercise Date(s):	[●]
(iv) Description of any other Noteholder's option:	[●]
(v) Notice period ⁴	[●]
Final Redemption Amount of each Note	[●] per Note of [●] specified denomination /other/ see Appendix]
22. Early Redemption Amount	
(i) Early Redemption Amount(s) of each Note payable on redemption for taxation reasons (Condition 6(c)) or on event of default (Condition 10) and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[●]
(ii) Redemption for taxation reasons permitted on days other than Interest Payment Dates (Condition 6(c)): [Yes/No]	

⁴ If setting notice periods which are different to those provided in the terms and conditions, issuers are advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the issuer and its fiscal agent or any trustee.

GENERAL PROVISIONS APPLICABLE TO THE NOTES

23. Form of Notes:	Registered Notes
24. Financial Centre(s) (Condition 7) or other special provisions relating to Payment Dates:	Global Notes exchangeable for Definitive Notes in the limited circumstances specified in the Global Note [Not Applicable/give details. <i>Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub-paragraphs 15 (ii), 16(iv) and 18(ix) relates]</i>
25. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/give details]
26. Details relating to Instalment Notes	[Not Applicable/give details]
(i) Instalment Amount(s):	[●]
(ii) Instalment Date(s):	[●]
(iii) Minimum Instalment Amount:	[●]
(iv) Maximum Instalment Amount:	[●]
27. Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions [in Condition [●]] apply]
28. Consolidation provisions:	[Not Applicable/The provisions [in Condition [●]] apply]
29. Other final terms:	[Not Applicable/give details] <i>(When adding any other final terms consideration should be given as to whether such terms constitute a "significant new factor" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)</i>

DISTRIBUTION

30. (i) If syndicated, names of Managers:	[Not Applicable/give names]
(ii) Stabilising Manager(s) (if any):	[Not Applicable/give names]
31. If non-syndicated, name of Dealer:	[Not Applicable/give names]
32. Additional selling restrictions:	[Not Applicable/give names]

[LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list [and have admitted to trading] the issue of Notes described herein pursuant to the Issuer's U.S.\$/[●] *Guaranteed Debt Issuance Programme* guaranteed by TNK-BP International Limited.]

RESPONSIBILITY

The Issuer and the Guarantor accept responsibility for the information contained in these Final Terms. [[●] has been extracted from [●]. Each of the Issuer and the Guarantor confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By: _____
Duly authorised

Signed on behalf of the Guarantor:

By: _____
Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(i) Listing: Luxembourg/other (*specify*)/None

(ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [●] with effect from [●].] [Not Applicable.]
(*Where documenting a fungible issue need to indicate that original Notes are already admitted to trading*)

(iii) Estimate of total expenses related to admission to trading: [●]

2. RATINGS

Ratings: The Notes to be issued have been rated:

[S & P: [●]]
[Moody's: [●]]
[[Other]: [●]]

(*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)

3. [NOTIFICATION]

The [*include name of competent authority in EEA home Member State*] [has been requested to provide/has provided – include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [*include names of competent authorities of host Member States*] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

4. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

“Save as discussed in [“Subscription and Sale”], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

[*(When adding any other description, consideration should be given to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)*]

5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(i) Reasons for the offer [●]]

(See [“Use of Proceeds ”] wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]

[(ii) Estimated net proceeds: [●]]

(*If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.*)

[(iii) Estimated total expenses: [●]] [*Include breakdown of expenses.*]

(Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)

6. *[Fixed Rate Notes only – YIELD*

Indication of yield:

[●]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

7. *[Index-Linked or other variable-linked Notes only – PERFORMANCE OF INDEX/FORMULA/ OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING*

Exercise price/final reference price of the underlying: [●]

Details of where information about the past and the future performance and volatility of the underlying index/formula/other variable can be obtained:

Details of the underlying security:

- (i) Name of the issuer of the security: [●]
- (ii) ISIN or other security identification code: [●]

(only required where the underlying is a security)

Details of the underlying index:

- (i) Name of the index: [●]
- (ii) Description of the index, if it is composed by the Issuer; if the index is not composed by the Issuer, where information about the index can be obtained:

(only required where the underlying is a security)

Details of the underlying interest rate:

- (i) Description of the interest rate: [●]

(only required where the underlying is a security)

Other details:

[●]

(Where the underlying does not fall within the categories specified above, insert equivalent information. Where the underlying is a basket of underlyings, disclose the relevant weightings of each underlying in the basket)

Market disruption or settlement disruption events that affect the underlying:

[●]

Adjustment rules in relation to events concerning the underlying:

[●]

The Issuer does not intend to provide any post issuance information in relation to underlying securities, indices, interest rates or other equivalent information in respect of any issues of Notes.

8. *[Dual Currency Notes only – PERFORMANCE OF RATE[S] OF EXCHANGE*

*Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained. J**

9. OPERATIONAL INFORMATION

ISIN Code (Reg S Notes):	[●]
ISIN Code (Rule 144A Notes):	[●]
Common Code (Reg S Notes):	[●]
Common Code (Rule 144A Notes):	[●]
Rule 144A Notes CUSIP number:	[●]
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking Societe Anonyme [or DTC] and the relevant identification number(s):	[Not Applicable/give name(s) and number(s)]
Delivery:	Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s) (if any):	[●]

10. [INDEX-LINKED OR OTHER VARIABLE-LINKED NOTES ONLY – TERMS AND CONDITIONS OF THE OFFER

Conditions to which the offer is subject:	[●]
Total amount of the issue/offer; if the amount is not fixed, description of the arrangements and time for announcing to the public the amount of the offer:	[●]
Time period (including any possible amendments) during which the offer will be open and description of the application process:	[●]
Details of the minimum and/or maximum amount of application:	[●]
Manner and date in which results of the offer are to be made public:	[●]
Categories of potential investors to which the securities are offered:	[●] (If the offer is being made simultaneously in the markets of two or more countries and if a tranche has been or is being reserved for certain of these, indicate any such tranche.)
Process for notification to applicants of the amount allotted and indication whether dealing may begin before notification is made:	[●]
Amount of any expenses and taxes specifically charged to the subscriber/purchaser:	[●]
Name and address of the coordinator(s) of the global offer and of single parts of the offer:	[●] (To the extent known to the Issuer, also include details of the placers in the various countries where the offer takes place.)
Name and address of any paying agents and depository agents in each country (in addition to the Paying Agents):	[●]

Entities agreeing to underwrite the issue on a firm commitment basis, and entities agreeing to place the issue without a firm commitment or under “best efforts” arrangements: [●]

(Where not all of the issue is underwritten, a statement of the portion not covered must be included.)

When the underwriting agreement has been or will be reached: [●]

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Notes

Each Series of Notes will be evidenced on issue (i) in the case of Regulation S Notes, a Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, a Rule 144A Global Note deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See “—Book-Entry Procedures for the Global Notes”. By acquisition of a beneficial interest in a Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person and that, prior to the expiration of 40 days after completion of the distribution of the Series of which such Notes are a part as determined and certified to the Principal Paying Agent by the relevant Dealer (or in the case of a Series of Notes sold to or through more than one relevant Dealer, by each of such relevant Dealers as to the Notes of such Series sold by or through it, in which case the Principal Paying Agent shall notify each such relevant Dealer when all relevant Dealers have so certified (the “**distribution compliance period**”), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See “*Transfer Restrictions*”. Beneficial interests in a Rule 144A Global Note may only be held through DTC at any time. See “—Book-Entry Procedures for the Global Notes”. By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that if it is a U.S. person (within the meaning of Regulation S), it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See “*Transfer Restrictions*”.

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Agency Agreement, and with respect to the Rule 144A Global Note, as set forth in Rule 144A, and the Rule 144A Notes will bear the legends set forth thereon regarding such restrictions set forth under “Transfer Restrictions”. Any beneficial interest in a Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the “**Definitive Notes**”). The Notes are not issuable in bearer form.

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

- *Payments.* Payments of principal and interest in respect of Notes evidenced by a Global Note will be made against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes.

- *Notices.* So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of the Notes provided that for so long as the Notes are listed on the regulated market of the Luxembourg Stock Exchange and the rules of the regulated market of the Luxembourg Stock Exchange so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).
- *Meetings.* The holder of each Global Note will (unless such Global Note represents only one Note) be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of Notes for which the relevant Global Note may be exchangeable.
- *Trustee's Powers.* In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.
- *Cancellation.* Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.
- *Redemption at the Option of the Issuer.* Any Call Option provided for in the Conditions shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required.
- *Redemption at the Option of Noteholders.* Any Put Option provided for in the Conditions may be exercised by the holder of the Global Note (i) giving notice to the Issuer within the time limits relating to the deposit of Notes set out in the Conditions substantially in the form of the notice available from any Paying Agent, the Registrar or any Transfer Agent (except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised) stating the nominal amount of Notes in respect of which the option is exercised and (ii) at the same time depositing the Global Note with the Registrar or any Transfer Agent at its specified office.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: (i) a Global Note is held by or on behalf of (a) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note or ceases to be a “**clearing agency**” registered under the U.S. Securities Exchange Act of 1934 (the “**Exchange Act**”) or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (b) Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 which would not be suffered were the Notes in definitive form and a notice to such effect signed by two directors of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the relevant Global Note for Definitive Notes on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date, the holder of the relevant Global Note may surrender such Global Note to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Note, as provided in the Paying Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Notes in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

“Exchange Date” means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Issuer (failing which the Guarantor) (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB. Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under **“Transfer Restrictions”**.

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under **“Transfer Restrictions”**, or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Book-Entry Procedures for the Global Notes

For each Series of Notes evidenced by both a Regulation S Global Note and a Rule 144A Global Note, custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See **“—Book-Entry Ownership—Settlement and Transfer of Notes”**.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (**“Direct Participants”**) or indirectly (**“Indirect Participants”**) and together with Direct Participants, **“Participants”**) through organisations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a “**banking organisation**” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “**clearing corporation**” within the meaning of the New York Uniform Commercial code and a “**clearing agency**” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Rule 144A Global Notes directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under “*Exchange for Definitive Notes*”, DTC will surrender the relevant Rule 144A Global Notes for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note representing Regulation S Notes of any Series will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

DTC

The Rule 144A Global Note representing Rule 144A Notes of any Series will have a CUSIP number and will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants’ or accountholders’ accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial owners will not receive written confirmation from any clearing system of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual beneficial owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the beneficial owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading Between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading Between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement system in same day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading Between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in a Regulation S Global Note (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12:00 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading Between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by a Regulation S Global Note and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that the delivery of Notes will be made against payment therefor on the closing date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant closing date will be required, by virtue of the fact that the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant closing date should consult their own advisers.

REGULATION OF THE RUSSIAN OIL AND GAS INDUSTRY

Industry Overview

The Russian oil and gas industry is a key source of growth for the Russian economy. According to BP's Statistical Review of World Energy, Russia was the second largest crude oil producing country in 2008 and, as of 31 December 2008, accounted for approximately 6.3% of the total proved world oil reserves and approximately 25% of the total proved world gas reserves.

After the dissolution of the Soviet Union, the oil industry was restructured into several regional enterprises (most of which have subsequently been privatised). The privatisation of the Russian oil industry was launched by the Decree of the President of the Russian Federation No. 1403 "On the Specifics of Privatisation and Reorganisation into Joint Stock Companies of the State Enterprises, Industrial and Scientific Units in the Oil and Oil Refining Industries", dated 17 November 1992 ("Decree 1403"), which established the federal framework for privatising Russian oil companies and was the basis for the transformation of numerous state-owned exploration, production, refining and distribution enterprises into several major vertically-integrated companies. At the first stage of this privatisation, state oil enterprises were reorganised into corporations. The privatisation of the Russian oil industry continued from 1993-1997. During these years, Russia's first major private oil companies (LUKOIL, Surgutneftegas, YUKOS, Sibneft, TNK and Sidanco) emerged.

The natural gas industry (including production, refining, transportation and sales), remains largely the business of Gazprom, a state-controlled monopoly. Russia, particularly west of the Urals mountains, has an extensive gas infrastructure, including the Unified Gas Supply System ("UGSS"). The UGSS, which is owned and operated by Gazprom, collects, processes, transports, stores and delivers substantially all the natural gas sold in Russia. In addition, Russia exports natural gas both to other parts of the former Soviet Union ("FSU") and to Western Europe.

Applicable Laws, Rules and Regulations

Russian oil and gas industry regulation is still evolving, with federal, regional and local authorities each developing applicable rules and regulations.

The regulation of legal and economic relations in the Russian oil and gas industry is generally based on the Constitution of the Russian Federation, the Civil Code of the Russian Federation, the Subsoil Law, Federal Law No. 147-FZ of 17 August 1995 "On Natural Monopolies" (as amended) (the "Natural Monopoly Law"), Federal Law No. 69-FZ of 31 March 1999 "On Gas Supply in the Russian Federation" (as amended) (the "Gas Supply Law") and the Federal Law of 29 April 2008 "On the Procedure for Making Foreign Investments in Business Entities of Strategic Importance for the National Defence and Security of the Russian Federation", that regulates the access of foreign investors to certain sectors of the Russian economy, including the development of major oil and gas fields and other mineral deposits that fall under the category of "strategic reserves" (the "Strategic Investment Law"). There are also numerous regulations issued by the Russian federal government through its ministries and agencies as well as by regional and local authorities that regulate certain aspects of oil and gas industry in Russia.

Regulatory Authorities

At the federal level, regulatory supervision over the oil and gas industry is divided primarily between the federal government, the Ministry of Finance, the Ministry of Economic Development, the Ministry of Industry and Trade, the Ministry of Energy and the Ministry of Natural Resources and Ecology (the "MNR"). The federal government and these federal ministries are generally responsible for the development of governmental policy in the oil and gas industry (including tax and tariff policy) and regulation in the sphere of exploration, use and protection of natural resources and environment.

The federal ministries in Russia are not, however, responsible for the compliance control or management of the state property and provision of state services, which are generally directed by the federal services and the federal agencies, respectively. The federal services and agencies that regulate the oil industry include, *inter alia*: Rosnedra, the Federal Service for the Supervision of the Use of Natural Resources, the Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Antimonopoly Service (the "FAS") and the Federal Tariffs Service (the "FTS").

Rosnedra is responsible for subsoil licensing, including the issuance, suspension and termination of licences, disposing of state geological information, and taking part in the approval of design documentation for subsoil use.

The Federal Service for the Supervision of the Use of Natural Resources oversees compliance with the terms and conditions of subsoil licences and certain aspects of environmental legislation, controls geological exploration, the rational use and protection of subsoil and effectuates official examinations of certain environmental documentation.

The Federal Service for Environmental, Technological and Nuclear Supervision oversees compliance with certain mandatory industrial safety rules and environmental legislation, including safety procedures in connection with the installation, deployment and operation of technical devices and machinery which TNK-BP uses in its activities and the procedure for maintaining production and technological processes (including by means of issuing licences for certain industrial activities and activities relating to safety and environmental protection).

The FAS is authorised to pursue state policy aimed at promoting the development of the commodity markets and competition, at exercising state control over the observance of antimonopoly legislation and at preventing and terminating monopolistic activity, unfair competition and other actions restricting competition. The FAS, *inter alia*, oversees the acquisition of controlling stakes in companies with dominant market positions and activities of natural monopolies.

The FTS is a regulatory body in the sphere of state regulation of prices (tariffs) on goods (services). The FTS, *inter alia*, addresses issues related to the tariffs for crude oil and gas transportation by pipelines.

Regional and local authorities exercise certain taxation powers, administer land-use regulations and oversee compliance with environmental and worker safety rules. Local and regional authorities also exercise some control over the use of the national and local pipeline grid through their jurisdiction to regulate land use and environmental matters.

Strategic Investments

Strategic Companies

The Strategic Investments Law establishes certain restrictions and special procedures for foreign investments in sectors of strategic importance to Russian national defence and security by imposing restrictions on the acquisition of control over Russian registered commercial entities that operate in such sectors (“**Strategic Companies**”) and establishing an approval procedure for the acquisition of such control. In particular, it sets forth a general prohibition on transactions resulting in the acquisition of control over Strategic Companies by foreign states and international organisations or an organisation controlled by any of these and requires other foreign investors to obtain government consent of the Governmental Commission for Control over Foreign Investments in the Russian Federation (the “**Commission**”) for the acquisition of control over Strategic Companies.

Strategic Deposits

The Strategic Investments Law defines a number of activities that are considered to be strategically important for Russia, including geological exploration and/or prospecting and extraction of mineral resources within subsoil plots of federal significance. The criteria for determining whether a subsoil mineral deposit is of “federal significance” (or a “**Strategic Deposit**”) are set in the Subsoil Law. These include, *inter alia*, subsoil deposits (i) that contain 70 million tonnes or more of recoverable oil reserves and/or 50 billion cubic meters or more of gas reserves; and/or (ii) that are located in internal waters, territorial waters and on the continental shelf of the Russian Federation; and/or (iii) whose use requires the use of land plots designated for defence or security purposes.

The list of Strategic Deposits has been published in the official publication of the Russian Federation. Once a subsoil deposit has been included in such list, it will retain its status as a deposit of federal significance, notwithstanding any changes resulting from amendments of the Subsoil Law.

Strategic Deposits may be developed only by legal entities established in the Russian Federation. Strategic Deposits located on or extending into the continental shelf of the Russian Federation may be developed only by Russian legal entities (i) which have no less than five years’ experience developing continental shelf deposits in Russia; and (ii) in which the Russian Federation holds more than 50% of the total votes represented by the share capital of such entity, or otherwise controls (directly or indirectly) more than 50% of the total number of votes.

Approval Requirements

The Strategic Investments Law requires a prior approval of the Commission for the acquisition of direct or indirect control over Strategic Companies by a company that is under foreign control. The Subsoil Law requires the approval of the responsible state body for the issuance of a production licence for a Strategic Deposit that was discovered under an exploration licence by a subsoil user that is under control of a foreign body. Both the Strategic Investments Law and the Subsoil Law impose a much stricter definition of control (and therefore threshold for approval) in relation to Strategic Companies conducting geological studies and/or exploration and extraction of hydrocarbons/minerals in subsoil deposits of federal significance (“**Strategic Subsoil Users**”) than is required for other types of Strategic Companies. A person is deemed to control a Strategic Subsoil User if such person: (i) has (direct or indirect) control over 10% or more of the votes represented by the shares in the capital of the Strategic Subsoil User; (ii) has the right (pursuant to an agreement or otherwise) to determine decisions of the Strategic Subsoil User, including the terms of its business operations; (iii) has the right to appoint the Strategic Subsoil User’s general director or 10% or more of the members of its management board; (iv) has an unconditional ability to procure the election of 10% or more of the members of the Strategic Subsoil User’s board of directors or other management body; or (v) acts as a management company for the Strategic Subsoil User.

Moreover, with respect to transactions aimed at an acquisition by a foreign state, international organisation or an organisation controlled by any of those, prior approval is required if such a transaction results in direct or indirect control of more than 5% of the votes represented by the shares/participatory interests of the Strategic Subsoil User or the ability to block decisions of the management bodies of such entity.

Licensing

Federal Law No. 128-FZ of 8 August 2001 “On Licensing of Certain Types of Activities,” as amended (the “**Licensing Law**”) and the Subsoil Law, as well as other laws and regulations, list activities which can only be performed subject to licences issued by the relevant Russian authorities and establish procedures for issuing such licences. In particular, to conduct its operations, a company may be required to hold licences and permits for, *inter alia*:

- use of subsoil, See “—*Subsoil Licensing*”;
- discharge of pollutants into the environment;
- collection, use, detoxification, transportation and placement of hazardous waste;
- storage and use of explosive materials of industrial use;
- use (operation) of explosive, inflammable or chemically hazardous facilities; and
- fire extinguishing.

Licensing regulations and the terms of its licences and permits require TNK-BP to comply with numerous industrial standards, employ qualified personnel, maintain certain equipment and a system of quality controls, maintain insurance coverage, monitor operations, make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect its activities.

Subsoil Licensing

In Russia, study, exploration and production of subsoil resources requires a subsoil licence, as well as the right (through ownership, lease or other right) to use the land plot to which such licenced field relates.

A subsoil licence holder has the right to develop and sell crude oil and natural gas extracted from the licence area. The Russian Federation, however, retains ownership of all subsoil resources; the licence holder only has rights with respect to the crude oil and natural gas once it is extracted.

The primary law regulating subsoil licensing is the Subsoil Law, and the regulations adopted thereunder, which set out the regime for granting licences for the study, exploration and production of subsoil resources and subsoil use.

There are several types of licences applicable to the study, exploration and production of subsoil resources, including:

- licences for geological exploration and assessment within a licence area (which is defined in terms of latitude, longitude and depth);

- licences for the production of subsoil resources within a licence area; and
- combined licences for exploration, assessment and production of subsoil resources within a licence area.

Important amendments to the Subsoil Law, passed in August 2004, significantly changed the procedure for awarding exploration and production licences, in particular abolishing the joint grant of licences by federal and regional authorities. Production licences and combined exploration and production licences are currently awarded by tender or auction conducted by special commissions of Rosnedra. While such auction or tender commission may include a representative of the relevant region, the separate consent of regional authorities is no longer required in order to issue subsoil licences. The winning bidder in the tender is selected on the basis of the submission of the most technically competent, financially attractive and environmentally sound proposal that meets the published tender terms and conditions. At an auction, the success of a bid is determined by the attractiveness of the financial proposal. In limited circumstances, production licences may also be issued without holding an auction or tender, for instance, to holders of exploration licences that discover subsoil deposits through exploration works conducted at their own expense.

Currently, exploration licences are generally awarded without a tender or auction by the special commission formed by Rosnedra (or its regional department), which includes the participation of representatives of the relevant regional authority, unless there is more than one application with respect to the same deposit, in which case Rosnedra sets up an auction for a combined licence (exploration and production) for the deposit. The MNR maintains an official list of deposits in respect of which exploration licences can be issued. If the deposit is listed, an application can be made to Rosnedra for an exploration licence with respect to such deposit. If only one application is received with respect to an exploration licence, the special commission considers the application and takes a decision as to whether to award the licence.

Restrictions Related to Strategic Deposits

The Russian Government may restrict participation in any auction or tender for the right of subsoil use in a Strategic Deposit with respect to Russian entities in which foreign investors directly or indirectly hold shares. Such restrictions are not subject to the criteria for control established by the Strategic Investment Law.

In respect of a Strategic Deposit, licences for exploration and production and combined (geological study, exploration and production) licences are issued pursuant to a decision of the Russian Government based either on the results of a tender or auction, or upon the discovery of a deposit on a Strategic Deposit or on a subsoil deposit that becomes a Strategic Deposit. Under a combined licence, advanced exploration and production operations in a Strategic Deposit may only commence after the geological study operations are fully completed, and commencement of advanced exploration and production in the Strategic Deposit is authorised by a Russian Government decision. This is different from the general rule (applicable to other deposits) that advanced exploration and production under a combined licence may be conducted simultaneously with geological study.

Advanced exploration and production or combined (geological study, advanced exploration and production) licences may only be issued for Strategic Deposits. Geological study licences may be issued for subsoil deposits that do not qualify as Strategic Deposits. If in the course of such geological study a discovery is made which results in the relevant deposit meeting the Strategic Deposit criteria, issuance of the advanced exploration and production licence to the subsoil user that has made the discovery may be denied by decision of the Russian Government if the subsoil user is an entity in which a foreign investor directly or indirectly has an interest, and a threat to the national defence and security of Russia is deemed to have arisen.

If the relevant discovery is made under a combined licence by an entity in which a foreign investor has an interest, the Russian Government has the right to terminate the licence. If issuance of the exploration and production licence is denied, or a combined licence is terminated, the affected subsoil user is entitled to reimbursement of costs it incurred in the prospecting and appraisal of the discovered deposit and (in case of termination of a combined licence) of the one-time payment made under the terms of such licence. This reimbursement and certain other compensation will be payable from the federal budget pursuant to a procedure established by the Russian Government.

The provisions relating to discoveries of Strategic Deposits under a combined licence only apply to subsoil deposits discovered after 7 May 2008. They do not apply to subsoil deposits if the geological study was completed and advanced exploration and extraction of minerals from such deposits began

before 7 May 2008. Further, the rules regarding the categories of persons that may be eligible to operate in Strategic Deposits do not apply to the deposits licences that were issued prior to 7 May 2008.

Term of Licence

The term of a licence is set forth in the licence. Prior to January 2000, exploration licences had a maximum term of five years, production licences a maximum term of 20 years and combined exploration, assessment and production licences a maximum term of 25 years. Currently the maximum exploration term is five years or ten years (if geological survey works are carried out on subsoil plots located within internal sea waters, territorial sea and the continental shelf of the Russian Federation), while the production term may be as long as is required (as shown in the feasibility study) for rational full exploitation of the deposit. In practice, production licences are still generally issued for twenty years. In addition, the Subsoil Law no longer expressly provides for a combined exploration/production term; however, in practice, the subsoil use licensing authorities still issue combined licences for 25 years. These amendments did not affect the terms of licences issued prior to January 2000, but permitted licence holders to apply for extensions of such licences for the term of the expected operational life of the field in accordance with the amended Subsoil Law, provided the licence holder complies with the licence terms.

The Subsoil Law permits a subsoil licence holder to request an extension of a production licence in order to complete the production in the field covered by the licence or to vacate the land once the use of the subsoil is complete, provided the user complies with the terms and conditions of the licence and the relevant regulations. In order to change any condition of a subsoil licence, including extension of its term, a company must file an application with the federal authorities to amend the licence.

Licence Agreement

A licence granted under the Subsoil Law is generally accompanied by a licensing agreement executed by the federal authorities and the licence holder. The licensing agreement sets out the terms and conditions for the use of the subsoil licence and certain environmental, safety and production commitments, which may include:

- bringing the field into production by a certain date;
- extracting annually an agreed target amount of reserves;
- conducting agreed drilling and other exploratory and development activities;
- protecting the environment in the licence area from damage;
- providing geological information and data to the relevant authorities;
- submitting formal progress reports to regional authorities on a regular basis.

Transfer

Licences may be transferred only under certain limited circumstances that are identified in the Subsoil Law, including the reorganisation or merger of the licence holder or, in the event that an initial licence holder transfers its licence to a legal entity in which it has at least a 50% ownership interest, provided that the transferee possesses the equipment and authorisations necessary to conduct the exploration or production activity that is covered by the transferred licence. Under the amendments of the Subsoil Law of October 2006, the circumstances under which licences may be transferred were extended to cover (i) transfer from a parent company to its subsidiary, (ii) transfer from a subsidiary to its parent company and (iii) transfer between two subsidiaries of a common parent company where such transfer is effected at the direction of such parent company. The new transferee must be a company incorporated under the laws of the Russian Federation, comply with the statutory requirements of a subsoil user and other requirements imposed by the conditions of the tender, auction or licence under which the right of usage was granted and must have received all assets necessary for conducting activities, specified in the licence, including the objects of infrastructure.

Penalties and Termination

If the subsoil licence holder fails to fulfil the licence conditions, the licence holder may be fined or the licence may be terminated upon notice by governmental authorities. However, if a subsoil licence holder cannot meet certain deadlines or achieve certain volumes of exploration work or production

output as set forth in a licence due to material changes in circumstances, it may apply to amend the relevant licence conditions, though such amendments may be denied.

Governmental authorities, such as the Federal Service for the Supervision of the Use of Natural Resources and the Federal Service for Environmental, Technological and Nuclear Supervision, or their regional divisions, oversee compliance of subsoil licence users with the licence terms and applicable legislation.

The Subsoil Law and other Russian legislation contain extensive provisions for licence limitation, suspension or termination. A licence holder can be fined for failing to comply with a subsoil licence and a subsoil licence can be revoked, suspended or limited in certain circumstances, including, but not limited, to the following:

- the emergence of a direct threat to the life or health of people working or residing in the area affected by the operations under the licence;
- breach or violation by the licence holder of material terms and conditions of the licence;
- repeated violation by the licence holder of the subsoil regulations;
- failure by the licence holder to commence operations within a required period of time or to produce required volumes, both as specified in the licence;
- the occurrence of an emergency situation;
- liquidation of the licence holder; and
- non-submission of reporting data in accordance with the legislation.

In the case of expiration of the term of a licence or early termination of subsoil use, all crude oil facilities in the relevant licensing area, including underground facilities, must be removed or properly abandoned. In accordance with removal and abandonment regulations, all exploration, production and storage facilities must be maintained at a level that is safe for the population, the environment, buildings and other facilities. Abandonment procedures must also secure the conservation of the relevant oil field, extraction, production and storage facilities.

General Fees, Bonuses and Taxes

In accordance with a general regime, a holder of an oil exploration and production licence is subject to payment for the right to explore and appraise oil fields and prospect for natural resources, as well as a natural resources production tax. See “*General Tax Regime Related to Russian Oil and Gas Companies—Natural Resources Production Tax*”. In addition, the Subsoil Law and regulations issued pursuant to it provide for a licence issuance fee and a fee for participation in a tender/auction (usually in the order of several thousand U.S. dollars), nonrecurring payments for exploration rights and payments (bonuses) due to defined events, prescribed by an oil production licence (minimum start payment shall be not less than 10% of the natural resources production tax amount calculated based on planned average annual oil production of a licence holder).

Land Use Permits and Ground Allotments

Russian legislation prohibits any commercial activity, including mineral extraction activities, on a land plot without appropriate land use rights. Land use rights are generally obtained for land plots on which real property is located and for those parts of the licence area that are actually in use.

Under the Land Code of the Russian Federation No. 136-FZ of 25 October 2001, as amended (the “**Land Code**”), companies generally have one of the following rights with regard to land in the Russian Federation: (i) ownership; (ii) lease; (iii) right of free use for a fixed term; or (iv) right of perpetual use.

A majority of land plots in the Russian Federation are owned by federal, regional or municipal authorities that can sell, lease or grant other use rights to the land to third parties through public auctions or tenders or through private negotiations.

Companies having a right of perpetual use of land, which was obtained prior to the enactment of the Land Code, are required, by 1 January 2012, either to purchase the land from, or to enter into a land lease agreement with, the relevant federal, regional or municipal authority owning the land.

Oil and Petroleum Products Pipeline Transportation Regime

Transneft and Transnefteprodukt control, respectively, the trunk pipelines for the transportation of crude oil and petroleum products in Russia. Both companies are state controlled monopolies. The

Russian Government has contributed the shares of Transnefteprodukt to Transneft in order to consolidate and improve the management structure of these companies and to enhance the efficiency of their operations. On 13 April 2007, the President issued Decree No. 473 approving the transfer of 100% of Transnefteprodukt's shares owned by the Russian Government to Transneft. In execution of this Decree, on 10 May 2007, the Russian Government adopted Resolution No. 585-r approving the transfer of 100% of Transnefteprodukt's shares and added Transnefteprodukt to the list of companies to be privatised under the Plan of Federal Property Privatisation for 2007. Subsequently 100% of Transnefteprodukt shares were contributed to the charter capital of Transneft by the state as payment for the placement of additional ordinary shares in Transneft.

Transportation of crude oil is based on contracts with Transneft, which set forth the basic obligations of the contracting parties, including the right of Transneft to blend or substitute a company's crude oil with the crude oil of other producers. Transneft establishes and collects on prepayment terms a rouble tariff on domestic shipments and an additional tariff on exports that is payable in roubles but is linked to hard currency exchange rates. The FTS is authorised to periodically review and set the tariff rates applicable for each segment of the pipeline and for the entire pipeline. The Druzhba crude oil pipeline, which is operated by Transneft in Russia and extends from central Russia to markets in the Czech Republic, Germany, Hungary, Poland and Slovakia, has a throughput capacity of approximately 1.5 million barrels of crude oil per day and currently accommodates over one-third of total Russian exports.

Currently, the allocation of pipeline and terminal access rights is overseen by the Ministry of Energy, which approves quarterly schedules that, *inter alia*, detail the precise volumes of crude oil that each crude oil producer can pump through the Transneft system. These quarterly schedules provide certain stability in the export regime for Russian oil companies. Once the access rights are allocated, crude oil producers generally cannot increase their allotted capacity in the export pipeline system, although they do have limited flexibility in altering delivery routes. Crude oil producers are generally allowed to assign their access rights to third parties.

In 2001, the Russian Government began reforming the system of pipeline allocation and terminal access rights. Since September 2001, pipeline and terminal access rights have been distributed among crude oil producers and their parent companies in proportion to the volumes of crude oil produced and delivered to the Transneft pipeline system in prior periods (not only in proportion to the crude oil production volumes).

Generally, Transneft is not able to transport individual batches of crude oil, which results in the blending of crude oil of differing qualities. Transneft does not currently operate a system whereby companies, shipping heavy and sour (high sulphur content) crude oil compensate the shippers of higher quality crude oil for the deterioration in crude quality due to blending. Although the introduction of a blending compensation system, often referred to as a "quality bank," has been discussed between Transneft and the Russian government, these proposals have been generally met with resistance by producers with reserves of a lower quality and regional authorities where such reserves are located.

Petroleum products are transported by similar means as crude oil, including railways, sea transportation and specially designed pipelines for petroleum products. The majority of petroleum products, however, are transported by railways. The regime for the transportation of petroleum products is generally similar to the regime for the transportation of crude oil. In particular, the rules provide for equal access to petroleum products pipelines, which currently transport primarily gasoline and diesel fuel. Deliveries through Transnefteprodukt are based on the applications of oil companies in proportion to Transnefteprodukt pipeline capacity. The FTS sets the upper limits of the tariffs for the use of Transnefteprodukt pipelines as well. Transnefteprodukt establishes tariffs for the transportation of crude oil products within the limits established by the FTS.

Gas Market

The Russian gas market is characterised by a lack of competition and developed infrastructure and a significant level of government regulation. According to Interfax, vertically-integrated Russian oil companies have been recently considering the utilisation of their gas reserves as an important additional source of revenues. Most of these companies have developed expansion plans into gas operations for export sales, as the domestic market prices remain relatively low. According to the Federal Service for Tariffs (the "FTS"), in 2008, the average wholesale gas price for Russian commercial entities amounted to RUR1,699.2 per thousand cm (excluding VAT) and the average

wholesale price on gas sold to the general population amounted to RUR1,288.8 per thousand cm (excluding VAT), representing a 25.1 and a 25% growth in comparison with 2007, respectively.

The UGSS, which transports substantially all gas supplies in Russia, consists of an extensive network of pipelines and compressor installations that have been built over the past 40 years. Most of the UGSS pipelines are over ten years old and certain sections are over 30 years old. Many of the pipelines are protected by chemical coatings with a limited useful life and large segments of the network are located in regions with harsh climates where construction maintenance and refurbishment are difficult and costly.

Pursuant to Russian Government Regulation No. 534 of 2 September 2006 “On carrying out experimental sales of gas through electronic trading floor” and Order of the Russian Ministry of Industry and Energy No. 294 of 31 October 2006 “On carrying out experimental sales of gas through electronic trading floor,” OOO Mezhregiongaz, a subsidiary of Gazprom, was appointed an organiser of the first electronic gas exchange, through which Russian crude oil and gas producers, including Rosneft, LUKOIL, Novatek and Gazprom, were invited to trade. The first trading session took place in November 2006. Although independent gas producers participate in such trades on the exchange, the transportation costs that primarily affect the gas prices are set almost exclusively by Gazprom that has a monopoly with respect to the long-distance pipelines used to pump gas to the turbines.

The Gas Supply Law

Under the Gas Supply Law, Russian federal authorities have jurisdiction over natural gas supplies, including, among other things, the development and implementation of government policy on natural gas supply; the regulation of strategic natural gas reserves; control over the industrial and environmental safety of the industrial sites of the natural gas supply systems; metrological support; and standardisation and certification.

The Russian Government:

- sets the projected natural gas production levels and the sales balance in Russia;
- determines the level of natural gas prices and natural gas transportation tariffs;
- regulates natural gas deliveries;
- sets procedures for providing independent organisations with access to the natural gas transportation and distribution networks; and
- defines the categories of customers to whom natural gas deliveries cannot be restricted or suspended.

The Unified Gas Supply System

The Gas Supply Law defines the Unified Gas Supply System (the “UGSS”) as a centrally managed, technologically and economically regulated system of gas production, processing, transportation, storage and supply. Gazprom is currently the owner of the UGSS. To ensure reliable gas supply and compliance with international treaties of the Russian Federation and gas delivery contracts, the UGSS maintains and develops its network; monitors the function of its facilities; procures the use of equipment and processes for power-saving and environmental safety at its industrial sites; takes action to ensure industrial and ecological safety within the UGSS; and operates disaster management systems.

Gazprom, as the owner of the UGSS, is obligated to provide independent gas producers access to its natural gas transportation system in Russia subject to the availability of capacity in the UGSS, the compliance of the gas being transported with established quality and technical parameters and the availability of connecting and branch pipelines to consumers. According to the Natural Monopoly Law, in determining whether to provide access to independent producers, Gazprom is required to take into account the protection of the rights and legitimate interests of citizens, the security of the State and the protection of environmental and cultural heritage. The Decree of the President of the Russian Federation No. 1333 of 5 November 1992 “On Transformation of the State Gas Concern Gazprom into the Russian Joint Stock Company Gazprom,” as amended, makes Gazprom responsible for providing transportation access to gas producers in proportion to the volume of gas produced by them on the territory of Russia. In practice, Gazprom exercises considerable discretion in determining third-party access to the UGSS through its priority right to use the UGSS capacity.

Similar access rights to regional gas supply systems are established pursuant to Resolution of the Government No. 1370 of 24 November 1998. According to this Resolution, any legal entity within

the territory of the Russian Federation has the right to access the regional gas supply systems to facilitate delivery.

Transportation and Supply of Gas

The relationship between natural gas suppliers and off-takers is governed by the Regulation on Natural Gas Supplies in the Russian Federation approved by Government Resolution No. 162 dated 5 February 1998.

A right of priority to enter into natural gas supply agreements is given to off-takers that purchase natural gas for the government, utilities, consumers and households and to certain off-takers wishing to extend their existing natural gas supply agreements.

Under Government Resolution No. 858 of 14 July 1997 “On the Provision of Access of Independent Organisations to the Gas Transportation System of OJSC Gazprom,” Gazprom must provide independent suppliers with non-discriminatory access to available UGSS transportation capacity in Russia. This requirement is subject to natural gas from independent suppliers being of sufficient quality and the availability of connecting and branch pipelines to consumers.

In accordance with the Gas Supply Law, consumers are obliged to pay for natural gas supplies and transportation services. If consumers fail to make such payments, suppliers have the right to limit or suspend natural gas supplies to such consumers in accordance with specific procedures provided for by several government resolutions. Government Resolution No. 364 of 29 May 2002 provides for special terms and conditions of gas delivery to institutions responsible for national security. The supplier may not suspend or limit gas supplies below the limits provided by the customer for its affiliated institutions.

Gas Prices and Tariffs

Natural gas prices and transportation tariffs in Russia are regulated pursuant to the Natural Monopoly Law and the Gas Supply Law, as well as pursuant to several government resolutions. Government Resolution No. 1021 of 29 December 2000 “On State Regulation of Gas Prices and Tariffs for Gas Transportation within the Territory of the Russian Federation,” as amended, sets forth the main provisions for regulating the wholesale price of natural gas and transportation tariffs.

The FTS regulates the price of gas sold by Gazprom (and its affiliates) and the tariff charged to independent gas producers to transport their gas through the UGSS. The principles of pricing are, among others, the recovery of economically reasonable expenses by suppliers and transportation companies, maintenance of reasonable operating margins and satisfaction of demand for gas. Wholesale price regulation does not apply to entities unaffiliated with Gazprom. The wholesale price of natural gas produced by independent gas suppliers is not regulated. Additionally, certain retail customers, such as residential consumers, are entitled to fixed retail gas prices.

Export of Oil and Gas

In the past, the Russian government imposed seasonal limitations on the export of certain petroleum products (such as diesel fuel, fuel oil, gasoline and jet fuel). No such restrictions are in effect at present.

In order to protect national economic interests, the Russian government currently implements tariff regulations through the use of export duties. The amounts of export duties vary depending on existing crude oil prices. See “*General Tax Regime Related to Russian Oil and Gas Companies—Oil-Related Export Duties.*”

Pursuant to the Federal Law No. 117-FZ “On the Export of Gas.”, the owner of the UGSS (Gazprom) or its wholly owned subsidiary (Gazprom Export) has the exclusive export rights to export gas outside the Russian Federation. The law currently covers the export of gas both in gaseous form and in the form of liquefied natural gas (LNG). The law does not apply to the export of gas produced in accordance with production sharing agreements that were entered into prior to the entry into force of this law.

Environmental Protection

Petroleum operations are subject to extensive federal and regional environmental laws and regulations. These laws and regulations set various standards for health and environmental quality, provide for penalties and other liabilities for the violation of such standards, and establish, in certain circumstances, obligations to compensate for environmental damage and restore environmental

conditions. Issues of environmental protection in Russia are regulated primarily by the Federal Law No. 7-FZ of 10 January 2002 “On Environmental Protection,” as amended (the “**Environmental Protection Law**”), as well as by a number of other federal laws and regulations.

Pay-to-pollute

The Environmental Protection Law establishes a “pay-to-pollute” regime administered by federal and local authorities. The MNR has established standards relating to the permissible impact on the environment and resource extraction, while the Federal Service for Environmental, Technological and Nuclear Supervision has set limits for the emission and disposal of substances as well as for waste disposal. A company may obtain approval for exceeding these statutory limits from the federal or regional authorities, depending on the type and scale of environmental impact. As a condition of such approval, a plan for the reduction of the emissions or disposals must be developed by the company and cleared with the appropriate governmental authority. Fees, as set forth in Decree of the Russian Government No. 344 of 12 June 2003 “On Rates of Payments for Pollutant Emissions into the Air by Stationary and Mobile Sources, Pollutant Disposals into Surface and Underground Waters, Disposal of Production and Consumption Waste” are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits, whereby the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved limits and the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

Natural resources development issues are subject to periodic environmental evaluation. While these evaluations have in the past generally not resulted in substantial limitations on natural resources exploration and development activities, they are expected to become increasingly strict in the future. Currently, conducting operations that may cause damage to the environment without state ecological expertise may result in negative consequences. Thus, if the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, the environmental authorities may suspend these operations or a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company or employee that fails to comply with environmental regulations may be subject to administrative and/or civil liability and individuals (including managers of legal entities) may be held criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines.

Oil Spills and Soil Contamination

Any contamination of soil and ground water resulting from oil spills may create a number of obligations on the respective company.

On 21 August 2000, the Russian Government approved the Basic Requirements for the Plans of Prevention and Clean-up of Oil Spills, which obliges companies to develop plans for the prevention and clean-up of accidental oil spills. Such plans are approved by a number of Russian authorities. A further Resolution of the Russian Government (“On approval of the Rules for Organisation of the Prevention and Liquidation of the Spills of Oil and Petroleum products” No. 240 of 15 April 2002) requires crude oil producing, transportation, refinery and storage companies to have their own dedicated human, technical and financial resources to clean-up oil spills as and when they occur.

In addition, the Environmental Protection Law and the Land Code of the Russian Federation contain provisions relating to the payment of compensation for damage resulting from the contamination of the land. According to Article 14 of the Land Code, if a company’s activities cause chemical contamination of the land, making it impossible to use such land for a “designated purpose,” or reduce its quality generally, the relevant company must pay compensation to the owner of the land in respect of such damage, any agricultural losses and costs of cleaning up the land so that it can again be used for its “designated purpose.”

Companies which damage the fertile soil layer of land during construction or other activities are required to restore the land at the end of their activities at their own expense and in accordance with restoration programmes approved by environmental experts, pursuant to the Resolution of the Government of the Russian Federation No. 140 of 23 February 1994 “On Restoration of Land and Removal, Storage and Use of the Fertile Soil Layer.”

According to the Water Code of the Russian Federation, water users are required to take measures to prevent and clean-up accidents that may affect the condition of rivers, lakes or other bodies of water. Facilities for the transportation and storage of crude oil cannot operate without devices for the prevention of contamination of rivers, lakes or other bodies of water and for the control and detection of oil spills.

Health and Safety

The principal law regulating industrial safety is the Federal Law No. 116-FZ of 21 July 1997 “On Industrial Safety of Hazardous Industrial Facilities,” as amended (the “**Safety Law**”). The Safety Law applies, in particular, to industrial facilities and sites where certain activities related to exploration and production of crude oil and gas are carried out. The Safety Law also contains a comprehensive list of hazardous substances and their permitted concentrations, and extends to facilities and sites where these substances are used. Regulations adopted pursuant to the Safety Law further address safety rules for certain operations that the TNK-BP conducts.

TNK-BP’s activities also include operation of certain hazardous industrial sites regulated by the Federal Service for Environmental, Technological and Nuclear Supervision. Any construction, reconstruction, liquidation or other activities in relation to such regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of regulated industrial sites is prohibited unless reviewed by a licenced expert and approved by the Federal Service for Environmental, Technological and Nuclear Supervision. Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code of the Russian Federation (the “**Labour Code**”). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating regulated industrial sites. The Safety Law also requires these companies to enter into contracts with professional demolition companies or create their own demolition services in certain cases, conduct personnel training programmes, create systems to cope with and inform the Federal Service for Environmental, Technological and Nuclear Supervision of accidents and maintain these systems in good working order. In certain cases, companies operating regulated industrial sites must also prepare declarations of industrial safety which would summarise the risks associated with operating a particular regulated industrial site and measures the company has taken and will take to mitigate such risks and use such site in accordance with applicable industrial safety requirements. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, is required for the issuance of a licence permitting the operation of a dangerous industrial facility.

In the case of an accident, a special commission led by a representative of the Federal Service for Environmental, Technological and Nuclear Supervision conducts a technical investigation of the cause. The company operating the industrial facility where the accident took place bears all costs of an investigation. The officials of the Federal Service for Environmental, Technological and Nuclear Supervision have the right to access industrial sites and may inspect documents to ensure a company’s compliance with safety rules. The Federal Service for Environmental, Technological and Nuclear Supervision may suspend or terminate a company’s operations or impose administrative liability on a company or its officials.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be liable to compensate the individual for lost earnings, as well as health-related damages and in certain cases, its activity may be suspended.

Anti-monopoly Regulation

The anti-monopoly legislation of the Russian Federation is based on the Federal Law No. 135-FZ of 26 July 2006 “On Protection of Competition” (“**Competition Law**”) and other federal laws and regulations governing anti-monopoly issues.

The anti-monopoly legislation of the Russian Federation governs relations which are aimed at the protection of competition, including where certain transactions (activities) are executed (performed) outside Russia, but may influence competition, on the Russian market and which involve, *inter alia*,

Russian legal entities, foreign legal entities, state agencies of the Russian Federation and local government authorities.

The compliance with anti-monopoly legislation in Russia is monitored by the FAS. Russian legislation grants the FAS ample powers necessary for the performance of its functions and dealing with violations of anti-monopoly legislation. The FAS is, *inter alia*, authorised (i) to initiate or examine cases regarding violation of anti-monopoly legislation; (ii) to issue binding orders to business entities in cases specified in the Competition Law; (iii) to hold commercial and non-commercial organisations and their officers to account for violating anti-monopoly laws in the instances and by the procedure that is established by Russian legislation; and (iv) to file with a court or an arbitration court applications in respect of violations of anti-monopoly laws, including, *inter alia*, invalidating in full or in part any agreements that do not correspond to the anti-monopoly legislation.

In general, anti-monopoly regulation comprises certain measures aimed at prevention and termination of monopolistic activity and control over the economic concentration. A number of legislative acts have been amended recently to tighten liability for monopolistic activities. In particular, the amendments increase the fines which may be imposed on companies performing monopolistic activities and officers of such companies.

Antimonopoly restrictions in the sphere of regulation of monopolistic activity include prohibitions of conclusion of anticompetitive agreements, exercise of anticompetitive coordinated actions, unfair competition, and abuse of dominant position.

An entity or a group of entities is deemed to have a dominant position in a particular commodity market if: (a) the entity (or the group of entities) has a market share on a particular commodity market in excess of 50%, *unless* it is specifically established by the FAS that the entity (or the group of entities) does not have a dominant position; or (b) the entity has a market share on a particular commodity market which is less than 50% but more than 35% and the dominant position of the entity (or the group of entities) is specifically established by FAS based on (i) the stability or near stability of such entity's (group of entities') share on the particular commodity market, and (ii) certain characteristics of the relevant commodity market (such as the accessibility of the commodity market to new competitors) or (c) the entity has a market share on a particular market which is less than 35% but exceeds the market shares of other entities operating on the market, if the market meets the criteria specifically listed in the Competition Law and the dominant position of such entity was established by FAS based on the analysis of the competitive environment on a particular market.

The Competition Law also provides the possibility of several unrelated entities being considered to collectively have a dominant position. In particular, each of three business entities collectively having a market share exceeding 50%, or each of five business entities collectively having a market share exceeding 70%, provided that the market share of each entity in any case exceeds 8%, may be considered as having dominant position provided that (i) market shares of relevant entities have been stable or nearly stable during a significant period of time; (ii) the access of new competitors into the particular commodity market is hindered; (iii) the relevant commodity cannot be easily substituted; and (iv) the demand for the commodity is price-inelastic.

Furthermore, pursuant to the Competition Law, any entity being a natural monopoly is deemed to enjoy a dominant position on the relevant commodity market which represents the natural monopoly ("natural monopolies" are created by specific legislation and, *inter alia*, include the gas and electricity markets).

The Competition Law establishes a regulatory framework for companies enjoying dominant positions in certain markets, aimed at protection of competition in the relevant markets. In particular, an entity enjoying a dominant position is prohibited from abusing such a position through; *inter alia*, the following activities: (i) fixing and/or maintaining a monopolistic high or low price of goods; (ii) withdrawing goods from circulation, which results in price increases; (iii) dictating to a counterparty terms of agreement unfavourable to it or not relevant to the subject-matter of the agreement; (iv) economically or technologically unjustified reducing or terminating the production of certain goods; (v) refusing to enter into an agreement with certain buyers (customers) or avoiding such agreement; (vi) economically or technologically unjustified fixing various prices (tariffs) for the same goods; (vii) creating discriminatory conditions; (viii) creating impediments for other entities to either access or exit a particular commodity market; and (ix) violation of established pricing rules.

If a company enjoying a dominant position systematically carries out any monopolistic activities the court based on a suit brought by the FAS may decide that such company is a subject to forcible division or spin-off.

Antimonopoly control over economic concentration involves control (a) over mergers, accessions, and incorporation of companies, and (b) over acquisitions (i) of more than 25%, 50%, or 75% of the shares of Russian joint-stock companies (or more than 1/3, 50%, or 2/3 of the participatory shares of Russian limited liability companies), (ii) of more than 20% of the assets of Russian companies (except for non-industrial buildings, land plots and unfinished construction objects), and (iii) of rights to determine the commercial activity of Russian companies. All abovementioned transactions require either prior approval or subsequent notification of the FAS in cases established in the Competition Law.

Employment and Labour Regulation

Labour matters in Russia are primarily governed by the Labour Code. In addition to this core legislation, relationships between employers and employees are regulated by various federal laws.

Employment Contracts

As a general rule, employment contracts for an indefinite term are concluded with all employees. Russian labour legislation expressly limits the possibility of entering into fixed term employment contracts. An employment contract can be entered into for a fixed term of up to five years in certain cases where labour relations may not be established for an indefinite term due to the nature of the duties or the conditions of the performance of such duties, as provided by the Labour Code and federal laws. The Labour Code specifies where the employer is obliged to enter into a fixed term employment contracts, and where the employer may, but is not obliged to, conclude such agreement subject to the parties' mutual agreement. Employment contract with the chief executive officer, his deputy, and the chief accountant may be concluded either for a fixed or an indefinite term.

An employer may terminate an employment contract only on the basis of the specific grounds listed in the Labour Code, including:

- liquidation of the enterprise or reduction of personnel;
- unsuitability for the position held or job to be performed due to insufficient skills as evidenced by the results of an evaluation;
- systematic failure of the employee to fulfil his or her duties without due cause;
- any single gross breach by the employee of his or her employment duties in the events expressly identified by the Labour Code;
- provision by the employee of false documents or misleading information when concluding the employment contract; and
- other grounds provided in the Labour Code or other federal laws.

An employee dismissed from an enterprise due to reduction of personnel or liquidation is entitled to receive a severance payment and other payments in accordance with the requirements of the Labour Code.

The Labour Code also provides protections for specified categories of employees. For example, except in cases of liquidation of an enterprise, an employer cannot dismiss expectant mothers. An employer may not also dismiss mothers with a child under the age of three, single mothers with a child under the age of 14 or a disabled child under the age of 18 or other persons caring for a child under the age of 14 or a disabled child under the age of 18 without a mother, other than due to liquidation of an enterprise, specified breach of employment duties by an employee, and for certain delinquent actions. Employment contracts with minors can be terminated only with the consent of the state labour inspection and the commission for protection of minors' rights (except in the case of liquidation of an enterprise).

Any termination by the employer that is inconsistent with the Labour Code requirements may be invalidated by a court, and the employee then will be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful dismissal and reinstatement as well as for mental distress.

Work Time

The Labour Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate or with additional days of paid vacation (days off).

Annual paid vacation under the law is generally 28 calendar days. The Labour Code contemplates additional paid vacation in a number of cases, including work on an unlimited hours basis, work under harmful conditions and work in the Northern regions of Russia. Companies may establish additional paid vacations beyond the statutory minimums. Employees who perform work in harmful conditions may be entitled to additional paid vacation ranging from six to 36 working days.

The retirement age in the Russian Federation is generally 60 years for men and 55 years for women.

Salary

The minimum salary in the Russian Federation, is calculated on a monthly basis and is established by federal law at the rate of RUR 4,330 (approximately U.S.\$150) from 1 January 2009. Although the law requires that the minimum wage be at or above a minimum subsistence level, the current minimum wage is generally considered to be less than a minimum subsistence level.

Employees working in localities with abnormal climatic conditions are entitled to regional coefficients and percentage increases in their salaries. Coefficients are generally aimed at compensating unfavourable climatic or other conditions in particular regions.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of the employees to fulfil their employment duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be considered an adequate ground for termination.

Trade Unions

Although recent Russian labour regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia.

The activities of trade unions are generally governed by the Federal Law No. 10-FZ “On Trade Unions, Their Rights and Guarantees of Their Activity”, dated 12 January 1996, as amended (the “Trade Union Law”).

The Trade Union Law defines a trade union as a voluntary union of individuals with common professional and other interests that is incorporated for the purposes of representing and protecting the rights and interests of its members.

As part of their activities, trade unions have the right to:

- negotiate collective contracts and agreements between trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labour laws, collective bargaining and other agreements;
- access work sites and offices and request information relating to labour issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labour disputes with management;
- organise strikes and participate in them; and
- monitor redundancies and seek action by municipal authorities to delay or suspend mass layoffs.

Russian laws require that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain guarantees.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

Although the Trade Union Law provides that those who violate the rights and guarantees provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability, no specific sanctions for these violations are set forth in Russian legislation.

Regulation of Joint-Stock Companies – Liability of Shareholders

The Civil Code of the Russian Federation and Federal Law No. 208-FZ “**On Joint Stock Companies**” dated 26 December 1995 (as amended) (the “Joint Stock Companies Law”) generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and bear only the risk of loss of their investment. This may not be the case, however, when one legal entity is capable of determining decisions made by another legal entity. The entity capable of determining such decisions is deemed an “effective parent”. The person whose decisions are capable of being so determined is deemed a “subsidiary”. Under the Joint Stock Companies Law, the effective parent bears joint and several liability for transactions concluded by the subsidiary as per the effective parent’s instructions if (i) the charter of the subsidiary or (ii) an agreement between the effective parent and the subsidiary provides for the effective parent’s right to issue binding instructions to the subsidiary.

A shareholder of an effective parent, however, is not directly liable for the debts of the effective parent’s subsidiary, unless it may itself be deemed an effective parent of such subsidiary.

In addition, an effective parent is secondarily liable for a subsidiary’s debts if the subsidiary becomes insolvent or bankrupt due to the fault of the effective parent. This is the case whether the effective parent’s ability to determine decisions of the subsidiary arises through ownership of voting securities or by contract. In these circumstances the other shareholders of the subsidiary may claim compensation by the effective parent of the loss incurred by the subsidiary due to the fault of the parent, provided that the parent exercised its right and/or capability to cause the subsidiary to take action knowing that such action would result in losses to the subsidiary.

GENERAL TAX REGIME RELATED TO RUSSIAN OIL AND GAS COMPANIES

In general, the Russian oil and gas industry is subject to the same tax regime as other industries. In addition, oil companies are subject to industry-specific taxes. The Russian Government may impose restrictions on the export of crude oil and petroleum products by companies that have any federal, regional or local tax arrears.

The Russian tax system includes federal (established by the Russian Tax Code and applied to all entities doing business in Russia), regional (established by the Russian Tax Code and legislatures of constituent entities of the Russian Federation and applied to entities registered or doing business in a particular constituent entity) and local (established by the Russian Tax Code and municipal representative bodies and applied to entities registered or doing business in particular municipalities) taxes.

Below are brief descriptions of the major federal, regional and local taxes and some obligatory payments, which formally are not treated as taxes, applicable to TNK-BP's Russian subsidiaries.

Profit Tax

The Tax Code provides for a single profit tax system with a statutory profit tax rate of 20% (until 2009 the rate was 24%). Profit tax payment is split between the federal and regional budgets in the following proportions: 2% is payable to the federal budget and 18% is payable to the regional budget.

Regional legislative bodies are empowered to decrease, for certain categories of taxpayers, the profit tax rate payable to their regional budgets from 18% to 13.5%. Thus, the overall profit tax rate can be decreased from 20% to 15.5%.

The Tax Code provides for the following major elements of the profit tax regime.

- *Taxable profit calculation.* Taxable profit calculation is based on the accrual method.
- *Deductibility of expenses.* Generally, expenses are deductible for tax purposes if they are economically justified and properly documented; however, certain business expenses are subject to specific limitations and other specific guidelines which need to be carefully observed.
- *Depreciation.* Fixed assets are depreciated over their useful life, determined under statutory guidelines. For example, the statutory useful life for exploration wells and gas wells for exploratory drilling is between five and seven years, and between seven and 10 years for gas wells for exploitative drilling (such as buildings and constructions with statutory life of over 20 years). Depreciation can be made on the straight-line method or, with certain exceptions, on a double-rate declining balance method. In addition, for newly acquired or modernised fixed assets (including, e.g., wells), a one-off deduction of 30% of the original acquisition value (and 10% for fixed assets with a statutory useful life up to 3 years or over 20 years) is permitted. The remaining 70% or 90% of the original value is to be depreciated under general terms. The one-off deduction would be revoked if the relevant fixed assets are sold within five years.
- *Subsoil licence expenses.* Expenses incurred for obtaining a subsoil licence (including expenses for preliminary appraisal and audit of deposits, feasibility study, acquisition of geological information, tender or auction participation fees) can be either (i) capitalised as the acquisition costs of an intangible asset (subsoil licence) qualifying for depreciation over the term of the licence on a straight-line or a double-rate declining balance method; or (ii) deducted over two years as other operational expenses. If a licence is not obtained, these expenses are treated as deferred expenses and are deductible in even instalments over five years.

Expenses incurred under a subsoil licence are to be accounted for each separate deposit and deductible as follows: (i) expenses for exploring and appraising deposits, prospecting for natural resources, and acquiring geological information are deductible in even instalments over 12 months; and (ii) expenses for preparing a subsoil plot and compensation payments for damages are deductible in even instalments over five years. The deduction can be started once the relevant works are fully or partially completed; in case of unsuccessful exploration it can be started after the relevant notification is filed with the responsible state authority. Expenses incurred for construction of unproductive exploration wells are deducted in even instalments over 12 months after the wells are liquidated and the tax authority is notified. Expenses for construction/erection of fixed assets intended for permanent use are deducted through the regular depreciation of capitalised fixed assets. Expenses for construction of temporary facilities (e.g. access roads and waste storage facilities) should qualify for full deduction once construction works are completed.

- *Deductibility of interest expenses.* Interest expenses are deductible if loans are used for profit-generating activities and the interest rate complies with the average interest rate for comparable loans or does not exceed statutory thresholds which are as follows: (i) 15% for foreign currency loans (from 1 August 2009 to 31 December 2009 – 22%) or (ii) the Russian Central Bank refinancing rate (which, as of 28 December 2009, is 8.75%) multiplied by 1.1 for rouble loans (from 1 August 2009 to 31 December 2009 – multiplied by 2). Interest payable to a foreign lender is taxed with a 20% Russian withholding income tax subject to double tax treaty relief (which often reduces this tax down to zero).
- *Thin capitalisation.* The thin capitalisation rules provide for a 3:1 debt-to-equity ratio for controlled debt and reclassification of interest on excessive controlled debt into dividends (that are generally non-deductible and subject to withholding tax). The thin capitalisation rules apply to “controlled debt,” which includes (i) debt to a foreign company owning directly or indirectly more than 20% of the borrower’s charter capital; (ii) debt to a Russian company that is, in accordance with Russian legislation, affiliated with a foreign company in (i); and (iii) debt whose repayment is secured in the form of a guarantee, surety or otherwise, by the foreign company in (i) and/or a Russian affiliated company in (ii). Different views can be taken as to whether the Russian thin capitalisation rules (specifically, the non-deductibility of the excessive interest and the application of the 15% withholding tax on this portion of interest) can be overridden by the applicable double taxation treaty.
- *Bad debt provisions.* Oil and gas companies are entitled, but not obliged, to form bad debt provisions in connection with sale of goods, performance of work and rendering of services. If the relevant debt is overdue for more than 45 days, the profit tax deductibility is available for 50% of the relevant debt, and if the relevant debt is overdue for more than 90 days, deductibility is available for 100% of the debt amount. However, the deductibility is limited to 10% of sales income of the relevant quarter/year. Unutilised provisions can be carried forward to the next quarter/year. If the amount of newly created provisions exceeds the remainder of provisions for the previous quarter/year, the difference is regarded as taxable income. Bad debt provisions can be used only to cover losses from uncollectible debts. For profit tax purposes, uncollectible debts include (i) debts where the statute of limitations (which is, under Russian law, three years) has expired, (ii) debts that are deemed to be terminated in accordance with Russian law (due to inability of enforcement, on the basis of decision of a state body, or due to liquidation of the debtor). Uncollectible debts that are not covered by bad debt provisions are deemed to be deductible losses. TNK-BP takes a conservative approach by not utilising its right to form bad debt provisions and deducting the debts only when they become uncollectible.
- *Currency exchange profits and losses.* Receivables/liabilities payable in foreign currency are re-evaluated at the end of each month/quarter and on their fulfillment/repayment date. The relevant re-evaluation profits and losses are included into profit tax base.
- *Taxes.* Employment-related taxes and obligatory contributions and property related taxes are deductible from the taxpayers’ taxable profits.
- *Loss carry-forward.* Loss carry-forward is available over the next ten years without any limitations, unless special carry forward rules apply. No loss carry-back is possible.
- *Taxation of dividends.* Dividends received by Russian corporate shareholders are subject to a profit tax at a rate of 9% or 0%. The 0% tax applies if the relevant shareholding (i) is at least 50% and entitles the shareholder to at least 50% of the amount of distributed dividends, (ii) was acquired at the original value of more than RUB 500 million, (iii) has been held for at least 365 calendar days, and (iv) is held in a company that is not registered in certain jurisdictions that are black-listed by the Russian Ministry of Finance. If a Russian company re-distributes dividends received from its subsidiaries to a Russian corporate or individual shareholder, the underlying tax on dividends received from the subsidiaries effectively reduces the tax to be withheld with respect to dividends distributed to the Russian shareholders.
- *Taxation of capital gains.* Capital gains are subject to the regular profit tax a rate of 20%.

Value Added Tax

VAT is a federal tax payable to the federal budget following each quarter in three even monthly instalments. VAT applies to Russian and foreign companies performing, on the territory of the Russian Federation, sales of goods, works/services and transfer of property rights or importation of goods.

Under the Russian place of supply rules, works/services are generally deemed to be performed in Russia if the relevant supplier is a Russian company or a foreign company acting through a permanent establishment in Russia. Deviating from this general principle, certain services (such as consulting, engineering, advertising, marketing, research and development, secondment of personnel and provision of exclusive and non-exclusive rights to patents, licences and trademarks) are, however, deemed to be supplied at the purchaser's place of business. This special rule entails, in particular, that the relevant services are subject to Russian VAT if they are rendered by a foreign company to a Russian company or to a foreign company that is registered with Russian tax authorities. In this case, the Russian VAT due by the foreign services provider is paid through the Russian-based purchaser by way of reverse-charge mechanism (i.e., when paying remuneration to the foreign services provider, the Russian-based purchaser is obliged to withhold the VAT amount and to remit it to the tax authorities, and, afterwards, it is entitled to claim input VAT offset in accordance with usual procedure and conditions (see below).

The standard VAT rate is 18%. A reduced rate of 10% applies to certain types of food-stuffs, children's goods and medical goods. A 0% VAT rate applies to the export of goods (including oil and gas) from Russia.

VAT exemptions are established for certain types of transactions and business activities, e.g. sale of land plots, sale of shares, banking activities, provision of monetary loans, assignment/licence of patent rights, rights to know-how and certain other types of intellectual property other than trademarks. The VAT exemption implies, however, that no input VAT offset is available.

Further, VAT exemption is provided for the import of technological equipment and their accessories and spare parts whose equivalents are not produced in Russia (as per a list adopted by the Russian Government).

Offset is allowed for input VAT incurred for raw materials, equipment, and goods and services purchased for use in activities that are subject to VAT (including export that is subject to a 0% VAT), subject to certain conditions and documentary requirements as well as to a tax audit with respect to VAT returns in which input VAT reimbursements are claimed (i.e., reimbursement of input VAT amounts in excess of output VAT amounts).

Employment-related Taxes and other Obligatory Payments

The employer is subject to the following taxes and charges, assessed on employment expenses, including salary payments, bonuses and other employee benefits:

- ***State Pension Fund Contributions:*** at a regressive rate schedule from 14% to a fixed amount of RUB 56,800;
- ***Unified Social Tax:*** at a regressive rate schedule ranging from 26% to 2%; State Pension Fund contributions are credited against the unified social tax liability;
- ***Obligatory contributions for insurance for work-related injuries and diseases:*** at rates ranging from 0.2% to 8.5% depending on the type of activity carried out by the employer.

As of 2010, Unified Social Tax is replaced with *social contributions* payable to the Pension Fund, the Social Insurance Fund, the Federal Fund for Mandatory Medical Insurance and Territorial Funds for Mandatory Medical Insurance. Unlike Unified Social Tax, social contributions will be levied at fixed rates and will apply to the individual's annual earnings only up to a specific cap amount equalling RUB 415,000, subject to annual indexing. In 2010, the rates of social contributions will amount to 26%. Beginning in 2011, these rates will go up to 34%.

Apart from payment of the listed charges, the employer is obliged to withhold *individual income tax* while paying salaries and other benefits to its employees. Individual income tax applies at a rate of 13% for Russian tax residents (individuals who spend at least 183 days in Russia within 12 consecutive months) or at a rate of 30% for non-residents.

Property-related taxes

A company's property is subject to:

- ***Land tax*** that applies to owners of land at rates established by municipal authorities according to rate limits set by the Tax Code, which vary from 1.5% (maximum rate) on the cadastre value of a land plot to 0.3% (maximum rate) on the cadastre value of agricultural land or land plots under residential housing. The Tax Code does not grant any exemptions for subsoil plots, but permits municipal authorities to establish tax incentives for certain categories of taxpayers.

- **Property tax** that is currently levied at the rate of up to 2.2% of the average annual book value of fixed assets (except for land) per year. The property tax rate is established by regional legislative bodies. The Tax Code does not grant any exemptions for the oil and gas industry, but permits regional legislative bodies to establish tax incentives for certain categories of taxpayers.
- **Motor vehicle tax** that is payable by persons in whose name the taxable means of transportation are registered at the tax rates established for each particular type of transportation. Regional legislative bodies are permitted to establish tax incentives for certain categories of taxpayers.

System of Payments for the Use of Subsoil

Beginning 1 January 2002, the previously existing system of payments for the use of subsoil was modified by merging royalties, excise taxes and mineral restoration payments into a single tax called the mineral extraction tax (the “**MET**”). Further, based on amendments to the Subsoil Law, the following types of payment obligations were established:

- **One-time payments** that are due upon the occurrence of events specified and in the amounts indicated in the subsoil licence. A minimal (initial) one-time payment may not be less than 10% of the MET for the average annual projected production capacity.
- **Fees** for geological information on subsoil resources, the amounts of which are established by the Russian Government and for participation in a tender or auction and for issuance of a subsoil licence.
- **Regular payments**, such as payments for the right to conduct prospecting/appraising and exploration work, that are imposed for the use of subsoil not connected with the extraction of natural resources in an amount that depends on the specific features of the subsoil plot.

With respect to hydrocarbons, regular payments may be established by the Federal Agency for Subsoil Use within the limits determined by the Subsoil Law.

Natural Resources Production Tax

Federal Law No. 126-FZ of 8 August 2001, which amended the Tax Code and became effective on 1 January 2002 (the “**Natural Resources Production Tax Law**”), amended the previously existing regime of mineral resource restoration payments, royalties and excise taxes on the production of crude oil and gas condensate and replaced all such taxes with the unified MET, a tax on the extraction of commercial minerals.

Since 2002, the MET on crude oil (dewatered, desalinated and stabilised oil) has been assessed on the extracted quantity of crude oil at a fixed rate that has been linked to the average world prices for Urals blend oil and the average U.S.\$/rouble exchange rate during the relevant calendar month (the tax period for MET purposes).

The fixed tax rate was initially introduced as a temporary measure to be in place until December 2004 in order to make the budget collections from MET independent of various transfer pricing practices employed in the oil business and discrepancies between world and domestic prices; and the switch to *ad valorem* taxation at a rate of 16.5% on the extracted value of crude oil was planned for 1 January 2005. The switch was, however, first delayed until 1 January 2007 and then abolished and has never been enacted, possibly because enforceable transfer pricing control rules are still to be enacted, and is not expected anymore.

Initially (starting in 2002), the MET rate per ton of crude oil was RUB 340, multiplied by a ratio reflecting the average U.S.\$/barrel world price for Urals blend oil and the average U.S.\$/rouble exchange rate. The MET rate calculation formula included a cut-off rate (price allowance) of U.S.\$8/barrel implying that no MET was due once the world price for Urals blend oil dropped to U.S.\$8/barrel or below. Apparently, the cut-off rate of U.S.\$8/barrel was meant to recover average production and operating costs of oil producers.

The base rate was increased to RUB 349 per ton of crude oil as of 1 January 2004 and to RUB 419 per ton of crude oil as of 1 January 2005. The cut-off rate was increased from U.S.\$8/barrel to U.S.\$9/barrel as of 1 January 2005 and to U.S.\$15/barrel as of 1 January 2009.

Furthermore, in 2007 the MET formula was changed to reflect the depletion of deposits and to lower the MET burden with respect to highly depleted deposits (those that are depleted by more than 80%).

MET exemptions are granted to encourage oil production from long-distance and hard-to-reach deposits. TNK-BP was granted MET exemptions in 2006 and these exemptions were further extended in 2008. Currently, these exemptions apply, under certain conditions, to production of:

- (i) the first 25 million tonnes from deposits in the Yakut Republic, the Irkutsk Region, and the Krasnoyarsk Region;
- (ii) the first 35 million tonnes in the north of the Arctic Circle, from deposits that are fully or partially located within the inland sea limit and the 12-mile territorial sea on the continental shelf of the Russian Federation;
- (iii) the first 10 million tonnes from deposits that are fully or partially located in the Azov and Caspian Seas;
- (iv) the first 15 million tonnes from deposits in the Nenets Autonomous District and the Yamal Peninsula in the Yamal-Nenets Autonomous District; and
- (v) super-high viscosity oil.

Currently, the Russian Parliament is in the process of introduction of the new exemption for deposits in the Black Sea and the Sea of Okhotsk.

Oil-Related Export Duties

An export duty on crude oil was established by the Russian Government as of 1 January 1992 in the amount of ECU 26 per ton. Subsequently, in 1996, the Russian Government abolished it in order to liberalise foreign trade and comply with WTO standards. However, in 1999, the Russian Government again introduced the export duty in the amount of Euro 2.5 per ton. Later, in August and December 2001, May 2004 and July 2006, the Law No. 5003-1 of 21 May 1993 “On Customs Tariff” (the “Customs Tariff Law”) was amended to establish the current procedure for determination of the export duty for crude oil.

According to the current procedure the export duty is set by the Russian Government based on the average world price of Urals blend oil during the last “monitoring period” and is in effect during the next “monitoring period.” The “monitoring period” was initially every two calendar months beginning on 1 November 2001. Beginning in December 2008, the “monitoring period” was shortened to one calendar month.

The export duty formula includes a cut-off rate of U.S.\$15/barrel and progressive rates, as follows:

U.S.\$/metric tonne ⁽¹⁾		U.S.\$/barrel ⁽²⁾	
Average world price (“P”)	Export duty rate (U.S.\$)	Average world price (“P”)	Export duty rate (U.S.\$)
0 to U.S.\$109.5	0%	0 to U.S.\$15	0%
U.S.\$109.5 to U.S.\$ 146	35% x (P – 109.5)	U.S.\$15 to U.S.\$20	35% x (P – 15)
U.S.\$146 to U.S.\$182.5	12.78 + 45% x (P – 146)	U.S.\$20 to U.S.\$25	1.75 + 45% x (P – 20)
Over U.S.\$182.5	29.2 + 65% x (P – 182.5)	Over U.S.\$25	4.00 + 65% x (P – 25)

Note:

(1) As provided by the Law on Customs Tariff.

(2) As converted according to the ratio of 1 metric ton equal to 7.3 barrels.

As of December 2009, the export duty on crude oil is U.S.\$271 per metric ton (U.S.\$37.1 per barrel). However, no export customs duty applies to crude oil produced from 13 specific oil fields in the Russian Federation, each with a density at 20 degrees Centigrade of no less than 694.7 kilograms per square meter and no more than 872.4 kilograms per square meter, and with a sulfur content of no less than 0.1% of mass and no more than 1% of mass.

Export duty for refined oil products was introduced by the Russian Government in 1999. As of 2006, the export duties for oil products have been determined under principles established by the Customs Tariff Law that are similar to those established for export duty on crude oil. For certain types of refined oil products, the export duty rates are calculated in accordance with formulae established by the Russian Government.

In December 2009, the following export duty rates apply to oil products:

Oil product	(U.S.\$/metric tonne)
Light distillates; middle distillates; gas oils.....	194.9
Liquid fuel; oils; worked-out oil products.....	105
Propane, butane, ethylene, propylene, butylene and butadiene; other liquefied gases.....	105
Oil vaseline; mineral waxes and similar products, except for raw and others	105
Oil coke, oil bitumen and other remains of oil refining derived from bituminous grounds, except for calcified oil coke	105
Benzole; toluene; xyloles	194.9

Current Excise Tax on Petroleum Products

As of 1 January 2010, the excise tax is applicable to production of gasoline, diesel fuel and motor oil at the following rates:

Type of goods	2009	2010	2011
	(RUB / metric tonne)		
Gasoline with octane not exceeding "80"	2,657	2,923	3,773-4,624
Gasoline with octane exceeding "80".....	3,629	3,992	3,773-4,624
Straight-run gasoline	3,900	4,290	4,719 1,067-
Diesel fuel	1,080	1,188	1,573
Motor oil	2,951	3,246	3,570

In accordance with recent amendments to the Tax Code, excise rates for gasoline and diesel fuel have been increased for 2010 and the rates for straight-run gasoline will be gradually increased in 2010-2012. In 2011 and 2012, different excise rates will be introduced for different types of gasoline and diesel fuel (lower excise rates for higher grades of fuel).

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in the amended and restated dealer agreement dated 20 January 2010 (the “**Dealer Agreement**”) between the Issuer, the Guarantor, the Permanent Dealers and the Arrangers, the Notes will be offered from time to time by the Issuer to the Permanent Dealers or such other Dealers as may be appointed from time to time in respect of any Series of Notes pursuant to the Dealer Agreement. Any agreement for the sale of Notes will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Dealer Agreement also provides for Notes to be issued in syndicated Series that may be jointly and severally underwritten by two or more Dealers.

Each of the Issuer and the Guarantor has agreed to indemnify the Dealers against certain losses, as set out in the Dealer Agreement. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for the Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

United States

The Notes and the Guarantee have not been and will not be registered under the Securities Act, the securities laws of any State or other jurisdiction of the United States, and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this section have the meanings given to them by Regulation S under the Securities Act.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer or sell the Notes (i) as part of their distribution at any time or and (ii) otherwise until 40 days after completion of the distribution compliance period within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Notes offered and sold outside the United States may be sold in reliance on Regulation S. The Dealer Agreement provides that the Dealer(s) may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to persons whom they reasonably believe are QIBs who can represent that (a) they are QIBs within the meaning of Rule 144A, and (b) they are acting for their own account, or the account of one or more QIBs.

This Base Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States and the resale of the Notes in the United States and for the listing of Notes on the Luxembourg Stock Exchange. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States or to any U.S. person other than any QIB and to whom an offer has been made directly by one of the Dealers or its U.S. broker-dealer affiliate. Distribution of this Base Prospectus by any non-U.S. person outside the United States or by any QIB within the United States to any U.S. person or to any other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other

than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB, is prohibited.

United Kingdom

Each Dealer has represented, warranted and agreed that:

- (i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

Russian Federation

Each Dealer has agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the “**Securities and Exchange Law**”). Accordingly, each of the Dealers has represented and agreed that it has not, directly or indirectly, offered or sold and shall not, directly or indirectly, offer or sell any Notes in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan. As used in this paragraph, “resident of Japan” means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

General

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

No action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Base Prospectus or any other offering material or any set of Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it will, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Base Prospectus, any other offering material or any set of Final Terms and neither the Issuer, the Guarantor, nor any other Dealer shall have responsibility therefor.

TAXATION

United States Federal Income Taxation

The following is a summary of the principal U.S. federal income tax consequences of the acquisition, ownership, disposition and retirement of Notes by a holder thereof. This summary does not address the U.S. federal income tax consequences of every type of Note which may be issued under the Programme, and the relevant Final Terms will contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Note as appropriate. This summary only applies to Notes held as capital assets and does not address, except as set forth below, aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, tax-exempt organisations, dealers or traders in securities or currencies, or to holders that will hold a Note as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes or that have a functional currency other than the U.S. dollar. Moreover, this summary does not address the U.S. federal estate and gift tax or alternative minimum tax consequences of the acquisition, ownership or retirement of Notes and does not address the U.S. federal income tax treatment of holders that do not acquire Notes as part of the initial distribution at their initial issue price.

This summary is based on the Internal Revenue Code of 1986, as amended, existing and proposed Treasury Regulations, administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing are subject to change, possibly with retroactive effect, or differing interpretations which could affect the tax consequences described herein. Any special U.S. federal income tax considerations relevant to a particular issue of the Notes will be provided in the relevant Final Terms.

For purposes of this description, a U.S. Holder is a beneficial owner of the Notes who for U.S. federal income tax purposes is (i) a citizen or resident of the United States; (ii) a corporation (or entity treated as a corporation for U.S. federal income tax purposes) created or organised in or under the laws of the United States or any State thereof, including the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust (1) that validly elects to be treated as a United States person for U.S. federal income tax purposes or (2)(a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor as to its consequences.

A Non-U.S. Holder is a beneficial owner of the Notes other than a U.S. Holder or a partnership (or an entity treated as a partnership for U.S. federal income tax purposes).

You should consult your own tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning or disposing of Notes.

Internal Revenue Service Circular 230 Disclosure

Pursuant to Internal Revenue Service Circular 230, investors are hereby informed that the description set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any investor for the purpose of avoiding any penalties that may be imposed on the taxpayer under the U.S. Internal Revenue Code. Such description was written to support the promotion or marketing of the Notes. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

U.S. Holders

Interest

Except as set forth below, interest paid on a Note, whether payable in U.S. Dollars or a currency, composite currency or basket of currencies other than U.S. Dollars (a “**foreign currency**”), including any additional amounts, will be includible in a U.S. Holder’s gross income as ordinary interest income in accordance with the U.S. Holder’s usual method of tax accounting. In addition, interest on the Notes will generally be treated as foreign source income for U.S. federal income tax purposes. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific “baskets” of income. For this purpose, the interest on the Notes should generally

constitute “passive category income”, or in the case of certain U.S. Holders, “general category income”.

Foreign Currency Denominated Interest

Any interest paid in a foreign currency will be included in the gross income of a U.S. Holder in an amount equal to the U.S. dollar value of the foreign currency, including the amount of any applicable withholding tax thereon, regardless of whether the foreign currency is converted into U.S. dollars. Generally, a U.S. Holder that uses the cash method of tax accounting will determine such U.S. dollar value using the spot rate of exchange on the date of receipt. Generally, a U.S. Holder that uses the accrual method of tax accounting will determine the U.S. dollar value of accrued interest income using the average rate of exchange for the accrual period or, at the U.S. Holder’s election, at the spot rate of exchange on the last day of the accrual period or the spot rate on the date of receipt, if that date is within five days of the last day of the accrual period. A U.S. Holder that uses the accrual method of accounting for tax purposes will recognise foreign currency gain or loss on the receipt of an interest payment if the exchange rate in effect on the date of payment is received differs from the rate applicable to an accrual of that interest.

Additional rules for Notes that are denominated in more than one currency or that have one or more non-currency contingencies and are denominated in either one foreign currency or more than one currency are described below under “Dual Currency Notes.”

Original Issue Discount

U.S. Holders of Notes issued with original issue discount (“OID”) will be subject to special tax accounting rules, as described in greater detail below. U.S. Holders of Notes issued with OID (including cash basis taxpayers) should be aware that, as described in greater detail below, they generally must include OID in income for United States federal income tax purposes as it accrues, in advance of the receipt of cash attributable to that income. However, U.S. Holders of such notes generally will not be required to include separately in income cash payments received on the notes, even if denominated as interest, to the extent such payments do not constitute qualified stated interest (as defined below). Notes issued with OID will be referred to as “Original Issue Discount Notes”. Notice will be given in the relevant Final Terms when the Issuer determines that a particular note will be an Original Issue Discount Note.

The following discussion does not address the U.S. federal income tax consequences of an investment in contingent payment debt instruments. In the event the Issuer issues contingent payment debt instruments the relevant Final Terms will describe the material U.S. federal income tax consequences thereof.

Additional rules applicable to Original Discount Notes that are denominated in or determined by reference to a currency other than the U.S. dollar are described under “*Foreign Currency Discount Notes*” below.

For U.S. federal income tax purposes, a Note (including a Zero Coupon Note), other than a Note with a term of one year or less (a “**short-term Note**”), will be treated as issued at an original issue discount (a “**Discount Note**”) if the excess of the Note’s “stated redemption price at maturity” over its issue price equals or exceeds a de minimis amount (0.25% of the Note’s stated redemption price at maturity multiplied by the number of complete years to its maturity (or, in the case of a note that provides for payments other than qualified stated interest before maturity, its weighted average maturity)). The “issue price” of each Note in a particular offering will be the first price at which a substantial amount of that particular offering is sold (other than to an underwriter, broker, agent or wholesaler). The term “qualified stated interest” means stated interest that is unconditionally payable in cash or in property (other than debt instruments of the issuer) at least annually at a single fixed rate or, subject to certain conditions, based on one or more interest indices. Interest is payable at a single fixed rate only if the rate appropriately takes into account the length of the interval between payments. Notice will be given in the relevant Final Terms when we determine that a particular note will bear interest that is not qualified stated interest.

In the case of a Note issued with de minimis OID, the U.S. Holder generally must include such de minimis OID in income as stated principal payments on the Notes are made in proportion to the stated principal amount of the Note. Any amount of de minimis OID that has been included in income will be treated as capital gain.

Certain of the Notes may be redeemed prior to their maturity at our option and/ or at the option of the holder. Discount Notes containing such features may be subject to rules that differ from the

general rules discussed herein. Persons considering the purchase of Discount Notes with such features should carefully examine the relevant Final Terms and should consult their own tax advisors with respect to such features since the tax consequences with respect to OID will depend, in part, on the particular terms and features of the notes.

U.S. Holders of Discount Notes must, in general, include OID in income in advance of the receipt of some or all of the related cash payments. The amount of OID includible in income by the initial U.S. Holder of a Discount Note is the sum of the “daily portions” of OID with respect to the Note for each day during the taxable year or portion of the taxable year in which such U.S. Holder held such Note (“**accrued OID**”). The daily portion is determined by allocating to each day in any “accrual period” a *pro rata* portion of the OID allocable to that accrual period. The “accrual period” for an Original Issue Discount Note may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the excess, if any, of (a) the product of the Note’s adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of any qualified stated interest allocable to the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The “adjusted issue price” of a Note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period (determined without regard to the amortisation of any acquisition or bond premium, as described below) and reduced by any payments made on such Note (other than qualified stated interest) on or before the first day of the accrual period. Under these rules, a U.S. Holder will have to include in income increasingly greater amounts of OID in successive accrual periods.

In the case of a Discount Note that is a Floating Rate Note, both the “yield to maturity” and “qualified stated interest” will be determined solely for purposes of calculating the accrual of OID as though the Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the Note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield to maturity that is reasonably expected for the Note. Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index or if the principal amount of the Note is indexed in any manner. Persons considering the purchase of Floating Rate Notes should carefully examine the relevant Final Terms and should consult their own tax advisors regarding the U.S. federal income tax consequences of the holding and disposition of such Notes.

U.S. Holders may elect to treat all interest on any Note as OID and calculate the amount includible in gross income under the constant yield method described above. For the purposes of this election, interest includes stated interest, acquisition discount, OID, de minimis OID, market discount, de minimis market discount and unstated interest, as adjusted by any amortisable bond premium or acquisition premium. U.S. Holders should consult their own tax advisors about this election.

Short-Term Notes

In the case of short-term Notes, all payments (including all stated interest) will be included in the stated redemption price at maturity and, thus, U.S. Holders generally will be taxable on the discount in lieu of stated interest. The discount will be equal to the excess of the stated redemption price at maturity over the issue price of a short-term Note, unless the U.S. Holder elects to compute this discount using tax basis instead of issue price. In general, individuals and certain other cash method U.S. Holders of a short-term Note are not required to include accrued discount in their income currently unless they elect to do so (but may be required to include any stated interest in income as it is received). U.S. Holders that report income for United States federal income tax purposes on the accrual method and certain other U.S. Holders are required to accrue discount on such short-term Notes (as ordinary income) on a straight-line basis, unless an election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a U.S. Holder that is not required, and does not elect, to include discount in income currently, any gain realised on the sale, exchange or retirement of the short-term Note will generally be ordinary income to the extent of the discount accrued through the date of sale, exchange or retirement. In addition, a U.S. Holder that does not elect to include currently accrued discount in income may be required to defer

deductions for a portion of the U.S. Holder's interest expense with respect to any indebtedness incurred or continued to purchase or carry such Notes.

Foreign Currency Discount Notes

OID for any accrual period on a Discount Note that is denominated in, or determined by reference to, a foreign currency will be determined for any accrual period in the foreign currency and then translated into U.S. Dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described under “—*Foreign Currency Denominated Interest*.” Upon receipt of an amount attributable to OID (whether in connection with a payment of interest or the sale or retirement of a Note), a U.S. Holder will recognise foreign currency gain or loss in an amount determined in the same manner as interest income received by a holder on the accrual basis, as described above in “—*Foreign Currency Denominated Interest*.”

Notes Purchased at a Premium

A U.S. Holder that purchases a Note for an amount in excess of the sum of all amounts payable on the Note after the purchase date other than qualified stated interest will be considered to have purchased the Note at a “premium”. A U.S. Holder generally may elect to amortise the premium over the remaining term of the Note on a constant yield method as an offset to interest when includable in income under the U.S. Holder's regular accounting method. In the case of a Note that is denominated in, or determined by reference to, a foreign currency, bond premium will be computed in units of foreign currency, and amortisable bond premium will reduce interest income in units of the foreign currency. At the time amortised bond premium offsets interest income, exchange gain or loss (taxable as ordinary income or loss) is realised measured by the difference between exchange rates at that time and at the time of the acquisition of the Notes. Any election to amortise bond premium shall apply to all bonds (other than bonds the interest on which is excludable from gross income) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. Special rules limit the amortisation of premium in the case of convertible debt. Bond premium on a Note held by a U.S. Holder that does not make such an election will decrease the gain or increase the loss otherwise recognised on disposition of the Note.

Further Issues

The Issuer may, without the consent of the Holders of outstanding Notes, issue additional Notes with identical terms. These additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional Notes may be considered to have been issued with OID even if the original Notes had no OID, or the additional Notes may have a greater amount of OID than the original Notes. These differences may affect the market value of the original Notes if the additional Notes are not otherwise distinguishable from the original Notes.

Sale, Exchange or Retirement

A U.S. Holder's tax basis in a Note generally will be its U.S. dollar cost (as defined herein) increased by the amount of any OID included in the U.S. Holder's income with respect to the Note and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortisable bond premium applied to reduce interest on the Note. The U.S. dollar cost of a Note purchased with a foreign currency generally will be the U.S. dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

A U.S. Holder generally will recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement (less any accrued but unpaid interest, which will be taxable as such) and the tax basis of the Note. The amount realised on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of such amount on the date of sale or retirement or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Gain or loss recognised on the sale or retirement of a Note (other than gain or loss that is attributable to OID, or to changes in exchange rates, which will be treated as ordinary income or loss) will be capital gain or loss and will be long-term capital gain or loss if the Note was held for more than one year.

Gain or loss recognised by a U.S. Holder on the sale or retirement of a Note that is attributable to changes in exchange rates will be treated as ordinary income or loss. However, exchange gain or loss is taken into account only to the extent of total gain or loss realised on the transaction. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source income or loss. Prospective investors should consult their tax advisers as to the foreign tax credit implications of such sale or retirement of Notes.

Sale or Exchange of Foreign Currency

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. dollar value at the time such interest is received or at the time of such sale or retirement. Foreign currency that is purchased generally will have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. Dollars) will be ordinary income or loss.

Dual Currency Notes

U.S. Holders of Notes that are denominated in more than one currency or that have one or more non-currency contingencies and are denominated in either one foreign currency or more than one currency will be subject to special tax accounting rules applicable to "Multi-Currency Debt Securities." A Holder generally would be required to apply the "noncontingent bond method" in the Multi-Currency Debt Security's denomination currency, which for this purpose would be the Multi-Currency Debt Security's predominant currency as determined by the Issuer. A description of the principal U.S. federal income tax consideration relevant to holders of Dual Currency Notes, including specification of the predominant currency, will be set forth, if required, in the relevant Final Terms.

Index Notes and Notes with Contingent Payments

The tax consequences to a holder of an Index Linked Redemption Note, Index Linked Interest Note or a Note with contingent payments will depend on factors including the specific index or indices used to determine payments on such Note and the amount and time of any noncontingent payments on such Note. A description of the principal U.S. federal income tax considerations relevant to holders of such Note will be set forth, if required, in the relevant Final Terms.

Other Notes

A description of the principal U.S. federal income tax considerations relevant to U.S. Holders of high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, partly paid Notes and any other type of Note that the Issuer, the Trustee and any Dealer or Dealers may agree to issue under the Programme will be set forth, if required, in the relevant Final Terms.

Reportable Transaction Reporting

Under certain U.S. Treasury Regulations, U.S. Holders that participate in "reportable transactions" (as defined in the regulations) must attach to their U.S. federal income tax returns a disclosure statement on Form 8886. U.S. Holders should consult their own tax advisors as to the possible obligation to file Form 8886 with respect to the ownership or disposition of the Notes, or any related transaction, including without limitation, the disposition of any non-U.S. currency received as interest or as proceeds from the sale or other disposition of the Notes.

Non-U.S. Holders

Under U.S. federal income tax law currently in effect, subject to the discussion below under the caption "U.S. Backup Withholding Tax and Information Reporting," payments of interest (including OID) on a Note to a Non-U.S. Holder generally will not be subject to U.S. federal income tax unless the income is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States.

Subject to the discussion below under the caption "U.S. Backup Withholding Tax and Information Reporting," any gain realised by a Non-U.S. Holder upon the sale, exchange or retirement of a Note generally will not be subject to U.S. federal income tax, unless (i) the gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States or (ii) in the case of any gain realised by an individual Non-U.S. Holder, such Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met.

U.S. Backup Withholding Tax and Information Reporting

A backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, an obligation and to proceeds of the sale or redemption of an obligation, to certain noncorporate holders of Notes that are United States persons. Information reporting generally will apply to payments of principal of, and interest on, an obligation, and to proceeds from the sale or redemption of, an obligation made within the U.S. to a holder (other than an exempt recipient, including a corporation, a payee that is not a U.S. person that provides an appropriate certification and certain other persons). The payor will be required to withhold backup withholding tax on payments made within the United States on a Note to a holder of a Note that is a United States person, other than an exempt recipient, such as a corporation, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments within the United States of principal and interest to a holder of a Note that is not a United States person will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect. The backup withholding tax rate is 28% through 2010.

The above summary is not intended to constitute a complete analysis of all tax consequences relating to the ownership of Notes. Prospective purchasers of Notes should consult their own tax advisors concerning the tax consequences of their particular situations.

British Virgin Islands Taxation

The following is a general description of certain British Virgin Islands tax considerations relating to any Notes. It does not purport to be a complete analysis of all tax considerations relating to any Notes. Prospective purchasers of any Note should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the British Virgin Islands of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under any Notes. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

As TNK International is registered under the BVI Business Companies Act, 2004 of the British Virgin Islands, no withholding tax will be required to be deducted by TNK-BP International on any payments made to any holder of a Note under the Guarantee provided such Note holder is not an individual resident in an EU Member State. Furthermore, so long as payments are made by the Principal Paying Agent, the Luxembourg Paying Agent or a substitute for either of them Harney Westwood & Riegels, British Virgin Islands counsel to the Guarantor and the Issuer, further consider that no British Virgin Islands withholding or deduction for or on account of British Virgin Islands taxation will be required in respect of a payment in respect of the Notes even if to an EU resident individual. (Please see below for a summary of the current status of the applicability in the British Virgin Islands of the European Union Directive on the Taxation of Savings Income).

In addition, the Notes will not be subject to any stamp duty in the British Virgin Islands. Gains derived from the sale or exchange of Notes by persons who are not otherwise liable to British Virgin Islands income tax will not be subject to British Virgin Islands income tax. The British Virgin Islands currently has no relevant capital gains tax, estate duty, inheritance tax or gift tax.

Holders of Notes who are not resident in the British Virgin Islands, and who do not engage in trade or business through a permanent establishment in the British Virgin Islands, will not be subject to the British Virgin Islands taxes or duties on gains realised on the sale or redemption of such Notes. No holder of a Note will be deemed to be resident or domiciled in the British Virgin Islands simply by virtue of holding a Note.

Luxembourg Taxation

The statements herein regarding taxation in Luxembourg are based on the laws in force in the Grand Duchy of Luxembourg as of the date of this Base Prospectus and are subject to any changes in law. The following summary does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of the Notes. Each prospective holder or beneficial owner of Notes should consult its tax advisor as to the Luxembourg tax consequences of the ownership and disposition of the Notes.

Luxembourg Tax Residency of the Noteholders

A Noteholder will not become resident, or be deemed to be resident, in Luxembourg by reason only of the holding of the Notes, or the execution, performance, delivery and/or enforcement of the Notes.

Withholding Tax

Under Luxembourg tax law currently in effect and with the possible exception of payments made to individual Noteholders and to certain so-called “residual entities”, there is no withholding tax on payments of interest (including accrued but unpaid interest). There is also no Luxembourg withholding tax, with the possible exception of payments made to individual Noteholders and to certain so-called “residual entities”, upon repayment of the principal or upon redemption reimbursement or exchange of the Notes.

Luxembourg Non Resident Individuals

Under the Luxembourg laws dated 21 June 2005 implementing the European Council Directive 2003/48/EC on the taxation of savings income (the “**EU Savings Tax Directive**”) and several agreements concluded between Luxembourg and certain dependent or associated territories of the European Union (“EU”), Luxembourg based paying agents (within the meaning of the EU Savings Tax Directive) are required since 1 July 2005 to withhold tax on certain payments of interest and other similar income paid by it to (or under certain circumstances, to the benefit of) an individual resident in another Member State or in certain EU dependent or associated territories, unless the beneficiary of the interest payments opts for the procedure of the exchange of information or for the tax certificate procedure. The same treatment will apply to payments of interest and other similar income made to certain so-called “residual entities” within the meaning of article 4.2 of the EU Savings Tax Directive (i.e. an entity without legal personality (the Finnish and Swedish companies listed in Article 4.5 of the EU Savings Tax Directive are not considered as legal persons for this purpose) and whose profits are not taxed under the general arrangements for the business taxation and that is not, or has not opted to be considered as, a UCITS recognised in accordance with Council Directive 85/61 I/EEC) established in a Member State or in certain EU dependent or associated territories. The withholding tax rate is currently 20% increasing to 35% as from 31 July 2011. The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain third countries.

Luxembourg Resident Individuals

As of 1 January 2006, interest payments made by Luxembourg paying agents (defined in the same way as in the EU Savings Tax Directive) to Luxembourg individual residents or to certain residual entities that secure interest payments on behalf of such individuals (unless such entities have opted either to be treated as UCITS recognised in accordance with the Council Directive 85/611/EC or for the exchange of information regime) are subject to a 10% withholding tax (the “**10% Luxembourg Withholding Tax**”).

Taxation of Luxembourg Non-Resident Noteholders

Noteholders who are non residents of Luxembourg and who do not hold the Notes through a permanent establishment, a permanent representative or a fixed base of business in Luxembourg with which the holding of the Notes is connected are not liable to pay any Luxembourg income tax, whether they receive repayments of principal, payments of interest (including accrued but unpaid interest), payments received upon the redemption of the Notes, or realise capital gains on the sale of any Notes.

Taxation of Luxembourg Resident Noteholders

Luxembourg Resident Individuals

Pursuant to the Luxembourg law of 23 December 2005 as amended by the law of 17 July 2008, Luxembourg resident individuals, acting in the course of their private wealth, can opt to self-declare and pay a 10% tax (the “**10% Tax**”) on interest payments made after 31 December 2007 by paying agents (defined in the same way as in the EU Savings Directive) located in a EU Member State other than Luxembourg, a Member State of the European Economic Area or in a State or territory which has concluded an international agreement directly related to the EU Savings Tax Directive. The 10% Luxembourg Withholding Tax (see above “*Withholding tax—Luxembourg resident individuals*”) or the 10% Tax, if applicable, represents the final tax liability for the Luxembourg individual resident taxpayers, receiving the payment in the course of their private wealth and can be reduced in consideration of foreign withholding tax, based on double tax treaties concluded by Luxembourg.

Individual Luxembourg resident Noteholders receiving the interest as business income must include interest income in their taxable basis. The 10% Luxembourg Withholding Tax levied will then be credited against their final income tax liability. They will not be liable for any Luxembourg taxation on income on repayment of principal of the Notes.

Luxembourg resident individual Noteholders are not subject to taxation on capital gains upon the disposal of the Notes, unless the disposal of the Notes precedes the acquisition of the Notes or the Notes are disposed of within six months of the date of acquisition of these Notes. Upon a sale exchange or a redemption of the Notes, accrued but unpaid interest will, however, be subject to the 10% Luxembourg Withholding Tax or to the 10% Tax if the Luxembourg resident individuals opt for the 10% Tax. Individual Luxembourg resident Noteholders receiving the interest as business income must include the portion of the sale or the redemption price corresponding to accrued but unpaid interest in their taxable income. The 10% Luxembourg Withholding Tax levied will be credited against their final income tax liability.

Luxembourg Fully Taxable Resident Companies

Luxembourg fully taxable resident companies (*sociétés de capitaux*), Noteholders or foreign entities of the same type which have a permanent establishment or a permanent representative in Luxembourg with which the holding of the Notes is connected, must include in their taxable income any interest (including accrued but unpaid interest) and in case of sale or redemption the difference between the sale or redemption price (including accrued but unpaid interest) and the lower of the cost or book value of the Notes sold or redeemed. They are not liable for any Luxembourg income tax on repayment of principal of the Notes.

Luxembourg Resident Companies Benefiting from a Special Tax Regime

Noteholders which are holding companies subject to the law of 31 July 1929 as amended and incorporated before 21 July 2006 or undertakings for collective investment subject to the law of 20 December 2002 or to the law of 13 February 2007 and family estate management companies subject to the law of 11 May 2007 are tax exempt entities in Luxembourg, and are thus not subject to any Luxembourg income tax (i.e., corporate income tax, municipal business tax and net wealth tax) on income received on the Notes or gains realised upon their transfer or redemption, other than the subscription tax calculated on their share capital or net asset value.

Net Wealth Tax

Luxembourg net wealth tax will not be levied on a Noteholder, unless (i) such Noteholder is a fully taxable Luxembourg resident company or (ii) the Notes are attributable to an enterprise or part thereof which is carried on in Luxembourg by a non resident company through a permanent establishment in Luxembourg of the Noteholders.

Other Taxes

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by Noteholders as a consequence of the issuance of the Notes, nor will any of these taxes be payable as a consequence of a subsequent transfer or redemption of the Notes.

There is no Luxembourg value added tax payable in respect of payments in consideration for the issuance of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of the Notes. Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer if, for Luxembourg value added tax purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg value added tax does not apply with respect to such services.

No Luxembourg estate or inheritance tax is levied on the transfer of the Notes upon death of a Noteholder in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes. No Luxembourg gift tax will be levied on the transfer of the Notes by way of gift unless the gift is registered in Luxembourg.

European Union Directive on the Taxation of Savings Income

On 3 June 2003, the EU Council of Economic and Finance Ministers adopted the EU Savings Tax Directive. Under the EU Savings Tax Directive, Member States are required to provide to the tax authorities of another EU Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction to or for the benefit of an individual or to certain entities resident or established in that other EU Member State; however, Austria and Luxembourg will

instead apply a withholding tax system for a transitional period in relation to such payments. Belgium applied a similar withholding tax system for a transitional period until 1 January 2010.

The British Virgin Islands is not a member of the European Union and not within the European Union fiscal territory, but the Government of the United Kingdom had requested the Government of the British Virgin Islands voluntarily to apply the provisions of the EU Savings Tax Directive. The Mutual Legal Assistance (Tax Matters) (Amendment) Act (the “*Act*”) introduced a withholding tax system in respect of payments of interest, or other similar income, made to an individual beneficial owner resident in an EU Member State by a paying agent situated in the British Virgin Islands. The withholding tax system will apply for a transitional period prior to the implementation of a system of automatic communication to EU Member States of information regarding such payments. During this transitional period, such an individual beneficial owner resident in an EU Member State will be entitled to request a paying agent not to withhold tax from such payments but instead to apply a system by which the details of such payments are communicated to the tax authorities of the EU Member State in which the beneficial owner is resident.

Under the *Act*, TNK-BP International would not be obliged to levy withholding tax in respect of interest payments made by it pursuant to the Guarantee to a paying agent situated outside the British Virgin Islands.

Investors should note that the European Commission has announced proposals to amend the EU Savings Tax Directive. If implemented, the proposed amendments would, *inter alia*, extend the scope of the EU Savings Tax Directive to (i) payments made through certain intermediate structures (whether or not established in a Member State) for the ultimate benefit of an EU resident individual, and (ii) a wider range of income similar to interest.

TRANSFER RESTRICTIONS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale or other transfer offered hereby.

Rule 144A Notes

Each purchaser of a beneficial interest in the Rule 144A Notes, by accepting delivery of this Base Prospectus and the Notes will be deemed to have represented, agreed and acknowledged that:

- (1) It is (a) a QIB, (b) acquiring such Notes for its own account, or for the account of one or more QIBs, and (c) aware, and each beneficial owner of such Notes has been advised, that the seller of such Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.
- (2) It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs, (b) to a non-U.S. person within the meaning of Regulation S in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), and, in each case in accordance with any applicable securities laws of any state of the United States.
- (3) It understands that the Rule 144A Global Note and any Definitive Notes issued in respect thereof, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE GUARANTEE IN RESPECT HEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT ("REGULATION S") IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), AND, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID AB INITIO, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFeree, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

- (4) It acknowledges that the Issuer, the Guarantor, the Dealers and their affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, the Guarantor and the Dealers. If it is acquiring any Notes as

a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

(5) It understands that Rule 144A Notes of a Series will be evidenced by a Rule 144A Global Note. Before any interest in a Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of a beneficial interest in the Regulation S Notes outside the United States, by accepting delivery of this Base Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, the Guarantor or a person acting on behalf of such an affiliate.
- (2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (3) It understands that Regulation S Notes of a Series will be evidenced by a Regulation S Global Note. Before any interest in a Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
- (4) It acknowledges that the Issuer, the Guarantor, the Registrar, the Dealer(s) and their affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer, the Guarantor or the Dealer(s). If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

GENERAL INFORMATION

- (1) The Guarantor and the Issuer have obtained or will obtain all necessary consents, approvals and authorisations in the British Virgin Islands and Luxembourg in connection with the Guarantee and any Series of Notes. The amendment and restatement of the Trust Deed, the Dealer Agreement and the Agency Agreement and the annual update of the Base Prospectus were authorised by the Board of Directors of the Issuer on 14 January 2010. The giving of the Guarantee was authorised by the Board of Directors of the Guarantor on 9 August 2005 and the sole shareholder of the Guarantor on 9 August 2005. The amendment and restatement of the Trust Deed, the Dealer Agreement and the Agency Agreement and the annual update of the Base Prospectus were authorised by the Board of Directors of the Guarantor on 12 January 2010 and the sole shareholder of the Guarantor on 12 January 2010.
- (2) Except as disclosed in this Base Prospectus, there has been (i) no significant change in the financial or trading position of the Guarantor since 30 September 2009 and (ii) no material adverse change in the prospects of the Guarantor since 31 December 2008.
- (3) Except as disclosed in this Base Prospectus, there has been (i) no significant change in the financial or trading position of the Issuer since 31 December 2008 and (ii) no material adverse change in the prospects of the Issuer since 31 December 2008.
- (4) Except as disclosed in this Base Prospectus (see in particular pages 122 to 124), neither the Issuer nor the Guarantor is involved or has been involved during the previous 12 months in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of the issue of the Notes nor, so far as the Issuer and the Guarantor are aware, is any such litigation or arbitration pending or threatened.
- (5) ZAO PricewaterhouseCoopers Audit has audited, and rendered an unqualified audit report on the consolidated financial statements of the Guarantor as of and for the years ended 31 December 2008, 2007 and 2006, which report was dated 17 April 2009, except for the effects of the change in accounting as it relates to the reclassification of non controlling interest to equity discussed in Note 2 and for the subsequent events discussed in Note 23 to TNK-BP's Audited U.S. GAAP Financial Statements, as to which the date is 8 December 2009. PricewaterhouseCoopers S.á.r.l. has audited, and rendered an audit report, on the Issuer's Financial Statements as of and for the year ended 31 December 2008 and 2007, which report was dated 9 June 2009.
- (6) For so long as any Series of Notes is outstanding, copies (and English translations where the documents in question are not in English) of the following documents may be obtained free of charge at the specified offices of the Trustee and the Paying Agent in Luxembourg during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):
 - the consolidated audited annual financial statements of the Guarantor as of and for the years ended 31 December 2008, 2007 and 2006;
 - the latest annual report and consolidated audited annual financial statements of the Guarantor prepared in accordance with U.S. GAAP (published annually);
 - the latest unaudited interim consolidated financial statements of the Guarantor prepared in accordance with U.S. GAAP; and
 - the audited annual financial statements of the Issuer as of and for the year ended 31 December 2008 and 2007.

and copies of the following documents will be available for inspection at the specified offices of the Trustee and the Paying Agent in Luxembourg during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):

- the Trust Deed in respect of the Notes (including the forms of the Global Notes and definitive Notes);
- each set of Final Terms for Notes that are listed on the regulated market of the Luxembourg Stock Exchange;
- the Agency Agreement;
- the constitutional documents of the Issuer and the Guarantor; and

- material contracts and other documents relating to the Guarantor. Each set of Final Terms for Notes that are listed on the official list and admitted to trading on the Regulated Market of the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

(7) The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg and DTC. The Common Code and the International Securities Identification Number (ISIN) and (where applicable) the CUSIP number and the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms.

(8) This Base Prospectus shall be published on the internet site of the Luxembourg Stock Exchange (www.bourse.lu).

GLOSSARY OF OIL AND GAS TERMS

“2D seismic survey”: Seismic survey that is processed to yield a two-dimensional picture of the subsurface.

“3D seismic survey”: Seismic survey that is processed to yield a three-dimensional picture of the subsurface.

“Associated gas”: Natural gas found in association with oil, either dissolved in the oil or as a cap of free gas above the oil.

“Bitumen”: The residual product of crude oil vacuum distillation. A black or dark brown solid or semi-solid organic compound that gradually softens and turns into a liquid when heated.

“Catalytic cracking”: Method of making gasoline out of heavier crude oil by breaking large hydrocarbon molecules into smaller molecules.

“Condensate”: Light hydrocarbons produced with natural gas which condenses into a liquid at normal temperatures and pressures.

“Conversion ratio”: In refining crude oil, the percentage of crude oil that is converted to refined products.

“Development well”: A well drilled within a proven area of an oil or gas reservoir to a depth known to be productive.

“Diesel fuel”: Hydrocarbon mixture that is heavier than gasoline or jet fuel that is used primarily in diesel engines (fuel ignited by compression rather than by a spark).

“Exploratory well”: A well drilled to find and produce oil or gas in an unproved area, to find a new reservoir in a field previously found to produce oil from another reservoir, or to extend a known reservoir.

“Field”: An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structure.

“Fuel oil (mazut)”: Heavier hydrocarbons than in gasoline, diesel or jet fuel and used to generate heat and commercial electric power.

“Gas oil”: Obtained from the lowest fraction (heaviest) from the atmospheric distillation of crude oil and often used for diesel fuel.

“Gasoline”: Light hydrocarbon mixture used mainly in internal combustion engines.

“Hydraulic fracturing”: Liquid pumped into a formation under enough pressure to crack open the formation and permit the release of oil.

“Hydrocarbon”: Naturally occurring organic substances composed of carbon and hydrogen, including oil and gas, occurring in subsoil, which is recoverable as well as that which has already been extracted.

“Hydrofining”: A process for treating petroleum with hydrogen in the presence of a catalyst under relatively mild conditions of temperature and pressure in order to reduce the sulfur content of the oil.

“Infill drilling” New wells drilled between existing producing wells to increase production.

“Isomerisation plant”: Rearranging the structure of molecules without changing the number of hydrocarbons to produce isomers which have different properties.

“Jet fuel (kerosene)”: Heavier hydrocarbons than gasoline, but lighter than diesel fuel and used for jet engines, heating and illumination.

“Jobber”: A buyer of oil products from refiners for resale at retail outlets.

“Lubes (lubricants)”: Specially formulated oil to reduce friction and wear between solid surfaces (usually metals) that are in contact and in relative motion.

“Methyl-tertiary-butylether (MTBE)”: A fuel additive that adds oxygen to fuels, including gasoline, to increase the octane level and reduce atmospheric pollution.

“Netbacks”: The sales price of crude oil or refined products less all costs such as transportation to customers, taxes and duties.

“NGL”: Natural gas liquids, which are liquefied hydrocarbons recovered from natural gas in separation facilities or gas processing plants. Natural gas liquids include ethane, propane, butane (normal and ISO-), (ISO) pentane and pentane plus (sometimes referred to as natural gasoline or plant condensate).

“Octane”: A measure of how well a fuel resists premature combustion, or “knocking.” Gasoline with too low an octane rating converts fuel to heat rather than power, resulting in less efficient fuel usage and reduced engine life.

“Permeability”: Degree to which crude oil flows freely within a formation.

“Possible reserves”: Reserves that may exist but are less well defined by well control than probable reserves. Possible reserves include those based largely on log interpretation and other evidence of hydrocarbon saturation in zones behind the pipe in existing wells, possible extensions to proved and probable reserves areas where indicated by geophysical and geological studies, and those to be recovered by enhanced recovery methods where the data are insufficient to classify the reserves as proved or probable.

“Probable reserves”: Reserves susceptible of being proved that are based on reasonable evidence of producible hydrocarbons within the limits of a structure or reservoir above known or inferred fluid contacts, but are defined to a lesser degree of certainty than proved reserves because of more limited well control and/or lack of definitive production tests.

“Proved developed reserves”: Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing natural forces and mechanisms of primary recovery are included as “proved developed reserves” only after testing by a pilot project or after the operation of an installed programme has confirmed through production response that increased recovery will be achieved.

“Proved reserves”: Proved oil and gas reserves are the estimated quantities of crude oil, condensate, natural gas, and NGL which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.

“Recompletion of an existing well”: The modification of an existing well for the purpose of producing oil from a different producing formation.

“Reservoir”: A porous and permeable underground formation containing a natural accumulation of producible oil or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

“Seismic profiling”: Energy waves sent into the earth and along rock layers which are reflected back to the surface. The data obtained is used to produce “record sections” which are cross sections of the earth.

“Straight-run gasoline”: Low octane gasoline from an atmospheric distillation unit without further processing at the refinery.

“Tonne of crude oil”: A tonne of crude oil is 6.5 to 8.5 barrels, depending on the oil’s specific gravity. For rough approximation, 7.5 barrels equals a metric tonne or long tonne, 1,000 kilograms or 2,204.6 pounds.

“Vertical seismic profiling”: A collection of seismograms from the surface and from the bore hole which are used to minimise surface related distortions.

“Visbreaker unit”: A chemical plant based on a technology whereby heavy hydrocarbons are cracked into lighter hydrocarbons via thermal cracking in a furnace (at high temperature).

“Watercut”: The percentage of water in the oil/water mixture coming from the well.

“Waterflooding”: Increased quantities of oil are forced out of the well by injecting water into oil-bearing rock formations.

“Work-over”: Process of performing major maintenance or remedial treatments on an oil or gas well.

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of
TNK-BP International Limited:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of changes in equity present fairly, in all material respects, the financial position of TNK-BP International Limited and its subsidiaries at 31 December 2008, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

TNK-BP International Limited has not presented comparative information on oil and gas exploration and production activities at 31 December 2006 and for the year then ended in accordance with Statement of Financial Accounting Standards No. 69 that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation

17 April 2009, except for the effects of the change in accounting as it relates to the reclassification of noncontrolling interest to equity discussed in Note 2 and for the subsequent events discussed in Note 23 to the accompanying consolidated financial statements, as to which the date is 8 December 2009

TNK-BP INTERNATIONAL LIMITED
Consolidated Balance Sheets
 (expressed in millions of US Dollars, except as indicated)

	Note	31 December 2008	31 December 2007	31 December 2006
Assets				
Cash and cash equivalents	6	1,745	3,224	1,740
Restricted cash	6	6	6	13
Trade and other receivables, net	8	3,553	5,520	5,938
Inventories	9	786	1,405	878
Assets held for sale	10	715	748	-
Other current assets		192	213	189
Total current assets		6,997	11,116	8,758
Long-term investments	11	2,763	2,306	2,194
Property, plant and equipment, net	12	17,188	14,678	12,339
Goodwill and intangible assets	4, 13	918	407	100
Other long-term assets		841	832	377
Total assets		28,707	29,339	23,768
Liabilities and equity				
Short-term debt and current portion of long-term debt	14	1,898	1,624	2,093
Trade accounts and notes payable		1,556	1,491	841
Other accounts payable and accrued expenses	15	1,247	1,445	971
Taxes payable	18	812	1,612	2,330
Liabilities associated with assets held for sale	10	42	86	-
Total current liabilities		5,555	6,258	6,235
Long-term debt	14	6,094	6,924	4,841
Asset retirement obligations	12	341	335	231
Deferred income tax liabilities	17	1,659	1,773	1,332
Other long-term liabilities		269	190	172
Total liabilities		13,918	15,480	12,811
Commitments and contingencies	21	-	-	-
Ordinary share capital (authorized and issued: as of 31 December 2008 – 54,000 shares, USD 1.00 par value, as of 31 December 2007 and 31 December 2006 – 53,000 shares, USD 1.00 par value)	16	-	-	-
Additional paid-in capital		2,976	2,976	2,976
Retained earnings		10,831	9,827	7,130
Accumulated other comprehensive loss		(124)	-	-
Total Group shareholders' equity		13,683	12,803	10,106
Noncontrolling interest		1,106	1,056	851
Total equity		14,789	13,859	10,957
Total liabilities and equity		28,707	29,339	23,768

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

TNK-BP INTERNATIONAL LIMITED
Consolidated Statements of Income
 (expressed in millions of US Dollars)

	Note	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Revenues				
Sales and other operating revenues	19	51,886	38,926	35,725
Total revenues		51,886	38,926	35,725
Costs and other deductions				
Export duties		15,974	10,196	10,087
Taxes other than income tax	18	11,182	7,821	7,461
Operating expenses		5,240	3,868	2,810
Cost of purchased products		4,261	3,311	3,574
Transportation expenses		3,208	2,653	2,375
Selling, general and administrative expenses		1,825	1,712	1,417
Depreciation, depletion and amortization		1,564	1,414	1,249
Loss on disposals and impairment of assets	12	173	88	47
Exploration expenses		85	156	127
Total costs and other deductions		43,512	31,219	29,147
Other income and expenses				
Earnings from equity investments	11	278	309	507
Gain on disposals of subsidiaries		60	135	2,921
Interest income and net other income / (expense)		(15)	65	221
Exchange gain / (loss), net		(229)	75	(50)
Interest expense		(500)	(546)	(350)
Total other income and expenses		(406)	38	3,249
Income before income taxes		7,968	7,745	9,827
Income taxes				
Current tax expense	17	2,439	2,115	2,748
Deferred tax benefit	17	(116)	(122)	(26)
Total income tax expense		2,323	1,993	2,722
Net income		5,645	5,752	7,105
Less: net income attributable to noncontrolling interest		361	410	427
Net income attributable to Group shareholders		5,284	5,342	6,678

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

TNK-BP INTERNATIONAL LIMITED
Consolidated Statements of Cash Flows
(expressed in millions of US Dollars)

	Note	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Cash flows from operating activities				
Net income		5,645	5,752	7,105
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation, depletion and amortization		1,564	1,414	1,249
Deferred tax benefit		(116)	(122)	(26)
Loss on disposals and impairment of assets		173	88	47
Gain on disposals of subsidiaries		(60)	(135)	(2,921)
Earnings from equity investments less dividends received		(179)	(247)	(157)
Non-cash provisions		191	12	57
Dry hole expenses		9	29	20
Other non-cash adjustments, net		(113)	28	37
Changes in operational working capital, excluding cash and cash equivalents:				
Restricted cash		-	7	2
Trade and other receivables, net		1,914	503	(729)
Inventories		586	(519)	(58)
Accounts and notes payable and accrued expenses		(255)	945	(190)
Taxes payable		(802)	(498)	(1,358)
Other		54	(160)	-
Net cash provided by operating activities		8,611	7,097	3,078
Investing activities				
Capital expenditures		(3,924)	(3,562)	(2,552)
Grants used for capital expenditures		(622)	(566)	(286)
Grants received		673	486	290
Purchase of intangible assets		(67)	(79)	(5)
Proceeds from disposals of property, plant and equipment		19	53	24
Acquisitions of subsidiaries, equity investments and noncontrolling interests	4,5,11	(1,263)	(819)	(207)
Proceeds from sales of subsidiaries		61	166	3,546
Loans issued		(49)	(99)	(8)
Loans repaid		31	17	87
Net cash used for investing activities		(5,141)	(4,403)	889
Financing activities				
Proceeds from issuance of long-term debt		260	3,695	4,341
Cost associated with the issuance of debt		(6)	(7)	(26)
Repayment of long-term debt		(1,357)	(964)	(1,980)
Proceeds from issuance of short-term debt		1,030	444	2,510
Repayment of short-term debt		(452)	(1,566)	(1,586)
Dividends paid to noncontrolling interests owners		(101)	(205)	(300)
Dividends paid to Group shareholders		(4,280)	(2,645)	(6,540)
Net cash used for financing activities		(4,906)	(1,248)	(3,581)
Effect of exchange rate changes on cash and cash equivalents		(61)	58	28
Cash and cash equivalents reclassified to assets held for sale	10	18	(20)	-
Net change in cash and cash equivalents		(1,479)	1,484	414
Cash and cash equivalents at beginning of period		3,224	1,740	1,326
Cash and cash equivalents at end of period		1,745	3,224	1,740

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

TNK-BP INTERNATIONAL LIMITED
Consolidated Statements of Changes in Equity
(expressed in millions of US Dollars, except as indicated)

		Year ended 31 December 2008		Year ended 31 December 2007		Year ended 31 December 2006	
	Note	Equity	Comprehensive income	Equity	Comprehensive income	Equity	Comprehensive income
Common stock							
Balance at 1 January		-		-		-	
Balance at 31 December		-		-		-	
Additional paid-in capital							
Balance at 1 January		2,976		2,976		2,976	
Balance at 31 December		2,976		2,976		2,976	
Retained earnings							
Balance at 1 January		9,827		7,130		5,452	
Net income attributable to Group shareholders		5,284	5,284	5,342	5,342	6,678	6,678
Dividends to Group shareholders	16	(4,280)	-	(2,645)	-	(5,000)	-
Balance at 31 December		10,831		9,827		7,130	
Accumulated other comprehensive loss							
<i>Currency translation adjustment</i>							
Balance at 1 January		-		-		-	
Translation adjustment attributable to Group shareholders for the year		(124)	(124)	-	-	-	-
Balance at 31 December		(124)		-		-	
Total comprehensive income attributable to Group shareholders for the year			5,160		5,342		6,678
Total Group shareholders' equity at 31 December		13,683		12,803		10,106	
Noncontrolling interest							
Balance at 1 January		1,056		851		882	
Net income attributable to noncontrolling interest		361	361	410	410	427	427
Dividends to noncontrolling interest		(161)		(108)		(451)	
Acquisitions of noncontrolling interests and other movements	5	(150)		(97)		(7)	
Total comprehensive income attributable to noncontrolling interest for the year			361		410		427
Total noncontrolling interest at 31 December		1,106		1,056		851	
Total comprehensive income for the year			5,521		5,752		7,105
Total equity at 31 December		14,789		13,859		10,957	

	31 December 2008 (thousands of shares)	31 December 2007 (thousands of shares)	31 December 2006 (thousands of shares)
Number of Ordinary shares issued			
At 1 January	53	53	53
Shares issued during the year	1	-	-
At 31 December	54	53	53

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

TNK-BP INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements
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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 primarily 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 plc., 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 Holding Limited (“STBP”), 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 as consideration for the newly issued shares. This transaction is recognized as a transaction under common control.

The 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 year then ended as though the transfer of 75.0 percent interest in STBP to the Company discussed above had occurred on 1 January 2008. The comparative information has been restated to present the combined financial position, results of operations, cash flows of the Group and STBP and its subsidiaries.

Note 2: Basis of Presentation

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

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

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

Effective 1 January 2009, the Group adopted the US GAAP guidance on consolidation as it relates to non-controlling interests – see Note 3. This guidance changed the accounting and reporting standards for minority interests, which were recharacterized as non-controlling interests and classified as a component of equity. In accordance with this guidance, the Group changed retrospectively the presentation of existing minority interests in these consolidated financial statements.

Reporting and functional currency. The Company has determined that the United States (“US”) dollar 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 US dollar as a significant portion of the Group’s business is conducted in US dollars; management uses the US dollar to manage the Group’s financial risks and exposures, and to measure its performance.

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The local currency of certain subsidiaries of the Group is either the Russian Roubles 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 currency of the subsidiary which, in the majority of cases, is the US dollar. In accordance with the relevant provisions of 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 Roubles as the primary economic environment of these entities is the local market.

As of 31 December 2008, 2007 and 2006 exchange rates were 29.38, 24.55 and 26.33 Russian Roubles to the US dollar, respectively. Average exchange rates for 2008, 2007 and 2006 were 24.86, 25.58 and 27.19 Russian Roubles to the US dollar, respectively.

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

Comparative amounts. Certain changes have been made to the prior period presentation to conform with current year presentation. These changes, which have had no effect on equity or net income, include the presentation of USD 10,852 million of excise and export duties in Costs and other deductions for the year ended 31 December 2006 following a change in the accounting policy on the presentation of revenue discussed in Note 3 below.

In addition, the Group has changed its accounting policy for the classification of income tax interest expense and payable reflected in accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). This change was made on a prospective basis, effective 1 January 2007 – see Note 3 below.

Note 3: Summary of Significant Accounting Policies

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

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

Accounts receivable. Accounts receivable are presented at net realizable value and include value-added and excise taxes.

Inventories. Inventories are valued at the lower of cost, using the average method, or net realizable value. Costs include applicable purchase costs and production costs.

Property, plant and equipment. The Group follows the successful efforts method of accounting for its oil and gas properties whereby property acquisitions, successful exploratory wells, all development costs (including development dry holes), and support equipment and facilities are capitalized. Under this method, costs are accumulated with certain exploratory expenditures and exploratory dry holes being expensed as incurred. The Group carries exploratory well costs as an asset when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the Group is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these

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criteria are charged to expense. Production costs, overheads, and all exploration costs other than exploratory drilling are charged to expense as incurred. Acquisition costs of unproved properties are evaluated periodically and any impairment assessed is charged to expense.

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

Depreciation, depletion and amortization of capitalized costs of proved oil and gas properties and equipment is calculated using the unit-of-production method for each field based upon proved reserves for property acquisitions and proved developed reserves for exploration and development costs. In both cases the proved reserves data used is estimated on a "life of field" basis as management believes it will continue to be successful in the renewal of its oil and gas licenses.

Property, plant and equipment which is not associated with exploration and production activities are carried at cost less accumulated depreciation. Depreciation of these assets is calculated on a straight-line basis as follows:

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

Maintenance and repairs and minor renewals are expensed as incurred. Major renewals and improvements which extend the useful lives of the assets are capitalized.

Capital grants. The Group recognizes capital grants from local governments when there is a reasonable assurance that the Group will comply with the conditions attached and that the grant will be received. The capital grants are accounted for as a reduction of the cost of the asset for which the grant is received.

Goodwill. The Group recognizes goodwill as the excess of the purchase price over the estimated fair value of assets acquired and liabilities incurred in a business combination. The goodwill is not amortized, but rather is tested for impairment annually and when events or changes in circumstances indicate that the fair value of a reporting unit with goodwill has been reduced below carrying value.

Intangible assets. The Group's intangible assets primarily include intangible assets associated with land rights and permits, software licenses and road-use rights. The intangible assets associated with land rights and permits are amortized on a straight-line basis over 20 years. Software licenses are amortized on a straight-line basis over the related license period. The road-use rights are amortized on a straight-line basis over the expected lives of the related contracts. Amortized intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected future cash flows from the use of the asset and its eventual disposition is less than the carrying amount of the asset, an impairment loss is recognized based on the fair value of the asset. The Group does not have intangible assets with indefinite lives.

Asset retirement obligations. The Group incurs retirement obligations for its upstream assets. The fair values of these obligations are recorded as liabilities on a discounted basis, which is typically at the time the assets are installed. The costs associated with these liabilities are capitalized as part of the related assets and depleted as the reserves are produced. Over time, the liabilities are accreted for the change in present value. Asset retirement obligations are not recorded for downstream facilities, because such potential obligations cannot be measured since it is not possible to estimate the settlement dates.

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

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

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

Revenue recognition. Revenues from the production and sale of crude oil and petroleum products are recognized when title has transferred and collectibility is reasonably assured. Purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another are combined, considered as a single arrangement and netted against each other on the consolidated statements of income. When the Group companies act as an agent for purchases and sales of inventory, they are also reported on a net basis.

From 1 January 2007 excise and export duties are presented in Costs and other deductions while previously these were treated as a deduction in arriving at net revenues. This change in the accounting policy aims to better align the consolidated statements of income presentation with industry practice.

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

Starting 1 January 2007, the Group applies the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 is an interpretation of SFAS No. 109 and prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements uncertain tax positions that the Company has taken or expects to take in its income tax returns.

Effective 1 January 2007, in accordance with FIN 48, the Group changed its accounting policy for classification of income tax interest expense and payable. Starting 1 January 2007, income tax interest expense and payable are included in Interest expense in the consolidated statement of income and Other accounts payable and accrued expenses in the consolidated balance sheet, respectively. Prior to 1 January 2007, income tax interest expense and payable were included in Taxes other than income tax expense in the consolidated statement of income and Taxes payable in the consolidated balance sheet – see Note 18. This change in accounting policy has been reflected on a prospective basis with no changes made to the prior period presentation.

Upon adoption of FIN 48 effective 1 January 2007, the Group did not change accounting policy for classification of income tax penalties expense and payable. Income tax penalties expense and payable are included in Taxes other than income tax expense in the consolidated statements of income and Taxes payable in the consolidated balance sheets, respectively.

Comprehensive income. The Group's comprehensive income consists of net income and other comprehensive income represented by currency translation adjustments related to those subsidiaries and affiliates, which functional currency is different from the reporting currency of the Group.

New accounting standards adopted. In June 2006, FIN 48 was issued and becomes effective for the Group on 1 January 2007. This Interpretation addresses the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The adoption of FIN 48 did not have a material effect on the Group's results of operations, financial position or liquidity except for the change in accounting policy for classification of income tax interest expense and payable described above.

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

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 February 2007, SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of SFAS No. 115*, was issued and became effective for the Group on 1 January 2008. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. Upon adoption of this Statement, the Group did not change its accounting policy for the measurement of financial instruments.

In October 2008, Position No. FAS 157-3, *Determining the Fair value of a Financial Asset When the Market for That Asset Is Not Active*, was issued and became effective for the group upon issuance. The Position clarifies the application of SFAS No. 157 and illustrates key considerations in determining the fair value for a financial asset when the market for that asset is not active. The adoption of this Position had no material effect on the Group’s results of operations, financial position or liquidity.

Recent accounting pronouncements. 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 Group does not expect this Statement to have 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 presentation of noncontrolling interest has been changed retrospectively in these consolidated financial statements to comply with the requirements of this Statement. The Group does not expect this Statement to have material effect on the Group’s results of operations, financial position or liquidity.

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, 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, *Goodwill and Other Intangible Assets*, and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 (R), *Business Combinations*, and other accounting standards. The guidance for determining the useful life of a recognized intangible asset is to be applied prospectively. The Group does not expect this Position to have material effect on the Group’s results of operations, financial position or liquidity.

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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), *Business Combinations*, and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*, in relation to equity method accounted investments, including impairment considerations. The Group does not expect this EITF to have material effect on the Group’s results of operations, financial position or liquidity.

In December 2008, Position No. FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities about Transfers of Financial Assets and Interests in Variable Interest Entities* was issued and became effective for the Group on 1 January 2009. This Position requires public entities to provide additional disclosures about transfers of financial assets and involvement with variable interest entities. The Group does not expect this Position to have a material impact on the preparation of its consolidated statements.

Note 4: Acquisitions and Disposals of Subsidiaries

In July 2006, Group companies entered into an agreement with Sinopec for the sale of their interests in a number of the Group’s subsidiaries in the Udmurtia region. The sale was completed on 10 August 2006 for cash consideration in the amount of USD 3,525 million. The Group recognized a gain of USD 2,899 million in relation to this transaction, which is included in income from disposals of subsidiaries in the consolidated statement of income.

In January 2007, the Group completed the acquisition of the 50 percent of the share capital of OOO JV Vanyoganneft (“Vanyoganneft”) not previously held by the Group for USD 485 million in cash. This acquisition has been accounted for using the purchase method. The consideration paid was assigned as follows:

Oil and gas unproved properties	451
Oil and gas proved properties and equipment	143
Other assets	50
Long-term deferred income tax liability	(117)
Other liabilities	(42)
Total consideration	485

Effective 18 January 2007, the Group consolidated its interests in Vanyoganneft and no longer used the equity method of accounting. From 18 January 2007 through 31 December 2007 net income of Vanyoganneft included in the consolidated statement of income of the Group amounted to USD 78 million.

The following table summarizes the estimated results of operations of the Group for the years ended 31 December 2007 and 2006 as though Vanyoganneft had been consolidated into the Group from 1 January 2007 and 2006, respectively:

	Year ended 31 December 2007	Year ended 31 December 2006
Revenues	38,945	36,263
Net Income	5,756	7,176

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. The acquisition was accounted for using the purchase method.

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In the consolidated balance sheet as of 31 December 2007, the purchase price was allocated as follows:

Property, plant and equipment	90
Intangible assets	124
Goodwill	94
Long-term deferred income tax liability	(48)
Total consideration	260

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. The outstanding consideration amounting to USD 160 million was accounted for as deferred consideration and included in Other accounts payable and accrued expenses (see Note 15). 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 building or operation of gasoline stations. The intangible assets will be 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.

The following table summarizes the estimated results of operations of the Group for the years ended 31 December 2008 and 31 December 2007 as though above mentioned assets had been consolidated into the Group from 1 January 2008 and 2007, respectively. The effect of consolidation of above mentioned assets to estimated results of operations of the Group for the year ended 31 December 2006 cannot be reliably estimated.

	Year ended 31 December 2008	Year ended 31 December 2007
Revenues	51,901	39,089
Net Income	5,653	5,804

Note 5: Acquisitions of Noncontrolling Interests

In August 2007, the Group announced its plans regarding the compulsory buy-out of shares from minority shareholders in five subsidiary companies in which the Group holds more than 95 percent of the voting shares. The five subsidiary companies are OAO "Orenburgneft", OAO "Orenburggeologia", OAO "Ryazannefteproduct", OAO "Kaluganefteproduct", OAO "Novosibirskneftegaz". In October 2007, the Group received all the shares from the minority shareholders of these subsidiaries. The consideration for the purchase of these shares amounted to USD 175 million.

In April 2008, the Group acquired an additional equity interest in LINIK, the Group's refining subsidiary in Ukraine, for USD 43 million – see Note 21.

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. This acquisition was accounted for using the

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purchase method. As a result the Group recognized property, plant and equipment, intangible assets and deferred tax liability amounting to USD 18 million, USD 76 million and USD 16 million respectively, as of the date of the acquisition, with an elimination of the USD 75 million held as a noncontrolling interest. As of 31 December 2008 the Group owns 100% of STBP.

As of 31 December 2008, the Group had paid USD 33 million of the total consideration of USD 153 million in respect of STBP. The outstanding amount of USD 120 million was accounted for as deferred consideration and included in Other accounts payable and accrued expenses – see Note 15.

Note 6: Cash and Cash Equivalents and Supplemental Cash Flow Information

As of 31 December 2008, 2007 and 2006, restricted cash included cash deposits used to secure bank debt, open letters of credit and bank guarantees.

As of 31 December 2008, 2007 and 2006, cash balances included accounts denominated in Russian Roubles of USD 148 million, USD 592 million and USD 339 million, respectively.

During the years ended 31 December 2008, 31 December 2007 and 31 December 2006, cash payments for interest totaled USD 466 million, USD 467 million and USD 297 million, respectively, payments for income tax excluding withholding tax on intragroup dividends totaled USD 2,661 million, USD 1,695 million and USD 2,854 million, respectively, and payments for withholding tax on intragroup dividends totaled USD 147 million, USD 131 million and USD 380 million, respectively.

Note 7: 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 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 instrument are presented below.

Cash and cash equivalents, 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 similar debt. The carrying value of this debt is a reasonable approximation of its fair value.

Long-term debt. Loans under bank arrangements have variable interest rates that reflect currently available terms and conditions for similar debt. The carrying value of this debt is a reasonable approximation of its fair value. 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. Fair value of corporate bonds as of 31 December 2007 and 2006 was determined based on market quote prices. As of 31 December 2008, 2007, and 2006, these bonds have a fair value of approximately USD 3,450 million, USD 4,386 million and USD 2,313 million, while the carrying values are USD 4,475 million, USD 4,469 million and USD 2,197 million, respectively.

Derivative instruments – interest rate swaps. In connection with the Group's Eurobond offering in November 2002, the Group entered into an interest rate swap. Under the terms of the swap agreement, net cash payments, based on the difference between the fixed interest rate of 3.4943 percent and the US dollar LIBOR floating interest rate percentage by reference to the entire principal amount of USD 700 million were made semi-annually through November 2007, when the Eurobond was repaid and the swap expired.

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The Group did not account for this interest rate swap as a hedge and, accordingly, all gains and losses associated with this instrument have been recognised in the consolidated statements of income as Interest income and net other income. The net result of the Group's derivative instrument activity in 2007 and 2006 was a loss of USD 1 million and USD 7 million, respectively. During 2008 the Group did not have interest rate swap agreements.

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 short-term price swaps.

Derivatives are included at fair value in Other current assets or Other accounts payable and accrued expenses. As of 31 December 2008 and 2007, Other current assets included USD 11 million and nil related to fair value of derivatives, respectively. The Group reported a net loss related to these derivatives of USD 173 million for 2008 and nil for 2007, respectively. In 2006 the Group did not employ short-term price swaps. Fair values are calculated by the Group based on quoted market prices for hydrocarbons futures.

The Company did not apply hedge accounting for the derivative instruments 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.

Note 8: Trade and Other Receivables, Net

	31 December 2008	31 December 2007	31 December 2006
Trade accounts and notes receivable (net of allowance for doubtful accounts of USD 18 million, USD 35 million and USD 34 million as of 31 December 2008, 2007 and 2006, respectively)	716	1,390	984
Advances issued (net of allowance for doubtful accounts of USD 10 million, USD 4 million and USD 1 million as of 31 December 2008, 2007 and 2006, respectively)	1,210	1,393	936
Recoverable value-added tax	1,141	2,344	3,546
Taxes receivable	332	176	404
Other receivables (net of allowance for doubtful accounts of USD 7 million, USD 12 million and USD 11 million as of 31 December 2008, 2007 and 2006, respectively)	154	217	68
Total trade and other receivables, net	3,553	5,520	5,938

Advances issued mainly relate to prepayments to customs and prepayments for transportation services.

Recoverable value-added tax balances mainly relate to crude oil and petroleum products export sale activities. As of 31 December 2008 and 2007, USD 56 million and USD 184 million of export value-added tax, respectively, is not expected to be received within twelve months and has therefore been included in Other long-term assets.

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Note 9: Inventories

	31 December 2008	31 December 2007	31 December 2006
Crude oil and petroleum products	502	952	584
Materials and supplies	284	453	294
Total inventories	786	1,405	878

Note 10: 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 license for the Kovykta field – see Note 21. The Group classified the related assets and liabilities as held for sale in the consolidated balance sheets as of 31 December 2008 and 2007. The major classes of assets and liabilities of Rusia Petroleum and ESGC as of 31 December 2008 and 2007 were:

	31 December 2008	31 December 2007
Cash and cash equivalents	2	20
Accounts and notes receivable, net	26	60
Inventories	3	6
Property, plant and equipment, net, including:	664	657
<i>Capitalized exploratory well costs pending the determination of proved reserves</i>	138	138
<i>Unproved properties</i>	205	205
Other assets	20	5
Assets held for sale	715	748
Trade accounts and notes payable	5	46
Other accounts payable and accrued expenses	3	-
Taxes payable	1	2
Deferred income tax liability	33	38
Liabilities associated with assets held for sale	42	86

Management believes that the amounts related to the above assets held for sale will be fully recovered through the intended sale to Gazprom.

Note 11: Long-Term Investments

	31 December 2008	31 December 2007	31 December 2006
Advances to and investments in affiliates and joint ventures:			
OAO NGK Slavneft and its subsidiaries (“Slavneft”)	2,435	2,279	2,093
NVGRES Holding Limited (“NVGRES”)	301	-	-
OOO JV Vanyoganneft (“Vanyoganneft”)	-	-	75
OOO Novo-Urengoisaya Gazovaya Kompaniya (“NUGK”)	4	-	-
Total advances to and investments in affiliates and joint ventures	2,740	2,279	2,168
Long-term investments, at cost	23	27	26
Total long-term investments	2,763	2,306	2,194

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Slavneft. In December 2002, the Group joined OAO Gazpromneft (formerly known as OAO Sibneft) to obtain 99.6 percent interest in Slavneft as a result of the Russian and Belorussian Governments privatization auctions. This ownership is divided equally between the Group and companies affiliated with OAO Gazpromneft. The Group owns approximately 49.9 percent of Slavneft and accounts for this investment using the equity method of accounting.

The Group's earnings from its equity investment in Slavneft for the years ended 31 December 2008, 2007 and 2006 totaled USD 251 million, USD 305 million and USD 436 million, respectively. The Group's share of dividends declared by Slavneft and its subsidiaries during 2008, 2007 and 2006 was USD 116 million, USD 139 million and USD 252 million, respectively.

Slavneft consolidated balance sheet and statement of income information as of and for the years ended 31 December 2008, 2007 and 2006 is as follows:

	As of and for the year ended 31 December 2008	As of and for the year ended 31 December 2007	As of and for the year ended 31 December 2006
Revenues	7,825	6,440	6,805
Income before income taxes	913	1,089	1,456
Less income taxes	205	304	448
Net Income	708	785	1,008
Current assets	1,002	1,363	983
Property, plant and equipment	6,312	5,280	4,573
Other non-current assets	141	163	139
Total Assets	7,455	6,806	5,695
Current liabilities	1,249	1,193	621
Long-term debt	236	136	149
Other long-term liabilities	566	568	552
Total Liabilities	2,051	1,897	1,322

The Group's investment in Slavneft as presented in the long-term investments above differs from its share in the equity of Slavneft due to adjustments for depreciation, depletion and amortization to align with the Group's accounting policy, and the cost of share purchases in Slavneft.

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 consolidated balance sheet as of 31 December 2008, the purchase price is allocated on a preliminary basis as follows:

	As of acquisition date
Property, plant and equipment	1,093
Cash and other current assets	365
Deferred tax liability	(216)
Total - 100% of identifiable net assets acquired	1,242
25% share of identifiable net assets acquired	311
Consideration paid	358
Goodwill	47

Following the terms of the agreement, the joint venture will construct a third power unit and will enter into long-term agreements for the purchase of gas and supply of electric power. The agreement also provides an option for

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the Group to increase its share up to 50% less one share after the construction of the third power unit is completed which is planned for 2012. The goodwill arising on this acquisition relates to the value for the Group of the higher rate of utilization of associated gas as a result of the expansion of the power plant.

NVGRES balance sheet and statement of income information as of and for the five months ended 31 December 2008 is as follows:

	As of 31 December 2008 and for the period from acquisition date to 31 December 2008
Revenues	121
Net Income	76
Current assets	334
Property, plant and equipment	871
Total assets	1,205
Total liabilities	150

The Group's investment in NVGRES as presented in the long-term investments above differs from its share in the equity of NVGRES as of 31 December 2008 resulting in goodwill of USD 38 million.

Vanyoganneft. As of 31 December 2006, the Group owned 50 percent of the share capital of Vanyoganneft and accounted for this investment using the equity method of accounting. The Group's earnings from its equity investment in Vanyoganneft for the year ended 31 December 2006 amounted to USD 71 million. For the year ended 31 December 2006 the Group received cash dividends from Vanyoganneft in the amount of USD 55 million. On 18 January 2007, the Group acquired the share capital of Vanyoganneft not previously held – see Note 4.

NUGK. In December 2007, pursuant to its agreement with Gazprom, the Group has participated as a Shareholder in a gas transportation joint venture in the Urengoy region (NUGK). The joint venture will increase the sales of gas, produced by the Group. The Group has a 50 percent interest in the joint venture and accounts for this investment under the equity method.

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Note 12: Property, Plant and Equipment and Asset Retirement Obligations

	Cost	Accumulated DD&A	Net book value
Oil and gas, including:	12,300	(3,242)	9,058
<i>Unproved properties</i>	894	-	894
Refining, marketing and distribution	1,896	(557)	1,339
Oil field services	774	(485)	289
Other assets	368	(111)	257
Assets under construction, including:	1,396	-	1,396
<i>Capitalized exploratory well costs pending the determination of proved reserves</i>	180	-	180
Balance as of 31 December 2006	16,734	(4,395)	12,339
	Cost	Accumulated DD&A	Net book value
Oil and gas, including:	15,073	(4,089)	10,984
<i>Unproved properties</i>	1,327	-	1,327
Refining, marketing and distribution	2,414	(732)	1,682
Oil field services	629	(438)	191
Other	306	(97)	209
Assets under construction, including:	1,612	-	1,612
<i>Capitalized exploratory well costs pending the determination of proved reserves</i>	131	-	131
Balance as of 31 December 2007	20,034	(5,356)	14,678
	Cost	Accumulated DD&A	Net book value
Oil and gas, including:	17,197	(4,843)	12,354
<i>Unproved properties</i>	1,268	-	1,268
Refining, marketing and distribution	3,078	(982)	2,096
Oil field services	529	(306)	223
Other	359	(129)	230
Assets under construction, including:	2,285	-	2,285
<i>Capitalized exploratory well costs pending the determination of proved reserves</i>	177	-	177
Balance as of 31 December 2008	23,448	(6,260)	17,188

During the year ended 31 December 2008 the Group recognized impairment of oil and gas assets in the amount of USD 134 million recorded in Loss on disposals and impairment of assets in the consolidated statement of income, including USD 49 million related to unproved properties. During the years ended 31 December 2007 and 2006, no impairment was recognized in respect of oil and gas assets.

The Group's oil and gas fields are situated on land belonging to government authorities. The Group obtains licenses from such authorities and pays exploration and production taxes to explore and produce oil and gas from these fields. These licenses may be extended provided the Group is in compliance with the license terms and approval is obtained from the appropriate regulatory authorities. Management expects to extend such licenses for properties expected to have production subsequent to their license expiry dates.

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The following tables provide details of the changes in the balance of capitalized exploratory well costs pending the determination of proved reserves as well as an aging summary of those costs.

Balance as of 31 December 2005	91
Additions to capitalized exploratory well costs pending the determination of proved reserves	100
Reclassifications to wells, facilities, and equipment based on the determination of proved reserves	-
Capitalized exploratory well costs charged to expense	(11)
Balance as of 31 December 2006	180
Additions to capitalized exploratory well costs pending the determination of proved reserves	127
Additions to capitalized exploratory well costs pending the determination of proved reserves recognized on the acquisition of subsidiaries	12
Reclassifications to wells, facilities, and equipment based on the determination of proved reserves	(33)
Capitalized exploratory well costs charged to expense	(17)
Reclassification of capitalized exploratory well costs to assets held for sale (Kovykta project)	(138)
Balance as of 31 December 2007	131
Additions to capitalized exploratory well costs pending the determination of proved reserves	115
Reclassifications to wells, facilities, and equipment based on the determination of proved reserves	(55)
Capitalized exploratory well costs charged to expense	(14)
Balance as of 31 December 2008	177

The following table provides an aging of capitalized exploratory well costs based on the date the drilling was completed:

	31 December 2008	31 December 2007	31 December 2006
Capitalized exploratory well costs that have been capitalized for a period of one year or less	107	78	100
Capitalized exploratory well costs that have been capitalized for a period greater than one year	70	53	80
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	6	5	5

As of 31 December 2008, exploratory well costs that have been capitalized for a period of greater than one year since the completion of drilling consist of costs in the amount of USD 70 million incurred in 2004-2007 in relation to the projects described below, including the Bolshekhetkiy project (USD 42 million), the Rospan project (USD 9 million) and the Orenburg project (USD 6 million). For each of these projects exploratory wells have also been drilled in the proceeding 12 months and further exploration drilling is planned in the next year.

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The following table provides details of the projects:

Projects	Cost as of 31 December 2008	Comment
Bolshekhetskiy project	69	The exploration prospects obtained in 2006-2008 are located north and west of the Suzun and bear moderate geological risk. A number of wildcats and new exploration wells are planned as part of a program aimed at resource base expansion, general project economics improvement and license obligations compliance. The field commissioning schedule depends on the availability of transport infrastructure and field development schedules are planned in accordance with this. The transportation options under consideration include construction of a pipeline from Suzun across Tagul towards Russkoe or use of the existing Rosneft pipeline from Vankor. Exploration and further development in the region is a strategic objective for the Group.
Orenburg project	44	The project covers exploration and development activities in the Orenburg region. These activities are being carried out in areas adjoining large developed and producing areas. A 100% success rate of exploration drilling has been achieved over the last two years, with the associated reserves additions being brought into development in less than one year. The Group plans to continue exploration drilling in those areas of the Orenburg region where high drilling success rate could be achieved or where it is possible to promptly bring reserves into development.
Rospan project	26	The Rospan project refers to the large gas and condensate field in the Yamalo-Nenets Autonomous District. While the reserves already developed cover many years of production at current levels, there is potential for a significant increase in gas output in the event that the restrictions over access to the gas pipeline infrastructure are removed. An optimisation of the flows and infrastructure of Rospan and other Group's subsidiaries in the area is also expected to generate significant synergies. For these reasons as well as for license compliance, work to explore and appraise the currently unproved areas is underway.
Nizhnevartovsk brownfields	8	Exploration drilling in Nizhnevartovsk is part of the program for increasing production. Within this program, prospecting and exploration is carried out on adjacent areas which are characterized by much higher flow rates compared to the rates of producing wells in the main fields. The vicinity of these new areas to the existing fields (Samotlor, Bakhilovskoye, Verkhne-Kolikyeganskoye) enables the existing infrastructure to be used and to efficiently bring into development new deposits within a short timeframe.
Other projects	30	Exploration and appraisal work is being carried out on potential commercial hydrocarbon quantities; assessments have been completed in a number of cases; certain development options have been identified and are either under evaluation or in the process of execution.
Total costs capitalized	177	

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Asset retirement obligations are as follows:

Balance as of 31 December 2005	253
Accretion expense	14
Liabilities incurred in the current period	1
Liabilities settled in the current period	(7)
Liabilities of disposed subsidiaries	(56)
Change in estimated costs and timing	26
Balance as of 31 December 2006	231
Accretion expense	15
Liabilities of acquired subsidiaries	8
Liabilities incurred in the current period	24
Liabilities settled in the current period	(26)
Change in estimated costs and timing	83
Balance as of 31 December 2007	335
Accretion expense	20
Liabilities incurred in the current period	23
Liabilities settled in the current period	(22)
Change in estimated costs and timing	(15)
Balance as of 31 December 2008	341

Note 13: Goodwill and Intangible Assets

	Cost	Accumulated amortization	Net book value
Intangible assets			
Intangible assets associated with land rights and permits	26	(1)	25
Other intangible assets	98	(23)	75
Total intangible assets	124	(24)	100
Balance as of 31 December 2006	124	(24)	100
Intangible assets			
Intangible assets associated with land rights and permits	150	(2)	148
Other intangible assets	211	(46)	165
Total intangible assets	361	(48)	313
Goodwill related to the acquisition of subsidiaries	94	-	94
Balance as of 31 December 2007	455	(48)	407
Intangible assets			
Intangible assets associated with land rights and permits	399	(15)	384
Other intangible assets	258	(83)	175
Total intangible assets	657	(98)	559
Goodwill related to the acquisition of subsidiaries	359	-	359
Balance as of 31 December 2008	1,016	(98)	918

As of 31 December 2008 and 31 December 2007, the Group's intangible assets associated with land rights and permits include USD 262 million and USD 124 million net of accumulated amortization, respectively, relating

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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 4.

As of 31 December 2008, the Group's intangible assets associated with land rights and permits include USD 76 million relating to the acquisition of 25% ownership in BP assets. 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 50 million, USD 24 million and USD 15 million for 2008, 2007 and 2006 respectively. For each of the five succeeding year the estimated annual amortization expense is USD 50 million.

As of 31 December 2008 and 31 December 2007, the Group had goodwill amounting to USD 359 million and USD 94 million, respectively, relating to the above acquisitions – see Note 4. Goodwill is not tax deductible. The goodwill is allocated to the Refining, Marketing and Distribution segment.

Note 14: Debt

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

	31 December 2008	31 December 2007	31 December 2006
Obligations to banks, US dollar denominated:			
Unsecured loans with composite variable interest	50	210	1,390
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	59	-
Current portion of long-term debt	1,051	1,355	703
Total short-term debt and the current portion of long-term debt	1,898	1,624	2,093

Short-term debt as of 31 December 2008 was provided by international and Russian banks for funding of working capital and consisted both of secured and unsecured facilities.

Short-term debt as of 31 December 2007 was provided by international and Russian banks for funding of working capital and was uncollateralized.

Short-term debt as of 31 December 2006 was obtained for working capital purposes, was uncollateralised and consisted of USD 1 billion of bridge financing, as discussed below, and USD 390 million of other loan facilities provided by international and Russian banks.

The weighted average interest rate in short-term borrowings outstanding as of 31 December 2008, 2007 and 2006 is 9.79%, 5.36% and 6.00%, respectively.

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

Secured loans. In December 2008, the Group obtained a short-term credit line with a credit limit of USD 400 million. The loan matures in one year and is to be repaid in four equal installments 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. The loan amount outstanding as of 31 December 2008 was USD 400 million.

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In December 2008, the Group obtained a short-term loan from NVGRES in the amount of EUR 211 million (USD 297 million). The loan matured in July 2009 and the loan is secured by pledge of shares of NVGRES Holding Limited representing the Group's 25%+1 share interest in the JV. The loan amount outstanding as of 31 December 2008 was EUR 211 million (USD 297 million).

Long-term debt is as follows:

	31 December 2008	31 December 2007	31 December 2006
Obligations to banks, US dollar denominated:			
Medium-term uncollateralized finance - variable interest debt (composite variable interest: 2008 - Libor plus 0.6 %, 2007 - Libor plus 0.7 %, 2006 - Libor plus 0.6%)	2,282	3,636	3,300
Pre-export finance - variable interest debt (Libor plus 2.85%)	150	-	-
Corporate bonds:			
Eurobond TNK-BP 2007 – fixed interest debt (coupon interest rate – 11.00%, effective interest rate – 10.34%)	-	-	703
Eurobond TNK-BP 2011 – fixed interest debt (coupon interest rate – 6.875%, effective interest rate – 6.98%)	499	498	498
Eurobond TNK-BP 2016 – fixed interest debt (coupon interest rate – 7.50%, effective interest rate – 7.55%)	997	997	996
Eurobond TNK-BP 2012 – fixed interest debt (coupon interest rate – 6.125%, effective interest rate – 6.15%)	500	499	-
Eurobond TNK-BP 2017 – fixed interest debt (coupon interest rate – 6.625%, effective interest rate – 6.74%)	795	794	-
Eurobond TNK-BP 2013 – fixed interest debt (coupon interest rate – 7.50%, effective interest rate – 7.69%)	596	595	-
Eurobond TNK-BP 2018 – fixed interest debt (coupon interest rate – 7.875%, effective interest rate – 8.06%)	1,088	1,086	-
Other	238	174	47
Less: current portion of long-term debt	(1,051)	(1,355)	(703)
Total long-term debt	6,094	6,924	4,841

Medium-term uncollateralized finance. In September 2005, the Group executed a loan framework agreement for up to USD 500 million with a consortium of international banks to be used for general corporate purposes. The loan bore interest at LIBOR plus 0.7 percent and was uncollateralized. The loan was repaid in one lump sum at maturity in September 2008.

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 installments on a quarterly basis starting from December 2007. The loan amount outstanding as of 31 December 2008 was USD 982 million.

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 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 installments on a quarterly basis starting from May 2008. The loan amount outstanding as of 31 December 2008 was USD 400 million.

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 and bears interest at LIBOR plus 2.85 percent. The loan is to be repaid in ten equal installments on a quarterly basis

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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, this amount was outstanding as of 31 December 2008.

Eurobonds. As of 31 December 2008 and 31 December 2007 the Group had USD 4.5 billion of Eurobonds issued and outstanding, increasing from USD 2.2 billion issued and outstanding as of 31 December 2006.

The USD 700 million Eurobonds consisted of two issues: USD 400 million placed at par in November 2002 and an additional USD 300 million placed with a premium of 5.75 percent of par value in February 2003. These Eurobonds bear interest at 11.0 percent per annum payable semi-annually, are uncollateralized and were repaid in November 2007.

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

Aggregate maturities of long-term debt outstanding as of 31 December 2008 are as follows:

	31 December 2008
2010	921
2011	1,002
2012	613
2013	684
2016-2018	2,900
Less: Eurobond discount	(26)
Total long-term debt	6,094

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Note 15: Other Accounts Payable and Accrued Expenses

	31 December 2008	31 December 2007	31 December 2006
Salaries payable and other related costs	384	413	345
Interest accrued	266	295	83
Advances from customers	248	383	204
Deferred consideration for the acquisition of subsidiaries and noncontrolling interest	120	160	-
Dividends payable to noncontrolling interest owners	86	51	148
Other	143	143	191
Total other accounts payable and accrued expenses	1,247	1,445	971

As of 31 December 2008 and 31 December 2007, interest accrued includes income tax interest payable of USD 148 million and 168 million, respectively – see Note 17.

Note 16: Group Shareholders' Equity

The share capital of TNK-BP International comprises 54,000, 53,000 and 53,000 authorized, issued and outstanding ordinary shares of USD 1 par value as of 31 December 2008, 2007 and 2006, respectively.

During the years ended 31 December 2008, 2007 and 2006 the Company declared dividends of USD 4,280 million, USD 2,600 million and USD 5,000 million, respectively. During the year ended 31 December 2007, STBP declared dividends to TNK Industrial Holdings Limited of USD 45 million.

Note 17: Income taxes

The Group is not subject to corporate income tax on a consolidated basis, rather Group entities are assessed for corporate income taxes on an individual basis. For the years ended 31 December 2008, 2007 and 2006 the statutory corporate income tax rate in the Russian Federation is 24 percent. The Group calculates deferred income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. For an entity using the US dollar as a functional currency, SFAS No. 109 requires deferred income taxes to be computed on non-current assets in local currencies (Russian Roubles and Ukrainian Hryvnas in the Group's case) by comparing the historical book and tax basis in local currency after the respective depreciation but before any indexing for either book or tax purposes. The local currency deferred income tax is then remeasured into US dollars using the prevailing year-end exchange rate.

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

The total of deferred tax liabilities and the total of deferred tax assets as of 31 December 2008 amounted to USD 1,794 million and USD 433 million, respectively. In November 2008, a new statutory corporate income tax rate applicable in the Russian Federation of 20% was enacted effective 1 January 2009. Accordingly, deferred tax liabilities and assets of the Group as of 31 December 2008 were calculated using the new rate. The total of deferred tax liabilities and the total of deferred tax assets as of 31 December 2007 amounted to USD 1,946 million and USD 484 million, respectively. The total of deferred tax liabilities and the total of deferred tax assets as of 31 December 2006 amounted to USD 1,728 million and USD 429 million, respectively.

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Deferred income taxes are included in the consolidated balance sheet as follows:

	31 December 2008	31 December 2007	31 December 2006
Assets			
Other current assets	152	183	174
Other long-term assets	184	165	128
Liabilities			
Taxes payable	38	37	269
Deferred income tax liability –non-current	1,659	1,773	1,332
Net deferred income tax liabilities	1,361	1,462	1,299

The following table sets out the tax effects of each type of temporary differences which give rise to deferred income tax assets and liabilities:

	31 December 2008	31 December 2007	31 December 2006
Accounts payable	125	183	115
Long-term liabilities	114	116	111
Operating loss carry forward	77	47	15
Property, plant and equipment	25	30	54
Inventories	15	9	41
Other	77	99	93
Deferred income tax assets	433	484	429
Unremitted earnings of subsidiaries and equity affiliates	979	804	744
Property, plant and equipment	721	1,061	900
Intangible assets	69	30	-
Inventories	11	33	23
Other	14	18	61
Deferred income tax liability	1,794	1,946	1,728
Net deferred income tax liability	1,361	1,462	1,299

In 2004, the Group entered into an agreement with the Tyumen regional authorities which granted certain subsidiaries of the Group a tax concession by way of a four percent relief to the statutory corporate income tax rate subject to certain subsidiaries of the Group making qualified capital investments in the region. In 2006, the Group entered into a similar agreement with the Orenburg regional authorities. For the years ended 31 December 2008, 2007 and 2006, the Group's income tax expense in the accompanying financial statements includes a tax benefit relating to these tax concessions of USD 377 million, USD 301 million and USD 357 million, respectively.

In addition, during the year ended 31 December 2007, the Group recognized a tax benefit related to the reversal of tax accruals of USD 170 million resulting from the enactment of legislation in the Russian Federation which, provided certain conditions are met, eliminated the requirement to withhold taxes on the payment of intragroup dividends within the Russian Federation.

These benefits are offset by certain non-deductible expenses and accrual of withholding tax on earnings to be distributed to the Group foreign holding companies. In 2006, the tax benefit discussed above is also offset by the additional tax provision in respect of income tax, interest and penalties recorded in 2006 of USD 263 million.

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The effective tax rate of the Group approximated 29 percent, 26 percent and 28 percent for the years ended 31 December 2008, 2007 and 2006, respectively.

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Income before income taxes	7,968	7,745	9,827
Notional income tax at Russian statutory rate	1,912	1,859	2,358
Increase (reduction) in income tax due to:			
Domestic tax rate differences	(377)	(301)	(357)
Share in equity affiliates	(79)	(74)	(117)
Unremitted earnings of subsidiaries and equity affiliates and withholding tax on intragroup dividends	330	171	552
Foreign income tax rate differences	124	84	(85)
Foreign exchange differences	340	(29)	(66)
Russian income tax rate change effective 1 January 2009	(78)	-	-
Gain on disposal of subsidiaries	-	-	124
Income tax of prior years, tax penalties and interest	(43)	31	172
Other permanent differences	194	252	141
Total income taxes expense	2,323	1,993	2,722

Uncertain tax positions. The Group adopted the provisions of FIN 48 on 1 January 2007. The implementation of FIN 48 did not result in a change in the liability for unrecognized tax benefits as of 1 January 2007. A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the years ending 31 December 2008 and 31 December 2007 is as follows:

Balance as of 31 December 2006	204
Additions for tax positions of prior years	32
Reductions for tax positions of prior years	(22)
Exchange loss	14
Balance as of 31 December 2007	228
Settlements	(38)
Additions for tax positions of prior years	15
Reductions for tax positions of prior years	(8)
Exchange gain	(34)
Balance as of 31 December 2008	163

As of 31 December 2008 and as of 31 December 2007, the amount of the unrecognized tax benefit which, if recognized in the future, would favorably impact the effective tax rate is USD 163 million and USD 228 million, respectively.

During the year ended 31 December 2008, the Group recognized a charge of USD 26 million related to income tax interest and a net credit of USD 15 million related to income tax penalties which are included in Interest expense and Taxes other than income tax, respectively, in the consolidated statement of income. As of 31 December 2008, the Group had recorded USD 148 million for income tax interest payable and USD 9 million for income tax penalties payable which are included in Other accounts payable and accrued expenses and Taxes payable, respectively, in the consolidated balance sheet.

During the year ended 31 December 2007, the Group recognized a charge of USD 41 million related to income tax interest and a net credit of USD 46 million related to income tax penalties which are included in Interest expense and Taxes other than income tax, respectively, in the consolidated statement of income. As of

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31 December 2007, the Group had recorded USD 168 million for income tax interest payable and USD 5 million for income tax penalties payable which are included in Other accounts payable and accrued expenses and Taxes payable, respectively, in the consolidated balance sheet.

During the year ended 31 December 2006, the Group recognized a charge of USD 170 million related to income tax interest and a net credit of USD 12 million related to income tax penalties which are included in Taxes other than income tax in the consolidated statement of income. As of 31 December 2006, the Group had USD 118 million for income tax interest payable and USD 11 million for income tax penalties payable which are included in Taxes payable in the consolidated balance sheet.

The tax returns of the Russian subsidiary companies in respect of the years ended 31 December 2008, 2007 and 2006 remain subject to examination by the Russian Tax Authorities. Based on management's interpretation of current legislation, there are no uncertain tax positions which are reasonably possible to change significantly during the next twelve months although, as discussed in Note 21, such legislation is subject to varying interpretations by the tax authorities.

Note 18: Taxes other than income tax and taxes payable

Taxes other than income tax expense for the years ended 31 December 2008, 2007 and 2006 comprises the following:

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Unified production tax	9,627	6,476	6,082
Excise taxes	1,026	976	765
Pension fund and other social taxes	201	188	199
Property tax	187	134	107
Non-recoverable VAT expense	87	54	63
Tax penalties and interest	7	(59)	206
Other taxes	47	52	39
Total taxes other than income tax	11,182	7,821	7,461

Unified production tax. The rate for the tax is adjusted depending on the market price of Urals (a benchmark for Russian crude oil) and the Russian Rouble/US dollar exchange rate. Average tax rates for 2008, 2007 and 2006 were USD 18.70 per barrel, USD 13.30 per barrel and USD 11.41 per barrel, respectively.

Tax penalties and interest. In November 2007, resulting from a successful appeal the Group recognized a gain amounting to USD 57 million in respect of income tax penalties related to 2001 tax matters. These penalties had been provided for and paid in 2005 – see Note 21.

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Current and long-term taxes payable as of 31 December 2008, 2007 and 2006 are as follows:

	31 December 2008	31 December 2007	31 December 2006
Unified production tax	248	731	459
Income taxes	157	355	311
Value-added tax	136	224	773
Pension fund and other social taxes	68	70	62
Excise taxes	64	106	230
Tax penalties and interest	51	37	185
Current deferred income tax liability	38	37	269
Property tax	35	32	25
Other taxes	18	23	24
Total taxes payable	815	1,615	2,338
Less: long-term taxes payable	(3)	(3)	(8)
Current taxes payable	812	1,612	2,330

Note 19: Revenues

Revenues for the years ended 31 December 2008, 2007 and 2006 comprise the following:

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Crude oil – export (Europe and CIS)	24,612	19,762	18,337
Crude oil – domestic	2,302	1,763	1,984
Petroleum products – export (Europe and CIS)	14,402	10,144	9,079
Petroleum products – domestic	9,224	6,390	5,635
Other revenues	1,346	867	690
Sales and other operating revenues	51,886	38,926	35,725

Note 20: Related Party Transactions

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

	As of 31 December 2008	As of 31 December 2007	As of 31 December 2006
Cash and cash equivalents held at Alfa Bank	83	63	333
Trade and other receivables, net	8	4	-

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

	As of and for the year ended 31 December 2008	As of and for the year ended 31 December 2007	As of and for the year ended 31 December 2006
Trade and other receivables, net	48	46	85
Accounts and notes payable	72	69	99
Sales of crude oil export	1,615	102	1,592
<i>Volumes (millions of tons)</i>	2.4	0.2	3.6
Sales of petroleum products export	1,267	816	1,070
<i>Volumes (millions of tons)</i>	2.0	2.1	1.9
Secondee and integration costs expensed	46	118	140
Loss on derivative contracts	51	-	-

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

	As of and for the year ended 31 December 2008	As of and for the year ended 31 December 2007	As of and for the year ended 31 December 2006
Trade and other receivables, net	25	20	30
Dividends receivable	97	98	23
Accounts and notes payable	58	95	69
Loans received	-	59	-
Sales of crude oil export	643	362	330
<i>Volumes (millions of tons)</i>	1.5	1.1	1.2
Sales of petroleum products	92	258	202
<i>Volumes (millions of tons)</i>	0.1	0.5	0.5
Purchases of crude oil and petroleum products	2,674	2,171	2,274
<i>Volumes (millions of tons)</i>	10.1	10.6	11.6
Crude oil refining fee	234	193	129
<i>Volumes (millions of tons)</i>	6.8	6.3	4.7

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

	As of and for the year ended 31 December 2008	As of and for the year ended 31 December 2007	As of and for the year ended 31 December 2006
Accounts receivable and loans issued	14	10	19
Accounts payable and loans received	26	28	-

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

	As of and for the year ended 31 December 2008	As of and for the year ended 31 December 2007	As of and for the year ended 31 December 2006
Loans issued	25	13	10
Accounts payable	15	10	-
Loan received from NVGRES	297	-	-
Sales of natural gas	122	-	-
<i>Volumes (billions of cubic meters)</i>	2.8	-	-
Sales of crude oil and petroleum products	-	-	81
<i>Volumes (millions of tons)</i>	-	-	0.3
Purchases of crude oil and petroleum products	-	-	89
<i>Volumes (millions of tons)</i>	-	-	0.2
Crude oil refining fee	9	-	-
<i>Volumes (millions of tons)</i>	0.2	-	-
Gas processing fee	103	57	-
<i>Volumes (billions of cubic meters)</i>	3.4	1.8	-

Note 21: Commitments and Contingencies

Economic and operating environment in the Russian Federation and Ukraine. Whilst there have been improvements in economic trends in the Russian Federation and Ukraine, the countries continue to display certain characteristics of emerging markets. These characteristics include, but are not limited to, the existence of a currency that is, in practice, not convertible in most countries and relatively high inflation. Furthermore, the tax, currency, and customs legislation within these countries is subject to varying interpretations and changes which can occur frequently.

Volatility in financial and commodity markets. The Group has been closely monitoring the ongoing 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

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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.

In addition, the Group's results are impacted by the demand and price of crude oil. During 2008, the worldwide demand for crude oil decreased significantly resulting in an unprecedented decline in crude oil prices since mid-year 2008. The spot price for Brent crude oil, a benchmark crude, started 2008 at \$97 per barrel and peaked at \$144 in early July. At the end of the year, the Brent price had fallen to \$36 per barrel. This decline in crude prices in combination with the lag effect of applying Russian export duties based on recent as opposed to prevailing crude prices negatively impacted the Group's operating results and financial condition in the fourth quarter of 2008.

Management is taking these developments and the ongoing volatility in financial and commodity markets into account in the conduct of daily operations and for 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 31 December 2008, 2007 and 2006 the Group's capitalized costs related to its gas subsidiaries amounted to USD 1,329 million, USD 1,310 million and USD 1,197 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 agreement with Gazprom, Russia's gas monopoly which owns and operates the system. Currently, the Group does not have long-term access to this system.

Taxation. Russian tax and customs legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities. Recent developments suggest that the authorities are becoming more active in seeking to enforce, through the Russian court system, interpretations of tax legislation which may be selective for particular taxpayers and different to the authorities' previous interpretations or practices. Different and selective interpretations of tax regulations by various government authorities and inconsistent enforcement create further uncertainties in the taxation environment in the Russian Federation.

Tax declarations, together with related documentation, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Fiscal periods remain open to review by the authorities for the three calendar years preceding the year of review (one year in the case of customs). Under certain circumstances reviews may cover longer periods. In addition, in some instances new tax regulations have taken retroactive effect. Additional taxes, penalties and interest which may be material to the financial position of the taxpayers may be assessed in the Russian Federation as a result of such reviews.

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

In December 2004, the Russian tax authorities issued a decision challenging, among other things, the use of profit tax concessions claimed by TNK with respect to the reinvestment of profits in fixed production assets in 2001 and made a claim for USD 143 million (Russian Rouble 4 billion) including fines and penalty interest. This amount was paid in December 2006. In December 2008, the Group won an appeal related to the income tax penalties and recognized a gain amounting to USD 16 million.

The Russian tax authorities performed a repeat tax audit on TNK's 2001 activities and in April 2005 presented TNK with a tax act totaling approximately USD 578 million (Russian Rouble 16 billion) which, among other things, challenged the use of reduced tax rate economic zones. Following objections presented by the Group, the tax act amount was reduced and the Russian tax authorities issued a final decision in the amount of USD 247 million (Russian Roubles 7 billion) including penalty interest and fines. This amount was paid in August 2005. In November 2007, the Group won an appeal related to the income tax penalties and recognized a gain amounting to USD 57 million.

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In November 2005, the Russian tax authorities presented a claim in respect of the use of profit tax concessions by a Group trading subsidiary in 2001 in the amount of USD 340 million (Russian Roubles 9.8 billion). A tax decision in the same amount was received in January 2006. The Group subsequently challenged this decision in the courts. In October 2006, the Group received favorable court rulings which reduced the amount of the exposure to USD 276 million (Russian Roubles 7.3 billion). In January 2008, the trading subsidiary was declared bankrupt with the amount of the exposure fixed at Russian Roubles 8.3 billion (USD 282 million at the rate of 31 December 2008). As of 31 December 2008 the exposure amounted to USD 273 million. In January 2009, following the completion of bankruptcy proceeding, the trading subsidiary was liquidated per court ruling. The Group believes that it has made adequate provision for the outcome of this matter.

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

Pursuant to tax audits conducted in 2006 and 2007, the Russian tax authorities have presented tax acts and decisions in the amount of USD 314 million (Russian Roubles 9.2 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 higher tax authorities or in the courts. As of 31 December 2008, the Group had received favorable court rulings in respect of USD 63 million of the above amount. The Group believes that it has made 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 110 million (Russian Roubles 3.1 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 adequate provision for the outcome of the matters raised by the tax authorities.

As of 31 December 2008, 2007 and 2006, the Group has recorded a liability in the amount of USD 392 million (Russian Roubles 11.5 billion), USD 465 million (Russian Roubles 11.4 billion), USD 448 million (Russian Roubles 11.8 billion), respectively, related to the matters discussed above.

Oilfield and gasfield licenses. The Group is subject to periodic reviews of its activities by 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 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 10. Capitalized costs relating to the Kovykta project amounted to USD 664 million and USD 657 million as of 31 December 2008 and 2007, respectively. Management continues to believe that these capitalized costs will be fully recovered through the intended sale to Gazprom and considers that Kovykta related assets and liabilities are appropriately presented as assets held for sale and liabilities associated with assets held for sale as of 31 December 2008.

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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 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 235 million, USD 167 million and USD 173 million as of 31 December 2008, 2007 and 2006, 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.

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 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 2000, the Group acquired a 59.0 percent interest in LINOS, a refining company located in Eastern Ukraine, in a privatization auction. As of the date of acquisition, LINOS was under external management appointed in September 2000 by the Supreme Arbitration Court of Ukraine, for a period of up to 10 years. The external management was charged with restoring LINOS to solvency through economic reform and restructuring the refinery's obligations. During the period of external management all claims against LINOS were suspended. On 6 February 2003, the Ukrainian Court approved a plan by the external manager to restructure LINOS. Under the restructuring plan, a new company, LINIK, was formed by the Group. In accordance with the plan, the refining assets of LINOS were contributed to LINIK; the Group and minority shareholders also contributed cash and their equity interests in LINOS. In November 2003, the external management obtained a final agreement with certain LINOS creditors as to the completion of the restructuring plan. Those creditors with valid claims against LINOS when declared bankrupt were granted an equity interest in LINIK resulting in the bankruptcy proceedings being cancelled in December 2003. In December 2006, further bankruptcy proceedings against LINOS were initiated by the creditors who were not part of the initial agreement. On 9 October 2007, the Court ruled that liquidation of LINOS could proceed. In April 2008, pursuant to the liquidation process, most of the remaining assets of LINOS, primarily an equity interest in LINIK, were sold to a Group subsidiary for USD 43 million. On 1 July 2008, the bankruptcy procedures were completed and LINOS was liquidated. The resolution of this matter did not have a material impact on the financial position of the Group.

On 18 April 2008, a minority shareholder in OAO TNK-BP Holding ("TNK-BP Holding"), a Group subsidiary, filed a suit in the Tyumen Arbitration Court against TNK-BP Management ("TBM") and BP Exploration Services, a subsidiary of BP, alleging that an agreement between BP and TBM to provide services by BP specialists to TBM (the "Services Agreement") was invalid. The suit petitioned the Court to rule the Services Agreement null and void. Pursuant to the claimant's application, on 30 April 2008 the Tyumen Arbitration Court issued an injunction suspending all activities under the Services Agreement. On 23 July 2008, the Tyumen Arbitration Court ruled the Services Agreement null and void. Subsequently, following the filing of an appeal

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by the Group, the minority shareholder withdrew its claim and the case was discontinued in its entirety with all previous court rulings being annulled.

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 (Russian Roubles 1.1 billion) against TNK-BP Holding. The Group believes that it has meritorious grounds to appeal the decision of the FAS and related fines and such appeal was filed in January 2009. In addition, the FAS has publicly stated that it intends to conduct further investigations of industry practices with regard to refined products pricing.

Other matters. In 2008, a number of differences arose between BP and AAR, the shareholders of TNK-BP. These included disputes with regard to the provision of services by BP specialists to the Group, the employment of non-Russian nationals by the Group, and the board of director nomination process for certain subsidiaries of the Group including TNK-BP Holding.

Following the Memorandum of Understanding entered into by the shareholders of TNK-BP in September 2008, a revised shareholder Agreement was signed in January 2009. The revised Agreement includes, among other matters, changes to the composition and authority of the TNK-BP Board of Directors as well as to the charters of significant TNK-BP subsidiaries and provisions regarding the appointment of executives of the Group. Also in January 2009, a new Board of Directors of TNK-BP was appointed, which, in line with the revised Agreement, consists of four representatives from each of the two shareholder groups and three independent directors.

Note 22: Segment information

Presented below is information about the Group’s operations for years ended 31 December 2008, 2007 and 2006 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.

During 2008, 2007 and 2006, Group sales of crude oil and petroleum products in the RM&D segment to a major customer, an international oil trader, constituted 12.3%, 19.7% and 10.4% of total Group revenues, respectively.

Revenues from third parties are assigned to the countries of operation from which the revenues are derived.

Commencing 1 January 2008, certain changes to segment measures reported to management were introduced with the following effects for segment reporting:

- The Group discloses EBITDA by segment as a measure of profit.
- All crude oil sales in the E&P segment are presented as intersegment revenues.
- E&P segment revenues are presented using notional intersegment prices which are set at the lowest netback available depending on type of crude and distribution channel.
- Projects related costs incurred on corporate level are allocated to individual segments.
- All trade accounts receivable and export value-added tax receivable are presented as RM&D assets.
- Accounts receivable from and loans issued to Group subsidiaries are not allocated to individual segments.

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- Segment assets are presented net of intersegment loans as the latter are considered to be managed by the corporate treasury function.
- Segment information is prepared using forecasted factors. Other differences included in the reconciliation in the table below represent differences between estimated and actual results.

As of 31 December 2008 and for the year ended 31 December 2008	Exploration and Production	Refining, Marketing and Distribution	Oil Field Services	Other	Elimination	Total
Revenues						
Third parties	813	50,808	62	-	-	51,683
Intersegment	19,107	28	551	-	(19,686)	-
Segment revenues	19,920	50,836	613	-	(19,686)	51,683
Net loss related to derivatives						173
Other revenues not allocated to segments						30
Consolidated revenues						51,886
EBITDA	5,340	5,246	158	120	(322)	10,542
Segment assets	16,641	8,400	322	3,634	(290)	28,707
Capital expenditures	3,606	473	123	14	(63)	4,153

EBITDA for the year ended 31 December 2008 is reconciled to income before income taxes as follows:

Segment EBITDA	10,542
Depreciation, depletion and amortization	(1,564)
Interest expense	(500)
Exchange gain / (loss), net	(229)
Loss on disposals and impairment of assets	(173)
Interest income and net other income, excluding net loss related to derivatives	158
Non-recoverable VAT	(87)
Other differences	(179)
Income before income taxes	7,968

In prior periods, E&P segment revenues were presented based on actual realized prices before the deduction of export duties and transportation costs. Project related costs incurred on corporate level were included in the Other segment. Intersegment loans and receivables were included in segment assets. Trade accounts receivable and export value-added tax receivable relating to sales of E&P entities were presented in E&P segment assets. Further, segment information was prepared based on actual results.

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As of 31 December 2007 and for the year ended 31 December 2007	Exploration and Production	Refining, Marketing and Distribution	Oil Field Services	Other	Elimination	Consolidated
Revenues						
Third parties	2,158	36,715	36	17	-	38,926
Inter-segment	23,386	295	561	87	(24,329)	-
Total revenues	25,544	37,010	597	104	(24,329)	38,926
Depreciation, depletion and amortization	(1,039)	(205)	(133)	(37)	-	(1,414)
Earnings from equity investments	4	-	-	305	-	309
Interest expense	(116)	(175)	-	(466)	211	(546)
Income before income taxes	5,135	3,668	(72)	(821)	(165)	7,745
Advances to and investments in affiliates and joint ventures	-	-	-	2,279	-	2,279
Total Assets	24,755	14,580	455	8,573	(19,024)	29,339
Capital expenditures	3,239	360	121	23	(40)	3,703

As of 31 December 2006 and for the year ended 31 December 2006	Exploration and Production	Refining, Marketing and Distribution	Oil Field Services	Other	Elimination	Consolidated
Revenues						
Third parties	849	34,802	58	16	-	35,725
Inter-segment	18,684	193	600	88	(19,565)	-
Total revenues	19,533	34,995	658	104	(19,565)	35,725
Depreciation, depletion and amortization	(924)	(166)	(129)	(30)	-	(1,249)
Earnings from equity investments	71	-	-	436	-	507
Interest expense	(78)	(218)	-	(205)	151	(350)
Income before income taxes	4,190	3,319	(70)	2,417	(29)	9,827
Advances to and investments in affiliates and joint ventures	75	-	-	2,093	-	2,168
Total Assets	19,526	12,787	451	7,165	(16,161)	23,768
Capital expenditures	2,266	346	92	31	(10)	2,725

Segment Information by Geographical Areas

	As of and for the year ended 31 December 2008		As of and for the year ended 31 December 2007		As of and for the year ended 31 December 2006	
	Revenues	Long-lived assets excluding deferred tax assets	Revenues	Long-lived assets excluding deferred tax assets	Revenues	Long-lived assets excluding deferred tax assets
Russian Federation	48,463	21,270	36,278	17,818	33,423	14,643
Ukraine	3,423	256	2,648	240	2,302	239
Consolidated	51,886	21,526	38,926	18,058	35,725	14,882

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Note 23: Subsequent Events

Effective 1 January 2009, the Group adopted the US GAAP guidance on consolidation as it relates to non-controlling interests – see Note 3. This guidance changed the accounting and reporting standards for minority interests, which were recharacterized as non-controlling interests and classified as a component of equity. In accordance with this guidance, the Group changed retrospectively the presentation of existing minority interests in these consolidated financial statements.

In relation to tax matters discussed in Note 21, in January 2009, following the completion of bankruptcy proceeding, a trading subsidiary of the Group was liquidated per court ruling. Following the liquidation, 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.

In relation to tax audits conducted in 2007 and 2006 discussed in Note 21, the Group currently 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).

In relation to tax audits conducted in 2008 discussed in Note 21, the Group currently 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).

In January 2009, the Group fully repaid a short-term secured credit line of USD 400 million discussed in Note 14 ahead of schedule. The Group early terminated this loan agreement in September 2009.

In January 2009, the Group obtained a loan from Gazprombank in the amount of USD 500 million. The loan was fully repaid ahead of schedule on 29 July 2009.

In relation to the loan from NVGRES discussed in Note 14, in May 2009 the Group fully repaid the outstanding amount of the loan of EUR 211 million (USD 297 million as of 31 December 2008).

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.

On 27 July 2009, the Group completed the disposal of its oil field services business to Weatherford International Ltd. (“Weatherford”). In exchange, the Group received 24.3 million Weatherford ordinary shares with an attached price guarantee. 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. Pursuant to the 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. 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 realized.

In relation to the FAS investigations of jet fuel and gasoline pricing on the wholesale markets, as discussed in Note 21, 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 successfully appeal the FAS decision and the related fines and, in December 2009, has obtained a favourable ruling at the first court hearing which is subject to appeal by FAS.

The Group declared and paid dividends of USD 2,603 million from 1 January 2009 to 8 December 2009.

TNK-BP INTERNATIONAL LIMITED

Supplemental Information on Oil and Gas Exploration and Production Activities (Unaudited)

(expressed in US Dollars, tabular amounts in millions)

Supplemental information on Oil and Gas Exploration and Production Activities (Unaudited)

This section provides unaudited supplemental information on oil and gas exploration and production activities in accordance with SFAS No. 69, *Disclosures About Oil and Gas Producing Activities*, in six separate sections:

- I. Capitalized costs relating to oil and gas producing activities
- II. Costs incurred in oil and gas property acquisition, exploration and development activities
- III. Results of operations for oil and gas producing activities
- IV. Reserve quantity information
- V. Standardized measure of discounted future net cash flows
- VI. Principal sources of changes in the standardized measure of discounted future net cash flows

I. Capitalized Costs Relating to Oil and Gas Producing Activities

	31 December 2008	31 December 2007
Oil and gas properties and equipment, <i>including unproved oil and gas properties</i>	17,197	15,073
<i>1,268</i>	<i>1,327</i>	
Oil field services properties and equipment	529	629
Assets under construction related to oil and gas properties	2,040	1,394
Accumulated depreciation, depletion, and amortization	(5,149)	(4,527)
Net capitalized costs for consolidated subsidiaries	14,617	12,569
Group's share in net capitalized costs of equity affiliate	2,192	1,795

II. Costs Incurred in Oil and Gas Property Acquisition, Exploration and Development Activities

	Year ended 31 December 2008	Year ended 31 December 2007
Consolidated subsidiaries		
Acquisition of properties - proved	-	143
Acquisition of properties - unproved	14	638
Exploration costs capitalized	211	166
Exploration costs expensed	85	156
Development costs	3,318	2,893
Total costs incurred in consolidated subsidiaries	3,628	3,996
Group's share in costs incurred by equity affiliate	596	532

The total costs incurred in consolidated subsidiaries for the year ended 31 December 2007 include costs associated with the acquisition of Vanyoganneft – see Note 4.

III. Results of Operations for Oil and Gas Producing Activities

The Group's results of operations for oil and gas producing activities are presented below. In accordance with SFAS No. 69, transfers to Group companies are based on market prices. Income taxes are based on statutory rates. The results of operations exclude corporate overhead and interest costs.

	Year ended 31 December 2008	Year ended 31 December 2007
Consolidated subsidiaries		
Revenue		
Sales	22,815	19,497
Transfers	8,304	6,312
Export duties and transportation expenses	(11,005)	(8,164)
Total revenues	20,114	17,645
Production costs (excluding production taxes)	3,844	2,892
Exploration expense	85	156
Depreciation, depletion and amortization	1,213	1,172
Taxes other than income taxes	9,675	6,741
Related income taxes	1,091	1,356
Total results of operations of consolidated subsidiaries	4,206	5,328
Group's share in results of operations of equity affiliate	212	372

TNK-BP INTERNATIONAL LIMITED

Supplemental Information on Oil and Gas Exploration and Production Activities (Unaudited)

(expressed in US Dollars, tabular amounts in millions)

IV. Reserve Quantity Information

The following information presents the quantities of proved oil and gas reserves and changes thereto as at and for the years ended 31 December 2008 and 31 December 2007. The definitions used are in accordance with United States Securities and Exchange Commission ("SEC") regulations.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions (i.e. prices and costs as of the date the estimate is made). Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are inherently imprecise, require the application of judgment and are subject to change over time as additional information becomes available.

Proved developed reserves are those reserves which are expected to be recovered through existing wells with existing equipment and operating methods.

All of the Group's and its equity affiliate's proved reserves are located in the Russian Federation. Management has included within proved reserves significant reserves quantities which the Group expects to have production after the expiry dates of certain of its current production licenses. Management believes these licenses may be extended provided the Group is in compliance with the license terms and approval is obtained from the appropriate regulatory authority; management intends to extend such licenses for properties expected to have produced subsequent to their license expiry dates. The Group has already extended a number of these licenses and to date there have been no unsuccessful license renewal applications.

Estimated net proved oil and gas reserves and changes thereto for the years ended 31 December 2008 and 31 December 2007 are shown in the tables set out below.

	Year ended 31 December 2008	Year ended 31 December 2007
Crude oil, gas condensate and natural gas liquids, Millions of barrels		
Consolidated subsidiaries		
Net proved reserves as of beginning of year	7,856	7,440
Revisions of previous estimates	(86)	505
Purchase of hydrocarbons in place	-	72
Extensions and discoveries	214	417
Production	(532)	(530)
Sales of hydrocarbons in place	(6)	(48)
Net proved reserves of consolidated subsidiaries as of end of year	7,446	7,856
Group's share in net proved reserves of equity affiliate as of end of year	643	715
Net proved developed reserves of consolidated subsidiaries as of end of year	4,697	5,105
Group's share in net proved developed reserves of equity affiliate as of end of year	347	419
 Natural gas, Billions cubic feet		
Consolidated subsidiaries		
Net proved reserves as of beginning of year	2,140	1,762
Revisions of previous estimates	2,126	674
Purchase of hydrocarbons in place	-	17
Production	(400)	(313)
Net proved reserves of consolidated subsidiaries as of end of year	3,866	2,140
Group's share in net proved reserves of equity affiliate as of end of year	114	79
Proved developed reserves as of end of year	2,754	2,140
Group's share in proved developed reserves of equity affiliate as of end of year	67	79

TNK-BP INTERNATIONAL LIMITED

Supplemental Information on Oil and Gas Exploration and Production Activities (Unaudited)

(expressed in US Dollars, tabular amounts in millions)

V. Standardized Measure of Discounted Future Net Cash Flows

The standardized measure of discounted future net cash flows is calculated in accordance with SFAS 69 which requires measurement of future net cash flows by applying year-end prices and costs and an annual discount factor of ten percent to year-end quantities of estimated net proved reserves using a standardized formula. The calculation requires extensive judgment in estimating the timing of future production of reserves. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculation. As a result, future cash flows calculated under SFAS 69 are not necessarily indicative of the Company's future cash flows, nor the fair value of its oil and gas reserves; other assumptions of equal validity could give rise to materially different results.

	31 December 2008	31 December 2007
Consolidated subsidiaries		
Future cash inflows	131,097	320,069
Future production and development costs	(111,369)	(234,416)
Future income tax expenses	(4,200)	(20,714)
Future net cash flows	15,528	64,939
Discount for estimated timing of cash flows (10% p.a.)	(7,987)	(35,751)
Standardized measure of discounted future net cash flows of consolidated subsidiaries	7,541	29,188
Group's share in discounted future net cash flows of equity affiliate	531	2,905

Future dismantlement, abandonment and rehabilitation costs are included as a part of future production and development costs.

VI. Principal Sources of Changes in the Standardized Measure of Discounted Future Net Cash Flows

	Year ended 31 December 2008	Year ended 31 December 2007
Consolidated subsidiaries		
Standardized measure of discounted future net cash flows as of the beginning of year	29,188	19,819
Sales and transfers of oil and gas produced, net of production costs	(6,595)	(7,856)
Net changes in prices and production costs, including production taxes	(33,177)	16,810
Extensions and discoveries, less related costs	347	2,299
Development costs incurred during the year	2,224	1,547
Changes in estimated future development costs	2,793	(3,987)
Revisions of previous quantity estimates	1,026	1,619
Net changes due to purchases and sales of minerals in place	(15)	288
Accretion of discount	3,924	2,550
Net change in income taxes	7,826	(3,901)
Standardized measure of discounted future net cash flows of consolidated subsidiaries as of the end of year	7,541	29,188

TNK-BP INTERNATIONAL LIMITED
Interim Condensed Consolidated Balance Sheets (Unaudited)
 (expressed 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)
(expressed 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 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			<u>3,732</u>
Total Group shareholders' equity as of 30 September 2009		<u>15,890</u>	
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			<u>206</u>
Total noncontrolling interest as of 30 September 2009		<u>1,220</u>	
Total comprehensive income for the period			<u>3,938</u>
Total equity as of 30 September 2009		<u>17,110</u>	
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 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 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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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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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
<hr/>		
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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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 5. 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.

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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

TNK-BP INTERNATIONAL LIMITED

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(expressed in USD, tabular amounts in millions)

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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(expressed in USD, tabular amounts in millions)

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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(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 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

TNK-BP INTERNATIONAL LIMITED

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(expressed in USD, tabular amounts in millions)

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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Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

(expressed in USD, tabular amounts in millions)

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

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

(expressed in USD, tabular amounts in millions)

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

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 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.

Independent Auditor's report

To the Shareholders of
TNK-BP Finance S.A.

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We have audited the accompanying annual accounts of TNK-BP Finance S.A., which comprise the balance sheet as at December 31, 2008, the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the Auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the Auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, these annual accounts give a true and fair view of the financial position of TNK-BP Finance S.A. as of December 31, 2008, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

PricewaterhouseCoopers S.à r.l.
Réviseur d'entreprises
Represented by

Luxembourg, June 9, 2009



Günter Simon

(2)

BALANCE SHEET**TNK-BP Finance S.A.**

AS AT DECEMBER 31, 2008

		<u>31 December 2008</u>	<u>31 December 2007</u>
	<u>Note(s)</u>	USD	USD
ASSETS			
Fixed assets			
Financial Assets			
Loans to affiliated undertakings	3		
a) receivable within one year		-	500,000,000
b) receivable after more than one year		6,740,870,182	7,595,415,636
Current assets			
Debtors	4		
Amounts owed by affiliated undertakings			
a) becoming due and payable within one year		124,468,805	121,087,431
Other debtors		27,763	246,741
Cash at bank		75,500	153,870
Total Assets		<u>6,865,442,250</u>	<u>8,216,903,678</u>
SHAREHOLDERS' EQUITY AND LIABILITIES			
Capital and reserves			
Subscribed capital	5	58,938	58,938
Legal reserve	6	5,894	5,894
Result carried forward		(6,201)	10,679
Profit/loss for the financial year		<u>805,109</u>	<u>(16,880)</u>
		863,740	58,631
Provisions for liabilities and charges			
Provisions for taxation	8	994,218	879,828
Creditors			
Bonds			
Non-convertible bonds	10		
a) becoming due and payable after one year		4,465,839,109	4,461,852,758
b) becoming due and payable within one year		111,569,778	101,697,958
Amounts owed to credit institutions	9		
a) becoming due and payable after more than one year		1,260,606,060	2,281,818,181
b) becoming due and payable within one year		1,025,552,323	1,370,360,322
Other Creditors			
a) becoming due and payable within one year		<u>17,022</u>	<u>236,000</u>
Total Liabilities		<u>6,865,442,250</u>	<u>8,216,903,678</u>

The notes on pages 5 to 10 form an integral part of these annual accounts.

PROFIT AND LOSS ACCOUNT

FOR THE YEAR 2008

TNK-BP Finance S.A.

	<u>Note(s)</u>	<u>31 December 2008</u>	<u>31 December 2007</u>
		USD	USD
CHARGES:			
Other operating charges		72,962	4,313,050
Amortization of bond discount and bond issue cost		3,986,352	2,255,424
Interest payable and similar charges			
a) other interest payable and charges		449,140,083	416,954,866
Income tax	8	647,267	632,549
Profit for the financial year		805,109	-
Total charges		454,651,773	424,155,889
INCOME:			
Other operating income		576,157	4,307,460
Income from other transferable securities and from loans forming part of the fixed assets			
a) derived from affiliated undertakings		454,075,616	419,831,549
Loss for the financial year		-	16,880
Total income		454,651,773	424,155,889

The notes on pages 5 to 10 form an integral part of these annual accounts.

Note 1 - General information

TNK-BP Finance S.A. (“the Company”) was incorporated on April 11, 2005 in Luxembourg, as a société anonyme and is registered at the trade registry under the number RC B 107.428. The Company was established by its shareholders for debt finance purposes. On February 1, 2009 the shareholders decided to transfer the registered office to 23, boulevard Dr. Charles Marx in L-2130 Luxembourg.

The corporate object of the Company is the acquisition, holding and disposal of participations directly or indirectly, in any form whatsoever, in Luxembourg companies and/or foreign companies or other entities; the direct and/or indirect financing of the companies and/or entities in which it holds a participation or which are members of the group to which it belongs; the acquisition by purchase, subscription or in any other manner as well as the transfer by sale, exchange or otherwise of stock, bonds, debentures, notes or other securities of any kind of instrument and contracts thereon or relative thereto; and the ownership, administration, development and management of its portfolio holdings.

The Company may carry out any transactions, whether commercial or financial which are directly or indirectly connected with its object at the exclusion of any banking activity.

In general the Company may carry out any operation which it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

The Company’s financial year starts on January 1 and ends on December 31 of each year.

The Company has registered a guaranteed debt issuance programme under which the issuer may issue and have outstanding at any time notes up to a maximum aggregate amount of USD 8,000,000,000.

The prospectus for this guaranteed debt issuance programme dated September 7, 2005 and the updates of this guaranteed debt issuance programme dated December 7, 2006 and October 5, 2007 were approved by the “Commission de Surveillance du Secteur Financier”.

The Company is included in the consolidated accounts of TNK-BP International Limited forming at once the largest and the smallest body of undertakings of which the Company forms a part as a subsidiary undertaking. The registered office of that company is located Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands and the consolidated accounts are available at the registered office of the Company.

Note 2 - Summary of significant accounting policies

2.1 Basis of preparation

The Company maintains its books in US Dollars (“USD”). The annual accounts have been prepared in accordance with Luxembourg legal and regulatory requirements. Accounting policies and valuation rules are, besides the ones laid down by the Law, determined and applied by the Board of Directors.

2.2 Financial assets

Financial assets are recorded at their acquisition price, including the expenses incidental thereto. In case of a durable depreciation in value according to the opinion of the board of the Directors value adjustments are made in respect of financial assets. Those value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

2.3 Current liabilities

Current liabilities are valued at nominal value.

2.4 Foreign currency translation

The Company holds its accounting records in USD as a significant portion of its shareholders' business is conducted in USD and management uses the USD to manage the financial risks and exposures, and to measure its performance. The balance sheet and the profit and loss account are expressed in this currency.

Income and charges denominated in foreign currencies are converted in USD at the exchange rate prevailing at the time of the transaction.

At the end of the financial year, current assets and liabilities are converted at the exchange rate prevailing at the year-end. Exchange profits and losses are recorded in the profit and loss account, as well as unrealised exchange losses. Unrealised exchange gains are not recorded.

2.5 Current debtors

Debtors are valued at their nominal value. They are subject to value adjustments where their recovery is compromised. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

2.6 Provisions for liabilities and charges

Provisions for liabilities and charges are intended to cover losses or debts the nature of which is clearly defined and which, at the date of the balance sheet are either likely to be incurred or certain to be incurred but uncertain as to their amount or as to the date on which they will arise.

Note 3 - Loans to affiliated undertakings

As at December 31, 2008, the Company's financial assets are composed by loans denominated in US Dollars to a group company named TOC Investments Corporation.

Loan agreement (L.A.) and date / period / conditions	Principal amount receivable within 1 year	Principal amount receivable after 1 year	Interest receivable (USD)
L.A. dated 20.06.06 / floater / LIBOR+0.65%		981,818,182	1,626,190
L.A. dated 18.07.06 / until 18.07.11 / 7.08%		496,205,000	17,328,300
L.A. dated 18.07.06 / until 18.07.16 / 7.64%		992,080,000	35,690,400
L.A. dated 23.11.06 / floater / LIBOR +0.575%		900,000,000	936,094
L.A. dated 15.03.07 / 20.03.07-20.3.12 / 6.19%		498,755,000	8,950,076
L.A. dated 15.03.07 / 20.03.07-20.3.17 / 6.78%		792,408,000	16,073,667
L.A. dated 10.10.07 / 11.10.07-13.3.13 / 7.73%		594,696,000	14,569,962
L.A. dated 10.10.07 / 11.10.07-13.3.18 / 8.12%		1,084,908,000	27,516,199
L.A. dated 06.11.07 / floater / LIBOR+0.75%		400,000,000	1,777,917
Balance as at December 31, 2008		<u>6,740,870,182</u>	<u>124,468,805</u>

As at December 31, 2007:

Loan agreement (L.A.) and date / period / conditions	Principal amount receivable within 1 year	Principal amount receivable after 1 year	Interest receivable (USD)
L.A. dated 16.09.05 / floater / LIBOR +0.7%	500,000,000		3,485,938
L.A. dated 20.06.06 / floater / LIBOR+0.65%		1,636,363,636	5,532,784
L.A. dated 18.07.06 / until 18.07.11 / 7.08%		496,205,000	16,569,300
L.A. dated 18.07.06 / until 18.07.16 / 7.64%		992,080,000	34,898,400
L.A. dated 23.11.06 / floater / LIBOR +0.575%		900,000,000	2,393,813
L.A. dated 15.03.07 / 20.03.07-20.3.12 / 6.19%		498,755,000	8,701,214
L.A. dated 15.03.07 / 20.03.07-20.3.17 / 6.78%		792,408,000	15,314,678
L.A. dated 10.10.07 / 11.10.07-13.3.13 / 7.73%		594,696,000	10,217,266
L.A. dated 10.10.07 / 11.10.07-13.3.18 / 8.12%		1,084,908,000	19,571,705
L.A. dated 06.11.07 / floater / LIBOR+0.75%		600,000,000	4,402,333
Balance as at December 31, 2007	<u>500,000,000</u>	<u>7,595,415,636</u>	<u>121,087,431</u>

Note 4 - Debtors

As at December 31, 2008 the outstanding debtor balance was USD 124,511,568. This is represented by the balance due from TNK-BP International Limited in respect of expenses incurred by the company for the amount of USD 42,763 as well as accrued interest of USD 124,468,805 on the loans granted to a group company as exposed in Note 3.

Note 5 - Subscribed capital

The subscribed share capital was issued in EUR and was represented by 31 shares fully paid up of EUR 1,000 each. The share capital was translated on July 20, 2006 into USD at the exchange rate of EUR/USD = 1.254 making for the share capital an amount of USD 38,874. The par value of the shares is USD 1,254. On December 4, 2006 an extra-ordinary meeting of the shareholders has decided to increase the share capital from USD 38,874 to USD 58,938 by issuing 16 new shares having a par value of USD 1,254 each.

Note 6 - Legal reserve

In accordance with Luxembourg law, the Company is required to set aside a minimum of 5% of its annual net profit for each financial period to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve has reached 10% of the issued subscribed capital. The legal reserve is not available for distribution to the shareholders.

Note 7 - Capital and reserves

The movements for the year are as follows:

	Legal reserve (USD)	Profit or loss brought forward (USD)	Profit or loss for the financial year (USD)
As at December 31, 2007	5,894	10,679	(16,880)
Movements for the year			
- Allocation of prior year's profit or loss	-	(16,880)	16,880
- Profit or loss of the year	-	-	805,109
As at December 31, 2008	5,894	(6,201)	805,109

Note 8 - Taxation and provision for taxation

The Company is subject in Luxembourg to the general tax regulation applicable to all commercial companies. The tax provision for 2007 and 2008 amounts to USD 994,218 and corresponds to the tax liability estimated by the Company. The advance payments are shown in the assets of the balance sheet in the "Other debtors" item.

Note 9 - Amounts owed to credit institutions

Name of the bank (facility agent and date of agreement) / conditions	Amount payable within 1 year (USD)	Amount payable after 1 year (USD)	Interest outstanding (USD)
Calyon 20.06.06 / floater, LIBOR +0.65%	654,545,455	327,272,727	1,626,190
BNP Paribas 09.11.06 / floater, LIBOR +0.575%	100,000,000	800,000,000	936,094
ING Bank NV 06.11.07 / floater, LIBOR +0.75%	266,666,667	133,333,333	1,777,917
Balance as at December 31, 2008	<u>1,021,212,122</u>	<u>1,260,606,060</u>	<u>4,340,201</u>

The loans are guaranteed by TNK-BP International Limited. As of year-end there are no loans with a maturity more than 5 years.

The loans are provided by a consortium of international banks for the general corporate purpose of the ultimate controlling party (Note 11). The loans are denominated in USD.

As at December 31, 2007:

Name of the bank (facility agent and date of agreement) / conditions	Amount payable within 1 year (USD)	Amount payable after 1 year (USD)	Interest outstanding (USD)
HSBC Bank plc 13.09.05 / floater, LIBOR +0.7%	500,000,000		3,485,937
Calyon 20.06.06 / floater, LIBOR +0.65%	654,545,455	981,818,181	5,532,784
BNP Paribas 09.11.06 / floater, LIBOR +0.575%		900,000,000	2,393,813
ING Bank NV 06.11.07 / floater, LIBOR +0.75%	200,000,000	400,000,000	4,402,333
Balance as at December 31, 2007	<u>1,354,545,455</u>	<u>2,281,818,181</u>	<u>15,814,867</u>

Note 10 - Bonds issued in the framework of the Debt Issuance Programme

TNK-BP BONDS	Face value	Amortized discount	Amortized Bond Issue Cost	Net Result
	(USD)	(USD)	(USD)	(USD)
Bonds series 1 to 6 Notes	4,500,000,000	(27,146,522)	(7,014,367)	4,465,839,109

The bonds are guaranteed by TNK-BP International Limited.

As at December 31, 2007:

TNK-BP BONDS	Face value	Amortized discount	Amortized Bond Issue Cost	Net Result
	(USD)	(USD)	(USD)	(USD)
Bonds series 1 to 6 Notes	4,500,000,000	(30,175,390)	(7,971,852)	4,461,852,758

The presentation of note 10 changed compared to last year's accounts. The cost for amortized discount and the amortized bond issue cost are shown separately.

Note 11 - Related parties

The Company's immediate shareholders are Novy Investments Limited and Martanco Holdings Limited both incorporated in Republic of Cyprus. The Company is controlled by TNK-BP International Limited, incorporated in British Virgin Islands, which owns 100% of immediate shareholders. The Company's ultimate controlling party is TNK-BP Limited, incorporated in British Virgin Islands, whose registered office is established at Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands.

Independent Auditor's report

To the Shareholder(s) of
TNK-BP Finance S.A.

PricewaterhouseCoopers
Société à responsabilité limitée
Réviseur d'Entreprises
400, route d'Esch
B.P. 1443
L-1014 Luxembourg
Telephone +352 494848-1
Facsimile +352 494848-2900
www.pwc.com/lu
info@lu.pwc.com

We have audited the accompanying annual accounts of TNK-BP Finance S.A., which comprise the balance sheet as at December 31, 2007, and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the Auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the Auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, these annual accounts give a true and fair view of the financial position of TNK-BP Finance S.A. as of December 31, 2007, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

PricewaterhouseCoopers S.à r.l.
Réviseur d'entreprises
Represented by

Luxembourg, June 25, 2008


Günter Simon

(2)

BALANCE SHEET

AS AT 31 DECEMBER 2007

TNK-BP Finance S.A.

		<u>31 December 2007</u>	<u>31 December 2006</u>
	<u>Note(s)</u>	<u>USD</u>	<u>USD</u>
ASSETS			
Fixed assets			
Financial Assets			
Loans to affiliated undertakings	3		
a) receivable within one year		500,000,000	1,000,000,000
b) receivable after more than one year		7,595,415,636	4,788,285,000
Current assets			
Debtors			
Amounts owed by affiliated undertakings			
a) becoming due and payable within one year		121,087,431	71,139,040
Other debtors	4	246,741	40,025
Cash at bank		153,870	174,868
Total Assets		<u>8,216,903,678</u>	<u>5,859,638,933</u>
SHAREHOLDERS' EQUITY AND LIABILITIES			
Capital and reserves			
Subscribed capital	5	58,938	58,938
Legal reserve	6	5,894	-
Result carried forward		10,679	-
Profit/loss for the financial year		(16,880)	16,573
		58,631	75,511
Provisions for liabilities and charges			
Provisions for taxation	8, 11	879 828	273,063
Creditors			
Bonds			
Non-convertible bonds	10		
a) becoming due and payable after one year		4,500,000,000	1,500,000,000
b) becoming due and payable within one year		63,550,716	38,049,084
Amounts owed to credit institutions	9		
a) becoming due and payable after more than one year		3,136,363,636	4,300,000,000
b) becoming due and payable within one year		515,814,867	21,222,340
Other Creditors			
a) becoming due and payable within one year		236,000	18,935
Total liabilities		<u>8,216,903,678</u>	<u>5,859,638,933</u>

The notes on pages 5 to 10 form part of these financial statements

PROFIT AND LOSS ACCOUNT

FOR THE YEAR 2007

TNK-BP Finance S.A.

		<u>31 December 2007</u>	<u>31 December 2006</u>
	<u>Note(s)</u>	USD	USD
CHARGES:			
Other operating charges		4,313,050	1,832,180
Amortization of bond discount and bond issue cost		2,255,424	545,334
Interest payable and similar charges			
a) other interest payable and charges		416,954,866	174,119,686
Income tax	11	632,549	262,792
Profit for the financial year		<u>-</u>	<u>16,573</u>
Total charges		<u>424,155,889</u>	<u>176,776,565</u>
INCOME:			
Other operating income		4,307,460	1,843,400
Income from other transferable securities and from loans forming part of the fixed assets			
a) derived from affiliated undertakings		419,831,549	174,817,621
Other interest receivable and similar income			
a) other interest receivable and similar income		-	115,544
Loss for the financial year		<u>16,880</u>	<u>-</u>
Total income		<u>424,155,889</u>	<u>176,776,565</u>

The notes on pages 5 to 10 form part of these financial statements

Note 1 – General information

TNK-BP Finance S.A. (“the Company”) was incorporated on April 11, 2005 in Luxembourg, as a société anonyme and is registered at the trade registry under the number RC B 107.428. The Company was established by its shareholders for debt finance purposes.

The corporate object of the Company is the acquisition, holding and disposal of participations directly or indirectly, in any form whatsoever, in Luxembourg companies and/or foreign companies or other entities; the direct and/or indirect financing of the companies and/or entities in which it holds a participation or which are members of the group to which it belongs; the acquisition by purchase, subscription or in any other manner as well as the transfer by sale, exchange or otherwise of stock, bonds, debentures, notes or other securities of any kind of instrument and contracts thereon or relative thereto; and the ownership, administration, development and management of its portfolio holdings.

The Company may carry out any transactions, whether commercial or financial which are directly or indirectly connected with its object at the exclusion of any banking activity.

In general the Company may carry out any operation which it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

The Company is a corporate taxpayer subject to common tax law and does not fall in the scope of the holding company law of July 31, 1929. Exceptionally the first financial period began at the incorporation of the company and ended on December 31, 2005.

The Company has registered a guaranteed debt issuance programme under which the issuer may issue and have outstanding at any time notes up to a maximum aggregate amount of USD 8 000 000 000.

The prospectus for this guaranteed debt issuance programme dated September 7, 2005 and the updates of this guaranteed debt issuance programme dated December 7, 2006 and October 5, 2007 were approved by the “Commission de Surveillance du Secteur Financier”.

The Company is included in the consolidated accounts of TNK-BP International Limited forming at once the largest and the smallest body of undertakings of which the Company forms a part as a subsidiary undertaking. The registered office of that company is located Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands and the consolidated accounts are available at the registered office of the Company.

Note 2 – Summary of significant accounting policies

2.1 Basis of preparation

The Company maintains its books in US Dollars (“USD”). The annual accounts have been prepared in accordance with Luxembourg legal and regulatory requirements. Accounting policies and valuation rules are, besides the ones laid down by the Law, determined and applied by the Board of Directors.

2.2 Financial assets

Financial assets are recorded at their acquisition price, including the expenses incidental thereto. In case of a durable depreciation in value according to the opinion of the board of the Directors value adjustments are made in respect of financial assets. Those value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

2.3 Current liabilities

Current liabilities are valued at nominal value.

2.4 Foreign currency translation

The Company holds its accounting records in USD as a significant portion of its shareholders' business is conducted in USD and management uses the USD to manage the financial risks and exposures, and to measure its performance. The balance sheet and the profit and loss account are expressed in this currency.

Income and charges denominated in foreign currencies are converted in USD at the exchange rate prevailing at the time of the transaction.

At the end of the financial year, current assets and liabilities are converted at the exchange rate prevailing at the year-end. Exchange profits and losses are recorded in the profit and loss account, as well as unrealised exchange losses. Unrealised exchange gains are not recorded.

2.5 Current debtors

Debtors are valued at their nominal value. They are subject to value adjustments where their recovery is compromised. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

2.6 Provisions for liabilities and charges

Provisions for liabilities and charges are intended to cover losses or debts the nature of which is clearly defined and which, at the date of the balance sheet are either likely to be incurred or certain to be incurred but uncertain as to their amount or as to the date on which they will arise.

Note 3 - Loans to affiliated undertakings

As at December 31, 2007, the Company's financial assets are composed by loans denominated in US Dollars to a group company named TOC Investments Corporation.

Loan agreement (L.A.) and date / period / conditions	Principal amount receivable within 1 year	Principal amount receivable after 1 year	Interest receivable (USD)
L.A. dated 16.09.05 / floater / LIBOR +0.7%	500,000,000		3,485,938
L.A. dated 20.06.06 / floater / LIBOR+0.65%		1,636,363,636	5,532,784
L.A. dated 18.07.06 / until 18.07.11 / 7.08%		496,205,000	16,569,300
L.A. dated 18.07.06 / until 18.07.16 / 7.64%		992,080,000	34,898,400
L.A. dated 23.11.06 / floater / LIBOR +0.575%		900,000,000	2,393,813
L.A. dated 15.03.07 / 20.03.07- 20.3.12 / 6.19%		498,755,000	8,701,214
L.A. dated 15.03.07 / 20.03.07- 20.3.17 / 6.78%		792,408,000	15,314,678
L.A. dated 10.10.07 / 11.10.07- 13.3.13 / 7.73%		594,696,000	10,217,266
L.A. dated 10.10.07 / 11.10.07- 13.3.18 / 8.12%		1,084,908,000	19,571,705
L.A. dated 06.11.07 / floater / LIBOR+0.75%		600,000,000	4,402,333
Balance as at December 31, 2007	<u>500,000,000</u>	<u>7,595,415,636</u>	<u>121,087,431</u>

As at December 31, 2006:

Loan agreement (L.A.) and date / period / conditions	Principal amount receivable within 1 year	Principal amount receivable after 1 year	Interest receivable (USD)
L.A. dated 16.09.05 - 16.09.08 / LIBOR +0.7%		500,000,000	3,796,875
L.A. dated 20.06.06 / 03.07.06-12.02.07 / LIBOR +0.65%		1,800,000,000	15,362,270
L.A. dated 18.07.06 - 18.07.11 / 7.08%		496,205,000	15,810,300
L.A. dated 18.07.06 - 18.07.16 / 7.64%		992,080,000	34,106,400
L.A. dated 23.11.06 / 28.11.06-29.01.07 / LIBOR +0.575%		1,000,000,000	493,750
L.A. dated 14.12.06 / 21.12.06-19.03.07 / LIBOR +0.3%		1,000,000,000	1,569,445
Balance as at December 31, 2006	<u>1,000,000,000</u>	<u>4,788,285,000</u>	<u>71,139,040</u>

Note 4 - Debtors

As at December 31, 2007 the outstanding debtor balance was USD 121,334,172. This is represented by the balance due from TNK-BP International Limited in respect of expenses incurred by the company for the amount of USD 246,741 as well as accrued interest of USD 121,087,431 on the loans granted to a group company as exposed in Note 3.

Note 5 - Subscribed capital

The subscribed share capital was issued in EUR and was represented by 31 shares fully paid up of EUR 1,000 each. The share capital was translated on July 20, 2006 into USD at the exchange rate of EUR/USD = 1.254 making for the share capital an amount of USD 38,874. The par value of the shares is USD 1,254. On December 4, 2006 an extraordinary meeting of the shareholders has decided to increase the share capital from USD 38,874 to USD 58,938 by issuing 16 new shares having a par value of USD 1,254 each.

Note 6 - Legal reserve

In accordance with Luxembourg law, the Company is required to set aside a minimum of 5% of its annual net profit for each financial period to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve has reached 10% of the issued subscribed capital. The legal reserve is not available for distribution to the shareholders.

Note 7 - Capital and reserves

The movements for the year are as follows:

	Legal reserve (USD)	Profit or loss brought forward (USD)	Profit or loss for the financial year (USD)
As at December 31, 2006	-	-	16,573
Movements for the year			
- Allocation of prior year's profit or loss	5,894	10,679	(16,573)
- Profit or loss of the year	-	-	35,169
As at December 31, 2007	5,894	10,679	35,169

Note 8 - Provisions for taxation

Provisions for taxation correspond to the tax liability estimated by the Company for the financial years for which no final tax assessment notices have been received yet. The advance payments are shown in the assets of the balance sheet in the "Other debtors" item.

Note 9 - Amounts owed to credit institutions

Name of the bank (facility agent+date of agreement) / conditions	Amount payable within 1 year (USD)	Amount payable after 1 year (USD)	Interest outstanding (USD)
HSBC Bank plc 13.09.05 / floater, LIBOR +0.7%	500,000,000		3,485,937
Calyon 20.06.06 / floater, LIBOR +0.65%		1,636,363,636	5,532,784
BNP Paribas 09.11.06 / floater, LIBOR +0.575%		900,000,000	2,393,813
ING Bank NV 06.11.07 / floater, LIBOR +0.75%		600,000,000	4,402,333
Balance as at December 31, 2007	<u>500,000,000</u>	<u>3,136,363,636</u>	<u>15,814,867</u>

The loans are guaranteed by TNK-BP International Limited.

The loans are provided by a consortium of international banks for the general corporate purpose of the ultimate controlling party (Note 11). The loans are denominated in USD.

As at December 31, 2006:

Name of the bank (facility agent+date of agreement) / period / conditions	Amount payable within 1 year (USD)	Amount payable after 1 year (USD)	Interest outstanding (USD)
HSBC Bank plc 13.09.05/16.09.05-16.09.08 / LIBOR +0.7%		500,000,000	3,796,875
CALYON 20.06.06/ 03.07.06-12.02.07 / LIBOR +0.65%		1,800,000,000	15,362,270
BNP Paribas 09.11.06 / 28.11.06-29.01.07 / LIBOR +0.575%		1,000,000,000	493,750
ABN AMRO 14.12.06 / 21.12.06-19.03.07 / LIBOR +0.3%	1,000,000,000		1,569,445
Balance as at December 31, 2006	<u>1,000,000,000</u>	<u>3,300,000,000</u>	<u>21,222,340</u>

Note 10 - Bonds issued in the framework of the Debt Issuance Programme

TNK-BP BONDS / period / conditions	Principal payable after 1 year (USD)	Interest payable less discount and issue costs (USD)
Bonds series 1 Notes / 18.07.06-18.07.11 / 6.875%	500,000,000	12,646,546
Bonds series 2 Notes / 18.07.06-18.07.16 / 7.5%	1,000,000,000	26,654,281
Bonds series 3 Notes / 20.03.07-20.03.12 / 6.125%	500,000,000	7,433,204
Bonds series 4 Notes / 20.03.07-20.03.17 / 6.625%	800,000,000	7,563,241
Bonds series 5 Notes / 11.10.07-13.03.13 / 7.5%	600,000,000	4,878,648
Bonds series 6 Notes / 11.10.06-13.03.18 / 7.875%	1,100,000,000	4,374,796
	<u>4,500,000,000</u>	<u>63,550,716</u>

The bonds are guaranteed by TNK-BP International Limited.

As at December 31, 2006:

TNK-BP BONDS / period / conditions	Principal payable after 1 year (USD)	Interest payable less discount and issue costs (USD)
Bonds series 1 Notes / 18.07.06-18.07.11 / 6.875%	500,000,000	11,969,179
Bonds series 2 Notes / 18.07.06-18.07.16 / 7.50%	1,000,000,000	26,079,905
	<u>1,500,000,000</u>	<u>38,049,084</u>

Note 11 - Taxation

The Company is subject in Luxembourg to the general tax regulation applicable to all commercial companies. Income tax provision for 2006 and 2007 amounted to USD 879,828.

Note 12 - Related parties

The Company's immediate shareholders are Novy Investments Limited and Martanco Holdings Limited both incorporated in Republic of Cyprus. The Company is controlled by TNK-BP International Limited, incorporated in British Virgin Islands, which owns 100% of immediate shareholders. The Company's ultimate controlling party is TNK-BP Limited, incorporated in British Virgin Islands, whose registered office is established at Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands.

**ANNEX A: SUMMARY RESERVES REPORT
OF DEGOLYER AND
MACNAUGHTON**

DEGOLYER AND MACNAUGHTON
5001 SPRING VALLEY ROAD
SUITE 800 EAST
DALLAS, TEXAS 75244

**APPRAISAL REPORT
as of
DECEMBER 31, 2008
on
RESERVES
of
CERTAIN FIELDS
owned by
JSC TNK-BP**

SEC CASE

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DEGOLYER AND MACNAUGHTON
5001 SPRING VALLEY ROAD
SUITE 800 EAST
DALLAS, TEXAS 75244

APPRAISAL REPORT
as of
DECEMBER 31, 2008
on
RESERVES
of
CERTAIN FIELDS
owned by
JSC TNK-BP

SEC CASE

FOREWORD

Scope of Investigation

This report presents an appraisal, as of December 31, 2008, of the extent and value of the proved crude oil, condensate, natural gas liquids (NGL), and natural gas reserves of certain fields owned by JSC TNK-BP (also referred to as TNK-BP) through various subsidiary enterprises. These various subsidiary enterprises are presented herein in the TNK-BP – Consolidated subdivision. Included in this subdivision are Buguruslanneft, Geo Resurs, Gubernskaya Resursnaya Company, Kovyktaneftegaz, Nafta-Yugansk, Nizhnevartovskoye Neftedobyvaushee Predpriytie (Nizhnevartovskoye NP), Novosibirskneftegaz, Orenburgneft, Radonezh Petroleum (Radonezh), Rospan International (Rospan), Rusia-Petroleum Company (Rusia), Russko-Rechenskoye, Samotlorneftegaz, Severnoyeneftegaz, Suzun, Tagulskoye, TNK-BP Technology, TNK-Nizhnevartovsk, TNK-Nyagan, TNK-Uvat, Tyumenneftegaz, Uvatneft, Varyoganneft, Vartovskiy Meridian, Varyoganneftegaz, Verkhnechonskneftegaz, Yugansk-Nafta, and Yugraneft Corporation (Yugraneft). TNK-BP's interests in the subsidiary enterprises evaluated range from approximately 62 to 100 percent and are shown by subsidiary in Table 1 of this report. All of the fields evaluated are located in the Russian Federation and are held 100 percent by the respective subsidiary enterprise.

DEGOLYER AND MACNAUGHTON

TNK-BP has represented that the Russian Law on Subsoil provides for the extension of production licenses at the request of the license holder if there exists economic reserves upon the expiration of the primary term, provided the license holder is in material compliance with the terms of the existing license. Furthermore, we have been advised that the Law on Subsoil was amended in 2000 to provide that new production or combined production and exploration licenses for new fields or upon the expiration of the term of existing licenses will no longer be limited to a specified number of years and may now be issued for the full useful life of the fields associated with such license. We understand that the principal requirements are that the license holder complies with the material terms of the license and that mineral extraction has not been completed. As in the past, TNK-BP is required to submit to the appropriate government agency for approval, prior to production, individual field development plans based on the economic life of the field and not based on the term of the associated license. TNK-BP has represented that upon completion of the primary term of its current licenses it intends to extend these licenses to the end of the economic life of the associated fields, and that it intends to proceed accordingly with development and operations of these fields. Based on these representations we have included as proved reserves those volumes that are estimated to be economically producible from the fields evaluated after the expiration of the primary term of their licenses.

Reserves estimated in this report are expressed as gross reserves and net reserves owned or controlled by TNK-BP (TNK-BP net). Gross reserves are defined as the total estimated oil, condensate, NGL, and gas to be produced from the fields after December 31, 2008. TNK-BP net reserves are defined as that portion of the gross reserves attributable to TNK-BP after deducting interests owned by others. However, if TNK-BP controls the management of the subsidiary in which it owns an interest, 100 percent of the subsidiary's net ownership of reserves is reported herein as TNK-BP net. TNK-BP has represented that it controls the management of all aforementioned subsidiary enterprises in the TNK-BP – Consolidated subdivision. As a result, gross reserves for these subsidiary enterprises evaluated herein are also reported as TNK-BP net reserves.

This report also presents values that were estimated for proved reserves using prices and costs, as of December 31, 2008, without consideration of escalations based on future conditions. Current estimates of prices, operating expenses, and capital costs were used for the life of the properties.

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Prices and costs were provided in Russian rubles (R) or United States dollars (U.S.\$). The exchange rate effective December 31, 2008, was R29.3804 per U.S.\$1.00. All values were estimated in U.S.\$, and all prices, costs, and revenue shown in this report are expressed in U.S.\$. A detailed explanation of future price and cost assumptions is included in the Valuation of Reserves section of this report.

In this report, values for proved reserves are expressed in terms of future gross revenue, future net revenue, and Company future net revenue and Company present worth. Future gross revenue is defined as that revenue to be realized from the production and sale of the estimated gross reserves. Future net revenue is calculated by deducting estimated transportation costs, operating expenses, capital and abandonment costs, production and other taxes, and profit tax, as specified by TNK-BP, from future gross revenue. Company future net revenue is defined as future net revenue attributable to TNK-BP net reserves. TNK-BP has represented that it controls the management of all the aforementioned subsidiary enterprises in the TNK-BP – Consolidated subdivision; therefore, in this report for these subsidiary enterprises, future net revenue is also reported as Company future net revenue. Company present worth is defined as Company future net revenue discounted at a specified arbitrary discount rate compounded monthly over the expected period of realization. Present worth values using a discount rate of 10 percent are reported in detail and values using discount rates of 8, 15, and 20 percent are reported as totals. All values presented in this report are expressed in thousands of United States dollars (10^3 U.S.\$).

Estimates of oil, condensate, NGL, and gas reserves and future net revenue should be regarded only as estimates that may change as further production history and additional information become available. Not only are such reserves and revenue estimates based on that information which is currently available, but such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information.

Authority

This report was authorized by Mr. Francis Sommer, Executive Vice President, Technology, TNK-BP.

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Source of Information

Information used in the preparation of this report was obtained from TNK-BP. In

the preparation of this report we have relied, without independent verification, upon information furnished by TNK-BP with respect to ownership, production, current costs of operation and development, current prices for production, agreements relating to current and future operations and sale of production, and various other information and data that were accepted as represented.

CLASSIFICATION of RESERVES

Petroleum reserves included in this report are classified as proved and are judged to be economically producible in future years from known reservoirs under existing economic and operating conditions and assuming continuation of current regulatory practices using conventional production methods and equipment. In the analyses of production-decline curves, reserves were estimated only to the limit of economic rates of production under existing economic and operating conditions using prices and costs as of the date the estimate is made, including consideration of changes in existing prices provided only by contractual arrangements but not including escalations based upon future conditions. Proved reserves classifications used in this report are in accordance with the reserves definitions of Rules 4-10(a) (1)-(13) of Regulation S-X of the United States Securities and Exchange Commission (SEC). The petroleum reserves are classified as follows:

Proved oil and gas reserves – Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

(i) Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and (B) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

(ii) Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the "proved" classification when

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successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.

(iii) Estimates of proved reserves do not include the following: (A) oil that may become available from known reservoirs but is classified separately as "indicated additional reserves"; (B) crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors; (C) crude oil, natural gas, and natural gas liquids, that may occur in undrilled prospects; and (D) crude oil, natural gas, and natural gas liquids, that may be recovered from oil shales, coal, gilsonite, and other such sources.

Proved developed oil and gas reserves – Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as "proved developed reserves" only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

Proved undeveloped reserves – Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances should estimates for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques

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have been proved effective by actual tests in the area and in the same reservoir.

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ESTIMATION of RESERVES

Estimates of reserves were prepared by the use of standard geological and engineering methods generally accepted by the petroleum industry. The method or combination of methods used in the analysis of each reservoir was tempered by experience with similar reservoirs, stage of development, quality and completeness of basic data, and production history.

When applicable, the volumetric method was used to estimate the original oil in place (OOIP) and original gas in place (OGIP). Structure maps were prepared to delineate each reservoir and isopach maps were constructed to estimate reservoir volume. Electrical logs, radioactivity logs, core analyses, and other available data were used to prepare these maps as well as to estimate representative values for porosity and water saturation. When adequate data were available and when circumstances justified, material-balance and other engineering methods were used to estimate OOIP or OGIP.

Estimates of ultimate recovery were obtained after applying recovery factors to OOIP or OGIP. These recovery factors were based on consideration of the type of energy inherent in the reservoirs, analyses of the petroleum, the structural positions of the properties, and the production histories. When applicable, material-balance and other engineering methods were used to estimate recovery factors. In such cases, an analysis of reservoir performance, including production rate, reservoir pressure, and gas-oil ratio behavior, was used in the estimation of reserves.

For depletion-type reservoirs or those whose performance disclosed a reliable decline in producing-rate trends or other diagnostic characteristics, reserves were estimated by the application of appropriate decline curves or other performance relationships. In the analyses of production-decline curves, reserves were estimated only to the limits of economic production based on current economic conditions.

In certain cases, when the previously named methods could not be used, reserves were estimated by analogy with similar wells or reservoirs for which more complete data were available.

Data available from wells drilled through December 31, 2008, have been used to prepare the estimates shown herein. Gross

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production estimated through December 31, 2008, was deducted from gross ultimate recovery, when applicable, to arrive at the estimates of gross reserves.

Gas reserves estimated herein are reported as separator gas, fuel-gas, and sales-gas volumes. Separator gas is defined as the gas remaining after field separation but prior to gas processing and shrinkage for fuel use or flare. Fuel gas is that portion of the total volume of gas to be produced from the reservoirs used in the operation of the field. Sales gas is defined as the total volume of gas to be produced from the reservoirs, measured at the point of delivery, after reduction for fuel usage, flare, and shrinkage resulting from field separation and processing. Sales gas is made up of associated gas, including gas-cap and solution gas, from certain oil fields and nonassociated gas from the gas fields. Gas reserves estimated herein are expressed at a temperature base of 20 degrees Centigrade (°C) and 1 atmosphere. Estimates of gas reserves are expressed in millions of cubic feet (10^6 ft^3) and millions of cubic meters (10^6 m^3).

Certain TNK-BP enterprises have gas sales that are sold under the terms of a gas sales contract. However, since historical gas sales were consistently below contracted volumes and/or subject to reoccurring contracts renegotiated annually, sales-gas reserves reported herein as proved reserves were estimated using annual sales volumes based on actual gas volumes sold during the past year. Historical sales-gas volumes were reported by TNK-BP only at the subsidiary enterprise level. Therefore, for purposes of reporting the estimated sales-gas reserves herein, each field's allocated sales-gas volume, within each subsidiary, was projected so that the maximum salable volume for the subsidiary was held constant until the subsidiary's projected gas volumes could not meet this level. At this point the projected salable volume was limited by the available gas for sale from the subsidiary. Each field's annual allocated sales-gas reserves were projected based on each field's available gas for sale. The proved reserves forecasts were not allowed to exceed the initial level for the duration of the economic life of each subsidiary. Rospan sales-gas reserves reported herein as proved reserves were estimated using only 3 years of annual sales. For Rospan, certain other volumes would qualify for classification as proved once certain conditions are met including the consummation of a long-term gas contract.

Certain TNK-BP enterprises have gas volumes sent to gas-processing plants for extraction of NGL. NGL reserves reported herein have been estimated on the basis of the liquids recovered from TNK-BP's share of the gas processed in each plant.

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Oil and condensate reserves estimated are to be recovered by normal separation in the field. Estimates of oil, condensate, and NGL volumes are expressed in thousands of barrels (10^3 bbl) and thousands of metric tons (10^3 mt). In these estimates 1 barrel equals 42 U.S. gallons.

Table 2 presents a summary of TNK-BP net reserves by subsidiary.

VALUATION of RESERVES

Revenue values in this report were estimated using the initial prices and costs provided by TNK-BP. Future prices were estimated using guidelines established by the SEC and the Financial Accounting Standards Board. The prices used in this report have been reviewed by TNK-BP, which has represented that the prices are those that TNK-BP received on December 31, 2008. Values presented herein were estimated in U.S.\$ using the December 31, 2008, Central Bank of the Russian Federation exchange rate of R29.3804 per U.S.\$1.00. The following assumptions were supplied by TNK-BP and used for estimating future prices and costs in this report.

Prices – TNK-BP provided the sales prices for oil, condensate, NGL, and gas. The sales price is a price realized from the sale of oil, condensate, NGL, and gas to a third party.

Revenue

Future Gross Revenue

Future gross revenue is that revenue to be realized from the production and sale of the estimated gross reserves at the sales price.

Future Net Revenue

Future net revenue was calculated by deducting estimated transportation costs, operating expenses, capital and abandonment costs, production and other taxes, and profit tax from future gross revenue.

Company Future Net Revenue

Company future net revenue is defined as future net revenue attributable to TNK-BP net reserves.

Company Present Worth

Company present worth is defined as company future net revenue discounted at a specified arbitrary discount rate

compounded monthly over the expected period of realization. In this report, a present worth value using a discount rate of 10 percent is reported in detail.

Operating and Capital Expenditures – Current operating and capital expenditures and expenditure forecasts provided by TNK-BP were used in estimating future expenditures required to operate the fields. In certain cases, future expenditures, either higher or lower than current expenditures, were used because of anticipated changes in operating conditions, but no general escalation that might result from inflation was applied.

Operating Expenses

Operating expenses consist of fixed and variable components that were projected to facilitate production and sale of reserves from the evaluated fields based on actual area historical expenses and forecasted expenses from TNK-BP.

Capital Costs

Capital costs for drilling wells, facilities, and other significant development programs in the fields evaluated were based on actual area historical costs and forecasted costs from TNK-BP.

Transportation Costs

Transportation costs for sales of crude oil, condensate, and gas were provided by TNK-BP.

Depreciation

Future capital expenditures were amortized over a period from 15 to 20 years, depending on the type of capital expenditure. Depreciation was applied from the first year of the expenditure. Capital expenditures were estimated to occur evenly throughout the year and depreciation was estimated monthly. Additionally, the calculated depreciation includes 10 percent accelerated depreciation for the first year as provided by the Russian Tax Law.

Abandonment Costs

Existing abandonment costs, provided by TNK-BP on a subsidiary level, were allocated to each field within each subsidiary based on number of wells. Abandonment costs for future capital expenditures were added to this amount. Seventy-five percent of these accumulated abandonment costs were spread over the last 5 years in the life of each field by applying 15 percent of these costs per year. The remaining 25 percent of the abandonment costs were applied the year following the end of the life of each field.

Taxes – A continuation of all regulatory practices approved or in place, as of December 31, 2008, was maintained in this analysis. Taxes are numerous, and some are more significant than others. The most prominent taxes are discussed as follows:

Asset Tax

Asset taxes were estimated annually using a rate of 2.2 percent applied to the undepreciated book value of the properties.

Social Obligation Tax

Social obligation taxes were estimated using a rate of 26.0 percent applied to labor costs.

Production Tax

The production tax was estimated for oil, condensate, and nonassociated gas as follows:

Oil – The oil production tax was estimated using a reference rate of R419 per metric ton with adjustments for the market price of oil and the Russian Ruble exchange rate. Additionally, three significant changes to the oil production tax have been approved and are included in this evaluation. These changes include a tax holiday for certain oil production in East Siberia, a tax

exemption for heavy oil production, and a depletion allowance that reduces the amount of oil production tax as the field nears depletion. These changes, as they apply to this report, are discussed below.

East Siberian Tax Holiday: Certain fields in the Republic of Sakha (Yakutia), the Irkutsk Oblast, and the Krasnoyarsk Territory are entitled up to a 10- or 15-year oil production tax holiday. TNK-BP has three fields having reserves located in these areas that are exempt from the oil production tax for a period of time: Verkhnechonskoye, Suzunskoe, and Tagulskoe. After the tax holiday ends, the oil production tax for these fields was estimated using the reference rate of R419 per metric ton with adjustments for the market price of oil and the Russian Ruble exchange rate. Additionally, after the tax holiday ends the depletion allowance, as discussed below, was applied as appropriate for these fields.

Heavy Oil Tax Exemption: Certain fields in the Russian Federation, where the produced oil has an in-situ viscosity greater than 200 milliPascal-seconds, are exempt from oil production tax starting in 2007. TNK-BP has one field, Russkoye that qualifies for this exemption. In this report, no oil production tax was estimated for this field.

Depletion Allowance: All fields subject to the oil production tax are eligible for a depletion allowance, whereby the amount of the oil production tax is decreased as the production exceeds 80-percent depletion. Depletion is defined as the total cumulative oil production divided by the initial recoverable reserves as defined by the Russian A+B+C1+C2 classifications. The allowance is calculated as a variable factor ranging from 1.0 at 80-percent depletion to 0.3 at a depletion of 100 percent or greater. The Russian reserves classifications are not analogous to the definitions used in this report, and so the timing and value of the depletion allowance included

in this report may be different than that calculated under a different set of reserves definitions.

Condensate – The condensate production tax was estimated using a rate of 17.5 percent applied to the future gross revenue from condensate sales less transportation costs.

Gas – The gas production tax was applied only to the nonassociated separator gas at a reference rate of R147 per thousand cubic meters.

Profit Tax

Profit tax was estimated using a rate of 20 percent applied to taxable income. Taxable income was calculated by deducting transportation, operating expenses, depreciation, and other taxes from future gross revenue.

Table 3 is a summary of TNK-BP future net revenue and TNK-BP present worth at 10 percent by subsidiary.

In our opinion, the information relating to estimated proved reserves, estimated future net revenue from proved reserves, and present worth of estimated future net revenue from proved reserves of oil, condensate, NGL, and gas contained in this report has been prepared in accordance with Paragraphs 10–13, 15, and 30(a)–(b) of Statement of Financial Accounting Standards No. 69 (November 1982) of the FASB and Rules 4–10(a) (1)–(13) of Regulation S–X and Rule 302(b) of Regulation S–K of the SEC; provided, however, that (i) while certain economically producible volumes of reserves beyond the primary term of the current production licenses have been classified as proved reserves in this report based on TNK-BP's representation that it intends to extend its current production licenses to the end of the economic life of the associated fields, we are not in a position to offer an opinion on the duration of TNK-BP's production licenses under the Russian Law on Subsoil and (ii) certain estimated data have not been provided with respect to changes in reserves information.

To the extent the above-enumerated rules, regulations, and statements require determinations of an accounting or legal nature or information beyond the scope of this report, we are necessarily unable to

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express an opinion as to whether the above-described information is in accordance therewith or sufficient therefor.

SUMMARY and CONCLUSIONS

TNK-BP owns interests in certain fields located in the Russian Federation. TNK-BP's interests in certain fields are owned through its Buguruslannef, Geo Resurs, Gubernskaya Resursnaya Company, Kovyktaneftegaz, Nafta-Yugansk, Nizhnevartovskoye NP, Novosibirskneftegaz, Orenburgneft, Radonezh, Rospan, Rusia, Russko-Rechenskoye, Samotlorneftegaz, Severnoyeneftegaz, Suzun, Tagulskoye, TNK-BP Technology, TNK-Nizhnevartovsk, TNK-Nyagan, TNK-Uvat, Tyumenneftegaz, Uvatneft, Vanyoganneft, Vartovskiy Meridian, Varyoganneftegaz, Verkhnechonskneftegaz, Yugansk-Nafta, and Yugraeft subsidiary enterprises and are included herein in the TNK-BP – Consolidated subdivision. TNK-BP represented that it controls each of these subsidiaries; therefore, the reserves reported as follows represent 100 percent of the subsidiary's net ownership of reserves and revenues. The total TNK-BP net proved oil, condensate, NGL, and gas reserves, as of December 31, 2008, attributable to the TNK-BP – Consolidated subdivision evaluated are estimated as follows, expressed in English and metric units. Oil, condensate, and NGL volumes are expressed in thousands of barrels (10^3 bbl) and thousands of metric tons (10^3 mt). Sales gas volumes are expressed in millions of cubic feet (10^6 ft 3) and millions of cubic meters (10^6 m 3):

Subdivision Classification	TNK-BP Reserves			
	English Units		Metric Units	
	Oil, Condensate, and NGL (10^3 bbl)	Sales Gas (10^6 ft 3)	Oil, Condensate, and NGL (10^3 mt)	Sales Gas (10^6 m 3)
TNK-BP – Consolidated				
Proved Developed	4,697,272	2,753,715	623,675	77,747
Proved Undeveloped	2,748,914	1,111,794	366,467	31,473
Total Proved	7,446,186	3,865,509	990,142	109,220

Notes:

1. TNK-BP has represented that it controls the management of the subsidiaries in which it owns an interest of the TNK-BP – Consolidated subdivision; 100 percent of the net ownership of reserves of each of these subsidiaries is reported as TNK-BP net.
2. Reserves of the TNK-BP – Consolidated subdivision include up to 37.087-percent interest not owned by TNK-BP. Actual TNK-BP ownership of each subsidiary is presented in Table 1.

The estimated Company future net revenue and Company present worth attributable to the TNK-BP net proved reserves appraised, as of December 31, 2008, under the aforementioned assumptions concerning future prices and costs are summarized as follows, expressed in thousands of U.S. dollars (10^3 U.S.\$):

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Subdivision Classification	Company	
	Future Net Revenue (10 ³ U.S.\$)	Present Worth at 10 Percent (10 ³ U.S.\$)
TNK-BP – Consolidated		
Proved Developed	13,827,752	9,293,299
Proved Undeveloped	1,699,945	(1,752,410)
Total Proved	15,527,697	7,540,889

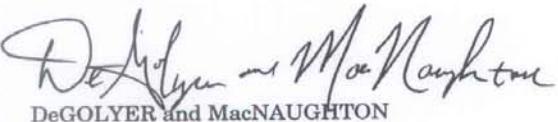
Notes:

1. TNK-BP has represented that it controls the management of the subsidiaries in which it owns an interest of the TNK-BP – Consolidated subdivision; 100 percent of the net ownership of each of these subsidiaries is reported as TNK-BP.
2. Reserves of the TNK-BP – Consolidated subdivision include up to 37.087-percent interest not owned by TNK-BP. Actual TNK-BP ownership of each subsidiary is presented in Table 1.

Gas reserves estimated herein are sales gas volumes expressed at a temperature base of 20 °C and a pressure base of 1 atmosphere.

Included with this report are tables detailing TNK-BP reserves and revenue by subsidiary. Separate appendices to this report contain yearly projections of reserves and revenue and additional summaries of reserves and revenue.

Submitted,



DeGOLYER and MacNAUGHTON

SIGNED: March 13, 2009




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