IMPORTANT: You must read the following before continuing. The following applies to the Supplement to the Base Prospectus following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Supplement to the Base Prospectus. In accessing this Supplement to the Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

THE FOLLOWING SUPPLEMENT TO THE BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE SUPPLEMENT TO THE BASE PROSPECTUS MAY ONLY BE DISTRIBUTED IN ''OFFSHORE TRANSACTIONS'' TO PERSONS THAT ARE NOT U.S. PERSONS AS DEFINED IN, AND AS PERMITTED BY, REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933 (THE ''SECURITIES ACT'') OR WITHIN THE UNITED STATES TO QIBs (AS DEFINED BELOW) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION. THE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO PERSONS THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES ARE QUALIFIED INSTITUTIONAL BUYERS (A ''QIB'') WITHIN THE MEANING OF RULE 144A, WHO 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 OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON THAT IS NOT A U.S. PERSON IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT.

Confirmation of your Representation: In order to be eligible to view the Supplement to the Base Prospectus or make an investment decision with respect to the securities, you must be (i) a person other than a U.S. person (within the meaning of Regulation S under the Securities Act) or (ii) a QIB. By accepting the e-mail and accessing the Supplement to the Base Prospectus, you shall be deemed to have represented to us that you are not a U.S. person or that you are a QIB and that you consent to delivery of such Supplement to the Base Prospectus by electronic transmission.

You are reminded that the Supplement to the Base Prospectus has been delivered to you on the basis that you are a person into whose possession the Supplement to the Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Supplement to the Base Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the permanent dealers or any affiliate of the permanent dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the permanent dealers or such affiliate on behalf of the Issuer or the Guarantor in such jurisdiction.

Under no circumstances shall the Supplement to the Base Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there by any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. The Supplement to the Base Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer.

The Supplement to the Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of BNP Paribas, Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited or UBS Limited nor any person who controls it nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Supplement to the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from BNP Paribas, Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited or UBS Limited.

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

and

TNK-BP International Limited
(incorporated with limited liability in the British Virgin Islands)

U.S.$5,000,000,000
Guaranteed Debt Issuance Programme

Unconditionally and irrevocably guaranteed by

TNK-BP International Limited

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

Supplement to the Base Prospectus dated 7 September 2005

Joint Arrangers

BNP PARIBAS	**Credit Suisse**
Citigroup	**UBS Investment Bank**

12 July 2006

This Supplement (the "Supplement") dated 12 July 2006 to the Base Prospectus dated 7 September 2005 (the "Base Prospectus") constitutes a supplement to the Base Prospectus for the purpose of articles 13 of Chapter 1 of Part II of the Luxembourg Law dated 10 July 2005 on prospectuses for securities (the "Prospectus Law") and is prepared in connection with the Guaranteed Debt Issuance Programme (the "Programme") established by TNK-BP Finance S.A. (the "Issuer") unconditionally and irrevocably guaranteed by TNK-BP International Limited ("TNK-BP International" or the "Guarantor") 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.$5,000,000,000 or its equivalent in alternative currencies. On 7 September 2005, the Commission de Surveillance du Secteur Financier approved the Base Prospectus as a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC and the relevant implementing measures in the Grand Duchy of Luxembourg. In this Supplement, references to "TNK-BP" or the "Guarantor Group" mean the Guarantor and its consolidated subsidiaries, unless the context requires otherwise. Terms defined in the Base Prospectus have the same meaning when used in this Supplement.

This Supplement is supplemental to, and should be read in conjunction with, the Base Prospectus and any other supplements to the Base Prospectus issued by the Issuer and the Guarantor.

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this Supplement. To the best of the knowledge of each of the Issuer and the Guarantor (which has taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Base Prospectus by this Supplement and (b) any other statement in or incorporated by reference in the Base Prospectus, the statements in (a) above will prevail.

Unless the context otherwise requires, references in this Supplement to sections of the Base Prospectus, refer to the relevant sections of the Base Prospectus, as modified or restated in its entirety by this Supplement.

Save as disclosed in this Supplement, no other significant new factor, material mistake or inaccuracy relating to information included in the Base Prospectus has arisen or been noted, as the case may be, since the publication of the Base Prospectus.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" IN THIS SUPPLEMENT.

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" IN THE BASE PROSPECTUS.

Application has been made to list Notes issued under the Programme are on the official list and traded on the Regulated Market 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. Application may also be made to have Rule 144A Notes designated as eligible for trading on the Private Offering, Resale and Trading through Automated Linkages ("PORTAL") system of the National Association of Securities Dealers, Inc.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, 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 SUPPLEMENT. 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.

FORWARD-LOOKING STATEMENTS

Certain statements in this Supplement are not historical facts and constitute "forward-looking statements". This Supplement 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 Guarantor 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:

- inflation, interest rate and exchange rate fluctuations;
- the prices of oil and oil products;
- the effects of, and changes in, the policy of the government of the Russian Federation (the "Russian Government") and 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.

TABLE OF CONTENTS

DISAPPLICATION AND REPLACEMENTS OF CERTAIN SECTIONS OF THE BASE PROSPECTUS

In addition to the supplemental information to the Base Prospectus set out in this Supplement, the Base Prospectus is hereby modified by the disapplication of the following sections and the replacement in their entirety by the following Appendices to this Supplement, which should be read in conjunction with the Base Prospectus (to the extent not hereby modified) and any other supplements to the Base Prospectus issued by the Issuer and the Guarantor:

Section of the Base Prospectus to be Disapplied	Page number of such disapplied Section in the Base Prospectus	Replaced in its Entirety by
General Description of TNK-BP	Pages 12 and 13	Appendix 1
Risk Factors	Pages 18-36	Appendix 2
Operating and Financial Review	Pages 42 - 59	Appendix 3
The Issuer	Pages 60 - 61	Appendix 4
The Guarantor	Pages 62 - 63	Appendix 5
TNK-BP History and Organisational Structure	Pages 64 - 69	Appendix 6
Business	Pages 70 - 102	Appendix 7
Management and Employees	Pages 103 -110	Appendix 8
Related Party Transactions	Pages 111 -112	Appendix 9
Overview of the Russian Oil and Gas Industry	Pages 157 - 172	Appendix 10
General Tax Regime related to Russian Oil & Gas Companies	Pages 173 - 175	Appendix 11
Taxation	Pages 179 - 185	Appendix 12

Unless the context otherwise requires, references in this Supplement to sections of the Base Prospectus, refer to the relevant sections of the Base Prospectus, as modified or restated in its entirety by this Supplement.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The financial information of TNK-BP set forth herein has, unless otherwise indicated, been derived from its audited consolidated financial statements, in each case prepared in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP") as set forth on pages F-2 through F-23 of this Supplement as of 31 December 2005 and 2004 and for the years ended 31 December 2005, 2004 and 2003 ("TNK-BP's U.S. GAAP Financial Statements"). The U.S. dollar is the measurement currency for TNK-BP's U.S. GAAP 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-24 through F-32 of this Supplement as of 31 December 2005 and for the period from 11 April 2005 (incorporation date) to 31 December 2005 (the "Issuer's Financial Statements", together with the TNK-BP's U.S. GAAP Financial Statements, the "Financial Statements"). The U.S. dollar is the measurement currency for the Issuer's Financial Statements.

A copy of each of the Financial Statements has been filed with the Commission De Surveillance Du Secteur Financier, and, by virtue of this Supplement, the Financial Statements are incorporated in, and form part of, the Base Prospectus. Copies of the Financial Statements can be obtained free of charge from the registered office of the Issuer and the specified office of the Paying Agent for the time being in Luxembourg, as described on pages 60 and 244, respectively, of the Base Prospectus and on the website of the Guarantor at "www.tnk-bp.com" and on the Luxembourg Stock Exchange's website: "www.bourse.lu".

Oil and Gas Reserves Data

At the request of TNK-BP, DeGolyer and MacNaughton, a firm of independent petroleum engineers, has carried out evaluations of TNK-BP's proved, probable and possible reserves as of 31 December 2005.

DeGolyer and MacNaughton presented the results of their evaluation as of 31 December 2005 in a reserves report (the "2005 Reserves Report"), based upon the authority of DeGolyer and MacNaughton as an expert with respect to such matters. The 2005 Reserves Report relates to reserves held by all TNK-BP's exploration and production subsidiaries and joint ventures, excluding OAO NGK Slavneft ("Slavneft"). DeGolyer and MacNaughton also prepared reserves reports evaluating TNK-BP's proved, probable and possible reserves as of 31 December 2003 and 31 December 2004 (the "2003 Reserves Report" and the "2004 Reserves Report" respectively, and together with the 2005 Reserves Report, the "Reserves Reports"). A summary of the 2004 Reserves Report is included at Annex A to the Base Prospectus.

This Supplement contains reserves data for TNK-BP as of 31 December 2005, 2004 and 2003. Reserves data for 2005, 2004 and 2003 has been extracted without material adjustment from the relevant Reserves Reports. For 2005, 2004 and 2003 DeGolyer and MacNaughton conducted its review of TNK-BP's oil fields using three differing methods. These methods include the U.S. Securities and Exchange Commission ("SEC") standards, the U.S. Society of Petroleum Engineers, Inc. ("SPE") standards and a variation of the SEC standards pursuant to which reserves are calculated through the economic life of the fields ("SEC-LOF").

Annex A to this Supplement contains a summary of the 2005 Reserves Report as it relates to the review of TNK-BP's oil fields using the SEC-LOF basis (the "2005 SEC-LOF Reserves Report"). The 2005 Reserves Report insofar as it relates to the review of TNK-BP's oil fields using SEC standards and SPE standards has not been included in this Supplement. In addition, the tables and appendices attached to the 2005 SEC-LOF Reserves Report which detail TNK-BP's reserves and revenue by subdivision and by subsidiary have not been reproduced in Annex A.

Under SEC guidelines, proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids that geological and engineering data demonstrate with reasonable certainty are 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 are taken into account only as already provided in existing contractual arrangements. In addition, under SEC criteria (i) reservoirs are considered proved if economically feasible production is supported by either actual production or a conclusive formation test and (ii) reserves that can be produced economically through application of improved recovery techniques (such as fluid injection) are considered proved upon successful testing through a pilot project or if support for the engineering analysis on which the project was based is otherwise obtained.

Unless otherwise indicated, reserves data contained in this Supplement is based on the SEC-LOF basis.

The SPE and SEC-LOF criteria differ in certain material respects from the standards applied by the SEC. The principal differences between the SEC standards and the SPE and/or SEC-LOF criteria include the following:

Duration of Licence. Under SPE and SEC-LOF criteria, TNK-BP's proved reserves were projected to the economic producing life of the evaluated fields. For purposes of the Reserves Reports that are based upon the SEC-LOF basis, DeGolyer and MacNaughton accepted TNK-BP's representation 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. Under standards applied by the SEC and guidance issued by the SEC staff in respect thereof, the quantities of oil and gas deposits should be limited to quantities expected to be produced during the term of the licences with respect thereto and renewals of licences should not be assumed unless the company has a demonstrated history of obtaining renewals.

TNK-BP has excluded quantities producible beyond the licence period expiration dates when calculating the estimated reserves under SEC standards, which is one of the reasons why its estimated reserves under SEC standards 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 extending current existing licences. In 2006, TNK-BP extended two key licences regulating TNK-BP's production from the Samotlor oil field until 2038 from 2013. The Samotlor field is TNK-BP's largest oil field and accounted for almost 40% of TNK-BP's crude oil production in 2005. TNK-BP's belief of being in substantial compliance with its licence terms is further supported by its history of never having had a licence revoked. TNK-BP has not reviewed with the SEC whether these factors would be sufficient to show a demonstrated history of obtaining renewals, and accordingly, has excluded such quantities producible beyond the licence period expiration date for purposes of disclosure of SEC reserves.

If TNK-BP calculated depreciation, depletion and amortisation using estimated reserves as disclosed under SEC reserves, which differ from those used as reported under the SEC-LOF basis, TNK-BP does not believe that this calculation would be materially affected as it would expect to recover the value of its production related assets upon the expiry date of such licences.

Certainty of Existence. Under SPE basis, 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 standards applied by the SEC, 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 SPE basis 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.

CAPITALISATION

The table below shows TNK-BP's consolidated capitalisation as of 31 December 2005, 2004 and 2003. This information should be read in conjunction with "Operating and Financial Review".

	As of 31 December		
	2005	**2004**	**2003**
	(U.S.$ millions)		
Obligations to banks	2,340	1,913	1,573
Corporate bonds	810	824	1,001
Other	27	110	107
Less current portion of long-term debt	(301)	(367)	(809)
Total long-term debt	2,876	2,480	1,872
Total minority interest	866	755	728
Ordinary share capital (authorised and issued – 53,000 shares as of 31 December 2005 and 2004, 50,000 shares as of 31 December 2003, U.S.$1 par value)	–	–	–
Additional paid in capital	2,976	2,631	2,594
Retained earnings	5,391	6,088	5,936
Total shareholders' equity	8,367	8,719	8,530
Total capitalisation	12,109	11,954	11,130

As of 31 December 2005, TNK-BP's total long-term debt totalled U.S.$2,876 million. As of 31 May 2006, TNK-BP's total long-term debt totalled U.S.$2,730 million. See "Business — Corporate Activities — Financial Strategy". For details of TNK-BP's long-term debt, see "Operating and Financial Review — Liquidity and Capital Resources — Indebtedness" and "Operating and Financial Review — Recent Developments."

Save as disclosed above, since 31 December 2005 there has been no material change in TNK-BP's capitalisation.

SELECTED CONSOLIDATED FINANCIAL DATA OF TNK-BP

The following table presents selected consolidated financial data of TNK-BP as of the dates and for the periods indicated. The balance sheets as of 31 December 2005 and 2004 and the statements of operations and cash flow data for the three years ended 31 December 2005, 2004 and 2003 were derived from TNK-BP's U.S. GAAP Financial Statements included elsewhere in this Supplement, audited by ZAO PricewaterhouseCoopers Audit. This information should be read in conjunction with "Use of Proceeds" in the Base Prospectus, "Operating and Financial Review" in this Supplement and the said U.S. GAAP Financial Statements.

	Year ended 31 December		
	2005	**2004**	**2003**
	(U.S. $ millions)		
Revenues			
Sales and other operating revenues	30,025	17,097	12,065
Less: export duties	(7,389)	(2,561)	(1,372)
Less: excise taxes	(484)	(367)	(327)
Net revenues	22,152	14,169	10,366
Costs and other deductions			
Taxes other than income tax	5,540	3,046	1,929
Cost of purchased products	3,354	775	1,052
Transportation expenses	2,296	1,761	1,462
Operating expenses	2,060	1,731	1,336
Selling, general and administrative expenses	1,249	957	872
Depreciation, depletion and amortisation	1,206	1,039	814
Exploration expenses	88	160	70
Loss on disposals and impairment of assets	76	32	77
Total costs and other deductions	15,869	9,501	7,612
Other income and expenses			
Earnings from equity investments, net	823	645	477
Income from disposals of subsidiaries	766	–	–
Interest income and net other income	113	160	106
Exchange loss, net	(44)	(20)	(37)
Interest expense	(224)	(189)	(283)
Total other income and expenses	1,434	596	263
Income before income taxes and minority interest	7,717	5,264	3,017
Income Taxes			
Current tax expense	2,849	1,273	405
Deferred tax expense (benefit)	54	(52)	(178)
Total income tax expense	2,903	1,221	227
Income before minority interest and cumulative effect of change in accounting principle	4,814	4,043	2,790
Minority interest	70	37	214
Income before cumulative effect of change in accounting principle	4,744	4,006	2,576
Cumulative effect of change in accounting principle	–	–	226
Net income	4,744	4,006	2,802

	As of 31 December	
	2005	2004
	(U.S. $ millions)	
Balance Sheet Data:		
Assets		
Cash and cash equivalents	1,321	477
Restricted cash	15	98
Accounts and notes receivable, net	5,205	3,657
Inventories	856	503
Other current assets	215	109
Total current assets	7,612	4,844
Long-term investments	1,893	1,785
Property, plant and equipment, net	11,704	11,050
Other long-term assets	318	459
Total assets	21,527	18,138
Liabilities and Shareholder's Equity		
Short-term debt and current portion of long-term debt	738	893
Trade accounts and notes payable	764	447
Other accounts payable and accrued expenses	791	599
Taxes payable	3,548	2,232
Dividends payable	1,549	–
Total current liabilities	7,390	4,171
Long-term debt	2,876	2,480
Asset retirement obligations	253	315
Deferred income tax liability	1,580	1,477
Other long-term liabilities	195	221
Total liabilities	12,294	8,664
Minority interest	866	755
Ordinary share capital (authorised and issued - 53,000 shares, U.S.$1.00 par value)	–	–
Additional paid-in capital	2,976	2,631
Retained earnings	5,391	6,088
Total shareholder's equity	8,367	8,719
Commitments and contingent liabilities	–	–
Total liabilities and shareholder's equity	21,527	18,138

	Year ended 31 December		
	2005	2004	2003
	(U.S. $ millions)		
Cash Flow Data:			
Net cash provided by operating activities	5,042	4,687	4,082
Net cash used for investing activities	(616)	(1,663)	(2,680)
Net cash used for financing activities	(3,570)	(3,257)	(1,681)

	Year ended 31 December		
	2005	2004	2003
	(U.S. $ millions except percentage)		
Other Financial Data:			
EBITDA[1]	9,078	6,352	4,045
Net debt	2,278	2,798	1,771
Net debt/Net debt plus equity	21.4%	24.3%	17.2%

(1) EBITDA is defined as earnings before taxes, minority interest, cumulative effect of change in accounting principle, depreciation, depletion and amortisation, exchange loss (net), interest income and net other income. 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 US 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.

The following table shows a reconciliation of TNK-BP's EBITDA to income before taxes, minority interest, and cumulative effect of change in accounting principles for the periods shown.

	Year ended 31 December		
	2005	2004	2003
	(U.S. $ millions)		
Income before income taxes and minority interest	7,717	5,264	3,017
Add back:			
Interest expense	224	189	283
Exchange loss, net	44	20	37
Interest income and net other income	(113)	(160)	(106)
Depreciation, depletion and amortisation	1,206	1,039	814
EBITDA	9,078	6,352	4,045

GENERAL INFORMATION

(1) Except as disclosed in this Supplement, there has been (i) no significant change in the financial or trading position or prospects of the Guarantor or the Issuer since 31 December 2005 or, and (ii) no material adverse change in the financial or trading position or prospects of the Guarantor or the Issuer since 31 December 2005.

(2) Except as disclosed in this Supplement, neither the Guarantor nor Issuer 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.

(3) ZAO PricewaterhouseCoopers Audit has audited, and rendered unqualified audit reports on the consolidated financial statements of the Guarantor as of 31 December 2005 and 2004 and for the years ended 31 December 2005, 2004 and 2003. PricewaterhouseCoopers S.à.r.l. has audited, and rendered an unqualified audit report, on the financial statements of the Issuer as of 31 December 2005 and for the period from 11 April 2005 (incorporation date) to 31 December 2005.

(4) 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 31 December 2005 and 2004 and for the years ended 31 December 2005, 2004 and 2003; and
- the latest consolidated audited annual financial statements of the Guarantor prepared in accordance with U.S. GAAP.

APPENDIX 1
GENERAL DESCRIPTION OF TNK-BP

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 the Alfa Group, Access Industries, Inc. and Renova, Inc. (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 from both TNK and BP.

In 2005, TNK-BP recorded sales and other operating revenues of U.S.$30,025 million, EBITDA of U.S.$9,078 million and net income of U.S.$4,744 million as compared to sales and operating revenues of U.S.$17,097 million, EBITDA of U.S.$6,352 million and net income of U.S.$4,006 million in 2004. As of 31 December 2005, TNK-BP had outstanding indebtedness of U.S.$3,614 million, net debt of U.S.$2,278 million and a gearing ratio of 21% (calculated as the ratio of net debt to net debt plus equity) as compared to outstanding indebtedness of U.S.$3,373 million, net debt of U.S.$ 2,798 million and a gearing ratio of 24% as of 31 December 2004.

Below are some 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 associated company, Slavneft):

- *Reserves.* While TNK-BP measures reserves using two main global reserves classification systems for external reporting and internal reserves management, the primary basis used by TNK-BP is the SEC-LOF methodology. Under this basis, TNK-BP's total proved gross reserves held through its exploration and production subsidiaries as of 31 December 2005 amounted to approximately 1.1 billion tonnes (8.2 billion barrels) of oil, of which 0.8 billion tonnes (6.1 billion barrels) were proved developed reserves. Currently, TNK-BP does not record any of its gas assets as proved reserves. TNK-BP replaced 137% of its 2005 production with new proved reserves under SEC-LOF criteria.

- *Production.* In 2005, the total crude oil and condensate production of TNK-BP's exploration and production subsidiaries (excluding Slavneft but including other TNK-BP joint ventures) was 77.0 million tonnes (1.579 MMBbls/d). In general, TNK-BP either exports crude oil or uses it as a feedstock for its refineries. TNK-BP also produces associated and natural gas. In 2005, TNK-BP's gas sales totalled 9.6 billion cubic metres per year ("bcma") (0.16 million barrels of oil equivalent ("boe") per day). Gas sales currently represent a very small percentage of TNK-BP's overall revenues, but management expects to expand the strategic focus of TNK-BP in this line of business.

- *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, these five refineries have an effective capacity of approximately 30.0 million tonnes of crude oil per year. In 2005, TNK-BP refined 30.5 million tonnes of crude oil (this includes throughput at the Orsk refinery, an asset that was sold by TNK-BP in December 2005), representing an effective average utilisation rate of 84%. 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 2005, TNK-BP exported 49.9 million tonnes of crude oil (to Europe and the CIS), which was the equivalent of 65% of its crude oil production and 63% of its total crude oil sales and deliveries to refineries in that year. TNK-BP also exported 18.9 million tonnes of refined products in 2005, the equivalent of 63% of its refined product sales.

- *Domestic Marketing and Retail.* Domestically, TNK-BP sells its products through different distribution channels. Gasoline and most of the diesel fuel TNK-BP produces is sold by regional marketing subsidiaries using their retail networks (including jobbers) and through the small wholesale market. Other TNK-BP refined products are primarily 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. TNK-BP currently has over 1,580 branded retail filling stations, of which, approximately 676 are owned and operated by TNK-BP's marketing subsidiaries and located in Russia and Ukraine. The remainder are owned and operated independently by TNK-BP jobbers. In Moscow, TNK-BP has over 220 branded retail sites, of which, 92 are owned and operated by TNK-BP marketing subsidiaries. TNK-BP estimates that its total branded share of the Moscow retail fuel market, in volume terms, is approximately 28% and that the sites owned and operated by TNK-BP marketing subsidiaries have a market share of approximately 15% of that market. TNK-BP is also a widely recognised retailer in Ukraine, with a network of 41 of its own and 595 jobber filling stations. As a part of its downstream strategy, TNK-BP is focused on expanding its operations into two new targeted growth regions, in Rostov, through a joint venture, and St. Petersburg, through the acquisitions and building the own service stations.

- *Slavneft Joint Venture.* Slavneft is a Russian vertically-integrated oil and gas company which produced 24.2 million tonnes (0.49 MMBbls/d) of crude oil in 2005 on a gross basis and as of 31 December 2005 had proved oil reserves of 271 million tonnes (2.0 billion barrels) under SPE criteria on a gross basis. As of 31 December 2005, TNK-BP held a 49.8% effective interest in Slavneft as a result of the 50-50 joint venture with Gazpromneft (formerly Sibneft).

- *Portfolio management.* As part of its portfolio management strategy, TNK-BP sold its stakes in a number of upstream and downstream group companies to OAO NK Russneft for U.S.$832 million in December 2005. These entities included OAO Saratovneftegaz, OAO Orsknefteorgsintez, OAO Orenburgnefteprodukt and OAO Neftemaslozavod. In June 2006, TNK-BP announced the sale of Udmurtneft. These companies had been deemed to no longer have a strategic fit with TNK-BP's asset portfolio going forward. See "Operating and Financial Review — Formation and Evolution of TNK-BP 2005 Disposals" and "– Recent Developments".

- *Awards.* 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 awarded by the British Energy Institute for the safety and environmental protection standards used by the company for operations on the Volga River. In 2004, TNK-BP won the Third All-Russian Contest "Golden Networks 2004" in the Retail Filling Stations category.

- *Credit Rating.* TNK-BP International is currently rated "Baa2" (outlook stable) by Moody's, "BB+" (outlook stable) by Standard & Poor's and "BB+" (outlook positive) 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. To achieve this goal, TNK-BP is focusing on a number of key strategic priorities, including:

- *Upstream.* TNK-BP aims to grow its upstream production at a higher rate than the Russian industry average while replacing at least 100% of current production with new reserves to create a sustainable basis for future production and improving its production cost efficiency at the same time.

- *Downstream.* TNK-BP seeks to enhance the flexibility and profitability of the group's downstream operations, principally through the continued development of new export options for the group's production and higher margin products, enhancement of the group's refining capabilities, and targeted growth of its retail businesses.

- *Gas Business.* TNK-BP aims to substantially enhance its gas business as a portion of its overall business and transform itself from an oil group into a major oil and gas group. TNK-BP aims to achieve this by exploiting TNK-BP's significant natural gas resources and efficiently delivering gas to the domestic gas market and export markets (in coordination with Gazprom and/or Russian Federation policy), in both the European (through the holding in Rospan) and Asia-Pacific (through the holding in Rusia Petroleum) markets.

- *Portfolio Management.* TNK-BP will also manage its portfolio of assets in furtherance of its strategic goals and in doing so may, among other things, evaluate opportunities to acquire assets that management believes will enhance the value of company or divest assets that are deemed to be non-core assets.

- *Corporate Governance and Other Internal Initiatives.* TNK-BP will continue to focus on increasing its transparency and performance through improved corporate governance, organisational simplification, and enhanced audit and financial reporting capabilities.

- *Health, Safety and Environmental Policies.* TNK-BP strives to ensure that all its activities are conducted with due regard for health, safety and the surrounding environment.

- *Financial.* TNK-BP's financial strategy is focused on contributing to the group's growth while maintaining the group's strong balance sheet and enhancing its financial flexibility.

APPENDIX 2
RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Supplement 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's or the Guarantor's, or the Guarantor Group's respective business, operations and financial condition and/or the rights under the Notes of the holders of the Notes.

RISKS RELATING TO THE ISSUER

The Issuer is a finance subsidiary within the Guarantor Group without independent operations or revenues. As such, its ability to meet its obligations under the Notes will be dependent upon the support of the Guarantor Group.

RISKS RELATING TO THE GUARANTOR

Risks Relating to the Russian Federation

Most of the assets of TNK-BP are located in Russia. Set out below is a description of some of the risks of investing in Russia or in an entity with assets in Russia.

Political and Social Risks

Russia has been undergoing substantial political transformation from a centrally controlled command economy under communist rule to a pluralist market-orientated democracy. There can be no assurance that the political and economic reforms necessary to complete such a transformation will continue. In its current relatively nascent stage, the Russian political system is vulnerable to the population's dissatisfaction with reforms, social and ethnic unrest and changes in governmental policies, any of which could have a material adverse effect on TNK-BP and on the ability of the Issuer and the Guarantor to meet their obligations under the Notes.

During this transformation, legislation has been enacted to protect private property against expropriation and nationalisation. However, due to the lack of experience in enforcing these provisions as a result of the short time they have been in effect and due to potential political changes in the future, there can be no assurance that such provisions would be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any substantial assets of the Guarantor, potentially without adequate compensation, would have a material adverse effect on the Issuer and/or the Guarantor.

The composition and structure of the Russian Government – the prime minister and the other heads of federal ministries – has at times been highly unstable. For example, five different prime ministers (Messrs. Kirienko, Primakov, Stepashin, Putin and Kasyanov) headed governments between March 1998 and May 2000. On 31 December 1999, President Yeltsin resigned and Vladimir Putin was subsequently elected president on 26 March 2000. In late February 2004, President Putin dismissed Mikhail Kasyanov, the prime minister for most of Mr. Putin's presidency, and appointed Mikhail Fradkov as prime minister. Shortly after the appointment of Mr. Fradkov as prime minister, a presidential decree significantly reduced the number of federal ministries, redistributed certain functions amongst various government agencies and announced plans for a major overhaul of the federal administrative system. President Putin was re-elected for a second presidential term by a large margin in March 2004. While President Putin has maintained governmental stability there has been a slowing of economic reforms, and an increase in the power of the president, as exemplified by, among other things, the passage of legislation giving the president the power to appoint governors of the various subdivisions of the Russian Federation who in the past were elected to office. The next scheduled presidential election is in 2008.

The latest State Duma elections resulted in the defeat of the opposition parties (the Communists, the social-democratic Yabloko and the pro-business Union of Right Forces). The majority of the seats in the new State

Duma were distributed between pro-presidential and nationalist parties (United Russia, Liberal Democrats and Motherland). Some experts believe that this allocation of the State Duma seats will result in a lack of strong opposition to the President and render impossible the blocking of any governmental initiatives by the State Duma. Any major changes in, or rejection of, current policies favouring political and economic reform by the Russian Government may have a material adverse effect on the Issuer and/or the Guarantor.

Russia is a federation of republics, territories, regions, districts, cities of federal importance, and autonomous areas. The delineation of authority among the constituent regions of the Russian Federation and federal government authorities is often uncertain and at times contested. Lack of consensus between local and regional authorities and the Russian Government has resulted in the enactment of conflicting legislation at various levels, and may result in political instability. This problem has been mitigated to some extent by the increasing power that the federal government has exerted over the various subdivisions of the Russian Federation; however, this lack of consensus may have negative economic effects on the Issuer and/or the Guarantor, which could have a material adverse effect on their ability to meet their financial obligations.

In addition, actions of the Russian legislative, executive and judicial authorities can affect the Russian securities market and/or have a significant effect on investment in Russia. In particular, the events surrounding Yukos Oil Company ("Yukos") including the tax claims against Yukos, the imprisonment of Yukos' former CEO, Mikhail Khodorkosvky, on counts of fraud and tax evasion and the forced auction of Yuganskneftegas and the subsequent acquisition and nationalisation of such company by Rosneft, as well as tax claims brought by the Russian tax authorities against several other major Russian companies, including TNK-BP, have led some commentators to question the progress of market and political reforms in Russia and have resulted in significant fluctuations in the market price of Russian securities and a negative impact on foreign direct and portfolio investment in the Russian economy. Any similar actions by the Russian authorities which result in a negative effect on investor confidence in Russia's business and legal environment could have a material adverse effect on the Russian securities market and prices of Russian securities or securities issued or backed by Russian entities, including the Notes, and/or have a significant effect on investment in Russia. The privatisation of the oil and gas industry in Russia, which is a vital sector of the national economy, continues to be a source of political controversy. There can be no assurance that current government policies liberalising control over the oil and gas industry will endure. Furthermore, control over natural resources such as oil and gas and their exploitation remains an issue between the federal authorities and the regions. The operations of the Russian subsidiaries of TNK-BP could be materially affected by any increase in the political independence of the regions in which they conduct their operations or through which their crude oil, natural gas or refined products are transported. The controversial auction of Yuganskneftegaz, a former main production subsidiary of Yukos Oil Company ("Yugansk"), in 2004 that eventually resulted in Yugansk being acquired by state owned Rosneft, the acquisition in July 2005 by the Russian State of additional shares in Gazprom, Russia's vertically integrated gas monopoly, to raise its interest from 38% to over 50% and the acquisition by Gazprom of a controlling stake in Sibneft (which was subsequently renamed Gazpromneft in May 2006) in September 2005, indicate that the Russian Government aims at establishing a stronger presence in the Russian oil and gas sector. There can be no assurance that a stronger presence of the Russian Government in the oil and gas sector will not have a material adverse effect on the Issuer or the Guarantor.

Recent terrorist activity in the Middle East region and elsewhere, including Russia, has had a significant effect on international and domestic financial and commodity markets. In recent years Russia has suffered a number of terrorist attacks resulting in significant loss of life and damage to property, including bombings near and inside metro stations in Moscow and bombings of two domestic airline passenger flights. In September 2004, terrorists took hundreds of people hostage at a school in Beslan, Russia. Any future acts of terrorism or armed conflicts in the Russian Federation or internationally could have an adverse effect on the financial and commodities markets and the global economy and in turn could have a material adverse effect on TNK-BP's business, financial condition, prospects or results of operations.

Economic Risks

Emerging markets such as Russia are subject to greater risks than more developed markets and financial turmoil in any emerging market could disrupt TNK-BP's business as well as cause the price of the Notes to suffer. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors should also note that emerging markets such as Russia are subject to rapid change and that the information set out within this Supplement or the Base Prospectus may become outdated within a relatively short period. Moreover, financial turmoil in any emerging or developed market country tends to adversely affect prices for stocks and prices for debt securities of all emerging market countries as investors move their money to more stable markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, companies in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Russian economy remains relatively stable, financial turmoil in any emerging or developed market country could disrupt TNK-BP's business or result in a decrease in the price of the Notes.

In addition, economic instability in Russia could adversely affect TNK-BP's business. Since the dissolution of the Soviet Union, the Russian economy has at various times experienced, among other things:

- 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 continue 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 "black" and "grey" market economies;
- high levels of capital flight;
- corruption and extensive penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- high poverty levels amongst the Russian population.

The events and aftermath of 17 August 1998 – the Russian Government's default on its short-term rouble denominated treasury bills and other rouble-denominated securities, the abandonment by the Central Bank of the Russian Federation (the "Central Bank") of the rouble currency band and efforts to maintain the rouble/U.S. dollar rate within it and the temporary moratorium on certain hard-currency payments to foreign counterparties – led to a severe devaluation of the rouble, a sharp increase in the rate of inflation, the significant deterioration of the country's banking system, significant defaults on hard currency obligations, a dramatic decline in the prices of Russian debt and equity securities, and an inability of the Russian Federation and Russian companies to raise funds on international capital markets. While the Russian economy has substantially improved in a number of respects since 1998, there can be no assurance that recent trends in the Russian economy will continue or will not be reversed.

Concurrently with the implementation of political reforms, the Russian Government has been attempting to carry out economic reforms and stabilise the economy. These policies have involved removing pricing restrictions, reducing defence expenditures and subsidies, privatising state-owned enterprises, reforming the tax and bankruptcy systems, substantially liberalising currency control regime and introducing legal structures designed to facilitate private, market-based activities, foreign trade and investment. Of late, the pace of these economic reforms has slowed, and there appears to be disagreement within the government on how to proceed with further proposed reforms, including potential reforms of the Russian gas market.

Recent trends in the Russian economy, such as a relatively stable rouble and a reduced rate of inflation, may not continue or may be abruptly reversed. According to the Minister of Economic Development and Trade, Russia's gross domestic product is expected to grow at largely the same level in 2006 as in recent years. The estimated increase in the Russian gross domestic product for 2006 is approximately 6%, compared to 6.4% in 2005 and 7.1% in 2004. Additionally, because Russia produces and exports large quantities of oil and natural gas, the Russian economy is especially vulnerable to fluctuations in the price of oil and natural gas on the world market and a decline in the price of oil and natural gas could significantly slow or disrupt the Russian economy. A strengthening of the rouble in real terms relative to the U.S. dollar, changes in monetary policy, inflation or other factors could adversely affect Russia's economy and TNK-BP's business in the future. Any such market downturn or economic slowdown could also severely limit TNK-BP's access to capital and could have a material adverse effect on TNK-BP's business, financial condition, prospects or results of operations.

Although economic conditions in Russia have improved in the last several years, there is a lack of consensus as to the scope, content and pace of economic and political reform. No assurance can be given that reform policies will continue to be implemented and, if implemented, that they will be successful, that Russia will remain receptive to foreign trade and investment, or that the economy in Russia will improve. Any failure of the current policies of economic reform and stabilisation could have a material adverse effect on TNK-BP.

Russia's Physical Infrastructure

Russia's physical infrastructure largely dates back to Soviet times and has not in general been adequately funded and maintained in past decades. Particularly affected have been: the rail and road networks; power generation and transmission; communication systems; and building stock. Road conditions throughout Russia are poor, with many roads not meeting minimum quality requirements. In order to enhance the prospects of infrastructure improvement, the federal government is actively pursuing plans to reorganise the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs and may fail to generate the anticipated capital investment needed to repair, maintain and improve these systems.

Notwithstanding recent government's and corporate investments in crude oil supply and trans-shipment – related infrastructure, the inherited physical infrastructure still harms the national economy, disrupts the transportation of goods and supplies, including the transportation of crude oil and refined products, increases the cost of doing business in Russia and can interrupt business operations, which could result in a material adverse effect on TNK-BP.

Legal Risks

Risks associated with the Russian legal system include, inter alia: (i) the uncertain integrity and independence of the judiciary and its immunity from economic, political or nationalistic influences; (ii) inconsistencies among laws, Presidential decrees, and government and ministerial orders and resolutions; (iii) the lack of clarity of many laws, decrees, orders, resolutions and the lack of judicial or administrative guidance on interpreting the applicable laws; (iv) a high degree of discretion on the part of governmental authorities; (v) conflicting local, regional and federal laws and regulations; (vi) the relative inexperience of judges and courts in interpreting new legal norms; and (vii) the unpredictability of enforcement of foreign judgments and foreign arbitral awards. In a 2005 report regarding regulatory reform in Russia the Organisation for Economic Cooperation and Development ("OECD") stated that a remaining challenge in the field of judicial reform is to "rid the courts of corruption and political influence". Further, the OECD stated in the report that "the courts are still widely regarded as susceptible to outside pressure and inducements, and a considerable body of circumstantial evidence suggests that this perception is accurate".

The laws in Russia regulating ownership, control and corporate governance of Russian companies are relatively new and, by and large, have not yet been fully tested in the courts. Disclosure and reporting requirements do not guarantee that material information will always be available and antifraud and insider trading legislation is generally rudimentary. The concept of fiduciary duties on the part of the management or directors to their companies or the shareholders is not well developed.

In addition, substantive amendments to several fundamental Russian laws (including those relating to the tax regime, corporations and licensing) have only recently become effective. The recent nature of much of 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 always 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 the bankruptcy laws establish a procedure to declare an entity bankrupt and liquidate 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 its Russian subsidiaries, and could affect enforcement of any rights of the 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).

These uncertainties also extend to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalisation. However, it is possible that due to the lack of experience in enforcing these provisions and due to potential political changes, these protections would not be enforced in the event of an attempted expropriation or nationalisation. Some government entities have tried to re-nationalise privatised businesses. Expropriation or nationalisation of any of TNK-BP's entities or their assets, potentially without adequate compensation, would have a material adverse effect on TNK-BP.

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 usually are not updated or catalogued. As a result, applicable law is often difficult to ascertain and apply, even after reasonable effort. In addition, the laws are subject to different and changing interpretations and administrative applications. As a result of these factors, even the best efforts to comply with the laws may not always result in full compliance.

Russian laws often provide general statements of principles rather than a specific guide to implementation, and government officials may be delegated or exercise broad authority to determine matters of significance. Such authority may be exercised in an unpredictable way and effective appeal processes may not be available. In addition, breaches of Russian law, especially in the area of currency control, may involve severe penalties and consequences that could be considered as disproportionate to any violation committed.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia remains largely untested. Judges and courts are generally inexperienced in the areas of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organised in a manner that facilitates understanding, and the Russian judicial system can be slow. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court decisions are not always enforced by law enforcement agencies. There can be no assurance that further judicial reform aimed at balancing the rights of private parties and governmental authorities in courts and reducing grounds for re-litigation of previously decided cases will be implemented and succeed in building a reliable and independent judicial system.

Interested Party Transaction Approvals

Some transactions between Russian companies and certain "interested parties" and their affiliated companies may require the approval of the disinterested directors or disinterested shareholders of such subsidiary.

Russian law requires a joint stock company that enters into transactions that are referred to as "interested party transactions" to comply with special approval procedures. Under Russian law, an "interested party" means: (i) any member of the board of directors or the collegiate executive body of the company, (ii) the chief executive officer of the company (including managing organisation or hired manager), (iii) any person who, together with its affiliates, owns at least 20% of the company's voting shares or (iv) a person who on legal grounds has the right to give mandatory instructions to the company, if any of the above listed persons, or a close relative or affiliate of such person, is, in each case:

- a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
- the owner, together with any close relatives or affiliates, of at least 20% of the shares in a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
- a member of a governing body of a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction or a member of a governing body of the managing organisation of such company; or
- in other cases stipulated by the company's charter.

Russian law provisions governing interested party transactions may be interpreted to imply that special approval procedures should apply, inter alia, to the transactions between companies within a consolidated group (such as TNK-BP), even if such companies are directly or indirectly wholly owned by the parent of the consolidated group. This means that every transaction entered into between the companies within TNK-BP requires an approval of a majority vote of "independent disinterested directors" or "disinterested shareholders" of each of such companies. There is a possibility that the above approvals may not have been obtained every time that the companies within TNK-BP entered into transactions between each other. The failure to obtain the necessary approvals for such transactions could result in their invalidation and adversely affect TNK-BP's business.

In addition, the concept of "interested parties" is defined with reference to the concepts of "affiliated persons" and "group of persons", which are subject to many different interpretations under Russian law. Moreover, the provisions of Russian law defining which transactions must be approved as "interested party" transactions are subject to different interpretations. No consolidated group can be certain that its compliance with these concepts will not be subject to challenge.

Foreign Court Judgments or Arbitral Awards

The Russian Federation is not a party to multilateral or bilateral treaties with most Western countries for the mutual enforcement of court judgments. Consequently, should a judgment be obtained from a court in any of such jurisdictions it is highly unlikely to be given direct effect in Russian courts. However, the Russian Federation (as successor to the Soviet Union) is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. A foreign arbitral award obtained in a state which is party to that Convention should be recognised and enforced by a Russian court (subject to the qualifications provided for in the Convention and compliance with Russian civil procedure regulations and other procedures and requirements established by Russian legislation). Although the Russian 2002 Arbitration Procedural Code is in conformity with the Convention and thus has not introduced any substantial changes relating to the grounds for the refusal of recognition and enforcement of foreign arbitral awards and court judgments, in the event that Russian procedural legislation is further changed, new grounds preventing foreign court judgments and arbitral awards from being recognised and enforced in Russia could be introduced. 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 the Russian Federation.

Exchange Rates, Exchange Controls and Repatriation Restrictions

Although the rouble has appreciated in real terms relative to the U.S. dollar in the last two years, in past years, the rouble has experienced significant depreciation relative to the U.S. dollar, particularly following the financial crisis of August 1998. Before August 1998, the Central Bank had been trying to support the rouble within a certain band. However, after the significant August 1998 devaluation of the rouble, the Central Bank ceased its support of the rouble within that band. The ability of the Russian Government and the Central Bank to reduce the volatility of the rouble will depend on many political and economic factors, including their ability to control inflation and the availability of foreign currency.

The rouble is currently not convertible outside Russia, although initiatives have been implemented to substantially liberalise currency controls. A market exists within Russia for the conversion of roubles into other currencies, but it is limited in size. There can be no assurance that such a market will continue indefinitely. Russian residents have been traditionally obliged to convert a certain amount of their foreign currency export revenues into roubles. By November 2004, this amount was gradually decreased to 10% of the total amount of export revenues. Effective from May 2006, the Central Bank decreased the amount of foreign currency revenues from export sales subject to mandatory conversion into roubles to 0% (although it may reinstate mandatory conversion by way of increasing the percentage of the foreign currency proceeds to be sold). The relative stability of the exchange rate of the rouble against the U.S. dollar since 1999 has mitigated risks associated with forced conversion, but no assurance can be given that such stability will continue. Moreover, the banking system in Russia is not as developed as its Western counterparts, and considerable delays may occur in the transfer of funds within, and the remittance of funds out of, Russia.

On 18 June 2004, most of the provisions of the new Federal Law "On Currency Regulation and Currency Control" (the "Currency Law") came into force. The Currency Law replaced the Law of the Russian Federation "On Currency Regulation and Currency Control" No. 3615-I of October 1992. While the Currency Law is generally aimed at the gradual liberalisation of Russian currency control regulations, it only establishes a broad regulatory framework and gives the Russian Government and the Central Bank significant discretion on implementing regulations for currency operations in Russia. The Currency Law introduced some new forms of currency control, such as the formation of mandatory reserves and the use of special accounts. The Central Bank and the Russian Government have implemented a number of regulations relating to the new currency control regime and other such regulations may be expected in the near future. However, under the Currency Law, all restrictions on capital flows are expected to be lifted as of 1 January 2007 and the majority of existing currency control restrictions have been lifted by the Central Bank as of 1 July 2006.

Under the Currency Law, the Central Bank has the authority to adopt regulations that would require Russian borrowers to reserve up to 20% of the amount of foreign currency loans received from foreign lenders for a period of up to one year, and require Russian lenders to reserve up to 100% of the amount of their foreign currency loans extended to foreign borrowers for a period of up to sixty days. These reserve requirements are intended to give the Central Bank additional tools to combat asset-price and currency instability by curbing the flow of short-term speculative funds into, and preventing the flow of funds out of, Russia. Under Central Bank regulations adopted so far, such mandatory reserves and special account requirements have been imposed largely on Russian companies. Previously, Russian borrowers were required to reserve, for a period of 365 calendar days, the rouble equivalent of 1% of the amount of foreign currency loans with a maturity of less than three years received from non-Russian residents, and Russian lenders were required to reserve, for a period of 15 calendar days, the rouble equivalent of 12.5% of the amount of loans granted to non-Russian residents. As of 1 July 2006, the Central Bank abolished the then existing reserve requirements applicable to transactions in respect of capital flow to and from the Russian Federation. Although the recent liberalisation in the currency control regulations (such as the abolition of the mandatory reserve requirements in respect of lending and borrowing operations and effective lifting of the export revenues conversion requirement) and the proposed further liberalisation by way of lifting of the remainder of restrictions appear to demonstrate the relaxation of the currency control regime, it is not clear whether the Russian Government or the Central Bank will enact further regulations relating to mandatory reserves and/or special accounts. The implementation of these new requirements by the Russian Government and the Central Bank may make certain foreign currency operations burdensome and financially unattractive. Until the Russian Government and the Central Bank have enacted and implemented further regulations under the Currency Law, it is not clear whether and to what extent the Currency Law will have a further effect on TNK-BP's business. Nonetheless, the introduction of additional restrictions on foreign currency operations could hamper the ability of the Russian subsidiaries of the Guarantor to, among other things, receive foreign funding.

Further appreciation in real terms of the rouble against the U.S. dollar may also affect TNK-BP's results of operations. TNK-BP's reporting currency is the U.S. dollar. TNK-BP's crude oil and refined products exports, which comprise a majority of its revenues, are typically priced in U.S. dollars (and, to a lesser extent, euro), whereas the majority of TNK-BP's direct costs are incurred in roubles. Appreciation in real terms of the rouble against the U.S. dollar results in an increase in TNK-BP's costs relative to its revenues, adversely affecting TNK-BP's results of operations. The rouble appreciated in real terms against the U.S. dollar by 20.9% in 2003, by 18.6% in 2004 and by 6.9% in 2005 and further real appreciation of the rouble against the U.S. dollar may materially adversely affect TNK-BP's results of operations. See "Operating and Financial Review" — Inflation and the U.S. Dollar to Rouble Exchange Rate".

Privatisation

Many of the Russian subsidiaries of TNK-BP were privatised in the mid 1990s, and Slavneft was privatised in 2002. Furthermore, Russian subsidiaries of TNK-BP International acquired a number of privatised companies in Russia. Privatisation legislation has at times been vague, inconsistent and has conflicted with other applicable 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.

The Russian Government had in past alleged certain violations of legislation in the privatisation of TNK, Sidanco and Onako (former subsidiaries of TNK-BP International that have recently been acceded to TNK-BP Holding, as described in "Business — Corporate Activities — Corporate Restructuring Project in Russia") and Slavneft, as was the case for many other major Russian companies. 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 this 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 defeat 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.

Taxation

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, profits tax, natural resources production tax, value-added tax, excise tax, royalty tax, property tax, land tax, payroll-related taxes and contributions.

In general, the quality of tax legislation in Russia has significantly improved with the introduction of the Russian Tax Code in 1999-2002. While this has resulted in an improved tax climate (e.g., the corporate profits tax was reduced from the maximum allowable 35% to 24%), Russian federal, regional and local tax laws and regulations are still subject to frequent change, varying interpretations and inconsistent enforcement. Often, different approaches regarding the interpretation of tax legislation exist among different governmental authorities (e.g., the functions of the former Ministry of Taxes and Levies have now been divided between the Ministry of Finance, Federal Tax Service and various tax inspectorates), creating additional uncertainties and areas of conflict. In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. For example, tax laws are unclear with respect to the deductibility of certain expenses. In addition, Russia's federal, regional and local tax collection system increase 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 August 2004, the State Duma voted for the increase of the natural resources production tax rate effective as of January 2005. See "General Tax Regime Related to Russian Oil Companies". Export duties and the natural resources production tax operate on a sliding scale, such that when oil prices are high, these taxes significantly increase the amounts payable to the federal government. As a result, Russian oil companies record little incremental increase in profit margins on exports when international oil prices rise above U.S.$25/bbl and substantially reduce the profit margins of Russian oil companies. Starting 1 January 2007, with respect to the production of crude oil, the natural resources production tax will be levied at the rate of 16.5% of the value of extracted crude oil, which may be calculated by reference to actual sale prices of crude oil (less VAT, excise tax, export duty, and transportation and insurance expenses) or the deemed value of crude oil. For a full description of these tax rates, see "General Tax Regime Related to Russian Oil Companies".

Additionally, 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. Furthermore, any dividends within the entities comprising its consolidated group are subject to Russian taxes at each level (upon the distribution of dividends to a Russian shareholder, less available deduction for the amounts of dividends received by the entity paying dividends). However, President Putin in his Budget Address to the Federal Assembly of Russia "On Budget Policy in 2007" outlined the tax policy guidelines for 2006-2009, including a proposed amendment that is expected to be adopted during 2006 granting a tax exemption for dividends received by Russian companies from investments into subsidiaries.

Further, Russian oil companies, including Russian subsidiaries of TNK-BP, have historically benefited from the use of on-shore and off-shore tax planning mechanisms, principally involving trading subsidiaries located in Russian regions with preferential tax regimes. However, as a result of transfer pricing legislation which came into effect on 1 January 1999, such practices have been restricted. These mechanisms operate within the constraint that, in particular, the selling price between the producer and the trading company or between the trading company and the purchaser may not be less than 20% below the relevant market price for crude oil or refined products. In common with other Russian oil companies, some entities which are now included in TNK-BP employed such mechanisms in the past and, while there are practical difficulties in establishing a precise market price in some regions, TNK-BP believes that such entities have complied and continue to comply with these rules. The Russian tax authorities have challenged the transfer pricing mechanisms used by certain of TNK-BP's Russian subsidiaries relating to their 2001-2003 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 TNK-BP and the Oil and Gas Industry in Russia and in Ukraine — Taxation Risks."

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

Subsoil Use Licensing; Governmental Permits and Authorisations

The licensing regime in Russia for the exploration and production of oil and gas is governed primarily by the Law on Subsoil and related regulations. TNK-BP's Russian companies conduct operations under numerous exploration and/or production licences that were granted under currently existing legislation. Under the current licensing regime, the Russian Federal Agency for Subsoil Use and the Federal Service for Supervision in the Area of Natural Resources, both operating under the jurisdiction of the Federal Ministry for Natural Resources ("MNR"), are responsible for issuing subsoil licences and monitoring compliance with subsoil licences. The Law on Subsoil provides that fines may be imposed and/or licences may be suspended, amended, or terminated if a relevant TNK-BP licencee 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.

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, has worked and is working to correct the violations or amend the terms of the relevant licences and no such licence has been suspended or terminated to date as a consequence of such violations. In particular, governmental authorities have questioned whether TNK-BP has fulfilled its licence conditions with respect to the Kovykta field, though TNK-BP has started development of this resource to the extent reasonable within the licence conditions (and demonstrated as such to the governmental authorities) and started to renegotiate the licence conditions that, in management's view, are not reasonable in the light of circumstances. See "– Risks Relating to the Kovykta Project" below. There can be no assurance that such governmental authorities will not impose sanctions on TNK-BP with respect to its licences, including possible suspension or revocation of such licences. Furthermore, 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. Although 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 Samotlor field, TNK-BP's largest field, that was due to expire in 2013, were recently renewed and extended until 2038. Still, there can be no assurance that TNK-BP will be able to renew the remaining licences upon their expiration.

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.

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. However, procedures for obtaining such licences, permits and approvals are often bureaucratic in the Russian Federation 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.

The MNR is currently drafting amendments to the current Subsoil Law as well as developing a new Subsoil Law.

The draft amendments to the current Subsoil Law contain provisions that may restrict majority foreign owned or controlled companies (either directly or indirectly) and companies in which foreigners can nominate the majority of members of their governing bodies from participating in auctions and tenders for certain subsoil rights. However, currently it is not clear when the amendments, if any, to the current Subsoil Law will be introduced.

The new Subsoil Law is also intended to change the current licensing regime. Specifically, the draft Subsoil Law contemplates regulation of subsoil use through special subsoil use contracts with the relevant subsoil use licensing authority (currently the Federal Agency for Subsoil Use). The existing licences are expected to remain in force. The draft Subsoil Law provides that only Russian companies may be subsoil users and that pursuant to a request of an authorised state body restrictions may be introduced with regard to participation in auctions for subsoil rights of majority foreign owned or controlled Russian companies (either directly or indirectly) and Russian companies in which foreigners can nominate the majority of members of their governing bodies. While, as currently drafted, this restriction will not apply if the relevant Russian company's foreign shareholders are, in turn, directly or indirectly, majority controlled by Russian individuals and/or legal entities. The Minister of Natural Resources, Mr. Trutnev, recently stated that the new Subsoil Law would restrict foreign owned companies with more than 49% foreign ownership from obtaining rights to "strategic fields". According to Mr. Trutnev, "strategic fields" will be considered those fields that contain more than 70 million tonnes of oil and more than 50 billion cubic metres of gas. Mr. Trutnev's statements contemplate inclusion into the new draft Subsoil Law of provisions that would restrict the ability of such foreign owned companies to acquire rights to new reserves to a greater degree than already contemplated by the current draft Subsoil Law. In addition, other proposals for strategic fields are under consideration, including by the President's Administration.

Although the proposed new Subsoil Law, as currently drafted, provides that subsoil licences already held by subsoil users will remain in effect, it is unclear how these provisions and provisions of the new Subsoil Law in general would affect TNK-BP's operations. The draft Subsoil Law, as currently written, introduces 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. In addition, if they are adopted in their current form or as amended in light of Mr. Trutnev's statements, the amendments to the current Subsoil Law and/or the draft Subsoil Law might restrict the ability of TNK-BP to acquire new reserves for development in the future, which may have a material adverse effect on TNK-BP's business, financial condition and results of operations.

The status of the new Subsoil Law enactment is unclear. It is possible that the new law will not be enacted but that the existing Subsoil Law will remain in effect and will be amended as necessary to reflect the government and corporate initiatives.

While no amendments restricting the ability of foreign companies or companies with "substantial foreign involvement" to acquire new reserves have become law, the Russian Government has cancelled certain auctions for the rights to develop oil fields in Siberia with the apparent goal of preventing foreign companies or companies with substantial foreign involvement or their Russian affiliates from acquiring these rights. Thus, there is also a risk that even if the new subsoil legislation does not contain express provisions restricting TNK-BP from participation in auctions and tenders for new licences, that the manner in which the new or existing legislation is interpreted or implemented could have an adverse effect upon TNK-BP's ability to acquire new reserves for development in the future.

Taxation Risks

Russian subsidiaries of TNK-BP are subject to a number of taxation risks. The Russian oil industry is subject to a substantial and steadily increasing tax burden. Russian export duties on crude oil and oil products and the unified natural resources production tax have increased in each of 2002, 2003 and 2004 and may be raised further in the future. Tax legislation in the Russian Federation is subject to frequent varying interpretations and changes. 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. 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.

Historically, Russian subsidiaries of TNK-BP have been significant taxpayers in Russia and are potentially exposed to significant fines and penalty interest and to enforcement measures despite their best efforts to comply with the tax regulations. In the current uncertain tax environment, where transactions may be repeatedly challenged by tax authorities, Russian subsidiaries of TNK-BP may be assessed additional taxes, fines and penalty interest, which can be significant. In addition, repeat tax audits of Russian subsidiaries of TNK-BP may be conducted by tax authorities as a part of its corporate restructuring. See "TNK-BP History and Organisational Structure — Ongoing Changes in the Structure of TNK-BP". There can be no assurance that Russian subsidiaries of TNK-BP will not be required to make higher tax payments while the Notes are outstanding, which may adversely affect TNK-BP's financial results.

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. In addition, 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 particular, TNK-BP has recently faced a number of potential and actual tax claims relating to the audits of TNK-BP's Russian subsidiaries' activities in 2001 to 2003. Legislative amendments, which came into force on 1 January 2004, significantly reduced the tax benefits associated with the use of Russian economic development zones. TNK-BP believes it is fully compliant with these changes, as a result of which TNK-BP's effective tax rate for 2004 and 2005 was close to the applicable statutory tax rate.

During 2004 and 2005 the Federal Tax Service (the "FTS") performed tax audits on certain of TNK-BP'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 U.S.$143 million (RUR 4 billion) including fines and penalty interest. Although during 2005 TNK-BP successfully defended its position in the courts, the tax authorities continue to challenge the court rulings and therefore this claim is currently the subject of ongoing legal proceedings.

In February 2005, the Russian tax authorities presented tax acts, which, among other things, challenged TNK-BP's internal transfer pricing activities in 2001; these totalled approximately U.S.$288 million (RUR 8 billion) including fines and penalty interest. Following objections presented by TNK-BP, the amount of the tax acts was reduced and the Russian tax authorities issued final decisions with respect to such tax acts in the total amount of approximately U.S.$7 million (RUR 183 million), including penalty interest. This amount was paid in full in August 2005.

The Russian tax authorities performed a repeat tax audit on TNK's 2001 activities and in April 2005 presented TNK with a tax act totalling approximately U.S.$578 million (RUR 16 billion) which, among other things, challenged the use of reduced tax rate economic zones. Following objections presented by TNK-BP, the tax act amount was reduced and the Russian tax authorities issued a final decision in the amount of U.S.$247 million (RUR 7 billion) including penalty interest and fines. In August 2005 TNK-BP paid this amount in full.

In November 2005, a separate claim for 2001 was lodged in respect of profit tax concessions of a trading subsidiary of TNK-BP in the amount of U.S.$340 million (RUR 9.8 billion). A tax decision in the same amount was received in January 2006 and is currently being challenged in the courts by TNK-BP.

In December 2005 and February 2006, the FTS presented tax acts relating to 2002 and 2003 in respect of profit tax concessions claimed by TNK and Sidanco during the period. These acts amounted to U.S.$1,402 million (RUR 40.4 billion) and U.S.$ 442 million (RUR 12.7 billion), respectively. While TNK-BP has filed objections with the tax authorities, no decisions have been received.

The tax environment in the Russian Federation is subject to frequent change, different and selective interpretations and inconsistent enforcement. In addition the Russian legal system may not be immune from economic, political or national influences and has little experience in interpreting new legislation and regulations. The above factors make it difficult to determine what amounts TNK-BP will ultimately be required to pay upon the resolution of these tax audits. Management of TNK-BP has assessed TNK-BP's overall tax position with respect to the unresolved claims based on a consideration of technical tax matters, its experience in resolution of previous tax matters and an understanding of tax audit resolutions within the industry. Because of the preliminary stages of these tax claims in 2004 and because of the difficulties in determining tax claims in Russia as discussed above, management of TNK-BP recorded a provision as of 31 December 2004 amounting to U.S.$123 million. During 2005 many of the 2001 claims were resolved and new claims for 2002 and 2003 were received. Based upon these additional developments management recorded a liability as of 31 December 2005 amounting to U.S.$1,496 million (RUR 43 billion), related to the remaining open tax issues discussed above.

TNK-BP believes that the provisioning is adequate to cover existing claims and that the tax years after 2003 present a significantly lower risk of assessments, penalties and settlements in material amounts, if any. However, there can be no assurance that no additional claims will be made or that any current or future claims by the Russian tax authorities will not have a material adverse effect on TNK-BP's business, financial condition or results of operations.

Failure to Obtain Access to Gas Transmission Systems

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. Furthermore, a draft law has been recently submitted for consideration of the State Duma which if passed would grant Gazprom exclusive gas export rights. Currently, independent gas producers are only able to access the gas transmission system to make domestic deliveries within Russia 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 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 is, however, still 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, including the export of gas through this system, and to gradually liberalise domestic gas prices. 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, including for TNK-BP's export of gas, and/or if Gazprom were recognised by law as the exclusive gas exporter, 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.

In particular, TNK-BP is currently conducting feasibility studies for the construction of a private gas pipeline from the Kovykta field to East China with a possible extension to South Korea, which could be affected by any such developments. See "– Risks Relating to the Kovykta Project" below.

Risks Relating to the Kovykta Project

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. The other shareholders in Rusia Petroleum include Interros, a large Russian investment company, with a 25.8% interest and the Administration of the Irkutsk Region with a 10.8% interest. The Kovykta field is one of the strategic cornerstone developments for delivering TNK-BP's gas aspirations. The Kovykta project comprises two principal components: a domestic project to deliver regional gasification and a proposed export development project which is proposed to include the delivery of gas to China and South Korea. For a detailed description of the project, see "Business — Gas Business — The Kovykta Project".

The international phase of the project under which TNK-BP would aim to commence gas sales to China by 2012, is still at an early phase of development and subject to a number of uncertainties. For the project to succeed, the present partnership of the project's sponsors will have to be reconfigured (which could include the possibility of Gazprom holding a stake in the project company), long-term gas sales contracts with Chinese and South Korean counterparts concluded, and financing determined. All three aspects of the project are currently under active consideration. In 2003, the Russian Federation assigned Gazprom the coordinator duties of all gas projects on the territory of East Siberia and the Far East once a strategic development programme is approved (no programme has been approved to date). TNK-BP has commenced commercial discussions with Gazprom and other parties relating to the development of the infrastructure required for deliveries of large quantities of gas from Kovykta to East Siberia and to Southeast Asia which, as indicated above, may result in Gazprom taking a stake in all or parts of the project. Whether Rusia Petroleum will be allowed to export gas sourced from the project remains unclear pending the Russian Government's review of the project and resolution regarding Gazprom's role in the project. The failure of the Russian Government to allow the project to proceed, or a failure to reach agreement with Gazprom as to its participation, would limit the effective use and value of TNK-BP's gas assets which may have a material adverse effect on the implementation of TNK-BP's gas strategy.

In addition, the MNR has stated that it may consider revocation of the licence in the event that Rusia Petroleum does not produce gas in the quantities required under the terms of the licence. According to the licence agreement to develop the Kovykta field, Rusia Petroleum is meant to begin supplying gas from the Kovykta field to the Irkutsk region in 2006 in the amount of 9 bcma of gas (54 million boe) per year. TNK-BP has approved funding of U.S.$200 million to build the first section of a pipeline and longer lead activities associated with the second phase regional development that will serve customers in the Irkutsk region by the end of 2006. However, Rusia Petroleum has conducted gas demand surveys with the regional governments and industrial customers and the conclusion is that the Irkutsk region can currently only absorb approximately 2.5 bcma of gas (15 million boe) per year (with gas consumption in the region expected to grow at approximately the same rate as Russian GDP), Rusia Petroleum last year submitted a supplement to the original licence agreement in order to amend these delivery requirements. The MNR has yet to agree with the supplement's terms and conditions. Although TNK-BP does not believe that there is a material non-compliance and is working both to comply with the existing terms as well as adjust terms that are outdated and unachievable in light of the current gas consumption levels in the Irkutsk Region, there can be no assurance that the authorities will agree to the modifications proposed by TNK-BP or that the governmental authorities will not impose sanctions on TNK-BP with respect to this licence, including possible suspension or revocation.

Drilling and Production

TNK-BP is exploring and producing in various geographical areas, where in certain areas environmental conditions are challenging and costs can be high. The cost of drilling, completing and operating wells is often uncertain. As a result, TNK-BP may incur cost overruns or may be required to curtail, delay or cancel drilling operations because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions (as occurred in January and February 2006), compliance with governmental requirements and shortages or delays in the availability of drilling rigs and crews and the delivery of equipment. Such factors could have a material adverse effect on the TNK-BP's results of operations and financial condition.

Oil Transportation and Exports

Transneft

The majority of crude oil produced in Russia, and the majority of TNK-BP's crude oil, is transported through the Transneft system, which is a state-owned monopoly. While alternative means of transportation in Russia not dependent on the Transneft system exist, such means are generally more expensive than the Transneft pipeline system. Access to Transneft's trunk pipelines is regulated by the Russian Government. Such access is granted in proportion to volumes of oil produced and delivered to the trunk pipeline system. Russian oil companies are currently able to export through Transneft approximately 40% of their 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 minority 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. Finally, the Transneft system is subject to operational disruptions, and significant investments are needed 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. At the same time, Transneft has made investment to develop additional export routes and trans-shipment terminals (including Primorsk port) in order to increase capacity. As a result, there is currently spare capacity of the pipeline.

Generally, 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.

Other means of transportation

Alternative means of transportation in Russia, not dependent on the Transneft system, such as railways, and to a lesser extent, river barges exist. Due to the increased levels of oil production in Russia and potential limitations of export capacity through the Transneft system, significant investment in export infrastructure such as railways has taken 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 2005, TNK-BP's average transportation cost to ship oil through the Transneft pipeline route amounted to U.S.$2.51 per barrel, compared to U.S.$5.49 per barrel to ship by routes other than Transneft.

Use of the Russian railway system exposes TNK-BP and other oil companies to risks such 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 and train collisions. Additional costs and logistical constraints are imposed by the incompatibility of the Russian broad-gauge railway system with the railway systems of other countries.

Since the profitability of exporting by rail decreases much more rapidly 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, i.e. only if a premium can be obtained in the market from delivering a high quality product that is not mixed with other products (as would happen in case of transportation via Transneft).

The factors above 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.

Fluctuations in International Crude Oil and Refined Products Prices

Prices for oil and refined products have historically fluctuated widely in response to changes in many factors, over which TNK-BP does not and will not have any control. These factors include:

- global and regional economic and political developments in resource-producing regions, particularly in the Middle East;
- global and regional supply and demand for energy and expectations regarding future supply and demand;
- the ability of the Organisation of Petroleum Exporting Countries ("OPEC") and other producing nations to influence global production levels and, hence, prices;
- Russian and foreign governmental regulations and actions, including voluntary export restrictions and taxes;
- global economic conditions;
- domestic and international security, including political terrorist activities;
- price and availability of alternative sources of energy and application of new technology; and
- weather conditions.

It is impossible to predict future crude oil and refined product price movements with certainty. However, political developments in the Middle East, particularly as they relate to Iraq and Iran, could ultimately lead to price movements. 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. For a discussion of the impact on income from changes in oil, gas and refined product prices, see "Operating and Financial Review — Price of Crude Oil". Lower crude oil or refined product prices also may reduce the amount of crude oil that TNK-BP can produce economically 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.

Price of Crude Oil and Refined Products in Russia

As is the case with all Russian oil companies, TNK-BP sells a portion of its oil and refined products in the Russian market, where prices have historically been lower than in the international market. In the past, domestic Russian crude oil prices were set by the Russian Government at levels substantially below those of world market prices. The Russian Government ceased to regulate domestic prices for crude oil in early 1995, but domestic prices have continued to be below world levels due in part to export duties and other taxes and transportation costs. The growth of investment in export channels of the Transneft and other than the Transneft system, including rail and barge export infrastructure, has had the effect of exerting upward pressure on domestic prices. If export infrastructure does not keep pace with increasing crude oil production, there can be no assurance that higher domestic price levels will continue to be sustained. For a more detailed discussion of export and domestic crude oil pricing, see "Business — Downstream Business — Supply, Trading and Logistics".

While prices in Russia for refined hydrocarbon products are generally determined by the market, occasionally they may still be subject to government control. While the Decree of the President of the Russian Federation "On Measures to Adjust State Price (Rates) Controls" of 28 February 1995 established the general rule that free market prices and rates are to be applied in the Russian domestic market, the Decree also grants the State control over a list of goods, including certain types of refined products. The list currently includes products such as fuel oil, kerosene and natural and liquefied gas sold directly to the population. Furthermore, Russian oil companies may, from time to time, be subject to political pressure to reduce domestic refined product prices.

Accordingly, no assurance can be given that governmental price controls will not be implemented or increased for political reasons, resulting in an increased disparity between world market prices and domestic prices for refined products.

Domestic Supplies of Oil and Refined Products

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. In the past, the Russian Government used to limit access to the pipeline system and sea terminals if a company failed to provide the required domestic supplies. Set requirements for the delivery of domestic oil and refined products, with or without the corresponding limitation or ban of export sales, could be used or extended if the domestic market starts experiencing a shortage of oil or refined products. Depending upon the level of such required supplies, these measures may force TNK-BP to curtail its exports of refined products, which have been generally made at higher prices than domestic sales. Therefore, the use or extension of such domestic supply requirements could, depending upon the degree, have a material adverse effect on TNK-BP's business, financial condition and results of operations. In addition, the Russian Government uses export duties on crude oil and refined products to ensure that the sale of products into the domestic market is more attractive for Russian oil companies than export sales. Any further increase in export duties on crude oil or refined products could have a material adverse effect on TNK-BP's business, financial condition and results of operations.

Export Quota and Licensing System

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, gas or petroleum products, although for the first half 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 re-introduced, if the current liberalisation policy of the Russian Government is reversed.

Failure to Acquire or Find and Develop Additional Reserves

Approximately 75% of TNK-BP's proved reserves are in Western Siberia, with the Samotlor field accounting for over half of TNK-BP's reserves in the region. TNK-BP's remaining proved reserves are located in the Volga-Urals region. In addition, approximately two-thirds of TNK-BP's proved and probable SPE reserves are located in only seven fields. Although TNK-BP believes it has adequate reserves to maintain current production levels beyond the term of any Notes, 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. If TNK-BP is unsuccessful, 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. In addition, TNK-BP subsidiaries Samotlorneftegas and Orenburgneft accounted for 49% of total overall production in 2005 and TNK-BP is thus heavily dependent on these two producers. The failure of TNK-BP to diversify its sources of crude oil may adversely affect TNK-BP's results of operations should production levels of Samotlorneftegas and Orenburgneft decline.

Uncertainties in Estimates of Oil and Gas Reserves

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 Supplement 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 prepared by TNK-BP. Some of these evaluations were also prepared in accordance with SPE and/or SEC-LOF criteria, which differ in certain material respects from standards applied by the SEC. See "Presentation of Financial and Other Information — Oil and Gas Reserves Data". For example, total proved reserves data according to SEC-LOF criteria are based on the assumption that existing licences will be renewed through the life of TNK-BP's oil fields. There can be no assurance that TNK-BP will be successful in renewing such licences. In addition, the reserves estimates assume, among other things, that the future development of 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.

Environmental Risks

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.

Based on the estimates by the management of TNK-BP's environmental obligations, TNK-BP's estimated environmental liability was U.S.$170 million and U.S.$158 million in 2005 and 2004, respectively. 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.

Shipments of Crude Oil by Sea

A substantial part of TNK-BP's export sales are routed through the Black Sea crude export terminals in, e.g., Novorossiisk and Tuapse to Mediterranean ports. The Novorossiisk sea terminal experiences occasional shutdowns due to bad weather. Another significant export route lies through Baltic Sea terminals in Primorsk, Tallinn and Ventspils. During the winter season these ports may be subject to severe ice conditions and require ice-class vessels to transport cargoes. The lack of sufficient availability of such ice-class vessels represents a further constraint on the volumes TNK-BP is able to export during the winter season. These climatic, geographical and infrastructure limits may adversely affect TNK-BP's export operations.

Changes in Refined Products Standards

Fuel production from TNK-BP's refineries currently meets Russian domestic quality standards. Investment plans for the TNK-BP's refineries anticipate progressive tightening of domestic fuel standards, ultimately upgrading it towards European standards. Where technical upgrades are required at the refineries, they have already been included in investment plans. However, a risk remains that the Russian Government may accelerate the introduction of the standards for the cleaner fuels. New fuel standards were introduced in the Moscow region in January 2006, which happened earlier than was previously expected. TNK-BP will work closely with the relevant federal and local authorities to understand the timing for the changes in standards, but if these changes vary significantly from their current understanding, their introduction could limit product supply to the domestic market until refinery technical upgrades are completed. See "Business — Downstream business — Refining".

The Russian Government Has Been Increasing its Influence in the Russian Oil and Gas Sector

Over the past several years the Russian Government has been seen as progressively increasing its control over the Russian oil and gas sector as well as increasing the strength of the companies that it controls. This control has been manifested in the Russian Government's effective nationalisation of approximately 10% of Russia's crude production capacity through the sale of Yukos's primary production subsidiary, Yugansk, to state-controlled Rosneft. In September 2005, Gazprom acquired a 75% stake in Sibneft (which was renamed Gazpromneft in May 2006).

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.

Dependence on Key Management

TNK-BP is dependent on its senior management for the implementation of its strategy and operation of its day-to-day activities. No assurance can be given that key members of senior management will remain at TNK-BP.

Risks Relating to TNK-BP's Operations in Ukraine

Refined Product Investigations

In response to the rise of gasoline prices in spring 2005, the Ukrainian Government initiated setting limits on refined product prices and restricting exports of domestically produced refined products in April 2005. A number of Russian oil companies with Ukrainian subsidiaries, objected to these actions, stating that the prices should be determined by market conditions, and temporarily halted retail fuel sales to avoid violating the new price limit requirements. The Ukrainian Anti-Monopoly Committee subsequently launched investigations alleging that these companies engaged in price collusion, which if proved, could subject them to significant fines. Subsequently, the Ukrainian Government took action to reduce import duties to relieve pressure on prices and refined product price limits have been removed. Also, investigations were officially concluded on 19 July 2005 at which time the Ukranian authorities determined that the Russian oil companies had not engaged in price collusive behaviour or breached Ukrainian anti-monopoly legislation.

The Ukrainian Anti-Monopoly Committee is currently conducting another investigation that may result in several marketing and refining companies in the Ukrainian market being designated as having monopoly status. If TNK-BP Commerce and the Lisichansk refinery are assigned such a status, the Ukrainian Government may set the price limits for these companies. If such price limits are not set by the Ukrainian Government, the Ukrainian Anti-Monopoly Committee may still qualify actual prices and marketing policies set by these companies as the violation of the anti-monopoly legislation which, if proved, could result in the imposition of fines.

General

TNK-BP owns the Lisichansk Refinery located in Ukraine. For the year ended 31 December 2005, approximately 6.0 million tonnes of crude oil, or 19% of TNK-BP's oil refining operations in 2005, were processed at the Lisichansk Refinery. TNK-BP is a widely recognised retailer in Ukraine, with a network of approximately 595 jobber filling stations and 41 own filling stations. 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 Supplement 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.

Lisichansk Refinery Privatisation

In 2005, certain persons with close connections to the Ukrainian Government have called for the government to review the privatisations of certain assets previously held by the Ukrainian Government, including the privatisation of the Lisichansk Refinery. While the Ukrainian State Property Fund has recognised that TNK-BP has complied in full with the provisions of the privatisation agreement for the Lisichansk Refinery in July 2005, there can be no assurance that the Lisichansk Refinery privatisation will not be reviewed or challenged.

Uncertainties relating to TNK-BP's interest in Slavneft

As of 31 December 2005, TNK-BP held a 49.8% effective interest in Slavneft, a 50-50 joint venture with Gazpromneft (formerly Sibneft), a competing Russian oil company. Gazprom acquired a controlling stake in Sibneft in September 2005 and renamed it Gazpromneft in May 2006. In accordance with the agreement reached by 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 NOTES AND THE TRADING MARKET

TNK-BP's Secured Indebtedness which is Senior to Obligations Under the Notes

TNK-BP has historically had significant amount of secured indebtedness outstanding, although as a result of a refinancing, all of TNK-BP's debt has been unsecured since early July 2006. See "Operating and Financial Review — Liquidity and Capital Resources — Indebtedness". Secured indebtedness is effectively senior to its obligations under the Notes, which are unsecured. The Notes do not limit the ability of TNK-BP to incur secured indebtedness in the future, all of which would also be effectively senior to the Notes.

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 these "Risk Factors". 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.

Structural Subordination

A significant amount of the Guarantor Group's 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.

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.

RISKS RELATING TO THE CREDIT RATING

Outstanding Eurobonds of the Russian Federation are 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. TNK-BP International has received a long-term foreign currency debt rating of "Baa2" (outlook stable) from Moody's, "BB+" (outlook stable) from Standard & Poor's and "BB+"(outlook positive) 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.

APPENDIX 3

OPERATING AND FINANCIAL REVIEW

The following discussion should be read in conjunction with "Selected Consolidated Financial Data" and TNK-BP's U.S. GAAP Financial Statements included in this Supplement and the Base Prospectus. This discussion 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 Supplement.

Formation and Evolution of TNK-BP

Since its formation in 2003, TNK-BP has expanded its operations through acquisitions, consolidated its core holdings through corporate restructuring and divested assets to optimise its asset portfolio structure, as described below.

- ***Formation of TNK-BP.*** In June 2003, after agreeing to combine their oil assets in Russia and Ukraine in a strategic partnership, the global oil company 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% interest in TNK Industrial Holdings Limited ("TNK Industrial Holdings"), which held a 100% interest in TNK International Limited (currently named TNK-BP International Limited), ("TNK-BP International"), which in turn directly and indirectly 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"); and BP contributed its 29.6% interest in Sidanco, its 33.4% interest in Rusia Petroleum and its 75.0% interest in STBP Holdings Ltd., which owns a network of approximately 45 BP branded retail sites in Moscow. 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.

  For financial accounting purposes, TNK Industrial Holdings is the predecessor to TNK-BP and the formation of TNK-BP was treated as an acquisition by TNK-BP Industrial Holdings of BP's assets acquired and liabilities assumed recorded at fair value. Accordingly, the cost basis of AAR in TNK Industrial Holdings was carried over to TNK-BP. The fair value of the net assets acquired from BP amounted to U.S.$1,210 million. BP's 29.6% minority interest in Sidanco represented a majority of the value of BP's contribution. TNK Industrial Holdings retained the direct 29.6% interest in Sidanco and the 33.4% interest in Rusia Petroleum until December 2004, at which time it contributed these interests to TNK-BP International.

- ***TNK-BP's Slavneft Interest.*** 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 as a result of the completion of privatisation auctions by the Russian and Belarussian Governments. This acquisition brought Sibneft's and TNK Industrial Holdings's combined ownership interest in Slavneft to 99.6%. This ownership was divided equally between TNK Industrial Holdings and companies affiliated with Sibneft.

  Upon the formation of TNK-BP Limited, TNK Industrial Holdings owned a 49.5% interest in 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 31 December 2005, TNK-BP's effective ownership in Slavneft was 49.8%, the increased interest reflecting treasury minority stock holdings in Slavneft held indirectly by TNK-BP International. TNK-BP accounts for its investment in Slavneft using the equity method.

Whilst the current Slavneft management structure remains in place, it is possible that the shareholders may enter into a new shareholders' agreement with Gazpromneft. Further, even though TNK-BP does not expect any changes to the current ownership of Slavneft, the possibility also remains that one shareholder could buy all or part of the other shareholder's stake.

- ***Increase of TNK-BP's Interest in Onako.*** In March 2003, TNK-BP entered into an agreement with parties affiliated with Sibneft to acquire additional interests in Onako and OAO Orenburgneft ("Orenburgneft") held by Sibneft. The total purchase consideration was U.S.$825 million and was paid in April 2003. As a result of this transaction, TNK-BP's interest in Onako and Orenburgneft increased to 98.8% from 94.0% and to 88.1% from 50.2%, respectively.

- ***Corporate restructuring.*** By December 2005, TNK-BP completed two stages of its corporate restructuring project. This project, launched in early 2005, seeks to simplify TNK-BP's corporate structure, improve governance and consolidate minority shareholdings into one company.

  The two completed stages are (i) the accession of the key holding companies of TNK-BP in Russia, namely TNK, Sidanco and Onako, to the newly created holding company TNK-BP Holding, and (ii) the consolidation of most of the minority shareholdings in 14 key TNK-BP subsidiaries in Russia into TNK-BP Holding through a voluntary share exchange programme.

  As a result of these stages, minority shareholders have received approximately 5% of the total share capital of TNK-BP Holding. For further details on the corporate restructuring project, see "Business — Corporate Activities."

- ***2005 Disposals.*** Within the framework of its long-term asset-management strategy aimed at optimisation of asset portfolio structure, TNK-BP completed the sale of OAO Saratovneftegaz; OAO Orsknefteorgsintez; OAO Orenburgnefteprodukt and OAO Neftemaslozavod to Russneft, a Russian oil company, in December 2005 for cash consideration of U.S.$832 million. The Volga oil-basin, where these companies are located, was not deemed to be a region of strategic interest to TNK-BP based on a comprehensive scale analysis of its potential for growth and development opportunities.

  Russneft assumed responsibility and operational control of these companies with effect from 22 December 2005.

  The assets sold consisted of:

  - OAO Saratovneftegaz, with crude oil production of 33.9 thousand barrels of oil equivalent per day and proved developed reserves of 17.9 million barrels of oil equivalent;

  - OAO Orsknefteorgsintez, with 6.7 million tonnes of refining capacity (136 thousand barrels per day);

  - OAO Orenburgnefteprodukt, with 101 filling stations and 37 oil tank farms; and

  - OAO Neftemaslozavod, with 100 thousand tonnes of refining capacity and 2005 production of lubricants of 39,000 tonnes.

  TNK-BP recognised a gain of U.S.$746 million in relation to this transaction in its Consolidated Statement of Income for the year ended 31 December 2005.

- ***Gas Projects.*** As of 31 December 2005 and 2004, TNK-BP net investments in its gas producing subsidiaries amounted to U.S.$899 million and U.S.$816 million, respectively. The main gas projects under development by TNK-BP are:

Rospan. Rospan is a gas and condensate production asset located in the Nadym-Pur-Taz region of Russia. After acquiring the remaining 56% stake in Rospan from NK Yukos in October 2004, TNK-BP consolidated Rospan with effect from 19 October 2004. TNK-BP believes that Rospan will allow TNK-BP to participate in the Russian gas market and further enhance its understanding of asset development in this region of Russia with significant gas reserves. Rospan is currently producing gas and condensate and supplying gas to the Russian market. In addition, TNK-BP recently conducted a significant hydraulic fracturing operation at Rospan's gas fields and believes that these fields have significant development potential. TNK-BP is developing plans to increase Rospan's production as the Russian gas market evolves.

TNK-BP invested U.S.$23 million to expand Rospan's activities in 2005. The investment is intended to support Rospan's ongoing operations through upgrades of existing facilities and the drilling of new wells and 3D seismic surveys. The scale and timing of the future development of Rospan is dependent on ongoing discussions between TNK-BP and Gazprom.

Kovykta. The Kovykta field located in the Irkutsk region, is one of the largest in Russia, with estimated reserves of approximately 1.5 trillion cubic meters of gas. TNK-BP owns a 62.9% interest in Rusia Petroleum, which holds the licence to the Kovykta field. Rusia Petroleum's other shareholders are Interros (25.8%) and the Administration of the Irkutsk Region (10.8%).

The project consists of two principal components: a domestic project to deliver gas supplies to regional customers in the Irkutsk region and a proposed export development project.

TNK-BP estimates that the gross capital investment for the completion of the 2.5 - 3 bcma Kovykta Regional Project is approximately U.S.$1.2 billion over the next three years. This project includes production wells, the upgrade of a gas processing module and the construction of a 670 kilometre gas pipeline from the field to Irkutsk via the cities of Sayansk, Usolie Sibirsk and Angarsk.

TNK-BP has internally approved expenditures of U.S.$200 million for the design and construction of the first phase of the project which consists of a regional gas pipeline from the Kovykta field to supply customers in the Zhigalovo of Irkutsk region by the end of 2006. For more detail on the Kovykta field, see "Business – The Kovykta Project".

Associated gas. TNK-BP is involved into two major gas utilisation projects in the Nizhnevartosk and Orenburg regions. The project in Nizhnevartovsk plans for the construction of gas gathering infrastructure with the gas to be utilised in power generation or sold to third parties. In Orenburg, associated gas is planned to be processed at field locations as well as at the expanded TNK-BP operated Zaikinski gas processing plant. TNK-BP also has smaller associated gas utilisation projects in the Naygan and Novosibirsk regions.

Recent Developments

First Quarter Production

In January 2006, TNK-BP, in common with other Russian oil companies, experienced a temporary downturn in production and a delay in scheduled maintenance due to unusually severe winter weather conditions in Siberia. Weather interruptions resulted in a fall in production of up to 6% for the month ending 31 January 2006. TNK-BP's production levels recovered to normal operating levels by mid-March.

TNK-BP Holding AGM

On 28 June 2006, TNK-BP Holding held its first annual general meeting of shareholders. At this meeting, the shareholders approved an aggregate dividend of approximately U.S.$5 billion, of which approximately U.S.$250 million will be payable to minority shareholders, who represent around 5% of the share capital of TNK-BP Holding. The remaining amount, subject to dividend withholding tax, will be distributed to TNK-BP's intermediate holding company, Novy Investments Limited, a majority shareholder of TNK-BP Holding.

It will remain with TNK-BP pending further distribution decisions by the TNK-BP shareholders in accordance with the terms of existing dividend policy as defined within the shareholders' agreement.

Sale of Udmurtneft

On 3 July 2006, TNK-BP entered into an agreement with an affiliate of China Petroleum & Chemical Corporation (Sinopec Corp.) for the sale of Udmurtneft, an oil producing enterprise located in the Volga-Urals area, for approximately U.S.$3.5 billion. Completion of the sale is subject to satisfaction of certain conditions and is expected to take place in the third quarter of 2006. Udmurtneft represented approximately 6% of TNK-BP's production in 2005 (including Slavneft) and the sale is expected to have a significant positive one-time impact on TNK-BP's net income. This sale is part of TNK-BP's overall portfolio management strategy to optimise its assets.

New U.S.$1.8 Billion Unsecured Facility

On 20 June 2006, TNK-BP Finance signed a U.S.$1.8 billion unsecured, guaranteed medium-term loan facility with a syndicate of international banks. The loan is guaranteed by TNK-BP International and bears interest at 0.65% over LIBOR and matures in July 2010. The drawdown was effected in early July and replaced all remaining secured debt, which amounted to U.S$1.8 billion, thereby improving TNK-BP's debt portfolio profile in terms of pricing and tenor.

Except as described above, there have been no other events or circumstances that materially affected financial performance since 31 December 2005.

Key Financial and Operating Results of TNK-BP

Year ended 31 December	**Units**	**2005**	**2004**	**2003**
Crude oil production (excluding joint ventures and Slavneft)(1)	*mbpd*	1,554	1,418	1,243
Crude oil production of joint ventures (excluding Slavneft)(2)	*mbpd*	26	36	36
Crude oil production of Slavneft(2)	*mbpd*	242	217	176
Crude oil production - total TNK-BP	*mbpd*	1,822	1,671	1,455
Refining throughput	*mbpd*	493	437	417
Sales and other operating revenue	*U.S.$ mln*	30,025	17,097	12,065
EBITDA	*U.S.$ mln*	9,078	6,352	4,045
EBITDA per barrel of production	*U.S.$/bbl*	13.65	10.39	7.62
Net Income	*U.S.$ mln*	4,744	4,006	2,802
Net Income per barrel of production	*U.S.$/bbl*	7.13	6.55	5.28
Return on average capital employed (ROACE)(3)	*%*	38.9	33.7	30.0

Note:

(1) TNK-BP's principal joint ventures, including Vanyeganneft, Chernogorskoye, and prior to October 2004, Rospan International.

(2) Reflecting TNK-BP's percentage interests in its joint ventures and Slavneft, converted into mbpd at 7.37 bbl/tonne.

(3) See "– Return on Average Capital Employed".

External Factors Affecting Results of Operations

The results of TNK-BP's operations and the period-to-period comparability of the financial results are affected by various external factors. Certain of these factors are attributable to the characteristics of the countries in which TNK-BP's primary exploration, production, refining and marketing operations are located, which are the Russian Federation and Ukraine. Such factors include inflation and exchange rate movements, volatility of domestic crude oil and refined product prices and uncertainty as to the application of tax legislation. Additionally, TNK-BP is affected by industry-specific and general business conditions such as the international price of crude oil and refined products and the interest rate environment.

Inflation and the U.S. Dollar to Rouble Exchange Rate

A large portion of TNK-BP's revenue is denominated in U.S. dollars, while a significant portion of operating costs and domestic revenue is denominated in roubles. The relative movements of rouble inflation and exchange rates therefore affect TNK-BP's earnings, depending on the relative balance of rouble-denominated operating costs and domestic revenue. In recent years, rouble-denominated operating costs have exceeded rouble-denominated revenues to some extent. Operating margins have generally been adversely affected by a real appreciation of the rouble against the U.S. dollar because this generally causes TNK-BP's costs to increase in real terms relative to its revenue. Conversely, TNK-BP's operating margins are generally positively affected by a real depreciation of the rouble against the U.S. dollar because this will generally cause its costs to decrease in real terms relative to its revenue. TNK-BP has not historically used exchange rate swaps or other similar instruments to manage its exchange rate exposure.

The following table presents the rates of inflation in Russia, the period-end and average rouble/U.S. dollar exchange rates, the rates of nominal depreciation of the rouble against the U.S. dollar and the rates of real change in the value of the rouble against the U.S. dollar for the periods presented.

Year ended 31 December	**Units**	**2005**	**2004**	**2003**
Rouble Inflation	%	10.9	11.7	12.0
Rouble/U.S. dollar period-end exchange rate	RUR/U.S.$	28.78	27.75	29.45
Average rouble/U.S. dollar exchange rate	RUR/U.S.$	28.29	28.81	30.69
Nominal depreciation/(appreciation) of the rouble	%	3.6	(6.1)	(7.9)
Real rouble appreciation	%	6.9	18.6	20.9

Exchange restrictions and controls exist in relation to converting roubles to other currencies. At present, the rouble is not generally convertible into currencies outside the Russian Federation and according to statutory regulations TNK-BP has been required to convert 25% (in the second half of 2003 and in 2004) and 10% (in 2005) of its hard currency proceeds from exports, principally U.S. dollars, to roubles. The mandatory conversion percentage was decreased to nil in May 2006. Future movements in the exchange rates between the rouble and the U.S. dollar will affect the carrying value of TNK-BP's rouble-denominated assets and liabilities. Such movements may also affect TNK-BP's ability to realise non-monetary assets represented in U.S. dollars in TNK-BP's U.S. GAAP financial statements.

Constraints on the Export of Crude Oil

TNK-BP is dependent on the Transneft system (a state-owned network of crude oil trunk pipelines in Russia) and on access to seaports for the transport of the majority of its crude oil. The Russian Government regulates access to the Transneft pipeline and seaports. Access is granted in proportion to volumes of oil produced and delivered to the trunk pipeline in the prior year. Generally, a Russian oil company is allocated access to export approximately 38% of its oil production through the Transneft system (see "Risk Factors — Risks Relating to TNK-BP and the Oil and Gas Industry in Russia — Oil Transportation and Exports" of this Supplement). There are, however, other avenues for increasing exports, including purchasing export rights from third parties and exporting through alternative transportation means such as by rail and river barge.

The following table presents a breakdown of TNK-BP's crude oil exports other than CIS by export channel for the periods presented.

Year ended 31 December	**2005**		**2004**		**2003**	
	(in thousands of barrels per day, except percentages)					
Export of crude oil other than CIS through the Transneft system	648	75%	520	70%	471	67%
Export of crude oil other than CIS through other routes	215	25%	228	30%	228	33%
Total crude oil exports other than CIS	863	100%	748	100%	699	100%

Price of Crude Oil

TNK-BP's operations are significantly affected by the prevailing price of crude oil, both in the international oil market and in the Russian Federation. Crude oil prices have historically been highly volatile, dependent upon the balance between supply and demand and particularly sensitive to Organisation of Petroleum Exporting Countries (OPEC) production levels. Various financial instruments are available to manage the crude oil price risk. Currently, TNK-BP does not use financial instruments to manage crude oil price risk, however TNK-BP's exposure to crude oil and product price movements is regularly monitored by management.

In the periods presented, crude oil prices in the Russian Federation were significantly below international levels primarily due to additional costs (in particular, export duties) associated with exporting crude oil. These duties increased significantly with effect from August 2004 as described below. Domestic crude oil prices are contract specific as there is no active market for domestic crude oil and market prices are not available.

The following table presents the average price of crude oil for Brent and Urals Mediterranean crude oil, as well as the average Russian realised domestic price for the periods presented.

Year ended 31 December	**2005**	**2004**	**2003**
		(U.S.$/bbl)	
Brent	54.38	38.21	28.83
Urals Mediterranean	50.74	34.45	27.28
Average realised domestic price	25.57	20.01	9.55

Taxation

TNK-BP is subject to numerous taxes. Export duties and excise taxes are recorded as deductions from revenue. Unified natural resources production tax, unified social tax, property and other taxes are recorded as production expenses. In addition, TNK-BP is subject to income taxes on income generated from operations. The corporate income tax rate in the Russian Federation is 24%. These taxes have had a significant impact on TNK-BP's results of operations. TNK-BP is currently facing a number of potential and actual tax claims relating to the audits of TNK-BP's Russian subsidiaries' activities in 2001 to 2003. See "Risk Factors — Risks Relating to the Guarantor — Risks Relating to TNK-BP and the Oil and Gas Industry in Russia and in Ukraine — Taxation Risks".

Crude oil export duties are progressive based on the previous two months' international market price of Urals blend crude oil (the "Export Duty Lag"), and increased from August 2004. The marginal export duty rates applied at various crude oil price levels are as follows:

Export Duty Rates in Effect to August 2004 [(1)]

Urals price per barrel	**Rates**
Less than U.S.$15.00	0%
Between U.S.$15.00 and U.S.$25.00	35%
Greater than U.S.$25.00	40%

Export Duty Rates in Effect from August 2004 [(1)]

Urals price per barrel	**Rates**
Less than U.S.$15.00	0%
Between U.S.$15.00 and U.S.$20.00	35%
Between U.S.$20.00 and U.S.$25.00	45%
Greater than U.S.$25.00	65%

Note:

(1) The rates apply to the difference between the previous two months' average international market price of Urals blend crude oil and the floor of the respective price range.

Effective 1 January 2004, the unified natural resources production tax increased to 347 roubles per tonne from 340 roubles per tonne and was adjusted based on the international market price of Urals blend crude oil and the rouble exchange rate. During 2002-2004, the unified natural resources production tax was payable only when the average international market price of Urals blend crude oil for a tax period was greater than U.S.$8.00 per barrel. Effective 1 January 2005, the unified natural resources production tax increased to 419 roubles per tonne (which is approximately U.S.$2 per barrel), subject to an adjustment using a special coefficient ("Kc") reflecting the dynamics of world oil prices and the RUR/U.S.$ exchange rate, Kc = (c - 9)*P/261, where "c" is the average international market price of Urals blend crude oil for the relevant tax period, measured in U.S.$. per barrel, and "P" is the average RUR/U.S.$ exchange rate for the relevant tax period. Starting 2005, the unified natural resources production tax is payable only when the average international market price of Urals blend crude oil for a tax period is greater than U.S.$9.00 per barrel.

Export duties and unified natural resources production tax significantly offset the positive impact of high crude oil prices due to the progressive rate structure and the link to the Urals blend crude oil price. The following table presents the average export duties on crude oil, average export duties on light and heavy oil products and average rate of unified natural resources production tax for the periods presented:

Year ended 31 December	**Units**	**2005**	**2004**	**2003**
Export duties on crude oil	U.S.$/bbl	17.85	7.64	4.16
Export duties on light products	U.S.$/tonne	92.05	38.83	27.39
Export duties on heavy products	U.S.$/tonne	52.67	37.22	27.39
Unified production tax	U.S.$/bbl	9.06	5.00	3.51

Results of Operations

Revenues	2005 (U.S.$ millions)	2005 (% of sales and other operating revenues)	2004 (U.S.$ millions)	2004 (% of sales and other operating revenues)	2003 (U.S.$ millions)	2003 (% of sales and other operating revenues)
Sales and other operating revenue	30,025	100	17,097	100	12,065	100
Less: Excise taxes and export duties	(7,873)	(26)	(2,928)	(17)	(1,699)	(14)
Net Revenues	22,152	74	14,169	83	10,366	86
Costs and other deductions						
Taxes other than income tax	(5,540)	(19)	(3,046)	(18)	(1,929)	(16)
Cost of purchased products	(3,354)	(11)	(775)	(5)	(1,052)	(9)
Transportation expenses	(2,296)	(8)	(1,761)	(10)	(1,462)	(12)
Operating expenses	(2,060)	(7)	(1,731)	(10)	(1,336)	(11)
Selling, general and administrative expenses	(1,249)	(4)	(957)	(6)	(872)	(7)
Depreciation, depletion and amortisation	(1,206)	(4)	(1,039)	(6)	(814)	(7)
Exploration expenses	(88)	(0)	(160)	(1)	(70)	(0)
Loss on disposals and impairment of assets	(76)	(0)	(32)	(0)	(77)	(1)
Income from operating activities	6,283	21	4,668	27	2,754	23
Other income and expenses						
Earnings from equity investments, net	823	3	645	4	477	4
Income from disposals of subsidiaries	766	3	–	–	–	–
Interest income and net other income	113	0	160	1	106	1
Exchange loss, net	(44)	(0)	(20)	(0)	(37)	(0)
Interest expense	(224)	(1)	(189)	(1)	(283)	(3)
Income before income taxes and minority interest	7,717	26	5,264	31	3,017	25
Income tax expense	(2,903)	(10)	(1,221)	(7)	(227)	(2)
Income before minority interest and cumulative effect of change in accounting principle	4,814	16	4,043	24	2,790	23
Minority interest	(70)	(0)	(37)	(1)	(214)	(2)
Income before cumulative effect of change in accounting principle	4,744	16	4,006	23	2,576	21
Cumulative effect of change in accounting principle	–	–	–	–	226	2
Net Income	4,744	16	4,006	23	2,802	23

Year Ended 31 December 2005 Compared to the Year Ended 31 December 2004

For the year ended 31 December 2005 sales and other operating revenues continued to increase primarily as a result of higher crude oil prices and sustained increase in crude oil production. Net income also benefited from income generated from asset disposals as described above in "– Formation and Evolution of TNK-BP" and, to a lesser extent, higher equity earnings from Slavneft. These positive effects on net income combined with the positive effect of the Export Duty Lag in a rising price environment were partially offset by a significant increase in export duties and unified natural resources production tax and the higher cost of purchased products. The higher cost of purchased products was attributable to an increase in purchases of oil and oil products from affiliated companies, principally Slavneft, for subsequent export sales. Overall net income per barrel of production increased by 9% to U.S.$7.13 per barrel in 2005 compared to U.S.$6.55 per barrel in 2004.

Sales and Other Operating Revenues

The following table presents a breakdown of sales and other operating revenues by type of product and sales channel for the periods presented.

	Year ended 31 December					
	2005		2004		2003	
	(U.S.$ millions, except percentages)					
Revenues						
Crude oil export other than CIS	15,583	52%	9,099	53%	6,569	54%
Crude oil export CIS	2,123	7%	919	5%	691	6%
Crude oil domestic	840	3%	1,147	7%	259	2%
Refined products export	6,912	23%	2,766	16%	2,078	17%
Refined products domestic	4,032	13%	2,679	16%	2,050	17%
Other sales	535	2%	487	3%	418	4%
Sales and other operating revenues	**30,025**	**100%**	**17,097**	**100%**	**12,065**	**100%**

The following table presents a breakdown of TNK-BP's volume of crude oil and refined product sales for the periods presented.

	Year ended 31 December								
	2005			2004			2003		
	(mbpd)	*(mln tonnes)*	*(% of total sales)*	*(mbpd)*	*(mln tonnes)*	*(% of total sales)*	*(mbpd)*	*(mln tonnes)*	*(% of total sales)*
Volumes									
Crude oil export other than CIS	863	43.2	51%	748	37.5	52%	699	34.9	53%
Crude oil export CIS	136	6.8	8%	90	4.5	6%	99	5.0	7%
Crude oil domestic	90	4.5	6%	157	7.9	11%	75	3.7	6%
Refined products export[1]	–	18.9	22%	–	12.2	17%	–	11.3	17%
Refined products domestic[1]	–	10.9	13%	–	10.6	14%	–	11.3	17%
Total sales	–	**84.3**	**100%**	–	**72.7**	**100%**	–	**66.2**	**100%**

Note:

(1) Since different refined products have different tonne-to-mbpd conversion ratios, TNK-BP management believes that including mbpd information with respect to the refined products data above would not be meaningful.

The following table presents average realisations, or total sales of a particular product category divided by volumes sold for the periods presented.

	Year ended 31 December					
	2005		2004		2003	
	U.S.$/bbl	*U.S.$/tonne*	*U.S.$/bbl*	*U.S.$/tonne*	*U.S.$/bbl*	*U.S.$/tonne*
Average realisations						
Crude oil export other than CIS	49	361	33	242	26	188
Crude oil export CIS.............	43	312	28	203	19	139
Crude oil domestic	26	187	20	146	10	70
Refined products export	–	366	–	227	–	184
Refined products domestic	–	370	–	252	–	180

Sales of Crude Oil

Sales of crude oil increased by 66% to U.S.$18,546 million for the year ended 31 December 2005 from U.S.$11,165 million for the year ended 31 December 2004 primarily due to increased production and higher oil prices in 2005. In the second half of 2005, TNK-BP International entered into a crude oil split agreement with OAO NGK Slavneft ("Slavneft"). Under this agreement TNK-BP International purchases crude oil (since August 2005) and products (since September 2005) from Slavneft. The crude oil and products are then sold primarily through the export market.

In 2005, crude oil export sales increased by 77% to U.S.$17,706 million from U.S.$10,018 million in 2004 reflecting increased prices and higher volumes. Domestic sales to third parties decreased in 2005 by 27% to U.S.$840 million from U.S.$1,147 million in 2004, as a result of increasing export sales volume to maximise the benefits afforded by the higher profitability of export sales channels as compared to domestic sale channels during this period.

Total crude oil sales volumes increased by 9% to 1,089 thousand barrels per day in 2005 from 995 thousand barrels per day in 2004 as a result of increased production and export of crude oil purchased from Slavneft (116 thousand barrels per day in August-December 2005 or 2,440 thousand tonnes in total). Crude oil export sales volumes increased by 19% to 999 thousand barrels per day in 2005 from 838 thousand barrels per day in 2004 as a result of increased production and a decrease in domestic sales volumes in favour of export sales and the resale of Slavneft crude oil.

Average export and domestic crude oil prices increased by 48%, and 27%, respectively, due to the favourable price environment.

Sales of Refined Products

Sales of refined products increased by 101% to U.S.$10,944 million in 2005 from U.S.$5,445 million in 2004 primarily due to higher oil products prices in 2005 both in the international and domestic markets and resale of products purchased from Slavneft (2,483 thousand tonnes, primarily exported). In addition, U.S.$1,171 million was contributed by the newly established Ukraine based trader, TNK-BP Commerce, which is a subsidiary of TNK-BP International and is primarily engaged in purchasing oil products from third parties and reselling them on the Ukranian market.

The average refined product export sales price increased by 61% to U.S.$366 per tonne in 2005 from U.S.$227 per tonne in 2004 while the average refined product domestic sales price increased by 47% to U.S.$370 per tonne from U.S.$252 per tonne in the corresponding period. The increase in the average export prices of refined products was consistent with the increase of international crude oil prices and the commencement of sales in Ukraine at a price of U.S.$537 per tonne that is higher than the average realised price, which resulted in an increase of the average product price. The increase in domestic refined product prices reflected an overall increase in the price of crude oil and oil products on the international market.

Excise Taxes and Export Duties

The following table presents a breakdown of excise taxes and export duties recorded by TNK-BP for the periods presented.

	Year ended 31 December					
	2005		2004		2003	
	(U.S.$ millions, except percentages)					
Crude oil export duty	6,318	80%	2,245	77%	1,159	68%
Products export duty	1,071	14%	316	11%	213	13%
Products excise taxes	484	6%	367	12%	327	19%
Excise taxes and export duties	**7,873**	**100%**	**2,928**	**100%**	**1,699**	**100%**

Excise taxes and export duties increased by 169% to U.S.$7,873 million for the year ended 31 December 2005 from U.S.$2,928 million for the year ended 31 December 2004. This reflects the change in the export duty rate structure effective from August 2004 (see "– External Factors Affecting Results of Operations – Taxation") combined with export volumes growth and higher crude oil prices.

Costs and Other Deductions

Operating Expenses

The following table presents a breakdown of TNK-BP's operating expenses by activity for the periods presented.

	Year ended 31 December					
	2005		2004		2003	
	(U.S.$ millions, except percentages)					
Upstream	1,219	59%	1,018	59%	869	65%
Downstream	247	12%	193	11%	165	13%
Crude oil transportation to refineries	242	12%	175	10%	123	9%
Provisions	43	2%	133	8%	41	3%
Other	309	15%	212	12%	138	10%
Operating expenses	**2,060**	**100%**	**1,731**	**100%**	**1,336**	**100%**

Operating expenses increased by 19% to U.S.$2,060 million during the year ended 31 December 2005 from U.S.$1,731 million for the year ended 31 December 2004. Operating expenses are divided principally into upstream, downstream, crude oil transportation to refineries expenses, provisions and other expenses.

Upstream Operating Expenses

Upstream operating expenses increased by 20% to U.S.$1,219 million for the year ended 31 December 2005 from U.S.$1,018 million for the year ended 31 December 2004. Upstream operating expenses per barrel increased by 10% to U.S.$2.15 in 2005 from U.S.$1.96 in 2004 primarily reflecting the increase in production development expenses incurred in 2005 to support production growth, and real appreciation of the rouble against the U.S. dollar.

TNK-BP's total lifting costs, which is the cost of producing crude oil and includes the cost of operating and maintaining wells and related equipment and facilities, increased by 5% to U.S.$2.63 per barrel in 2005 compared to U.S.$2.50 per barrel in 2004 primarily due to the following factors:

- production development activities, including capital workovers and hydro fracturing, increased in 2005 to support production growth;

- increase of watercut and associated increase of crude oil treatment costs; and
- real appreciation of the rouble against the U.S. dollar during the period.

The difference between total lifting costs and upstream operating expenses reflects certain expenses of TNK-BP's oil field services companies relating to crude oil production.

Downstream Operating Expenses

Downstream operating expenses increased by 28% to U.S.$247 million for the year ended 31 December 2005 from U.S.$193 million for the year ended 31 December 2004. Downstream operating costs per barrel increased by 14% to U.S.$1.37 in 2005 compared to U.S.$1.20 in 2004. The increase in downstream operating costs per barrel in 2005 was primarily due to a combination of the following factors:

- increased production of high-octane gasoline, which requires high cost additives;
- planned repairs and maintenance at refinery plants, and
- real appreciation of the rouble against the U.S. dollar during this period.

Crude Oil Transportation Refineries

The cost of transporting crude oil to refineries increased by 38% to U.S.$242 million for the year ended 31 December 2005 from U.S.$175 million for the year ended 31 December 2004, primarily due to increased transportation tariffs charged by Transneft and, to a lesser extent, to the increased refining volumes and real appreciation of the rouble against U.S. dollar during the period.

Provisions

Provisions recognised during 2005 and 2004 relate primarily to environmental liabilities to clean-up legacy oil spills, drill pits, sludge pits and other disposal sites and to fulfill other environmental obligations in the upstream and downstream segments of TNK-BP's business. In 2005 TNK-BP initiated and launched a programme of actions required to fulfill its legacy environmental obligations which are expected to be completed over a period of five years. As of 31 December 2005 the total amount recognised as a provision for covering such environmental obligations was U.S.$170 million.

Other Operating Expenses

Other operating expenses include costs associated with production of gas and provision of services to associated companies, primarily oil field services, as well as other costs. The increase of other operating expenses primarily relates to the increase in costs associated with gas production and real appreciation of the rouble against U.S. dollar.

Cost of Purchased Products

The following table presents a breakdown of TNK-BP's cost of purchased products for the periods presented.

	Year ended 31 December					
	2005		**2004**		**2003**	
	(U.S.$ millions, except percentages)					
Purchases of oil	962	29%	277	36%	288	27%
Purchases of oil products	2,360	70%	437	56%	625	60%
Other purchases	32	1%	61	8%	139	13%
Cost of purchased products	**3,354**	**100%**	**775**	**100%**	**1,052**	**100%**

Cost of purchased products is comprised principally of oil and oil products purchased from associated companies in Russia and third parties in Ukraine for subsequent export sales by TNK-BP.

During 2005, TNK-BP considerably enhanced its reselling activity by entering into the split agreement with Slavneft (see "- Sales and Other Operating Revenues" above) and by implementing a new trading structure in Ukraine. The cost of purchased products increased by 333% to U.S.$3,354 million for the year ended 31 December 2005 from U.S.$775 million for the year ended 31 December 2004. The increase was largely due to a combination of the following factors:

- purchases of crude oil and refined products from Slavneft (2,440 thousand tonnes of crude oil between August 2005 and December 2005, and 2,483 thousand tonnes of refined products between September 2005 and December 2005) pursuant to the agreement with Slavneft as described in "Sales and Operating Revenue" above;
- commencement of trading activity by TNK-BP Commerce, being the resale of refined products, primarily on Ukrainian market (2,165 thousand tonnes in August – December 2005);
- higher crude oil prices; and
- additional volumes of crude oil acquired for refining from third parties (1,137 thousand tonnes in 2005 compared to 104 thousand tonnes in 2004).

Taxes other than Income Tax

The following table presents tax expenses other than income tax for the periods presented:

	Year ended 31 December					
	2005		2004		2003	
	(U.S.$ millions, except percentages)					
Unified natural resources production tax	4,866	88%	2,572	84%	1,592	83%
Unified social tax	162	3%	144	5%	119	6%
Property tax	95	2%	84	3%	77	4%
Non-reclaimable VAT expense	14	0%	55	2%	46	2%
Tax penalties and interest	370	6%	158	5%	41	2%
Other taxes	33	1%	33	1%	54	3%
Taxes other than income tax	**5,540**	**100%**	**3,046**	**100%**	**1,929**	**100%**

Taxes other than income tax increased by 82% to U.S.$5,540 million for the year ended 31 December 2005 from U.S.$3,046 million for the year ended 31 December 2004, primarily due to an increase in the unified natural resources production tax. This tax increased by U.S.$2,294 million, or 89%, to U.S.$4,866 million in 2005 from U.S.$2,572 million in 2004 as a result of change in the tax legislation effective 1 January 2005 (see "– External Factors Affecting Results of Operations – Taxation" above), higher crude oil prices and increased crude oil production.

The unified social tax expense has increased by 13% to U.S.$162 million for the year ended 31 December 2005 from U.S.$144 million for the year ended 31 December 2004 due to increased staff costs.

Tax penalties and interest for the years ended 31 December 2005 and 31 December 2004 primarily included provisions against on-going tax litigation (see "Income Tax Expense" below).

Transportation Expenses

Transportation expenses increased by 30% to U.S.$2,296 million for the year ended 31 December 2005 from U.S.$1,761 for the year ended 31 December 2004 due to higher export sales volumes and increased transportation tariffs.

Average Transneft tariffs on exported crude oil for the year ended 31 December 2005 increased by 13% to U.S.$2.51 per barrel from U.S.$2.21 per barrel for the year ended 31 December 2004. Average transportation costs on exported crude oil transported using methods other than the Transneft system for the year ended 31 December 2005 decreased by 12% to U.S.$5.49 per barrel from U.S.$6.21 per barrel for the year ended 31 December 2004, reflecting TNK-BP's effort to optimise railroad routes and associated costs. Average transportation tariffs for oil products in 2005 increased by 7% to U.S.$46.35 per tonne from U.S.$43.30 per tonne in 2004.

Depreciation, Depletion and Amortisation

Depreciation, depletion and amortisation *("*DD&A*")* increased by 16% to U.S.$1,206 million for the year ended 31 December 2005 from U.S.$1,039 million for the year ended 31 December 2004. DD&A per barrel of production increased by 7% to U.S.$2.13 in 2005 from U.S.$2.00 in 2004, primarily due to increased capital expenditures to support production growth.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of wages and salaries, selling and distribution expenses (including those related to storage depots, terminals and commissions) and general administrative expenses. Selling, general and administrative expenses increased by 31% to U.S.$1,249 million for the year ended 31 December 2005 from U.S.$957 million for the year ended 31 December 2004 primarily as the result of:

- increased headcount in line with overall expansion of TNK-BP business and operations; and
- higher BP secondees' costs primarily related to technology development projects.

Exploration expenses

Exploration expenses decreased by 45% from U.S.$160 million for the year ended 31 December 2004 to U.S.$88 million for the year ended 31 December 2005 reflecting a high level of non-capitalisable expenses in 2004 (primarily gas exploration activities of Rospan and Rusia Petroleum) and a higher proportion of successful drilling in 2005.

Earnings from Equity Investments

Earnings from equity investments increased by 28% to U.S.$823 million for the year ended 31 December 2005 from U.S.$645 million for the year ended 31 December 2004. The increase was primarily a result of a 29% increase in equity earnings from Slavneft to U.S.$742 million for the year ended 31 December 2005 from U.S.$573 million for the year ended 31 December 2004. Increased equity earnings in Slavneft is primarily due to increased production volumes and higher crude oil prices.

Income from disposals of subsidiaries

Income from disposal of subsidiaries in 2005 amounting to U.S.$766 million consists primarily of a gain in the amount of U.S.$746 million recognised upon sale to Russneft of TNK-BP's stake in four group companies for U.S.$832 million (see "Formation and Evolution of TNK-BP - Disposals" above).

Interest Income and Net Other Income

Interest income and net other income decreased by 29% to U.S.$113 million in 2005 from U.S.$160 million in 2004 primarily due to the fact that interest income for 2004 included U.S.$30 million of discount income on repurchased corporate bonds, which were redeemed in the second half of 2004 at maturity.

Interest Expense

Interest expense increased by 19% to U.S.$224 million for the year ended 31 December 2005 from U.S.$189 million for the year ended 31 December 2004. The increase primarily relates to an increase in both LIBOR and outstanding debt, partially offset by a reduction of the margin payable over LIBOR on TNK-BP's floating rate debt.

Income Tax Expense

Income tax expense amounted to U.S.$2,903 million for the year ended 31 December 2005 compared to U.S.$1,221 million for the year ended 31 December 2004.

During 2004 and 2005 the Federal Tax Service (the "FTS") performed tax audits on certain of TNK-BP'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 income tax concessions claimed by TNK with respect to the reinvestment of net income in fixed production assets in 2001 and made a claim for U.S.$143 million (RUR 4 billion) including fines and penalty interest. Although during 2005 TNK-BP successfully defended its position in the courts, the tax authorities continue to challenge the court rulings and therefore this claim is currently the subject of ongoing legal proceedings.

In February 2005, the Russian tax authorities presented tax acts, which, among other things, challenged the TNK-BP's internal transfer pricing activities in 2001; these totalled approximately U.S.$288 million (RUR 8 billion) including fines and penalty interest. Following objections presented by TNK-BP, the amount of tax acts was reduced and the Russian tax authorities issued final decisions with respect to such tax acts in the total amount of approximately U.S.$7 million (RUR 183 million) including penalty interest. This amount was paid in August 2005.

The Russian tax authorities performed a repeat tax audit on TNK's 2001 activities and in April 2005 presented TNK with a tax act totalling approximately U.S.$ 578 million (RUR 16 billion) which, among other things, challenged the use of reduced tax rate economic zones. Following objections presented by TNK-BP, the tax act amount was reduced and the Russian tax authorities issued a final decision in the amount of U.S.$247 million (RUR 7 billion) including penalty interest and fines. In August 2005 TNK-BP paid this amount in full.

In November 2005, a separate claim for 2001 was lodged in respect of income tax concessions of TNK-BP's trading subsidiary in the amount of U.S.$340 million (RUR 9.8 billion). A tax decision in the same amount was received in January 2006 and is currently being challenged in the courts.

In December 2005 and February 2006, the FTS presented tax acts relating to 2002 and 2003 in respect of income tax concessions claimed by TNK and Sidanco during the period. These acts amounted to U.S.$1,402 million (RUR 40.4 billion) and U.S.$442 million (RUR 12.7 billion), respectively. While TNK-BP has filed objections with the tax authorities, no decisions have been received.

The tax environment in the Russian Federation is subject to frequent change, different and selective interpretations and inconsistent enforcement. In addition the Russian legal system may not be immune from economic, political or national influences and has little experience in interpreting new legislation and regulations. The above factors make it difficult to determine what amounts TNK-BP will ultimately be required to pay upon the resolution of these tax audits. Management of TNK-BP has assessed TNK-BP's overall tax position with respect to the unresolved claims based on a consideration of technical tax matters, TNK-BP's experience in resolution of previous tax matters and an understanding of tax audit resolutions within the industry. Because of the preliminary stages of these tax claims in 2004 and because of the difficulties in determining tax claims in Russia as discussed above, management of TNK-BP recorded a provision as of 31 December 2004 amounting to U.S.$123 million. During 2005 many of the 2001 claims were resolved and new claims for 2002 and 2003 were received. Based upon these additional developments management has recorded a liability as of 31 December 2005 amounting to U.S.$1,496 million (RUR 43 billion), related to the remaining open tax issues discussed above.

Minority Interest Expense

Minority interest expense amounted to U.S.$70 million for the year ended 31 December 2005 compared to U.S.$37 million for the year ended 31 December 2004. The increased expense primarily related to higher crude oil prices and increased production.

Year Ended 31 December 2004 Compared to Year Ended 31 December 2003

Sales and Other Operating Revenues

Sales of Crude Oil

Sales of crude oil increased by 48% to U.S.$11,165 million for the year ended 31 December 2004 from U.S.$7,519 million for the year ended 31 December 2003. In 2004, export sales were U.S.$10,018 million compared to U.S.$7,260 million in 2003. Domestic sales to third parties in 2004 were U.S.$1,147 million compared to U.S.$259 million in 2003. The increase in crude oil sales in 2004 was primarily attributable to higher international and domestic market prices and higher production volumes.

Total crude oil sales volumes increased to 995 thousand barrels per day in 2004 from 873 thousand barrels per day in 2003 primarily as a result of increased production. Crude oil export sales volumes increased to 838 thousand barrels per day in 2004 from 798 thousand barrels per day in 2003 while crude oil domestic sales volumes increased to 157 thousand barrels per day in 2004 from 75 thousand barrels per day in 2003. Crude oil domestic market sales in 2004 increased as the net realised export margins after deducting transportation expenses, export duties and other expenses were, at times, lower than the net realised domestic margins, and during certain periods TNK-BP opted to sell more crude oil domestically rather than export such crude oil.

Sales of Refined Products

Sales of refined products increased by 32% to U.S.$5,445 million for the year ended 31 December 2004 from U.S.$4,128 million for the year ended 31 December 2003. The increase in refined product sales in 2004 was due to higher product prices both in international and domestic markets with sales volumes staying relatively flat.

The average realised refined product export sales price in 2004 increased to U.S.$227 per tonne from U.S.$184 per tonne in 2003 while the average realised refined product domestic sales price in 2004 increased to U.S.$252 per tonne from U.S.$180 per tonne in 2003. The increase in realised export refined products average sales prices was in line with the increase in international crude oil price, with the domestic product prices reflecting both the domestic crude oil prices and growing refining margins in the domestic market.

Export Taxes and Export Duties

Excise taxes and export duties increased by 72% to U.S.$2,928 million for the year ended 31 December 2004 from U.S.$1,699 million for the year ended 31 December 2003. This reflected an increase in the international market price of Urals blend crude oil and changes to the rate structure introduced in August 2004 (see"– External Factors Affecting Results of Operation — Taxation"). As a result of the change in rate structure, excise taxes and export duties increased significantly, representing 17% of gross revenue for the year ended 31 December 2004 compared to 14% in the prior year.

Costs and Other Deductions

Operating Expenses

Operating expenses increased by 30% to U.S.$1,731 million for the year ended 31 December 2004 from U.S.$1,336 million for the year ended 31 December 2003.

Upstream Operating Expenses

Upstream operating expenses increased by 17% to U.S.$1,018 million for the year ended 31 December 2004 from U.S.$869 million for the year ended 31 December 2003. Upstream operating expenses per barrel increased by 2% to U.S.$1.96 in 2004 from U.S.$1.92 in 2003 as a result of increased production partially offset by the real appreciation the rouble relative to the U.S. dollar.

TNK-BP's total lifting costs, which is the cost of producing crude oil and includes the cost of operating and maintaining wells and related equipment and facilities, remained stable during 2004 and 2003 at a level of U.S.$2.50 per barrel.

Downstream Operating Expenses

Downstream operating expenses increased by 17% to U.S.$193 million for the year ended 31 December 2004 from U.S.$165 million for the year ended 31 December 2003. Downstream operating costs per barrel averaged U.S.$1.20 in 2004 compared to U.S.$1.08 in 2003 amounting to an 11% increase. The increase in per barrel downstream operating costs was due to the real appreciation of the rouble against the U.S. dollar which was offset by the increased refining volumes.

Crude Oil Transportation to Refineries

Crude oil transportation to refineries increased by 42% to U.S.$175 million for the year ended 31 December 2004 from U.S.$123 million for the year ended 31 December 2003 due to the increased refining volumes, increased Transneft tariffs and the real appreciation of the rouble against the U.S. dollar.

Provisions

Following reviews of its environmental obligations TNK-BP recognised a provision of U.S.$117 million in 2004 and U.S.$41 million in 2003 reflecting its liabilities to clean-up legacy oil spills, drill pits, sludge pits and other disposal sites and to fulfil other environmental obligations in the upstream and downstream segments of its business.

Other Operating Expenses

Other operating expenses included costs associated with production of gas and provision of services to third parties, primarily oil field services, as well as other costs. The increase in other operating expenses to U.S.$212 million for the year ended 31 December 2004 from U.S.$138 million for the year ended 31 December 2003 was due to the increases in gas production costs, costs of third party services and other costs.

Costs of Purchased Products

Cost of purchased products decreased by 26% to U.S.$775 million for the year ended 31 December 2004 from U.S.$1,052 million in the corresponding period of 2003 due to the decrease of crude oil purchases by 7,139 thousand barrels and oil product purchases by 1,764 thousand tonnes. Decreased volumes of purchased crude oil and petroleum products in 2004 were partially offset by higher prices. Cost of purchased products comprised principally oil and oil products purchased from TNK-BP's associated companies in Russia and related parties in Ukraine.

Taxes other than Income Tax

Taxes other than income tax increased by 58% to U.S.$3,046 million for the year ended 31 December 2004 from U.S.$1,929 million for the year ended 31 December 2003. Unified natural resources production taxes increased by U.S.$980 million as a result of increased crude oil production, the base rate increase effective 1 January 2004, the increased international market price of Urals blend crude oil and appreciation of the rouble against the U.S. dollar.

Unified social tax expense has increased by 21% to U.S.$144 million for the year ended 31 December 2004 from U.S.$119 million for the year ended 31 December 2003 due to increasing staff costs.

Tax penalties and interest for the years ended 31 December 2004 and 31 December 2003 primarily included provisions against on-going tax litigation. The 2004 financial statements also include a provision of U.S.$123 million in respect of the tax audit acts presented by the Federal Tax Service to TNK-BP in 2005.

Transportation Expenses

Transportation expenses increased by 20% to U.S.$1,761 million for the year ended 31 December 2004 from U.S.$1,462 for the year ended 31 December 2003. This was the result of increased sales volumes and increased transportation tariffs. Average Transneft tariffs on exported crude oil for the year ended 31 December 2004 increased by 3% to U.S.$2.21 per barrel from U.S.$2.14 per barrel for the year ended 31 December 2003. Average transportation costs on exported crude oil other than through the Transneft system for the year ended 31 December 2004 did not change significantly compared to the year ended 31 December 2003. Average refined product transportation tariffs for the year ended 31 December 2004 decreased by 7% to U.S.$43.3 per tonne from U.S.$46.4 per tonne for the year ended 31 December 2003.

Depreciation, Depletion and Amortisation

DD&A increased by 28% to U.S.$1,039 million for the year ended 31 December 2004 from U.S.$814 million for the year ended 31 December 2003. DD&A per barrel of production was U.S.$2.00 per barrel for the year ended 31 December 2004 compared to U.S.$1.79 per barrel for the year ended 31 December 2003 primarily due to increased capital expenditure levels in 2004 as compared to 2003.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 10% to U.S.$957 million for the year ended 31 December 2004 from U.S.$872 million for the year ended 31 December 2003 primarily as a result of increased salaries and consulting expenses.

Exploration Expenses

Exploration expenses increased by 129% to U.S.$160 million for the year ended 31 December 2004 from U.S.$70 million for the year ended 31 December 2003 primarily as a result of increased gas exploration activities of Rusia Petroleum and Rospan.

Other Income and Expense

Earnings from Equity Investments

Earnings from equity investments increased by 35% to U.S.$645 million for the year ended 31 December 2004 from U.S.$477 million for the year ended 31 December 2003. The increase was primarily a result of the increase in equity earnings from Slavneft to U.S.$573 million for the year ended 31 December 2004 from U.S.$428 million for the year ended 31 December 2003, as well as the increase in equity earnings from Vanyeganneft. The increase in equity earnings is consistent with the growing production volumes and the favourable crude oil price environment.

Interest Income and Net Other Income

Interest income and net other income increased by 51% to U.S.$160 million for the year ended 31 December 2004 from U.S.$106 million for the year ended 31 December 2003. The increase was primarily due to the fact that in 2003 TNK-BP recognised a liability of U.S.$60 million related to the guarantee issued by TNK-BP in respect of the loan held by OAO LINOS, the former Lisichansk Refinery operator in Ukraine.

Interest Expense

Interest expense decreased by 33% to U.S.$189 million for the year ended 31 December 2004 from U.S.$283 million for the year ended 31 December 2003. This reduction largely reflected a reduction in the margin paid over LIBOR on TNK-BP's existing and new floating rate debt, in part offset by an increase in LIBOR over the two year period.

Income Tax Expense

Income tax expense amounted to U.S.$1,221 million for the year ended 31 December 2004 compared to U.S.$227 million for the year ended 31 December 2003. The income tax expense increase in 2004 was primarily due to a change in the Russian tax legislation effective 1 January 2004 eliminating the use of certain economic development zones where income tax rates were lower than the statutory rate of 24%.

Minority Interest Expense

Minority interest expense amounted to U.S.$37 million for the year ended 31 December 2004 compared to U.S.$214 million for the year ended 31 December 2003. Minority interest decreased primarily due to transactions relating to the formation of TNK-BP in mid-2003 and the contribution of BP's minority interest in Sidanco to TNK-BP.

Liquidity and Capital Resources

The following table presents certain cash flow and net debt information for TNK-BP:

	As of and for the year ended 31 December		
	2005	**2004**	**2003**
	(U.S.$ millions, except percentages)		
Net cash provided by operations	5,042	4,687	4,082
Net cash used for investing activities	(616)	(1,663)	(2,680)
Net cash used for financing activities	(3,570)	(3,257)	(1,681)
Net debt	2,278	2,798	1,771
Net debt/Net debt plus equity	21.4%	24.3%	17.2%

Net Cash Provided by Operating Activities

Net cash provided by operating activities is the primary source of TNK-BP's cash flow. Net cash provided by operating activities amounted to U.S.$5,042 million for the year ended 31 December 2005 compared to U.S.$4,687 million for the year ended 31 December 2004 and U.S.$4,082 million for the year ended 31 December 2003. In the years ended 31 December 2005, 2004 and 2003 net cash provided by operating activities was impacted by the increase in TNK-BP's net income and changes in TNK-BP's working capital position.

During the years ended 31 December 2005 and 2004, TNK-BP's net working capital increased by U.S.$214 million and U.S.$499 million respectively (which had the effect of reducing net cash provided by operating activities). This increase largely reflected an increase in VAT and trade receivable balances and higher inventory levels due to a combination of higher crude oil prices and sales volumes and a generally slow process of VAT refund from the Russian Government.

During the year ended 31 December 2003 TNK-BP's working capital decreased by U.S.$661 million as payables increased more rapidly than receivables (which had the effect of increasing net cash provided by operating activities).

Net Cash Used for Investing Activities

Net cash used for investing activities amounted to U.S.$616 million for the year ended 31 December 2005 compared to U.S.$1,663 million for the year ended 31 December 2004 and U.S.$2,680 for the year ended 31 December 2003, consisting primarily of capital expenditures and proceeds from the sale of and investments in certain assets.

Consistent with TNK-BP's strategy, capital expenditures increased to U.S.$1,764 million in 2005 from U.S.$1,293 million in 2004 and U.S.$849 million in 2003. Capital expenditures are directed at maintaining and expanding TNK-BP's core oil and gas business through investment in up-to-date drilling and recovery technology, upgrades of oil production and refinery facilities and the improvement of export infrastructure.

The majority of capital expenditures in the periods presented related to crude oil production, with the total percentage of capital expenditures spent on exploration and production increasing from 70% in 2003 to 71% in 2004, and to 74% in 2005 as indicated in the table below:

	Year ended 31 December					
	2005		**2004**		**2003**	
	(U.S.$ millions, except percentages)					
Exploration and production	1,312	74%	918	71%	599	70%
Refining	280	16%	197	15%	178	21%
Marketing and distribution	104	6%	37	3%	22	3%
Other	68	4%	141	11%	50	6%
Total	**1,764**	**100%**	**1,293**	**100%**	**849**	**100%**

Net cash used for investment activities in 2005 also included U.S.$1,039 million of proceeds from the sale of certain TNK-BP group companies performed as part of a long-term strategy aimed at optimising TNK-BP's asset portfolio (see "Formation and Evolution of TNK-BP" above). This amount included U.S.$832 million of cash proceeds from the sale of OAO Saratovneftegaz, OAO Orsknefteorgsintez, OAO Orenburgnefteprodukt and OAO Neftemaslozavod to RussNeft in December 2005.

In addition to capital expenditures, in 2004 TNK-BP invested U.S.$355 million to purchase the remaining 56% of Rospan. In 2003, TNK-BP invested U.S.$933 million to complete the acquisition of 49.8% of Slavneft and U.S.$825 million to increase TNK-BP's interests in Onako and Orenburgneft.

Net Cash Used for Financing Activities

Net cash used for financing activities amounted to U.S.$3,570 million for the year ended 31 December 2005 compared to U.S.$3,257 million for the year ended 31 December 2004 and U.S.$1,681 million for the year ended 31 December 2003. Financing cash flow consisted primarily of payments of dividends and changes in short-term and long-term debt balances.

Net debt proceeds, including changes in restricted cash, in 2005 amounted to U.S.$348 million compared to net debt proceeds of U.S.$597 million in 2004 and to net debt repayment of U.S.$498 million in 2003. The debt movements for the last two years reflect TNK-BP's financing strategy which was focused on maintaining its net debt to net debt plus equity in the range between 25% and 35%. In 2003, new borrowing programmes were temporarily put on hold pending completion of the establishment of TNK-BP which resulted in a temporary net reduction of the debt portfolio. Net debt proceeds in 2004 and 2005 reflected the adjustment to reach target gearing levels.

Dividends paid increased to U.S.$3,901 million for the year ended 31 December 2005 from U.S.$3,854 million for the year ended 31 December 2004 and U.S.$594 million for the year ended 31 December 2003. TNK-BP's financial strategy provides for dividends to amount to at least 40% of TNK-BP's annual net income, with any additional cash in excess of its business requirements to be distributed to the shareholders. In 2003, dividends represented approximately 20% of net income, as distributions were put on hold pending completion of the establishment of TNK-BP. Dividends for 2004 included a partial catch-up dividend for 2003. Dividends for 2005 represented a normal course of business distribution in accordance with targets set by the shareholders' agreement among TNK-BP's principal shareholders. During the year ended 31 December 2005, TNK-BP declared total dividends of U.S.$5,441 million of which U.S.$3,901 million was paid in the year ended 31 December 2005 and the remaining amount of U.S.$1,540 million in the three months ended 31 March 2006.

Indebtedness

TNK-BP currently utilises a wide variety of financial instruments in accordance with its financial strategy. TNK-BP's portfolio of debt instruments consists of structured trade finance facilities, bonds, short and medium-term bank lines, and other facilities, both secured and unsecured. Historically, most of the secured financing has involved the pledging of the proceeds from crude oil exports to lenders.

Pursuant to its financial strategy, TNK-BP has established the unsecured Debt Issuance Programme ("DIP") described in the Base Prospectus in order to enhance its funding flexibility by attracting new types of investors and to extend the average life of the debt portfolio and the level of unsecured and fixed-rate debt as a proportion of TNK-BP's total debt portfolio.

The following table presents the outstanding indebtedness of TNK-BP as of the dates indicated.

	As of 31 December					
	2005		2004		2003	
	(U.S.$ millions)					
Structured Trade Finance	1,827	51%	1,508	45%	1,154	42%
Bonds	810	22%	824	24%	1,001	36%
Medium-term bank loans	500	14%	0	0%	0	0%
Short-term bank loans	437	12%	526	16%	47	2%
Project finance	13	0%	405	12%	419	15%
Other	27	1%	110	3%	134	5%
Total	**3,614**	**100%**	**3,373**	**100%**	**2,755**	**100%**

Consistent with its long-term target of obtaining an investment grade rating, in 2005 TNK-BP redeemed prior to scheduled maturity U.S.$392 million of secured project finance facilities and replaced it with a U.S.$500 million unsecured medium-term bank loan. The implementation of this programme continues in 2006 with the intention to replace all remaining secured debt with unsecured debt.

In December 2005, a U.S.$1 billion unsecured, guaranteed short-term loan agreement was signed between TNK-BP Finance S.A. and a syndicate of international banks led by Dresdner Bank. The loan is guaranteed by TNK-BP International and matures in September 2006. The facility was fully drawn in January 2006 and was fully outstanding as of 31 May 2006. In accordance with the approved financing plan for 2006, the loan is being used for working capital financing.

Critical Accounting Policies

TNK-BP's consolidated financial statements have been prepared in accordance with U.S. GAAP. TNK-BP's significant accounting policies are further discussed in the Notes to TNK-BP's U.S. GAAP Financial Statements included elsewhere in this Supplement and the Base Prospectus. Inherent in the application of many of these accounting policies is the need for TNK-BP to make judgements 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.

Accounting for Oil Exploration and Producing Activities

TNK-BP uses the successful efforts method of accounting for its oil and gas producing activities. The successful efforts method inherently relies on the estimation of proved reserves, both developed and undeveloped. The existence and the estimated amount of proved reserves affect, among other things, whether certain costs are capitalised or expensed, the amount and the timing of costs depleted or amortised into income. Both the expected future cash flows to be generated by oil and gas producing properties used in testing for impairment of such properties and the expected future taxable income available to realise the value of deferred tax assets also rely in part on estimates of net recoverable quantities of oil and gas.

Proved reserves are the estimated quantities of oil and gas that geologic and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Estimates of proved reserves may change, either positively and negatively, as additional information becomes available and as contractual, economic and political conditions change.

The application of successful efforts accounting can also cause material fluctuations between periods in exploration expense if drilling results are different than expected or if TNK-BP changes its exploration and development plans. The determination that exploratory drilling was unsuccessful in finding economically productive reserves requires the immediate expensing of previously capitalised drilling costs.

Contingent Liabilities

TNK-BP accrues contingent liabilities for income and other tax deficiencies, environmental remediation and litigation claims when such contingencies are probable and estimable. Actual costs can differ from estimates for multiple reasons. For example, the costs from settlement of claims and litigation can vary from estimates based on differing interpretations of laws, opinions on responsibility and assessments on the amount of damages. Similarly, liabilities for environmental remediation may change because of changes in laws, regulations and their interpretation; the determination of additional information on the extent and nature of site contamination; and improvements in technology. TNK-BP regularly assesses these contingent liabilities.

Income Taxes

Deferred income taxes reflect the net tax effects, calculated at currently enacted rates, of (a) future deductible/taxable amounts attributable to events that have been recognised on a cumulative basis in the financial statements or income tax returns, and (b) operating loss and tax credit carry forwards. A valuation allowance for deferred tax assets is recorded when it is more likely than not that the benefit from the deferred tax asset will not be realised.

Foreign Currency

TNK-BP's current operations are in Russia and Ukraine. The U.S. dollar is TNK-BP's functional and reporting currency. Amounts denominated in currencies other than the U.S. dollar are reported in U.S dollars based on ruling exchange rates. As TNK-BP does not hedge currency exposures, reported financial results include exchange gains and losses primarily resulting from fluctuations in the rate of exchange of the Russian rouble to the U.S. dollar. These gains and losses have been small relative to the absolute levels of net income. However, it is not possible to predict the extent to which TNK-BP may be affected by future changes in exchange rates.

Reconciliation of EBITDA

The following table presents a reconciliation of TNK-BP's EBITDA to income before taxes, minority interest, and cumulative effect of change in accounting principles for the periods presented.

	Year ended 31 December		
	2005	2004	2003
	(U.S.$ millions)		
Income before income taxes and minority interest	7,717	5,264	3,017
Add back:			
Interest expense	224	189	283
Exchange loss, net	44	20	37
Interest income and net other income	(113)	(160)	(106)
Depreciation, depletion and amortisation	1,206	1,039	814
EBITDA	**9,078**	**6,352**	**4,045**

Return on Average Capital Employed (ROACE)

Return on average capital employed (ROACE) is the ratio of profit including minority shareholders' interest and excluding post-tax interest on finance debt to average capital employed for the period. Capital employed is defined as net assets plus total finance debt.

The following table presents a calculation of TNK-BP's ROACE for the periods presented.

	Year ended 31 December		
	2005	2004	2003
	(U.S.$ millions)		
Income before cumulative effect of change in accounting principle	4,744	4,006	2,576
Interest on finance debt and other adjustments	178	113	166
Minority shareholders' interest	70	37	214
Net income adjusted	4,992	4,156	2,956
Average capital employed	12,847	12,343	9,845
ROACE	**38.9%**	**33.7%**	**30.0%**

APPENDIX 4

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 trade and companies register under number B-107428. The principal purpose of the Issuer is to finance the business operations of TNK-BP, as described in this Supplement. 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 46A, Avenue John F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg, and its telephone number is +352-26005-205. The share capital of the Issuer is Euro 31,000 divided into 31 ordinary shares with a par value of Euro 1,000.00 each. The Issuer has issued a total of 31 ordinary shares, all of which have been fully paid up. The Issuer has no other authorised or issued securities.

Shareholders

Novy Investments Limited, a wholly-owned subsidiary of TNK-BP International, owns one share of the Issuer and Martanco Holdings Company Limited, a wholly-owned subsidiary of TNK-BP International, owns 30 shares. The Issuer does not know of any arrangements, the operation of which may result in a change in control of the Issuer.

Statutes

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;

(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.

The Issuer can perform all legal, commercial, technical and financial investments or operations and in general all transactions which are necessary for or related to the accomplishment of its purposes. The articles of incorporation of the Issuer were published in the Memorial C, Receuil de Sociétéset Associations. 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, the constitutional documents of the Issuer and a legal notice relating to the issue of the Notes will be deposited prior to such listing with the Luxembourg trade and companies register, where such documents may be examined and copies obtained free of charge.

Management

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

Mr. Godfrey Abel, with a professional address at 46A, Avenue John F. Kennedy, L-1855 Luxembourg;

Mr. Marek Domagala, with a professional address at 46A, Avenue John F. Kennedy, L-1855 Luxembourg; and

Mr. Christophe Cahuzac, with a professional address at 46A, Avenue John F. Kennedy, L-1855 Luxembourg.

Each of the directors also currently holds a position with Mourant Luxembourg S.A and are also directors of other companies listed on the Luxembourg Stock Exchange. 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. Mourant Luxembourg S.A. is registered with the Register of Commerce and Companies in Luxembourg under number B.88 409 and has its registered office at 46A, avenue John F. Kennedy, L-1855, Luxembourg. The directors of Mourant Luxembourg S.A. are Mr. Godfrey Abel, Ms. Julia Chapman and Mr. Rupert Walker.

Auditors

The statutory auditors *(commissaire aux comptes)* of the Issuer are PricewaterhouseCoopers S.à.r.l., whose registered office is at 400, Route d'Esch L-1014 Luxembourg, Grand Duchy of Luxembourg. PricewaterhouseCoopers S.à.r.l. is a member of the IRE ("Institut des Reviseurs d'Entreprises").

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 with the exception of 2005, in which its financial year began on 11 April 2005 and ended on 31 December 2005.

Since the date of its incorporation, the Issuer has prepared interim financial statements as of 31 July 2005 and for the period from 11 April 2005 to 31 July 2005, and as of 31 December 2005 and for the period from 11 April 2005 to 31 December 2005. See the Issuer's Financial Statements, which have been prepared in accordance with Luxembourg legal and regulatory requirements, included elsewhere in the Base Prospectus and this Supplement. The Issuer does not prepare or publish any other financial statements. The Issuer does not know of any recent events particular to the Issuer which are to a material extent relevant to the evaluation of the Issuer's solvency.

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 the TNK-BP, as described in this Supplement, it is not meaningful to compare the competitive position of the Issuer in relation to other entities.

APPENDIX 5

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 "Operation and Financial Review — Formation of TNK-BP and Recent Expansion".

Share Capital

The Guarantor's issued and paid up capital is U.S.$53,000. The issued share capital consists of one series of shares divided into 53,000 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 share capital. The table below shows the ownership of TNK-BP Limited's issued and paid up share capital as of 1 July 2006. 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:

Mr. Richard Parsons, with a professional address at Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands;

Ms. Audley Maduro, with a professional address at Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands;

Mr. Kris Sliger, with a professional address at 1, Arbat St., Moscow, Russia 119019;

Mr. Igor Maydannik, with a professional address at 1, Arbat St., Moscow, Russia 119019; and

Mr. Peter Tarn, with a professional address at Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands.

Auditors

The auditors of the Guarantor are ZAO PricewaterhouseCoopers Audit ("PwC"), whose registered office is at Kosmodamianskaya Nab. 52, Bld. 5, Moscow, Russia 115054. PwC have audited the Guarantor since its formation up through 31 December 2005. PwC audited financial statements of the Guarantor as of 31 December 2005 and 2004 and for each of the years ended 31 December 2005, 2004 and 2003. PwC is a member of the Russian Chamber of Auditors ("Auditorskaya Palata Rossii") and The Institute of Professional Accountants of Russia ("Institut Professionalnih Buhgalterov Rossii").

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 the following periods: (i) 1 January 2002 – 31 December 2002; (ii) 1 January 2003 – 31 December 2003; (iii) 1 January 2004 – 31 December 2004 and (iv) 1 January 2005 – 31 December 2005. Apart from the annual consolidated financial statements and the interim unaudited consolidated financial statements for the first six months of each financial year, 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 Supplement.

APPENDIX 6

TNK-BP HISTORY AND ORGANISATIONAL STRUCTURE

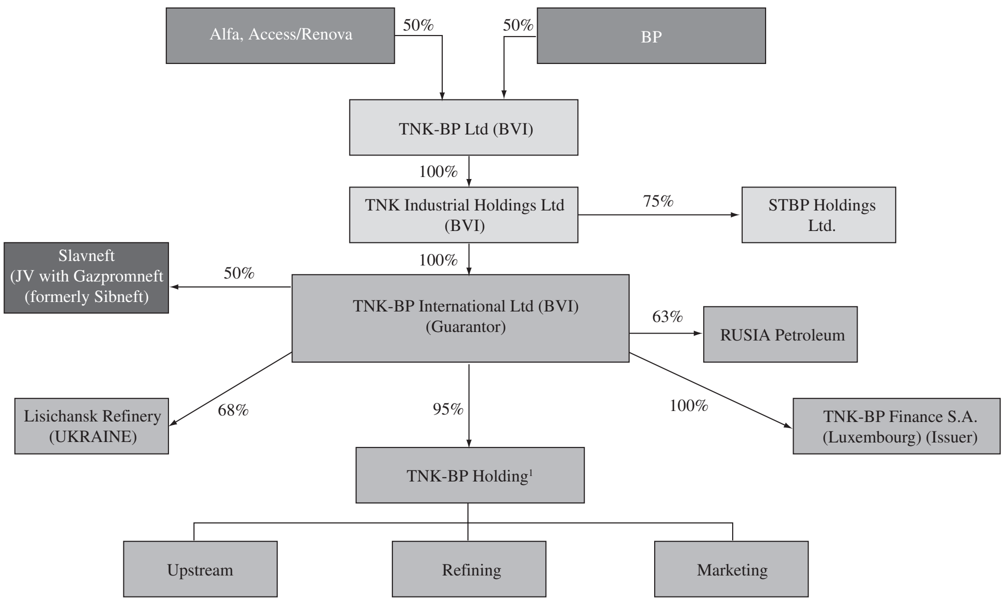
Formation of TNK-BP

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 Holdings Ltd., which owns a network of approximately 45 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 31 December 2005 TNK-BP's effective ownership in Slavneft was 49.8% reflecting treasury minority 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, as of 1 June 2006.



Businesses consolidated into TNK-BP International's US GAAP financial statements

Businesses which are not considered into TNK-BP International's US GAAP financial statements but are consolidated into TNK-BP Limited's GAAP financial statements

Businesses recorded as equity Investments

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

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 95% interest in TNK-BP Holding, (ii) a 62.9% interest in Rusia Petroleum, (iii) a 49.8% effective interest in Slavneft and (iv) a majority interest in several Ukrainian refining and marketing assets.

TNK-BP Holding

OAO 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 TNK-BP's proved oil reserves and production operations (excluding Slavneft). 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 acceeded to TNK-BP Holding, as described in detail under "Business – Corporate Activities – Corporate Restructuring Project in Russia". 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", minority 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.

Name	Effective equity interest of TNK-BP Holding %
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 Yugraneft	79.5
OAO Orenburgneft	88.1
OAO Orenburggeologia	94.2
OAO Novosibirskneftegaz	99.9
OAO TNK-Nizhnevartovsk	100.0
OAO Udmurtneft(1)	88.6
OAO Varieganneftegaz	85.3
ZAO Rospan International	100.0
OOO SP Vanyeganneft	50.0
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 Kaluganefteproduct	89.3
ZAO Karelianefteproduct	100.0
OAO Ryazannefteproduct	91.6
OAO Tulanefteproduct	85.7
OAO TNK-Stolitsa	100.0
OAO Urals Oil Company	51.0
OOO Zapsibnefteproduct	100.0
OAO Saratovnefteproduct	60.0
ZAO TNK-Yug	50.1

(1) In June 2006, TNK-BP announced the sale of Udmurtneft.

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

- *Slavneft.* Slavneft is a Russian vertically-integrated oil and gas company which produced 24.2 million tonnes (0.49 million barrels per day) of crude oil in 2005 on a gross basis and as of 31 December 2005 had proved oil reserves of 271 million tonnes (2.0 billion barrels) under SPE criteria on a gross basis. As of 31 December 2005, TNK-BP held a 49.8% effective interest in Slavneft as a result of the 50-50 joint venture with Gazpromneft (formerly Sibneft).

- *Rusia Petroleum.* Rusia Petroleum holds an exploration and production licence for a large natural gas exploration and development project at the Kovykta field. Management believes that the Kovykta field, located in the Irkutsk region of Eastern Siberia, is one of Russia's richest gas fields. TNK-BP holds a 62.9% interest in Rusia Petroleum. The other shareholders of Rusia Petroleum include Interros and the Administration of the Irkutsk Region.

- *East Siberia Gas Company.* East Siberia Gas Company ("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 (indirect participation) and the Administration of the Irkutsk Region.

- *TNK-BP Ukrainian businesses.* TNK-BP holds a number of interests in Ukraine including a 68% effective interest in the Lisichansk refinery and controlling interests in several trading and retail subsidiaries.

Assets Held Outside of TNK-BP

TNK-BP Limited holds through TNK Industrial Holdings a 75% interest in STBP Holdings Ltd., which owns a network of approximately 45 BP branded retail sites in Moscow. While such assets are not currently held by TNK-BP International, TNK-BP Limited may transfer its holdings in STBP Holdings Ltd. to TNK-BP International in the future.

Ongoing Changes in the Structure of TNK-BP

TNK-BP is currently engaged in a number of corporate activities that are intended to simplify considerably 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. Each of these projects is summarised below.

Corporate Restructuring Project in Russia

To simplify the complex corporate structure of TNK-BP and improve its transparency, TNK-BP's management established a restructuring plan to be implemented through a number of stages. The restructuring plan aimed to achieve the following key objectives:

- simplify the corporate structure of TNK-BP Holding and its subsidiaries (the "TNK-BP Holding Group") and provide for more efficient management;

- consolidate the minority shareholdings in certain of the TNK-BP Holding's subsidiaries into TNK-BP Holding to enable minority shareholders to participate in the success of the entire TNK-BP Holding Group; and

- provide greater transparency and improved corporate governance within TNK-BP.

The objectives above were largely achieved by the end of 2005 through the following steps:

- incorporation of TNK-BP Holding as a 100% owned indirect Russian subsidiary of TNK-BP International;

- voluntary share exchange programme offered to minority shareholders in 14 of TNK-BP Holding's operating subsidiaries to enable them to exchange their shares for shares in TNK-BP Holding; and

- merger by way of accession (a Russian legal process) of TNK, Sidanco, and Onako into TNK-BP Holding at which point these 3 companies ceased to exist as separate legal entities.

The completion of the above steps have resulted in the consolidation of a significant part of TNK-BP's minority shareholders' interests at the TNK-BP Holding level. Such interests amount to approximately 5% of TNK-BP Holding, which has considerably simplified TNK-BP's corporate structure.

TNK-BP is now considering whether to accede further companies into TNK-BP Holding, though no decisions in this respect have been made.

Corporate Restructuring Project in Ukraine

TNK-BP has recently commenced a corporate restructuring project in Ukraine. While the final details of this project have yet to be determined, the key elements include the simplification of the ownership structure of TNK-BP's Ukrainian trading, refining, and retail operations within majority owned and controlled entities.

Liquidation Project

The corporate restructuring projects described above will result 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 a 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 May 2002, the 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 gas 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.

APPENDIX 7
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 the Alfa Group, Access Industries, Inc. and Renova, Inc. (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 from both TNK and BP.

In 2005, TNK-BP recorded sales and other operating revenues of U.S.$30,025 million, EBITDA of U.S.$9,078 million and net income of U.S.$4,744 million as compared to sales and operating revenues of U.S.$17,097 million, EBITDA of U.S.$6,352 million and net income of U.S.$4,006 million in 2004. As of 31 December 2005, TNK-BP had outstanding indebtedness of U.S.$3,614 million, net debt of U.S.$2,278 million and a gearing ratio of 21% (calculated as the ratio of net debt to net debt plus equity), as compared to outstanding indebtedness of U.S.$3,373 million, net debt of U.S.$2,798 million and a gearing ratio of 24% as of 31 December 2004.

Below are some 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 associated company Slavneft):

- *Reserves.* While TNK-BP measures reserves using two main global reserves classification systems for external reporting and internal reserves management, the primary basis used by TNK-BP is the SEC-LOF methodology. Under this basis, TNK-BP's total proved gross reserves held through its exploration and production subsidiaries as of 31 December 2005 amounted to approximately 1.1 billion tonnes (8.2 billion barrels) of oil, of which 0.8 billion tonnes (6.1 billion barrels) were proved developed reserves. Currently, TNK-BP does not record any of its gas assets as proved reserves. TNK-BP replaced 137% of its 2005 production with new proved reserves under SEC-LOF criteria.

- *Production.* In 2005, the total crude oil and condensate production of TNK-BP's exploration and production subsidiaries (excluding Slavneft but including other TNK-BP joint ventures) was 77.0 million tonnes (1.579 MMBbls/d). In general, TNK-BP either exports crude oil or uses it as a feedstock for its refineries. TNK-BP also produces associated and natural gas. In 2005, TNK-BP's gas sales totalled 9.6 bcma (0.16 million boe per day). Gas sales currently represent a very small percentage of TNK-BP's overall revenues, but management expects to expand the strategic focus of TNK-BP in this line of business.

- *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, these five refineries have an effective capacity of approximately 30.0 million tonnes of crude oil per year. In 2005, TNK-BP refined 30.5 million tonnes of crude oil (this includes throughput at the Orsk refinery, an asset that was sold by TNK-BP in December 2005), representing an effective average utilisation rate of 84%. 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 2005, TNK-BP exported 49.9 million tonnes of crude oil (to Europe and the CIS), which was the equivalent of 65% of its crude oil production and 63% of its total crude oil sales and deliveries to refineries in that year. TNK-BP also exported 18.9 million tonnes of refined products in 2005, the equivalent of 63% of its refined product sales.

- *Domestic Marketing and Retail.* Domestically, TNK-BP sells its products through different distribution channels. Gasoline and most of the diesel fuel TNK-BP produces is sold by regional marketing subsidiaries using their retail networks (including jobbers) and through the small wholesale market. Other TNK-BP refined products are primarily 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. TNK-BP currently has over 1,580 branded retail filling stations, of which, approximately 676 are owned and operated by TNK-BP's marketing subsidiaries and located in Russia and Ukraine. The remainder are owned and operated independently by TNK-BP jobbers. In Moscow, TNK-BP has over 220 branded retail sites, of which, 92 are owned and operated by TNK-BP marketing subsidiaries. TNK-BP estimates that its total branded share of the Moscow retail fuel market, in volume terms, is approximately 28% and that the sites owned and operated by TNK-BP marketing subsidiaries have a market share of approximately 15% of that market. TNK-BP is also a widely recognised retailer in Ukraine, with a network of 41 of its own and 595 jobber filling stations. As a part of its downstream strategy, TNK-BP is focused on expanding its operations into two new targeted growth regions, in Rostov, through a joint venture, and St. Petersburg, through the acquisitions and building the own service stations.

- *Slavneft Joint Venture.* Slavneft is a Russian vertically-integrated oil and gas company which produced 24.2 million tonnes (0.49 MMBbls/d) of crude oil in 2005 on a gross basis and as of 31 December 2005 had proved oil reserves of 271 million tonnes (2.0 billion barrels) under SPE criteria on a gross basis. As of 31 December 2005, TNK-BP held a 49.8% effective interest in Slavneft as a result of the 50-50 joint venture with Gazpromneft (formerly Sibneft).

- *Portfolio management.* As part of its portfolio management strategy, TNK-BP sold its stakes in a number of upstream and downstream group companies to OAO NK Russneft for U.S.$832 million in December 2005. These entities included (OAO Saratovneftegaz, OAO Orsknefteorgsintez, OAO Orenburgnefteprodukt and OAO Neftemaslozavod. In June 2006, TNK-BP announced the sale of Udmurtneft. These companies had been deemed to no longer have a strategic fit with TNK-BP's asset portfolio going forward. See "Operating and Financial Review — Formation and Evolution of TNK-BP — 2005 Disposals" and "– Recent Developments".

- *Awards.* 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 awarded by the British Energy Institute for the safety and environmental protection standards used by the company for operations on the Volga River. In 2004, TNK-BP won the Third All-Russian Contest "Golden Networks 2004" in the Retail Filling Stations category.

- *Credit Rating.* TNK-BP International is currently rated "Baa2" (outlook stable) by Moody's, "BB+" (outlook stable) by Standard & Poor's and "BB+" (outlook positive) 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. To achieve this goal, TNK-BP is focusing on a number of key strategic priorities, including:

Upstream. TNK-BP aims to grow its upstream production at a higher rate than the Russian industry average while replacing at least 100% of current production with new reserves to create a sustainable basis for future production and improving its production cost efficiency at the same time.

Downstream. TNK-BP seeks to enhance the flexibility and profitability of the group's downstream operations, principally through the continued development of new export options for the group's production and higher margin products, enhancement of the group's refining capabilities, and targeted growth of its retail businesses.

Gas Business. TNK-BP aims to substantially enhance its gas business as a portion of its overall business and transform itself from an oil group into a major oil and gas group. TNK-BP aims to achieve this by exploiting

TNK-BP's significant natural gas resources and efficiently delivering gas to the domestic gas market and export markets (in coordination with Gazprom and/or Russian Federation policy), in both the European (through the holding in Rospan) and Asia-Pacific (through the holding in Rusia Petroleum) markets.

Portfolio Management. TNK-BP will also manage its portfolio of assets in furtherance of its strategic goals and in doing so may, among other things, evaluate opportunities to acquire assets that management believes will enhance the value of company or divest assets that are deemed to be non-core assets.

Corporate Governance and Other Internal Initiatives. TNK-BP will continue to focus on increasing its transparency and performance through improved corporate governance, organisational simplification, and enhanced audit and financial reporting capabilities.

Health, Safety and Environmental Policies. TNK-BP strives 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 the company's strong balance sheet and enhancing its financial flexibility.

The next four sections provide further details on TNK-BP's upstream, downstream and gas business, and its corporate activities.

Upstream Business

Overview and Strategic Focus

TNK-BP's oil and condensate production grew by approximately 6% in 2005, by approximately 13% in 2004 and by approximately 14% in 2003, as compared to the previous year, which in each case exceeded the Russian industry average. TNK-BP aims to achieve strong annual production growth in excess of the Russian oil and gas industry average in the near-term to mid-term while maintaining a reserves replacement rate at or above 100% of annual production on a boe basis. To achieve this goal, TNK-BP continues to focus on efficiently growing production volumes at its mature oil fields (brownfields) that are located largely in Western Siberia. At the same time, TNK-BP also plans to expand its development and exploration programmes with respect to both new reservoirs associated with existing fields, which TNK-BP believes can be converted into production at relatively low cost, and greenfield projects, including projects such as Uvat, Bolshekhetsky (KT-4) in the Krasnoyarsk/Taimyr region, and Kamennoye in Nyagan. TNK-BP will also seek to carefully monitor opportunities to develop undeveloped fields and other areas for which licences have yet to be allocated (bluefields) as a means of increasing reserves and production.

TNK-BP plans to actively apply advanced technology to increase production, maximise the recovery of proved reserves and ensure the development of probable reserves. TNK-BP expects that through the implementation of initiatives at mature fields such as water flood management, electric submersible pump ("ESP") optimisation, idle well recovery and recompletion and hydraulic fracturing, TNK-BP will be able to significantly increase its production at such fields. TNK-BP also aims to improve efficiency and maintain low lifting costs through initiatives which include accessing the lower-cost wholesale electricity market for certain of its energy needs, improving its in-house drilling capacity and efficiency, developing its supply chain procurement strategy and leveraging its purchasing power through the implementation of long-term tendering programmes. In the medium and longer terms, TNK-BP plans to implement development techniques utilised successfully by BP with respect to TNK-BP's major greenfield projects and to improve TNK-BP's reserve recovery capabilities.

Licences

As of 1 January 2006, TNK-BP held a total of 234 licences comprising 191 production licences, 36 combined exploration and production licences and 7 exploration licences. While none of TNK-BP's major licences will, under their original terms, expire prior to 2013, TNK-BP has already established a programme to actively manage the process of licence renewal at the time such licences expire. This programme includes a review of existing licence terms to help ensure that TNK-BP is in compliance with those terms. As part of this programme, in 2006 two key licences regulating TNK-BP's production from Samotlor oil field were extended until 2038. The Samotlor field accounted for 45% of TNK-BP's SEC-LOF proved reserves and approximately 40% of production in 2005. As a result, TNK-BP believes that all of the licences that it intends to retain will be renewed upon expiration.

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

In 2005, TNK-BP acquired an aggregate of nine new licences through participation in federal auctions, of which one licence is a production licence and the other eight are exploration and production licences. In the first half of 2006, TNK-BP further acquired rights to explore nine fields through participation in federal auctions and through the acquisition of stakes in the licence holders (currently, four exploration licences have been obtained with respect to some of these fields and the remaining licences are in the process of being issued).

The table below sets forth the number of licences owned as of 1 January 2006 by TNK-BP's six largest production subsidiaries, which accounted for over 85% of TNK-BP's total oil production in 2005.

Subsidiary	Percentage of TNK-BP's 2005 Production	Percentage of TNK-BP's 2004 Production	No. of production licences
	(%)	(%)	
SNG	30	29	1
Orenburgneft	19	19	80
TNK-Nizhnevartovsk	11	12	7
NNP	8	9	12
Udmurtneft(1)	8	8	56
TNK-Nyagan	7	6	3

(1) In June 2006, TNK-BP announced the sale of Udmurtneft.

Samotlor field is TNK-BP's largest oil field and accounted for almost 40% of TNK-BP's crude oil production in 2005. In 2006, the two key licences to develop Samotlor field held by SNG and TNK-Nizhnevartovsk were extended till 2038. For a discussion of the typical duration of TNK-BP's licences, see "Overview of the Russian Oil and Gas Industry — Regulation of the Oil and Gas Industry — Licensing".

Reserves

TNK-BP uses two main global reserves classification systems for external reserves reporting and internal reserves management: (i) the SEC standard, whereby reserves are calculated through to current licence renewal dates including the SEC-LOF variation of this standard whereby reserves are calculated through the economic life of fields; and (ii) the SPE criteria. The SEC-LOF system is the primary basis used for reserves management within TNK-BP.

DeGolyer and MacNaughton, a firm of independent petroleum engineers, has carried out an independent evaluation of TNK-BP's proved, probable and possible reserves as of 31 December 2005, 2004 and 2003. According to DeGolyer & MacNaughton's evaluation:

- under the SEC-LOF basis, as of 31 December 2005, TNK-BP had total gross proved reserves of 8.2 billion barrels, of which 6.1 billion barrels comprised proved developed reserves;
- under the SEC basis, in which reserves are calculated through current licence renewal dates, TNK-BP had total gross proved reserves of approximately 4.0 billion barrels of oil, of which 3.1 billion barrels comprised proved developed reserves; and
- under SPE criteria, as of 31 December 2005, TNK-BP had total gross proved reserves of 9.2 billion barrels, of which 6.1 billion barrels comprised proved developed reserves. In addition, TNK-BP had

8.2 billion barrels of gross probable reserves and 11.9 billion barrels of gross possible reserves, not including gas reserves.

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

The following tables set forth certain oil reserves data for TNK-BP as of 31 December 2005, 2004, and 2003, excluding the Slavneft joint venture. At present, TNK-BP does not record any of its gas assets as proved reserves and thus gas reserves are not included in the table. See "- Gas Business — Gas Reserves". The first table sets forth such entities' gross reserves as of such dates and the second table sets forth reserves net of minority interests. The data in the tables 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 fields using SEC standards. 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 fields using SEC-LOF basis. The 2005 Reserves Report as it relates to the review of TNK-BP's oil fields using SEC standards is not included in this Supplement. The 2005 Reserves Report as it relates to the review of TNK-BP's oil fields using SEC-LOF basis is included as Annex A to this Supplement. 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]								
	2005			**2004**			**2003**		
	up to Licence Expiry	*Post Licence Expiry*	*Total*	*up to Licence Expiry*	*Post Licence Expiry*	*Total*	*up to Licence Expiry*	*Post Licence Expiry*	*Total*
Gross Reserves[2]									
Total proved oil reserves (MMBbls)	4,027	4,203	8,230	3,992	4,025	8,017	4,173	3,700	7,873
Developed	3,084	3,024	6,108	2,990	3,149	6,139	3,333	2,683	6,016
Undeveloped	943	1,179	2,122	1,002	876	1,878	840	1,017	1,857
Total proved oil reserves (MMTonnes)[3]	538	562	1,100	533	538	1,071	559	494	1,053
Developed	413	406	819	401	422	823	447	357	804
Undeveloped	125	156	281	132	116	248	112	137	249

	As of 31 December[1]								
	2005			**2004**			**2003**		
	up to Licence Expiry	*Post Licence Expiry*	*Total*	*up to Licence Expiry*	*Post Licence Expiry*	*Total*	*up to Licence Expiry*	*Post Licence Expiry*	*Total*
Net Reserves[2]									
Total proved oil reserves (MMBbls)	3,748	3,912	7,660	3,716	3,746	7,462	3,954	3,516	7,470
Developed	2,870	2,815	5,685	2,783	2,931	5,714	3,133	2,522	5,655
Undeveloped	878	1,097	1,975	933	815	1,748	821	994	1,815
Total proved oil reserves (MMTonnes)[3]	501	523	1,024	497	501	998	529	470	999
Developed	384	378	762	372	392	764	420	336	756
Undeveloped	117	145	262	125	109	234	109	134	243

Note:

(1) Excluding reserves of Slavneft.

(2) After completion of the sale of Udmurtneft, total proved oil reserves will decrease by the volume of reserves attributable to Udmurtneft. As of 31 December 2005, Udmurtneft had proved oil reserves of 551 million barrels.

(3) Estimated at 7.48 barrels per tonne.

TNK-BP's strategic objective is to replace 100% of its proved reserves every year. TNK-BP replaced 137% of its 2005 production and 127% of its 2004 production with new proved reserves under SEC-LOF basis.

The table below sets forth TNK-BP's proved oil reserves as of 31 December 2005, 2004 and 2003 in the two main regions where TNK-BP operates, not including the Slavneft joint venture. The first table sets forth such entities' gross reserves as of such dates and the second table sets forth reserves net of minority interests. The data in the tables, 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 fields using SEC standards. 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 fields using SEC-LOF basis. The 2005 Reserves Report as it relates to the review of TNK-BP's oil fields using SEC standards is not included in this Supplement. The 2005 Reserves report as it relates to the review of TNK-BP's oil fields using SEC-LOF basis is included as Annex A to this Supplement. 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]								
	2005			**2004**			**2003**		
	up to Licence Expiry	*Post Licence Expiry*	*Total*	*up to Licence Expiry*	*Post Licence Expiry*	*Total*	*up to Licence Expiry*	*Post Licence Expiry*	*Total*
Gross Reserves									
Total proved oil reserves (MMBbls)	4,027	4,203	8,230	3,992	4,025	8,017	4,173	3,700	7,873
Volga-Urals[3]	951	822	1,773	866	883	1,749	918	882	1,800
Western Siberia	3,076	3,381	6,457	3,126	3,142	6,268	3,255	2,818	6,073
Total proved oil reserves (MMTonnes)[2]	538	562	1,100	533	538	1,071	559	494	1,053
Volga-Urals[3]	127	110	237	118	116	234	124	117	241
Western Siberia	411	452	863	415	422	837	435	377	812

	As of 31 December[1]								
	2005			**2004**			**2003**		
	up to Licence Expiry	*Post Licence Expiry*	*Total*	*up to Licence Expiry*	*Post Licence Expiry*	*Total*	*up to Licence Expiry*	*Post Licence Expiry*	*Total*
Net Reserves									
Total proved oil reserves (MMBbls)	3,748	3,912	7,660	3,716	3,746	7,462	3,954	3,516	7,470
Volga-Urals[3]	885	765	1,650	743	759	1,502	856	834	1,690
Western Siberia	2,863	3,147	6,010	2,973	2,987	5,960	3,098	2,682	5,780
Total proved oil reserves (MMTonnes)[2]	501	523	1,024	497	501	998	529	470	999
Volga-Urals[3]	118	103	221	102	99	201	116	110	226
Western Siberia	383	420	803	395	402	797	413	360	773

Note:

(1) Excluding reserves of Slavneft.

(2) Estimated at 7.48 barrels per tonne.

(3) After completion of the sale of Udmurtneft, total proved oil reserves for the Volga-Urals region will decrease by the volume of reserves attributable to Udmurtneft. As of 31 December 2005, Udmurtneft had proved oil reserves of 551 million barrels.

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

The summary of the 2005 Reserves Report included elsewhere in this Supplement;

"The Presentation of Financial and Other Information — Oil and Gas Reserve Data" for a discussion of reserve classification standards, including a discussion of differences between SEC and SEC-LOF guidelines; and

"Risk Factors — Risks Relating to TNK-BP and the Russian Oil and Gas Industry — Uncertainties in Estimates of Oil and Gas Reserves".

Oil and Condensate Production

TNK-BP's oil and condensate production increased by approximately 14% in 2003, 13% in 2004, and 6% in 2005 TNK-BP further expects to be able to achieve annual production growth rates in excess of the Russian oil and gas industry average in the near to mid-term. The table below sets forth TNK-BP's oil and condensate production for 2005, 2004 and 2003.

	Year ended 31 December		
	2005	**2004**	**2003**
Oil and condensate production (thousand tonnes)	77,040	72,404	63,953
Oil and condensate production (mbpd)	1,579	1,454	1,279

TNK-BP has historically derived approximately two-thirds of its production from Western Siberia and one third from the Volga Urals basin. While TNK-BP has many fields and production subsidiaries, oil production within TNK-BP is relatively concentrated. Five of TNK-BP's fields account for approximately 54% of TNK-BP's production, while six subsidiaries account for 83% of production. The table below shows oil and condensate production by subsidiary for the years ended 31 December 2005, 2004 and 2003.

	Year ended 31 December		
	2005	2004	2003
	(*thousand tonnes*)		
Subsidiary[1][2]			
SNG	23,231.8	20,984.0	18,364.3
Samotlor	23,231.8	20,984.0	18,364.3
Orenburgneft	14,767.4	13,933.9	12,074.9
Sorochinsko-Nikolskoye	2,142.6	1,812.0	1,697.6
Rostashinskoye	782.4	1,021.7	1,040.7
Bobrovskoye	1,013.5	1,160.5	1,082.6
Pokrovskoye	1,377.8	1,389.4	1,091.3
Samodurovskoye	431.5	421.4	382.6
Rodnikovskoye	587.7	594.7	411.9
Others	8,431.9	7,534.2	6,368.2
TNK-Nizhnevartovsk	8,715.5	9,013.2	7,888.6
Samotlor	7,730.0	8,053.9	6,968.3
Others	985.5	959.3	920.3
NNP (including TNK's licences)	6,385.3	6,395.2	5,846.7
Khokhryakovsky	3,391.6	3,569.7	3,500.6
Koshilsky	1,298.4	1,347.2	1,207.0
Permyakovsky	977.0	936.7	769.1
Others	718.3	541.6	370.0
Udmurtneft (including OAO Udmurt Oil Company's licences)[3]	5,987.1	5,803.8	5,501.5
Mishkinskoye	1,073.4	1,040.8	940.7
Gremikhinskoye.	710.8	697.7	651.6
Chutyrskoye	666.3	608.9	587.6
Kiengopskoye	610.4	576.6	520.7
Elnikovskoye	526.6	435.8	395.2
Others	2,399.6	2,444.0	2,405.7
TNK-Nyagan	5,189.4	4,365.4	3,637.0
Em-Egovsky	2,118.7	2,075.7	1,811.0
Talinsky	1,429.0	1,307.6	1,229.7
Others	1,641.7	982.1	596.3

	Year ended 31 December		
	2005	2004	2003
	(*thousand tonnes*)		
Subsidiary[(1)(2)]			
Varyeganneftegas	3,643.1	3,420.9	2,944.0
Verkhne-Kolik-Yeganskoye	2,743.6	2,345.0	1,855.3
Severo-Varyaganskoye	422.4	497.9	516.7
Others.	477.1	578.0	572.0
Tyumenneftegaz	2,829.6	2,301.3	2,081.6
Orekhovo-Ermakovsky	1,378.4	1,116.2	1,188.3
Kalchinsky	1,450.1	1,184.5	892.8
Others	1.1	0.6	0.5
Saratovneftegas	1,560.9	1,609.0	1,802.1
Orenburggeologia	1,046.6	1,245.1	956.7
Yugraneft	592.1	515.4	504.2
Novosibirskneftegas	1,354.4	928.1	481.6
Total TNK-BP (not including joint ventures)	75,303.2	70,515.3	62,083.2
Rospan International[(4)]	460.4	347.0	170.4
JV Vanyeganneft (50%)	1,275.9	1,439.6	1,500.1
JV Chernogorskoye[(5)] **(50%)**	–	101.8	199.7
Total TNK-BP (including joint ventures)	77,039.5	72,403.7	63,953.4

Note:

(1) A full year of production has been included for each of the TNK-BP's subsidiaries and for TNK-BP's share in the joint ventures for the years 2005, 2004 and 2003.

(2) TNK-BP sold its 95.69% stake in Saratovneftgas in December 2005. See "Operating and Financial Review — Formation and Evolution of TNK-BP — 2005 Disposals"

(3) In June 2006, TNK-BP announced the sale of Udmurdneft.

(4) From 2002 to October 2004, TNK-BP held a 44% stake in Rospan International as part of a joint venture with Yukos. On 19 October 2004, TNK-BP increased its stake in Rospan to 100% by acquiring Yukos's 56% stake. Accordingly, the chart includes 44% of Rospan's production for the period before 19 October 2004 and 100% of Rospan's production for the period after this date.

(5) TNK-BP sold its 50% stake in JV Chernogorskoye to third parties in 2004. Accordingly, the chart only includes JV Chernnogorskoye's actual production for the period in 2004 during which TNK-BP retained its interest in the company.

As of 31 December 2005, TNK-BP had a total of 46,826 wells (including wells under conservation and other wells), 16,711 of which were active production wells and 5,582 of which were active injection wells as compared to 15,989 active production wells and 4,919 active injection wells as of 31 December 2004. Production wells are used to extract oil and associated gas, while injection wells are used to pump water or other agents into reservoirs in order to maintain pressure and enhance oil recovery. For the year ended 31 December 2005, TNK-BP put into operation (i) 318 new production wells compared to 289 new production wells in 2004 and (ii) 32 new injection wells compared to 9 new injection wells in 2004. For the year ended 31 December 2005, TNK-BP completed 6,037 well work overs and 23,268 well maintenance repairs, an increase of 15% and 5%, respectively, compared to 2004.

The following is a summary of six of TNK-BP's principal production subsidiaries, which together accounted for 85% of TNK-BP's production in 2005, and TNK-BP's principal producing joint ventures: Slavneft and Vanyeganneft.

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 is 32 years and it expires in December 2038.

Production at the SNG's Samotlor field represented approximately 30.2% of TNK-BP's production in 2005 (excluding Slavneft). 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 2006, and for the year ended 31 December 2005, SNG's field had the following characteristics:

- average watercut of 93%;
- oil production of 23.2 million tonnes (476mbpd); and
- a total of 14,996 wells (of which 5,251 active production wells and 1,899 active injection wells).

Orenburgneft. Orenburgneft holds licences to develop 97 fields located in the South Urals. The terms of Orenburgneft's licences are from one year (for exploration) to 25 years (for production). These fields were discovered starting in 1937 and initially entered into production in 1939. The average reservoir depth in these fields is 9,200 feet. Production at these fields represented approximately 19.2% of TNK-BP's total production in 2005 (excluding Slavneft).

As of 1 January 2006, and for the year ended 31 December 2005, Orenburgneft's fields had the following characteristics:

- average watercut of 68%;
- oil production of 14.8 million tonnes (303 mbpd); and
- a total of 5,904 wells (of which 1,934 active production wells and 770 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 from 1965 to 1984 and entered into production from 1969 to 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 22 years. Production at these fields represented approximately 11.3% of TNK-BP's total production in 2005 (excluding Slavneft).

As of 1 January 2006, and for the year ended 31 December 2005, TNK-Nizhnevartovsk's fields had the following characteristics:

- average watercut of 78%;
- oil production of 8.7 million tonnes (179 mbpd); and
- a total of 3,432 wells (of which 1,724 active production wells and 286 active injection wells).

TNK-Nizhnevartovsk owns 50% of the joint venture OOO SP Vanyeganneft. See "Vanyeganneft Joint Venture".

NNP. NNP holds licences to develop 14 fields located in Western Siberia. The terms of NNP's licences for these fields range from 13 to 23 years. These fields were discovered from 1971 to 1997 and entered into production from 1985 to 2004. The average reservoir depth in these fields is 8,800 feet. Production at these fields represented approximately 8.3% of TNK-BP's production in 2005 (excluding Slavneft).

As of 1 January 2006, and for the year ended 31 December 2005, NNP's fields had the following characteristics:

- average watercut of 59%;
- average oil production of 6.4 million tonnes (131 mbpd); and
- a total of 2,504 wells (of which 854 active production wells and 429 active injection wells).

Udmurtneft. Udmurtneft is TNK-BP's key oil producing enterprise in the Udmurtia Republic, located in the Urals region. Initial production at Udmurtia began in 1969. Udmurtneft is currently developing 23 fields in the Udmurtia Republic. These fields were discovered from 1962 to 1969 and entered into production from 1969 to 2001. The average reservoir depth in these fields is 4,200 feet. The terms of Udmurtneft's licences for these fields range from 18 to 21 years. Production at these fields represented approximately 7.8% of TNK-BP's production in 2005 (excluding Slavneft).

In June 2006, TNK-BP reached agreement for the sale of its stake in OAO Udmurtneft. See "Operating and Financial Review — Recent Developments — Sale of Udmurdneft".

As of 1 January 2006, and for the year ended 31 December 2005, Udmurtneft's fields had the following characteristics:

- average watercut of 84%;
- oil production of 6.0 million tonnes (123mbpd); and
- a total of 6,914 wells (of which 3,485 active production wells and 1,297 active injection wells).

TNK-Nyagan. TNK-Nyagan holds licences to develop 3 fields located in Western Siberia. The terms of TNK-Nyagan's licences are all for 13 years. 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 6.7% of TNK-BP's production in 2005 (excluding Slavneft).

As of 1 January 2006, and for the year ended 31 December 2005, TNK-Nyagan's fields had the following characteristics:

- average watercut of 85%;
- average oil production of 5.2 million tonnes (106 mbpd); and
- a total of 6,781 wells (of which 1,851 active production wells and 481 active injection wells).

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

As of 31 December 2005, TNK-BP held a 49.8% 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 to be conducted on the basis of a business plan subject to the approval of both parties. 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 and OAO Slavneft-Yaroslavnefteorgsyntez ("YANOS").

Gazprom acquired a controlling stake in Sibneft in September 2005 and renamed it Gazpromneft in May 2006. TNK-BP does not expect there to be any change in Slavneft's operations or management structure as a result of these transactions.

Slavneft's oil and gas production areas are located principally in Western Siberia. As of 1 January 2006, Slavneft held a total of 33 production and exploration licences, of which 29 licences are for fields in the Megion region (the Khanty-Mansiysky region). Based on reserves evaluation conducted by DeGolyer and MacNaughton, under SPE criteria, as of 31 December 2005, on a gross basis Slavneft had 2.0 billion barrels of proved reserves, of which 1.2 billion barrels comprised proved developed reserves. In addition, based on a separate reserves evaluation prepared by Miller and Lents, under SPE criteria, as of 31 December 2005, Slavneft had 2.7 billion barrels of proved oil reserves on a gross basis.

In 2005, Slavneft's total oil production amounted to 24.2 million tonnes (0.49 MMBbls/d) on a gross basis. Slavneft also operates two refineries in Russia and holds a large, but not controlling, interest in a refinery in the Republic of Belarus. These three refineries processed a total of 22.1 million tonnes of oil in 2005, of which 27% of the oil processed at such refineries was supplied by Slavneft and the remaining 73% was supplied by third parties. In 2005, Slavneft recorded revenues of U.S.$7,532 million and net income of U.S.$1.237 million and had outstanding indebtedness of U.S.$394 million. TNK-BP receives all Slavneft equity owner proceeds as dividend income when declared and approved by the Slavneft board of directors.

TNK-BP's portion of dividends declared by Slavneft and its subsidiaries amounted to U.S.$231 million in 2003, U.S.$399 million in 2004 and U.S.$657 million in 2005.

The shareholders of Slavneft, including TNK-BP, agreed in 2005 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, such that, with effect from July 2005, they have purchased the bulk of crude oil produced by Slavneft (after satisfying the demand of Slavneft's refineries) on a 50:50 basis on equal prices and terms. Each party has also received an equal share of Slavneft's rights to transport oil via Transneft's pipelines. Starting from April 2006, Gazpromneft and TNK-BP directly refine crude purchased from Slavneft at YANOS on an equal basis. TNK-BP expects this arrangement with Gazpromneft will have a positive effect on TNK-BP's earnings.

Whilst the current Slavneft management structure remains in place, it is possible that the shareholders may enter into a new shareholders' agreement. Further, even though TNK-BP does not expect any changes to the current ownership of Slavneft, the possibility also remains that one shareholder could buy all or part of the other shareholder's stake. As a result, 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 — Risk Relating to TNK-BP and the Oil and Gas Industry in Russia — Uncertainties Relating to TNK-BP's Interest in Slavneft"

Vanyeganneft Joint Venture. Vanyeganneft is a Russian oil and gas company which is located in Western Siberia and produced 2.6 million tonnes (52 mbpd) of crude oil in 2005 on a gross basis and as of 31 December 2005 had proved oil reserves of 138 million barrels under SEC-LOF basis. TNK-BP currently holds, through its subsidiary TNK-Nizhnevartovsk, a 50% interest in Vanyeganneft, a 50-50 joint venture with Occidental Petroleum.

Activities to Enhance Production and Reserves

TNK-BP's upstream and technology groups are engaged in a number of activities designed to increase proved reserves to enable production targets to be met. To meet its production targets, TNK-BP must convert approximately three billion barrels, or between 30-40%, of its probable reserves to proved reserves during the next five years. As approximately two-thirds of TNK-BP's probable and possible reserves are associated with oil fields that TNK-BP is currently developing, TNK-BP plans to increase its proved reserves through drilling in proximity to existing fields, improved reservoir management and water-flooding of existing fields. TNK-BP is also 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 in Russia.

The following subsections discuss TNK-BP's activities relating to: (a) increasing production from existing fields ("brownfields"); (b) new developments ("greenfields"); and (c) exploration and appraisal ("bluefields").

Increasing Production from Brownfields

TNK-BP continues to focus on enhancing its ability to recover reserves in its existing fields through improved reservoir management techniques, such as infill drilling and water-flooding. To increase production at its existing fields, TNK-BP has an active drilling and sidetrack programme and plans to drill over 420 new wells in 2006. Almost half of this drilling activity consists of infill drilling of fields in relatively early stages of development, including the Verhkne-Kolik-Yegavskoye field at Vanyeganneftegas, the Kammenoye field at TNK-Nyagan and four fields at NNP. Infill drilling involves the drilling of new wells between existing wells to increase production. The remaining drilling is concentrated around two major rejuvenation projects at Samotlor, namely the Ust-Vakh drilling project and the Ryabchik redevelopment project. In addition, TNK-BP is also conducting scattered drilling across multiple smaller fields held within the Orenburg, VNG, NNP and Udmurtneft subsidiaries.

Ust-Vakh is a peripheral area of Samotlor which lies partly outside the currently developed areas of the field. TNK-BP believes that Ust-Vakh has substantial production potential, with recoverable estimated reserves at between 50 to 61 million tonnes of oil. To date, only 18.9% of Ust-Vakh's recoverable reserves have been recovered. TNK-BP plans to develop the Ust-Vakh area in three phases. In the first phase, TNK-BP drilled 114 wells in 2005 – 2006, which increased production at Ust-Vakh to 6 million tonnes in 2005. Production is expected to increase by 3.1 million tonnes and 2.1 million tonnes in 2006 and 2007, respectively. TNK-BP expects that it will cost approximately U.S.$220-290 million to complete this phase. The second phase will be aimed at developing an additional 7.9 million tonnes of recoverable reserves through the drilling of an additional 61 wells which will cost approximately U.S.$160-170 million. In the third stage of the project, TNK-BP plans to invest approximately U.S.$180 million to drill an additional 18,159 wells. The drilling will continue until 2011. In total, the project comprises the drilling of 483 wells and is expected to generate total production of about 60 million tonnes during the next 15 years.

The Ryabchik area is a shallow, largely undeveloped accumulation overlying the main part of the Samotlor field and its productive reservoirs. TNK-BP estimates that this accumulation contains roughly 400 million barrels of proved reserves with additional probable reserves of approximately 1,000 million barrels. In the past, full scale development of the Ryabchik area has been hampered for several reasons, but TNK-BP believes that by applying new technology and modern reservoir appraisal and management practices, this reservoir for the first time can be rejuvenated and depleted effectively. TNK-BP plans to focus its re development efforts primarily on the recompletion of existing wells and, to a lesser extent, on the drilling of new wells.

New Developments (Greenfields)

Although production growth is underpinned principally by brownfield enhancement and drilling, TNK-BP currently has several major greenfield projects that it considers to be important for both near-term reserves growth and longer-term production growth. TNK-BP currently has large scale projects in the evaluation and pre-development phases at Uvat, Bolshekhetskiy (KT-4), Russkoye, Kamennoye and Verkhnechonskoye fields.

- *Uvat project.* Uvat is a greenfield project centered in the southern area of the Tyumen Region, approximately 300 kilometres southwest of Samotlor. TNK-BP currently holds 17 licences in the Uvat area comprising - 14 exploration and production licences for the fields located in the Tyumen Region, and three exploration and production licences for the fields located in the neighbouring Khanty-Mansiiskii Autonomous Region and northern Omsk Region. TNK-BP owns a nearly 100% interest in all of these licences, including the licence to develop the large Keumsky field.

  TNK-BP expects that this development will start production in 2009 at the level of 45,000 bopd and is expected to produce up to 150,000 barrels of oil per day by 2012. Kalchinskoe, a single developed field with reserves of 85 million barrels, accounts for current production of approximately 30,000 barrels per day. The first new fields that TNK-BP plans on developing in the Uvat area are the Ust Teguss and Urna fields, which are estimated to have approximately 325 million barrels of reserves on a combined basis.

  TNK-BP plans to construct approximately 300 kilometres of pipelines, and 500 kilometres of roads in the Uvat area to facilitate its production and transportation capabilities. TNK-BP expects to invest over U.S.$2 billion in these construction projects, with the regional administration contributing to the financing of the first stage. TNK-BP expects to begin the next stage of development in 2006. TNK-BP is also actively conducting exploration operations in the Uvat region.

- *Bolshekhetskiy (KT-4) Project.* Bolshekhetskiy is a new TNK-BP greenfield project comprising four undeveloped fields in the Krasnoyarsk/Taimyr region in northern West Siberia. The four fields, Suzunskoye, Tagulskoye, Russko Rechenskloye and Payakhskoye, were purchased from Slavneft in late 2004 for U.S.$69 million.

  It is estimated that the whole region contains up to 1.3 billion tonnes of oil and 5.5 trillion cubic metres of gas (approximately 30 billion boe) which has yet to be exploited due to the absence of regional infrastructure. TNK-BP believes that the Bolshekhetskiy fields have the potential to create a new production centre for TNK-BP by 2009-2011. TNK-BP plans to evaluate potential synergies between the development of these fields and the development of other TNK-BP fields, such as Rospan and Russkoye, and fields owned by other operators such as the Vankor field owned by Rosneft.

Upon completion of the acquisition of the Bolshekhetskiy fields, TNK-BP initiated a winter exploration and appraisal programme of seismic testing and drilling designed to mitigate deficiencies in TNK-BP's licence obligations. TNK-BP has authorised the expenditure of U.S.$66.5 million through the third quarter of 2006 to fund the appraisal and a deeper exploration drilling programme. During the first half of 2006, TNK-BP completed the first successful production test in the region in the Tagulskoye field.

- *Russkoye field*. The Russkoye field is located in the Yamal-Nenets district in Western Siberia above the Arctic Circle. This field was discovered in 1960 and TNK-BP estimates that it may contain over two billion barrels of oil reserves. The licence for the field is held by Tyumenneftegas. The development of this field is complicated by a number of factors including the harsh climate and remote location of the field and heavy crude oil properties of the oil reserves in this field. TNK-BP believes that this field has the potential to make a significant contribution to TNK-BP's overall proved reserve portfolio and production capacity in the future, if and when it becomes economically viable to invest in the technology to extract oil efficiently from the field. Currently, TNK-BP is focusing its efforts on a pilot application of heavy oil recovery technology and feasibly studies for the development of infrastructure in the Russkoye field/KT-4 region.

- *Verkhnechonskoye field.* Verkhnechonskoye field is a greenfield project located in the Katangsky Region of the Irkutsk Oblast. TNK-BP believes that it is the largest oil field yet discovered in Eastern Siberia. The field is estimated to contain probable and possible reserves of approximately 1.4 billion barrels of oil according to SPE standards. Development of the field has been hampered for many years by an absence of transportation infrastructure, however, it has now become possible to consider development of the field following the decision of the Russian Government to undertake the construction of an Eastern Siberia-Pacific Coast pipeline system.

  TNK-BP has decided to fund a U.S.$270 million pilot development programme for the Verkhnechonskoye field. The programme will include the establishment of oil and gas facilities that are expected to be completed in 2007. The pilot development programme also includes the drilling of up to 20 wells. The purpose of the pilot development programme is to establish the Verkhnechonskoye field's reservoir potential and to determine the most efficient method for the full scale development of the field which is targeting start-up by 2011.

- *Kamennoye field*. The Kammenoye project plans for the development of seven shallow fields plus numerous deeper fields with the aim of recovering over 20% of the estimated 8 billion barrels of oil-in-place. Development is now envisaged through the use of a combination of technologies, such as 3D seismic, horizontal wells, ultra-clean water injection, open hole completions and gas lift, and to enable effective recovery from these relatively low permeability reservoirs.

Exploration and Appraisal (Bluefields)

TNK-BP conducts exploration in the main regions where it operates, which include the Yamal-Nenets and Khanty-Mansiiskii Autonomous Districts, the Tyumen and Novosibirsk Regions in Western Siberia, and the Orenburg regions, in European Russia. In 2005, TNK-BP spent U.S.$160 million on exploration.

TNK-BP acquired eight new exploration licences in 2005 and rights to explore nine additional fields in the first half of 2006 through participation in federal auctions and acquisition of stakes in the licence holding companies (currently, four exploration licences have been obtained with respect to some of these fields and the remaining licences are in the process of being issued). TNK-BP intends to continue bidding in federal auctions for new licences which are technically and commercially attractive and which fit well within TNK-BP's existing portfolio.

The main exploration techniques employed by TNK-BP are exploratory drilling and seismic testing. For the year ended 31 December 2005, TNK-BP's exploration and appraisal drilling activities increased to a total of 100 kilometres, compared with 76.5 kilometres in 2004 and 38.9 kilometres in 2003. Prior to 2002, allowances provided under the mineral restoration tax laws provided a tax incentive for TNK-BP to conduct exploratory drilling. However, due to changes in the tax regime introduced on 1 January 2002 (which, in part, restricted the deduction of drilling expenses by oil and gas companies), TNK-BP has taken a more selective approach with respect to the drilling of new wells.

TNK-BP utilises 2D and 3D seismic surveys for its operations, though with an increasing focus on 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 2005, 2004 and 2003.

	Year ended 31 December		
	2005	2004	2003
2D method, km	5,170	864	2,585
3D method, sq. km	3,677	1,954	3,952

Below is a brief description of significant exploration activities currently being undertaken by TNK-BP:

Southern Tyumen. TNK-BP is the main oil and gas producer in the South Tyumen region. TNK-BP subsidiaries Tyumenneftegaz, TNK-Uvat, Uvatneft and Radonezh Petroleum hold exploration licences for this region. The Tyumen region is characterised both by its vast area and promising resource potential. TNK-BP estimates that the Uvat project area located in this region has potential to deliver over 145 million tonnes (1.1 billion barrels) of oil resources. TNK-BP is currently conducting exploratory operations in the South Tyumen region, including 2D seismic exploration and exploratory drilling. TNK-BP is also conducting additional exploratory work, including 3D seismic exploration and appraisal drilling at existing fields such as the Kalchino, Urna and Ust Teguss fields in the Uvat region. TNK-BP plans to invest in 2006 approximately U.S.$120 million in the exploration and appraisal of the Uvat area.

Khanty-Mansiiskii Autonomous District. TNK-BP is exploring and searching for new satellite fields near brownfield sites, using 2D seismic exploration and exploratory drilling, in the Khanty-Mansiiskii Autonmous District where TNK-BP's main discovered fields are located. TNK-BP is also conducting additional appraisal of existing reserves in the Khanty-Mansiiskii Autonomous District, using 3D seismic exploration and appraisal drilling.

Yamal-Nenets Autonomous District. TNK-BP has commenced exploration and appraisal activities in the Yamal—Nenets Autonomous District. In particular, TNK-BP has already commenced exploration work in the East Urengoy and New Urengoy fields, for which Rospan holds the production licences, and in the area of the Bolshekhetskiy (KT-4) fields.

Gas Business

Overview and Strategic Focus

The growth of the Russian natural gas sector is currently dependent on a number of external factors, including the continued liberalisation of the domestic gas market, improved access to gas transportation and processing infrastructure and access to export markets. While TNK-BP currently has significant natural gas assets, it currently produces and sells only a limited amount of gas in the Russian gas market in cooperation with Gazprom. TNK-BP is actively seeking opportunities in the Russian gas sector to substantially enhance its gas business as a portion of its overall business and transform itself from an oil group into a major oil and gas group. To achieve this, TNK-BP is currently focusing on the development of the Kovykta field, in which TNK-BP holds an interest through its majority owned subsidiary Rusia Petroleum, and gas fields in the Yamal-Nenets Autonomous District, which TNK-BP controls through its wholly owned subsidiary Rospan. TNK-BP has increased gas sales from the Rospan field and the first stage of the Kovykta regional project development is scheduled for completion by the end of 2006.

In recognition of the importance of the gas business for TNK-BP, in the second quarter of 2005 TNK-BP created a new gas development business division headed by Viktor Vekselberg (a member of the Board of Directors and Senior Management Team of TNK-BP) which is responsible for developing and growing the gas business. Improving the organisation of the gas development business has been a focus and significant inroads have been made to acquire and develop the necessary expertise, from BP and elsewhere, in accordance with TNK-BP's gas development objectives.

Gas Production

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 were 9.6 bcma in 2005 and 8.8 bcma in 2004 (excluding Slavneft, but including other TNK-BP joint ventures). Rospan accounted for approximately 16% of TNK-BP's total gas sales in 2005. Gas sales currently represent a very small percentage of TNK-BP's overall revenues.

Gas Reserves

TNK-BP believes that it employs a relatively conservative approach to calculating gas reserves, and it does not currently record any of its gas assets as proved reserves even though at current production levels TNK-BP has forward gas sales volumes amounting to approximately 59 million boe. TNK-BP estimates that its total gas forward sales represent only a fraction of TNK-BP's total gas resource base, which amounts to 2,625 billion cubic metres ("bcm") (15.9 billion boe) of probable and possible reserves according to SPE standards. Of this resource base:

- Rusia Petroleum, which is a 62.9% owned subsidiary of TNK-BP, holds the licences for the development of the Kovykta gas condensate field in Eastern Siberia. The field is estimated to hold probable and possible reserves of approximately 1,500 bcm as well as 990 million barrels of liquid hydrocarbons according to SPE standards; and

- Rospan, which is a 100% owned subsidiary of TNK-BP, is estimated to have probable and possible reserves of approximately 350 bcm of gas as well as 670 million barrels of proved, probable and possible liquid hydrocarbons in the Yamal-Nenets Autonomous District according to SPE standards.

The Kovykta Project

Through its 62.9% interest in Rusia Petroleum, TNK-BP is the majority owner of the Kovykta field in the Irkutsk Region. The other shareholders in Rusia Petroleum include Interros, a large Russian investment company, and the Administration of the Irkutsk Region. Kovykta is one of the strategic cornerstone developments for delivering TNK-BP's gas aspirations. Production is projected to reach approximately 36 bcma of gas when fully operational that can be sold domestically and exported to supply the rapidly expanding Asian Pacific market. In March 2006, President Vladimir Putin and Gazprom's CEO Alexei Miller signed a Memorandum of Understanding with the Chinese Government to deliver up to 68 bcma of gas from Russia to China, of which 30 bcma is contemplated to be sourced from Western Siberia and 38 bcma from Eastern Siberia, for which the Kovykta field is well-placed to supply a large part. Currently, phase 1 of the Kovykta Regional Project is in the execution stage. The full scale regional project is projected to provide over 2.5 bcma once fully operational in 2009. The proposed export development project is envisioned to deliver 30+ bcma of gas to China and South Korea once fully operational.

The first phase commenced in compliance with Rusia Petroleum's subsoil licence obligations (though there have been some issues at to compliance with the specific terms of the licence as discussed in "Risk Factors — Risks Relating to TNK-BP and the Oil and Gas Industry in Russia — Risks Relating to the Kovytka Project"), with TNK-BP engaging in construction activities for the regional gasification of the cities and towns of the Irkutsk Region. TNK-BP estimates that the gross capital investment for the completion of the 2.5 - 3 bcma Kovykta Regional Project is approximately U.S.$1.2 billion over the next three years. This project includes production wells, the upgrade of a gas processing module and the construction of a 670 kilometre gas pipeline from the field to Irkutsk via the cities of Sayansk, Usolie Sibirsk and Angarsk. In addition, Rusia Petroleum plans to install a gas treatment and condensate processing plant. TNK-BP expects that deliveries of gas to the city of Irkutsk will take place by the end of 2009-10, with supply to intermediate locations along the pipeline route to occur prior to this date.

TNK-BP has internally approved expenditures of U.S.$200 million in 2006 for the design and construction of the first phase of the gasification project which consists of a regional gas pipeline from the Kovykta field to supply customers in the Zhigalovo of Irkutsk Region by the end of 2006.

The project will be implemented by Rusia Petroleum, which is conducting upstream activities, and by the ESGC which will construct, own and operate the pipeline and will conduct gas wholesale operations. ESGC, a gas transportation and marketing company, was established in March 2004 as a 50-50 joint venture between TNK-BP International and the Administration of the Irkutsk Region.

The international phase of the project under which TNK-BP would aim to commence gas sales to China by 2010-2012, is still at an early phase of development and subject to a number of uncertainties. However, recent external factors such as the G8's focus on the Security of Energy Supply, EU concerns regarding the pace of gas development in Russian, and the Russia-Chinese non-binding Memorandum of Understanding regarding delivery of up to 68 bcma of gas sales commencing by 2011, have all raised the awareness of the Kovykta field. For the project to succeed, the present partnership of the project's sponsors will have to be reconfigured, long-term gas sales contracts with Chinese and South Korean counterparts concluded, and financing determined. All three aspects of the project are currently under active consideration. In addition, whether Rusia Petroleum will be allowed to export gas sourced from the project remains unclear pending the Russian Government's review of the project and resolution regarding Gazprom's role in the project. See "Risk Factors — Risks Relating to TNK-BP and the Oil and Gas Industry in Russia — Failure to Obtain Access to Gas Transmission Systems" and "– Risks Relating to the Kovytka Project".

Depending upon whether the current Rusia Petroleum partners indicate a commitment to develop the field, TNK-BP may seek to deepen its ownership interests and facilitate the entry of strategic development partners in Rusia Petroleum. TNK-BP estimates that it will require an investment of approximately U.S.$15 billion to put in place the upstream and transportation infrastructure in Russia necessary to complete the international phase of the project. The total project, including the establishment of the necessary infrastructure in China and Korea, is estimated to be approximately U.S.$30 billion.

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. TNK-BP believes that Rospan will allow TNK-BP to participate in the Russian gas market and further enhance its understanding of asset development in this key gas bearing region of Russia. Rospan is currently producing gas and condensate and supplying gas to the Russian market. In 2005, Rospan's commercial gas sales on a gross basis reached 1.5 bcma and is projected to sell approximately 2.5 bcma in 2006. In addition, TNK-BP recently conducted a significant hydraulic fracturing operation at the Rospan gas fields and believes that the fields have significant development potential. TNK-BP is developing plans to increase Rospan's production as the Russian gas market evolves.

TNK-BP expects to invest approximately U.S.$68 million of capital expenditures to further Rospan's activities in 2006. The investment is intended to support Rospan's ongoing operations through upgrades of existing facilities and the completion of new wells, and interpretation of 3D seismic surveys.

The scale and timing of the future development of Rospan is dependent on ongoing discussions between TNK-BP and Gazprom. Currently, TNK-BP is evaluating various development options involving potential increases in gas sales and working with Gazprom to study regional pipeline options. See "Risk Factors — Risks Relating to TNK-BP and the Oil and Gas Industry in Russia — Failure to Obtain Access to Gas Transmission Systems".

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 has significant domestic retail operations through which it markets its gasoline and diesel fuel through TNK-BP's retail filling stations. Other refined products (excluding lubricants and bitumen) are primarily sold directly to large wholesale customers. Both lubricants and bitumen are sold 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 trans-shipment terminals (eg. Primorsk port) in order to increase capacity. As a result of these investments spare capacity of the pipeline currently exists.

TNK-BP has also recently commenced transporting crude oil via the Caspian Pipeline Consortium pipeline to Novorossiysk, a port city on the Black Sea.

As it is not possible to maintain the quality of crude oil within the Transneft pipeline, there is significant incentive for Russian producers to segregate oil products and move their high quality oil to the market via rail and river barge shipment to sea terminals located on Russia's borders. While these options are more expensive than transportation via the Transneft system, they nonetheless provide Russian oil companies with another viable means of exporting their production. In recent years there has been significant investment by OAO Russian Railways and shipping companies in Russia to expand rail and barge capacity. Rail shipment is a more widely used supply route than river barge, which is more seasonal in nature.

Crude oil that is not exported by Russian oil producers is either transported by each oil company to their own refineries for conversion to products for domestic or international use, or sold to other Russian refineries. While the Russian Government ceased regulating domestic oil prices in the mid-1990s, prices for crude oil and refined products in the domestic Russian market have continued to be lower than in the international market due in part to export constraints, and more recently, due to increases in export duties. See "Risk Factors — Risks Relating to TNK-BP and the Oil and Gas Industry in Russia — Price of Crude Oil and Refined Products".

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, refining costs, taxes and duties. As such, netbacks represent the 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. As there are approximately 100 sales channels available to TNK-BP and a number of constraints including, in particular, Transneft system capacity constraints, maximising netbacks is a complex problem. TNK-BP believes it is well placed to maximise netbacks 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. TNK-BP is currently making investments at both refineries to increase its ability to rail load oil products;
- TNK-BP's export sales contracts with customers provide for a high level of flexibility relating to the amounts and timing of crude oil and oil product sales;
- TNK-BP has entered into long-term agreements with export ports to ensure sustainable trans-shipment capacity;
- 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 favorable delivery route for TNK-BP's crude oil and refined products.

The table below shows the distribution of TNK-BP's crude oil, including crude oil purchases from third parties, between crude exports to CIS countries ("Near-abroad") and elsewhere ("Far-abroad"), to TNK-BP's refineries, and domestic sales. TNK-BP's crude oil exports have increased over time and accounted for 63% of crude sales in 2005. Of this, approximately 75% was shipped via the Transneft system, 24% was shipped by rail, and 1% was shipped by river barge. While TNK-BP's crude oil exports are generally rising, the share of domestic crude oil sales in TNK-BP's total crude oil decreased in 2005.

	Year ended 31 December					
	2005	**%**	**2004**	**%**	**2003**	**%**
	(thousand tonnes, except percentages)					
Refinery feedstock	24,500	31%	21,262	30%	20,227	31%
Ryazan	13,857	18%	11,205	16%	10,701	17%
Saratov	5,693	7%	5,510	8%	4,647	7%
Orsk[1]	3,441	4%	3,110	4%	3,441	5%
Nizhnevartovsk	1,367	2%	1,298	2%	1,287	2%
Krasnoleninsk	142	0%	139	0%	143	0%
Third party refineries	–	–	–	–	8	0%
Exports	49,947	63%	42,057	59%	39,914	63%
Near Abroad (CIS)[2]	6,775	8%	4,531	6%	4,966	8%
Far Abroad (Europe)	43,172	55%	37,526	53%	34,948	55%
Domestic sales	4,544	6%	7,852	11%	3,720	6%
Total	**78,991**	**100%**	**71,171**	**100%**	**63,861**	**100%**

Note:

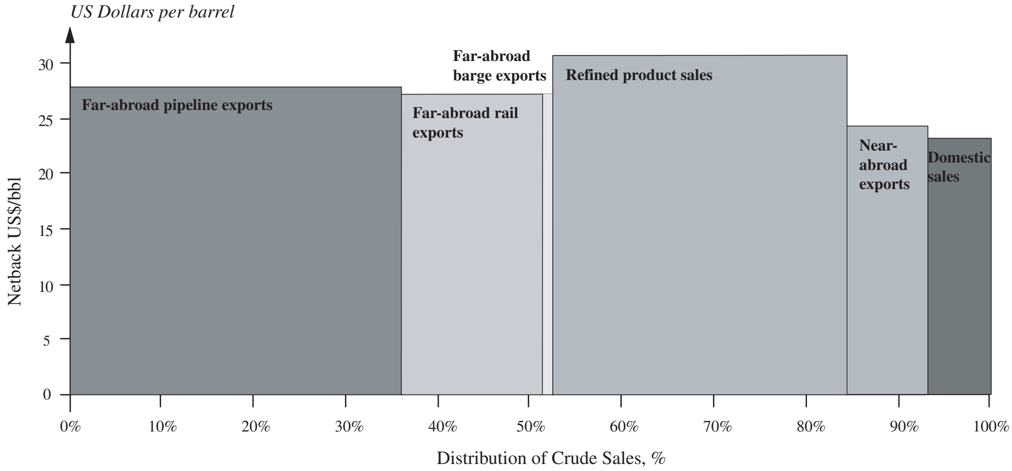
(1) disposed as of December 2005. See "Operating and Financial Review — Formation and Evolution of TNK-BP — 2005 Disposals"

(2) Near Abroad Exports (CIS) include crude oil deliveries to the Lisichansk refinery.

In 2005, TNK-BP generated an average netback of U.S.$27.7 per bbl as compared to U.S.$21.1 per bbl in 2004. The chart below shows the level of netbacks TNK-BP generated in 2005 by sales channel.

Netbacks in 2005 by Directions of Sales

US Dollars per barrel



TNK-BP sells most of its exported crude oil on an open market best-price basis through an open-off-take structure to major international companies, including BP Oil International Limited, ENI S.P.A., NESTE Oil OYJ, Gunvor International Ltd, Petrotrade BV Glencore Energy UK ltd and others. TNK-BP has concluded several supply contracts with Total and Glencore that provide for crude oil deliveries through 2005. To secure its repayment obligations under trade finance loans provided in the near past by Western banks, TNK-BP entered into crude oil pledge agreements. As of 1 January 2006, the quantity of crude oil pledged under financing facility agreements was approximately 7% of TNK-BP's monthly crude oil export volumes for the ensuing 12 months. In early July 2006 TNK-BP refinanced all secured trade finance facilities with a U.S.$1.8 billion unsecured, guaranteed medium-term facility, which was signed in June 2006 between TNK-BP Finance and a syndicate of international banks. Following such refinancing the security was released.

Crude oil is generally exported on an FOB Russian port basis (in case of shipment by oil carrier) or for delivery at the Russian border (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.

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. To assure continuing high product quality inside Russia, TNK-BP generally prefers to use rail and road transportation rather than pipelines to transport its refined products, since refined products transported through the Transnefteproduct pipeline system are blended with products produced by other oil and refining companies, which may be of lower quality.

The tables below show TNK-BP's refined products sales volumes for the years ended 31 December 2005, 2004 and 2003 for both export sales and domestic sales:

	Year ended 31 December					
	2005	**%**	**2004**	**%**	**2003**	**%**
	(thousand tonnes, except percentages)					
Export Sales:						
Gasoline	2,918	15%	1,264	10%	1,144	10%
Diesel fuel (gas oil)	5,576	30%	3,532	29%	3,313	29%
Jet fuel (kerosene)	208	1%	0	0%	27	0%
Fuel oil (mazut)	9,110	48%	6,757	56%	6,316	56%
Other	1,123	6%	614	5%	540	5%
Total	**18,935**	**100%**	**12,167**	**100%**	**11,340**	**100%**

	Year ended 31 December					
	2005	**%**	**2004**	**%**	**2003**	**%**
	(thousand tonnes, except percentages)					
Domestic Sales:						
Gasoline	3,800	35%	3,170	30%	3,714	33%
Diesel fuel (gas oil)	3,370	31%	2,878	27%	3,260	29%
Jet fuel (kerosene)	1,173	11%	1,083	10%	968	9%
Fuel oil (mazut)	678	6%	1,496	14%	1,956	17%
Other	1,911	17%	1,942	19%	1,410	12%
Total	**10,932**	**100%**	**10,569**	**100%**	**11,308**	**100%**

The tables above reflect the following:

Exports. TNK-BP's exports of refined products consisted primarily of heavy fuel oil and gas oil. TNK-BP's refined product exports increased to 18.9 million tonnes in 2005, from 12.2 million tonnes in 2004. This increase was primarily driven by the change of export duties regulations, which made the export of refined products more favourable.

Domestic Sales. TNK-BP's domestic sales of refined products consist primarily of gasoline and gas oil. TNK-BP's domestic sales increased from 10.6 million tonnes in 2004 to 10.9 million tonnes in 2005 primarily due to the growth of the domestic market.

Refining

In its refining business, TNK-BP aims to enhance the volume and quality of its refined products to match domestic and export product demand and to increase sales of refined products in the international markets. To achieve these aims, TNK-BP believes that it faces two principal challenges.

First, the global petroleum refining industry is cyclical and highly volatile. Refineries are capital intensive assets with high fixed costs. Competition among refineries is primarily based on the refined product's price, quality and brand image, and in some cases on the basis of logistics or supply chains.

Second, as the trend of car owners in Russian cities to replace their Soviet-built vehicles with newer vehicles continues, Russian demand for higher quality and higher octane fuels is expected to continue to increase.

TNK-BP believes that it is well placed to respond to these challenges through:

- continually modernising and upgrading the efficiency and safety of its refineries. TNK-BP's main focus is on its largest refining asset, the Ryazan Refinery, where TNK-BP has initiated and completed a number of large-scale investment projects. TNK-BP is also developing and implementing such projects at other TNK-BP's refineries;

- maintaining consistent throughput (or output of refined products) by supplying its refineries with its own crude oil;
- adapting its refining capabilities to meet customer demand and new product specifications in a timely and cost effective manner; and
- taking advantage of the strategic location of its refineries, including the Ryazan Refinery which is well placed to serve the Moscow market and export markets.

For a map showing TNK-BP's current refining and marketing assets see "Business — Downstream Business — Retail".

TNK-BP owns five refineries, four of which are located in Russia, and one in Ukraine. Together, these refineries account for a total effective capacity of approximately 30.0 million tonnes. In 2005, TNK-BP's refineries (including the Orsk refinery which was sold by TNK-BP in December 2005) had total throughput of 31.0 million tonnes, with an effective utilisation rate of 84%. The tables below show key data for 2005, 2004 and 2003 for TNK-BP's refineries.

	Year ended 31 December		
	2005	**2004**	**2003**
	(thousand tonnes, except percentages)		
Effective capacity[(1)]	36,673	36,173	36,173
Refinery input:	–	–	–
Crude oil	30,516	27,873	26,528
Other feedstock	466	650	492
Total refinery input	**30,982**	**28,523**	**27,020**
Conversion ratio	65%	81%	76%
Light products output	53%	59%	58%
Utilisation	84%	79%	75%

Note:

(1) Includes data for the Orsk refinery which was sold by TNK-BP in December 2005. See "Operating and Financial Review — Formation and Evolution of TNK-BP — 2005 Disposals".

	Year ended 31 December					
	2005	**%**	**2004**	**%**	**2003**	**%**
	(thousand tonnes, except percentages)					
Type of Product:						
Gasoline	6,954	25%	6,685	25%	6,191	24%
Diesel fuel (gas oil)	8,904	30%	8,050	30%	7,569	30%
Fuel oil (mazut)	9,135	31%	8,572	32%	8,565	34%
Jet fuel (kerosene)	1,304	4%	1,176	4%	1,050	4%
Other products	2,947	10%	2,437	9%	2,055	8%
Total	**29,244**	**100%**	**26,920**	**100%**	**25,430**	**100%**

The increase in the share of light oil products over last few years was driven by the completion of Ryazan Refinery upgrade, the installation of a visbreaker unit, which is used to convert heavier hydrocarbons into lighter hydrocarbons, at the Saratov Refinery and bitumen unit at the Lisichansk Refinery each of which were put into operation in the middle of 2004, as well as general improvement of TNK-BP's refining techniques.

TNK-BP expects to increase its yield of light oil products further over the next several years as a result of the Ryazan Refinery further modernisation, which is expected to enhance its ability to produce gasoline, kerosene and diesel fuel.

The Ryazan and Lisichansk Refineries are large conversion refineries which are refineries which utilise not only distillation, but also have secondary conversion unit capacities such as cracking units to produce a broad range of petroleum products. The Saratov Refinery is a smaller conversion refinery which produces a more limited range of petroleum products. The Nizhnevartovsk and Krasnoleninksy 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.

Ryazan Refinery

The Ryazan Refinery is TNK-BP's largest refinery and one of the largest in Russia. It accounted for approximately 45% of TNK-BP's oil refining and oil product manufacturing operations in 2005, and represented approximately 6.7% of the total crude oil processed at Russian refineries in 2005. In 2005, the refinery had an effective capacity of 14.0 million tonnes and crude oil and other feedstock throughput of 14.1 million tonnes. The refinery is located in Ryazan, Russia, 200 kilometres southwest of Moscow. Because of its proximity to Moscow and northwest Europe, the refinery is well placed to supply the lucrative Moscow market and export markets. The table below summarises key operating data for the Ryazan Refinery.

	Year ended 31 December		
	2005	**2004**	**2003**
	(thousand tonnes, except percentages)		
Effective capacity	14,500[1]	14,000	14,000
Refinery input:	–	–	–
Crude oil	13,857	11,203	10,733
Other feedstock	292	188	266
Total refinery input	14,149	11,391	10,999
Conversion ratio	63%	62%	60%
Light products output	55%	55%	54%
Utilisation	98%	81%	79%

(1) The increase of effective capacity at the end of 2005 was due to the start up of the VGO complex.

The refinery was commissioned in 1960 and has recently undergone extensive renovation. The refinery produces light fuels (gasoline, gas oil, jet fuel and solvents), heavy fuels (including heavy fuel oil, bitumen, lubricants and solvents) and some petrochemicals. TNK-BP has undertaken a comprehensive investment programme aimed at the modernisation of the Ryazan Refinery. This programme commenced in 2000 and is expected to be completed by the end of 2006. TNK-BP's total capital expenditure for the programme is expected to be U.S.$631 million.

- In November 2001, TNK-BP completed the reconstruction of the Ryazan Refinery's fluid catalytic cracking (FCC) unit;
- To mitigate the adverse environmental impacts associated with refining processes and to reduce noxious air emissions, TNK-BP upgraded the sulfuric acid production capability at the refinery;
- TNK-BP has reconstructed the lubricant selective hydrofining plant at the refinery, which uses a biologically decomposing and non-toxic solution and normal methyl pyrrolidone, rather than the more harmful phenol that is typically used; and
- In December 2005, the VGO (vacuum gas oil unit) commenced operating at the Ryazan Refinery. The VGO process results in the production of the refined products of higher quality. In 2006 the refinery

started producing the M-Grade gasoline for export into the United States. The modernisation of the refinery is scheduled for completion in the third quarter of 2006 (at which stage the start up the Alkylation and Isomerisation units is planned).

Lisichansk Refinery

TNK-BP's Ukrainian refinery, Lisichansk, 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 19.7% of TNK-BP's oil refining operations in 2005. In 2005, the refinery had an effective capacity of 8.0 million tonnes and crude oil throughput of 6.02 million tonnes. The table below summarises key operating data for the Lisichansk Refinery.

	Year ended 31 December		
	2005	**2004**	**2003**
	(thousand tonnes, except percentages)		
Effective capacity	8,000	8,000	8,000
Refinery input:	–	–	–
Crude oil	6,017	6,614	6,206
Other feedstock	3	3	0
Total refinery input	6,020	6,617	6,206
Conversion ratio	63%	63%	63%
Light products output	57%	56%	57%
Utilisation	75%	83%	78%

In 2005, the volume of throughput was reduced due to pressure on refining margins following the removal of import tariffs on oil products by the Ukrainian Government.

The refinery produces a variety of different refined products including benzene, diesel fuel and fuel oil (mazut).

In July 2000 TNK-Ukraine-Invest, a 75%-owned subsidiary of TNK, acquired a 67% stake in the Lisichansk Refinery in a privatisation auction and has since increased its stake to 78%. TNK-BP intends to use the Lisichansk Refinery as a base to expand into the Ukrainian and southern Russian markets and aims to create a TNK branded retail network in Kiev and other regions of Ukraine that will be supplied by the Lisichansk Refinery.

In 2005, the Lisichansk refinery developed a five-year development plan based on refining trends in Ukraine and neighboring countries. As a part of this plan, the refinery invested U.S.$25 million in capital expenditures in 2005, which related to, among other things, the construction of an isomerisation plant. It previously had completed the construction of the Mericat II plant, reconstruction of the catalytic cracking complex to include production of methyl-tertiary-butyl ether and constructed a new bitumen plant. TNK-BP plans to invest an additional U.S.$180 million in the Lisichansk refinery over the next five years.

The former parent company of the Lisichansk Refinery is currently the subject of bankruptcy proceedings in Ukraine, which TNK-BP does not believe will have a material effect on the operations of the refinery. See – "Corporate Activities – Legal Proceedings for additional details".

Saratov Refinery

The Saratov Refinery, located in Russia's Volga region near important rail lines, was founded in 1933. The refinery accounted for approximately 18.7% of TNK-BP's oil refining operations in 2005. In 2005, the refinery had an effective capacity of 6.0 million tonnes and crude oil throughput of 5.7 million tonnes. The refinery produces gasoline, diesel fuel, fuel oil, bitumen and other products. In July 2004, TNK-BP completed a visbreaker unit project that has enabled the refinery to increase the crude oil conversion ratio to 65%. Based on success of this project, TNK-BP is considering implementing similar major investment projects, potentially including new technological units.

	Year ended 31 December		
	2005	2004	2003
	(thousand tonnes, except percentages)		
Effective capacity	6,000	6,000	6,000
Refinery input:	-	-	-
Crude oil	5,693	5,510	4,642
Other feedstock	16	5	0
Total refinery input	5,709	5,515	4,642
Conversion ratio	65%	64%	61%
Light products output	48%	47%	48%
Utilisation	95%	92%	77%

Nizhnevartovsk Refinery

The Nizhnevartovsk Refinery, located in Western Siberia, initiated operations in late 1998 and had an effective capacity to process 1.4 million tonnes of crude oil and crude oil throughput of 1.4 million tonnes in 2005. The Nizhnevartovsk Refinery extracts light fractions such as straight run gasoline, gas oil and kerosene 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 a small portion of its light fraction volumes in the local market and delivers the remainder to the Ryazan Refinery by rail for further processing into gasoline. TNK-BP does not anticipate making any significant capital investment at the Nizhnevartovsk Refinery in the short term.

Krasnoleninsk Refinery

The Krasnoleninsk Refinery, located in Western Siberia, initiated operations in late 1998 and had an effective capacity to process 0.3 million tonnes of crude oil and crude oil throughput of 0.14 million tonnes in 2005. 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. TNK-BP does not anticipate making any significant capital investment at the Krasnoleninsk Refinery in the short term.

Orsk Refinery

TNK-BP acquired the Orsk Refinery as a result of its acquisition of Onako. The Orsk Refinery is a medium-sized plant that focuses on fuel and lubes production. The refinery accounted for approximately 11% of TNK-BP's oil refining operations in 2005. In 2005, the refinery had an effective capacity of 6.7 million tonnes and crude oil and other feedstock throughput of 3.6 million tonnes. In December 2005, TNK-BP sold the Orsk Refinery. See "Operating and Financial Review — Formation and Evolution of TNK-BP — 2005 Disposals".

Marketing

Domestically, TNK-BP sells its products through different distribution channels. Gasoline and approximately 50% of the diesel produced by TNK-BP are sold by regional marketing subsidiaries through their retail networks (including jobbers) and in the small wholesale market. Other TNK-BP refined products are primarily sold directly to large wholesale customers.

TNK-BP's main competitors for domestic retail sales of gasoline and diesel fuel are independent fuel station owners. In the domestic market for jet fuel, bitumen and fuel oil, TNK-BP mainly competes against other Russian oil and gas vertically-integrated groups, including LUKOIL, Gazpromneft (formerly Sibneft), 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 biased towards the regions in which oil groups' marketing subsidiaries are located. Many regions only have one or a few such subsidiaries. An exception to this practice is in Moscow and the Moscow region, a market in which all major Russian oil companies are present as it is the largest regional market for refined products in Russia.

The Ukrainian refined product market is currently undeveloped and in a formative stage. The main participant in this sector is the Ukrainian-government owned Kremenchug refinery, which is located in the central region of Ukraine. TNK-BP and other major Russian oil groups such as LUKOIL also own refineries and retail outlets in Ukraine. TNK-BP expects that competition may increase as these oil groups and other participants strengthen their positions in the Ukrainian market. In addition, some downward pressure on efficiency of marketing refined products in Ukraine results from the Ukrainian Government's actions to liberalise import of refined products.

TNK-BP markets its refined fuel products in 20 large regions in Russia (mainly the Northern, Central and Urals regions) and throughout Ukraine and is a market leader in each of the regions in which it operates. TNK-BP's retail network currently includes more than 1,580 filling stations, 676 of which are owned and operated by TNK-BP's marketing subsidiaries (including 46 filling stations under the BP brand) and the remainder of which are operated by independent owners through jobber arrangements. In 2005, TNK-BP sold more than 1.8 million tonnes of refined fuel products through the network representing approximately 11% of TNK-BP's total gasoline and diesel output. TNK-BP operates and markets under two distinct customer brands, TNK and BP. TNK branded fuel stations are located in Moscow, the Moscow region, other parts of Russia, and Ukraine, while BP branded fuel stations are concentrated in Moscow and the Moscow region. By marketing its products under these two brands, TNK-BP believes it is better able to meet the different needs and choices of consumers in the markets where TNK-BP operates.

In its retail business, TNK-BP plans to concentrate investment in 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 aims to harmonise the refined product range of its outlets, including the sale of high octane products, while also further developing the full convenience store format for its BP branded outlets. In other regions, TNK-BP plans on reducing its capital investment by franchising the TNK brand. TNK-BP will also seek opportunities for growth in the business-to-business markets, particularly within the bitumen, aviation and wholesale ground fuels sectors.

TNK-BP believes that Moscow and the Moscow region, which together accounted for the largest regional percentage of refined products consumption in Russia in 2005, represent a particularly attractive opportunity due to the Ryazan Refinery's geographic proximity and direct pipeline access to Moscow. With its combined retailing under the TNK and BP brands, TNK-BP is currently the market leader in Moscow, with over 220 branded retail sites of which 92 (including 46 sites under the BP brand) are owned and operated by TNK-BP marketing subsidaries, which TNK-BP estimates represent an approximate 28% share (in terms of volume) of the Moscow retail market. 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.

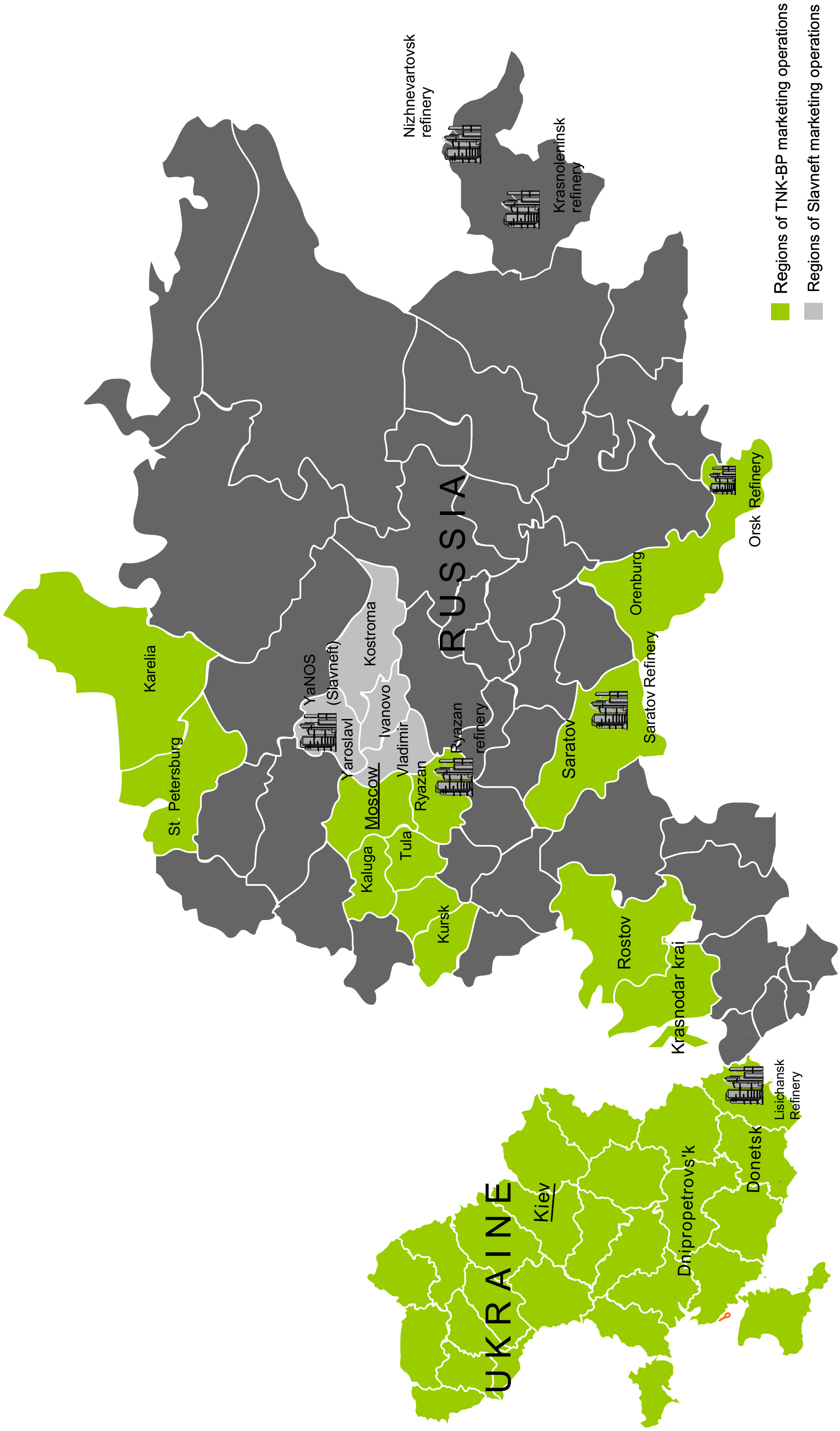
Beyond Moscow and the Moscow region, TNK-BP will continue to work to expand its retail network and increase its market share. TNK-BP believes that the use of jobbers is an efficient approach to expand retail network in the regions and allows TNK-BP to capture and retain broad market coverage. Jobbers are permitted to use the brand name "TNK" and are required to sell only refined products purchased from TNK-BP.

As a part of its network expansion, TNK-BP is considering implementing a new marketing strategy designed to enhance jobber network management efficiency and improve quality standards. It is also rolling out a new TNK retail format and branding and further expanding operations in new targeted growth regions, in Rostov, through a joint venture, and St. Petersburg, through the opening of new stations.

TNK-BP is a widely recognised retailer in Ukraine, with a network of 41 own and 595 branded filling stations. TNK-BP's retail strategy in Ukraine is to establish a strong presence in the Kiev market, which management believes is the most lucrative in Ukraine.

As part of its strategy to divest non-core assets, in December 2005, TNK-BP sold its 85.08% stake in OAO "Orenburgnefteprodukt", a marketing subsidiary with 101 filling stations and 16 oil depots in the Urals region and "OAO Neftemaslozavod". See "Operating and Financial Review — Formation and Evolution of TNK-BP — 2005 Disposals".

Downstream Refining and Marketing Assets



(1) The Orsk Refinery was sold in December 2005.

Corporate Activities

Overview of Strategic Focus

The main corporate objectives for TNK-BP are as follows:

- To set overall strategy and plans for the TNK-BP. TNK-BP develops one and five year business plans and twenty year strategic objectives. 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 Project 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 balance sheet, providing adequate liquidity, and increasing financial flexibility. TNK-BP's principal financial objectives include:

- Maintaining strong debt coverage ratios, with the aim of achieving investment grade status over time; and
- Paying dividends of not less than 40 percent of TNK-BP's annual net income, unless otherwise approved by the TNK-BP Board of Directors. TNK-BP also aims to return to shareholders cash that is in excess of business requirement, subject to maintaining TNK-BP's gearing ratio 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 business;
- To broaden the investor base so as to reduce funding costs; and
- To increase the average life of TNK-BP's debt portfolio and the level of unsecured debt as a proportion of total debt.

These objectives will continue to be implemented centrally. TNK-BP believes that the establishment of the debt issuance programme described in this Supplement will provide an important contribution to the achievement of these objectives.

Corporate Restructuring Project in Russia

As described in "TNK-BP History and Organisational Structure – Ongoing Changes in the Structure of TNK-BP – Corporate Restructuring Project in Russia", in 2004, TNK-BP decided to effect a reorganisation aimed at simplifying the corporate structure of TNK-BP. The restructuring was aimed at achieving the following key objectives:

- simplify the TNK-BP Holding Group's corporate structure and provide for more efficient management;

- consolidate the minority shareholdings in certain of the TNK-BP Holding Group's companies into TNK-BP Holding to enable minority shareholders to participate in the success of the entire TNK-BP Holding Group; and
- provide greater transparency and improved corporate governance within the TNK-BP Group.

TNK-BP believes that these objectives are best achieved through TNK-BP Holding directly owning most of the TNK-BP's material upstream, downstream, and refining assets in Russia that are currently owned by its various subsidiaries.

The restructuring plan involves several stages, described broadly as follows:

Step 1. Merger by way of accession (a Russian legal process) of TNK, Onako and Sidanco into TNK-BP Holding;

Step 2. Voluntary share exchange programme initiated by Novy Investments Limited, the majority shareholder of TNK-BP Holding, in respect of minority shareholders in 14 of TNK-BP Holding's operating subsidiaries (the "14 Subsidiaries"), which allowed these minority shareholders to exchange their shares in the 14 Subsidiaries for shares in TNK-BP Holding at certain conversion ratios and subject to other terms; and

Step 3. Subject to the successful completion of Step 1 and Step 2, TNK-BP may choose to proceed with the accessions of certain other operating and holding and marketing subsidiaries to TNK-BP Holding.

Each of these steps is described in greater detail below.

Step 1. Accession of TNK, Onako and Sidanco

On 30 December 2004, each of the boards of directors of TNK, Onako and Sidanco approved the terms of the merger by way of accession (including conversion ratios and cash buy-out prices) to be considered and voted on at an extraordinary general meeting of shareholders ("EGM") of each of TNK, Onako and Sidanco, respectively.

On 1 March 2005, the EGMs of TNK, Onako and Sidanco were held, and the shareholders of each of the companies approved, among other things, the reorganisation of each of the respective companies by way of accession, to TNK-BP Holding.

After the dates of the respective EGMs the relevant companies began the necessary procedures to implement the accession, including notifying creditors and settling any claims they had, arranging for the purchase of shares from those shareholders who elected to exercise their right of buy-out in accordance with Russian law and underwent the necessary closing tax audits.

On 29 July 2005, a joint meeting of the shareholders of TNK, Onako and Sidanco (the acceding companies), as well as the sole shareholder of TNK-BP Holding, was held. Among other things, the participants at that meeting approved the necessary amendments to the Charter of TNK-BP Holding as a result of the accessions.

The accession of TNK, Sidanco and ONAKO to TNK-BP Holding was successfully completed in the first half of December 2005 when these three holding companies were liquidated by way of accession to TNK-BP Holding. As a result of these accessions, all assets and liabilities of the three liquidated holding companies were consolidated in TNK-BP Holding. All minority shareholders of the three holding companies that chose to convert their shares into the shares of TNK-BP Holding received shares in TNK-BP Holding in the aggregate amount of approximately 2.6% of its outstanding share capital.

Step 2: Voluntary Share Exchange

On 3 August 2005, Novy Investments Limited initiated a voluntary share exchange programme to the minority shareholders of the 14 Subsidiaries to exchange their respective shares for shares in TNK-BP Holding. This programme was for non-cash consideration and took the form of an invitation to those shareholders to submit their shares to Novy Investments Limited for exchange during a period that run from 3 August until 30 September 2005.

The 14 subsidiaries that took part in the voluntary share exchange programme were as follows:

OAO Orenburgneft
OAO Udmurtneft
OAO Saratovneftegaz[1]
OAO Varieganneftegaz
OAO Orenburggeologiya
OAO Saratov Refinery
OAO Neftemaslozavod[2]
OAO Ryazansky Zavod Neftekhimproduktov
OAO Kaluganefteproduct
OAO Tulanefteproduct
OAO Ryazannefteproduct
OAO Saratovnefteproduct
OAO Rostovnefteproduct
OAO Orenburgnefteproduct[3]

1. Divested in December 2005 through the sale of a 95.69% stake to OAO NK Russneft.
2. Divested in December 2005 through the sale of a 47.39% stake to OAO NK Russneft.
3. Divested in December 2005 through the sale of a 85.0% stake to OAO NK Russneft.

The voluntary share exchange programme for the minority shareholders in the 14 Subsidiaries was completed in September 2005. As a result of the voluntary share exchange programme about 70% of all minority interests in the 14 Subsidiaries were exchanged for the shares in TNK-BP Holding. This resulted in an increase of a minority stake (held by the former shareholders in 14 Subsidiaries) in TNK-BP Holding by an additional 2.5% of TNK-BP Holding's outstanding share capital.

As a result of the accessions of TNK, ONAKO and Sidanco to TNK-BP Holding and voluntary share exchange, minority shareholders have received an aggregate of approximately 5% of outstanding shares in TNK-BP Holding (which includes approximately 3% of voting shares).

Step 3: Accession of Certain Operating Subsidiaries

With the completion of Step 1 and Step 2, the proposed corporate restructuring plan may proceed to its third and final stage. In Step 3, TNK-BP will evaluate its existing organisational structure and consider whether the group as a whole would benefit from the accession of certain other operating, holding and marketing subsidiaries to TNK-BP Holding. The determination of which subsidiaries should accede has not been made yet and is still under consideration. Once the determination of the timing and scope of any further accessions is made, TNK-BP will seek the support of relevant shareholders, governmental authorities and TNK-BP's lenders (where necessary) for the accessions of any such subsidiaries to TNK-BP Holding. The majority shareholder in TNK-BP Holding, Novy Investments, may evaluate whether to a buy-out residual minority stakes in such subsidiaries chosen for accession as provided for by the recently enacted Russian corporate laws.

Potential Additional Steps

In addition, although no further restructuring (other than the proposed restructuring described above) is currently planned, 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 and install modern standards of internal controls. In 2003 TNK-BP launched a large-scale Accounting Transformation Project (ATP), which was aimed at modernising its accounting systems and practices. As the first project of this scale launched in the Russian oil industry, it was designed to deliver, on a timely basis, more accurate and comprehensive financial information for both internal and external purposes. As a result of this project TNK-BP has achieved reduction of monthly closing of financial reporting under U.S. GAAP to 10 working days from more than two months. TNK-BP believes that the completion of the ATP provides a competitive advantage to TNK-BP in terms of the speed and quality of preparation of its financial statements which improves the business decision process.

Internal Controls Initiatives

In 2005, TNK-BP launched a group-wide Internal Controls Improvement Project and Code of Business Policies and Corporate Standards. The objective of Internal Controls initiatives is to deliver international financial internal controls by the end of 2007.

During the first two years of TNK-BP, substantive improvements were made in a number of important processes. These improvements related to areas of higher risk and value to TNK-BP, and in particular a number of projects were launched, that are designed to deliver enhanced process, efficiency and control. These initiatives included:

- improved financial reporting and transparency (ATP);
- trading & revenue accounting re-engineering (project "TRAP");
- procurement re-engineering (project "SPR");
- enterprise wide risk management (project "EWRM"); and
- corruption and fraud risk management.

These projects were also supported by the publication of, and training in, TNK-BP standards and policies in areas that included ethics and internal control, highlighting TNK-BP's clear commitment to meet international standards

In 2005 the concept of a comprehensive analysis of TNK-BP's financial internal controls was approved. This initiative was actively supported by the Main Board Audit Committee, and is designed to analyse TNK-BP internal controls against the established international COSO framework. This top-down, risk-based approach reviews those areas of highest risk and value first. The target is to review and substantially complete appropriate remediation actions (where needed) by the end of 2007, but with a substantial reduction in potential risk by end of 2006.

In 2003 TNK-BP also implemented and is now refining a planning and performance management system based on a system used by BP, which monitors and interprets operating and financial data produced on an ongoing basis from the company's various businesses and functions. Benefiting from the strong performance management record of its owners, TNK-BP aims to achieve a performance management framework that will serve as a solid foundation for continuing value creation and growth.

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 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.$800 million on HSE Policy matters and an additional U.S.$1.2 billion on "integrity" management, which includes efforts to replace pipelines and aging infrastructure to prevent leaks, over the course of the next five years. 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.

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 adopt 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.

During the years ended 31 December 2005 and 2004 environmental liabilities of U.S.$24 million and U.S.$117 million were accrued by TNK-BP as operating expenses, thereby increasing the TNK-BP's estimated environmental liability to U.S.$170 million and U.S.$158 million as of 31 December 2005 and 2004.

Insurance

TNK-BP has taken out an insurance policy covering property damage and business interruption, which provides protection against loss of revenues and assets due to an accident, fire or operational failure. The policy currently provides protection for losses of up to U.S.$600 million, with a deductible of U.S.$50 million 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. All of these policies have been underwritten by internationally recognised insurers. As required by Russian legislation, all of TNK-BP subsidiaries that handle or utilise hazardous material and substances as part of TNK-BP's production, transportation and refining processes maintain the necessary mandatory 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 to providing compulsory health insurance to its employees, TNK-BP provides its employees with voluntary health insurance policies according to its Comprehensive Health Insurance Programme. Furthermore, in 2000-2001, TNK-BP obtained non-governmental pension insurance policies for the employees of its Russian subsidiaries from the Non-State Pension Insurance Fund "Vladimir", which is 99% 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 Limited 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 Limited and, as a result, TNK-BP International Limited 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. TNK-BP continues to seek to have the complaint dismissed but expects any judicial resolution with respect to such claim to take at least another three to six months. TNK-BP believes that it has substantial defences to jurisdiction and venue in the United States, and that the resolution of this case will not have a material adverse effect on TNK-BP's business, financial condition or results of operations.

LiNOS Litigation. When TNK acquired the Lisichansk refinery in 2000, the owner of the Lisichansk refinery, OAO LiNOS ("LiNOS"), was in bankruptcy proceedings. These bankruptcy proceedings were completed in 2003 with the approval of an amicable agreement in the Ukrainian Arbitration Court. Pursuant to the amicable agreement, TNK-BP's investment in the Lisichansk refinery was restructured through a contribution of assets to the charter capital of ZAO LINIK, a new company formed by TNK-BP, under the supervision of the Ukrainian Arbitration Court. In December 2003, creditors who were not part to the amicable agreement, initiated new bankruptcy proceedings against LiNOS. These bankruptcy proceedings were suspended by the Economic Court of Lugansk Region in December 2003. TNK-BP believes that the bankruptcy proceedings against LiNOS may result in adverse claims that could exceed U.S.$150 million, however, management believe this will not materially affect the operations of the Lisichansk Refinery and the ultimate resolution of this matter will not have a material adverse effect on the financial position of TNK-BP.

Matters Relating to the 2001 to 2003 Tax Audits. TNK-BP is currently facing a number of potential and actual tax claims relating to the audits of TNK-BP's Russian subsidiaries' activities in 2001 to 2003. See "– Risk Factors — Risks Relating to the Guarantor — Risks Relating to TNK-BP and the Oil and Gas Industry in Russia and in Ukraine — Taxation Risks".

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.

APPENDIX 8

MANAGEMENT AND EMPLOYEES

Management Framework

The management framework of TNK-BP is set forth in the Shareholders Agreement dated 29 August 2003 between AAR and BP. TNK-BP Limited's corporate governance structure comprises the Board of Directors of TNK-BP Limited (the "Main Board"), the Main Board Audit Committee and the Main Board Compensation Committee. Day-to-day executive management of TNK-BP Group's operations in Russia and Ukraine is the responsibility of the TNK-BP CEO (appointed by BP), 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 100%-owned indirectly by TNK-BP Limited. The Senior Management Team are employees of TNK-BP Management. To discharge its duties, TNK-BP Management has entered into management, accounting, and other services contracts with certain key subsidiaries of TNK-BP such as TNK-BP Holding.

Objectives are defined for TNK-BP through the setting of an annual performance contract for TNK-BP as a whole (the "CEO Performance Contract"). Objectives are further established through annual performance contracts (consistent with the CEO Performance Contract) to 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.

Below is a brief description of the key functions of the Main Board, its committees, and the Senior Management Team.

TNK-BP Limited Board of Directors and Board Committees

The Main Board consists of 10 members, with representation split equally between the two shareholders, AAR and BP. On behalf of the shareholders, the Main Board performs the following key functions:

- provides strategic direction to TNK-BP Management;
- 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; and
- advises on major acquisitions, divestitures and capital expenditure programmes.

Currently, the Main Board consists of the following 10 members:

Name	Position
Mikhail Fridman	Chairman of the Board of Directors (AAR)
Richard Olver	Deputy Chairman of the Board of Directors, Chairman of the Audit Committee (BP)
Viktor Vekselberg	Member of the Board of Directors, Chairman of the Compensation Committee (AAR)
Len Blavatnik	Member of the Board of Directors, Member of the Compensation Committee (AAR)
Alex Knaster	Member of the Board of Directors, Member of the Audit Committee (AAR)
Jean-Luc Vermeulen	Member of the Board of Directors, Member of the Audit Committee (AAR)

Name	Position
Robert Sheppard	Member of the Board of Directors, Member of the Compensation Committee (BP)
Lamar McKay	Member of the Board of Directors, Member of the Compensation Committee (BP)
Patrick Chapman	Member of the Board of Directors, Member of the Audit Committee (BP)
Tony Hayward	Member of the Board of Directors (BP)

The Main Board Audit Committee advises the Main Board regarding the integrity of the TNK-BP's U.S. GAAP Financial Statements, the effectiveness of the external audit process and internal controls, and business ethics policies. The Audit Committee consists of four members who also serve on the Main Board: Mr. Richard Olver (Chairman), Mr. Patrick Chapman, Mr. Alex Knaster and Mr. Jean-Luc Vermeulen.

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 CEO Performance Contract and on determination of annual performance awards. The Compensation Committee consists of four members who also serve on the Main Board: Mr. Viktor Vekselberg (Chairman), Mr. Robert Sheppard, Mr. Lamar McKay and Mr. Len Blavatnik.

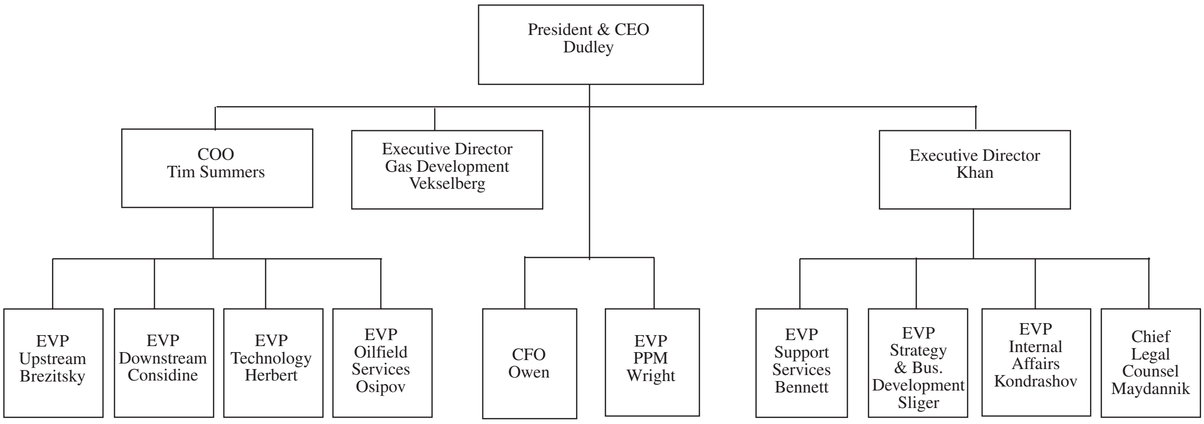
TNK-BP Management

The Senior Management Team is responsible for TNK-BP's day-to-day management. Six members of the Senior Management Team have previous work experience with TNK, seven members have work experience with BP and one member has been hired externally. Together, they have worked in many countries and have wide-ranging skills and experience. Currently, the Senior Management Team consists of the following members:

Name	Position
Robert Dudley	President and Chief Executive Officer
German Khan	Executive Director
Viktor Vekselberg	Executive Director Gas Development
Tim Summers	Chief Operating Officer
James Owen	Chief Financial Officer
Sergey Brezitsky	Executive Vice President, Upstream
Tony Considine	Executive Vice President, Downstream
Mikhail Osipov	Executive Vice President, Oilfield Services
Boris Kondrashov	Executive Vice President, Security
Igor Maidannik	Executive Vice President, Legal Support
Tom Wright	Executive Vice President, Planning and Performance Management
Kris Sliger	Executive Vice President, Strategy and New Business Development
Richard Herbert	Executive Vice President, Technology
Simon Bennett	Executive Vice President, Business Support

Organisation and Employees

TNK-BP is organised into four business streams and six head office functional departments. The chart below shows the current organisational structure and the roles of the Senior Management Team within the organisation.



As of 31 December 2005, TNK-BP employed approximately 90,000 staff, as follows:

- TNK-BP Management (Moscow based staff): 1,670;
- Upstream: 19,100;
- Downstream (including staff based in Ukraine): 20,500;
- Oil Field Services: 35,500;
- Technology centers: 470; and
- Supporting Subsidiaries and Projects: 12,760.

Oil Field Services comprises employees active in, among other things, the areas of drilling, well-work-overs and crude oil and refined product transportation.

Compensation

The aggregate amount of remuneration, including base salary, bonuses and benefits in kind, 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 in 2005 was U.S.$30.6 million.

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.

Members of the Board of Directors ("Main Board") and the Senior Management Team

Brief biographies of the members of TNK-BP's Board of Directors are 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.

Richard Olver	Mr. Olver has been a member of the Board of Directors of TNK-BP Limited since 2004. Mr. Olver joined BP in 1973. From 1979 to 1998, Mr. Olver held several managerial positions with BP, including head of Corporate Strategy for the BP Group and Chief Executive of BP Exploration, U.S. Division. In 1998, Mr. Olver was appointed to the Board of Directors of BP and became the CEO of Exploration and Production. Mr. Olver retired from BP in 2004 to become Chairman of the Board of BAE Systems plc. Mr. Olver also serves as a special adviser to the BP Group Chief Executive, a member of the Institution of Civil Engineers, a non executive director of Reuters Group plc, the Chairman of the Reuters Audit Committee, a member of the Reuters Nomination Committee, a Senior Independent Director of Reuters Group plc and the Governor of New Hall School.
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 and, since January 2003, has been Chairman of the Board of Directors of the SUAL Group. In addition, from 2002 to 2003, Mr. Vekselberg served as the Chairman of the TNK Management Board. 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.

Jean-Luc Vermeulen	Mr. Vermeulen has been a member of the Board of Directors of TNK-BP Limited since 2003. He graduated from France's Ecole Polytechnique and holds a Ph.D. in theoretical physics. In 1970, Mr. Vermeulen joined Elf Aquitaine, where he has served in various managerial positions including Senior Vice President of Oil and Gas Mergers and Acquisitions and Senior Vice President of Exploration and Production in Africa. In 1997, Mr. Vermeulen became Elf Aquitaine's President of Upstream Operations and a member of its Executive Committee. Mr. Vermeulen retained these positions after the merger of Elf Aquitaine with TotalFina in 2000.
Robert Sheppard	Mr. Sheppard joined the Board of Directors in October, 2005. Mr Sheppard received the degree of Bachelor of Science in Physics from the University of Wyoming in 1972 and an Executive MBA from the Columbia University School of Business in 1991. From 1972 to 1988 Mr. Sheppard held engineering, management and executive positions with Amoco Production Company in the United States. In 1988 Mr. Sheppard became Vice President of Amoco UK Exploration Company in London, a position he held until 1992. In 1992 he was appointed Managing Director of the Gulf of Suez Petroleum Company in Egypt. From 1995 until 1996, Mr. Sheppard served as President and General Manager of Amoco in Argentina and from 1996 to 1999, in Egypt. In 1999 Mr. Sheppard joined Russian oil company Sidanco as Chief Operating Officer and in March 2000 was appointed President. In September 2002, Mr. Sheppard left his position as President of Sidanco to become Senior Vice President of BP. Since July 2004, he has been senior advisor to BP and chairman of IPM Advisors LLC.
Lamar McKay	Mr. McKay has been a member of the Board of Directors of TNK-BP Limited since 2004. He holds a Bachelor's degree in petroleum engineering from Mississippi State University and an Executive MBA from Indiana University. In 1980, Mr. McKay began his career as a reservoir engineer at the Amoco Production Company and worked broadly across the Upstream business. From 1999-2000, after the BP Amoco merger, Mr. McKay served as the General Manager for Worldwide Upstream Strategy and Planning for BP. In 2000, he was appointed a Business Unit Leader for Central North Sea. Mr. McKay subsequently became the Chief of Staff for Worldwide Upstream in London and then served as the Head of BP's Deputy Group Chief Executive Office. Currently, Mr. McKay also serves as the BP Group Vice President for Russia and Kazakhstan.
Patrick Chapman	Mr. Chapman has been a member of the Board of Directors of TNK-BP Limited since 2003. He received a Master's degree in natural sciences from Queen's College, Cambridge in 1972 and qualified as a Chartered Accountant in 1975. Mr. Chapman joined BP in 1977 and has worked in a variety of finance and accounting and operation posts in BP's head office, at BP Southern Africa and as Vice President, Accounts & Control at BP North America. He served as the Group Chief Accountant from 1992 to 1994, and was Group Vice President and Head of Tax from February 1994 until his appointment as Group Treasurer, in which role he retains responsibility for tax matters. Currently, Mr. Chapman serves as the BP Group Vice President and the Group Treasurer.
Tony Hayward	Mr. Hayward has been a member of the Board of Directors of TNK-BP Limited since 2003. He holds a Ph.D. in geology (1982) from the University of Edinburgh. Since joining BP in 1982, Mr. Hayward has served as the Exploration Manager in Colombia (1992-1995), the President of the BP Group in Venezuela (1995-1997) and the Director of BP Exploration (1997-

1999). In 1999, he became the Group Vice President of BP Amoco Exploration and Production, as well as a member of the Upstream Executive Committee. In addition, Mr. Hayward served as the Group Treasurer (2000-2002) and the Executive Vice President (2002). In November 2002, he became the COO of Exploration and Production and in January 2003 he became the CEO of Exploration and Production, a position he currently holds. Mr. Hayward is an executive member of the BP Board of Directors and a member of the BP Group Chief Executive's Committee. Currently, Mr. Hayward is also the BP Group Executive responsible for Relationship Management in the UK, as well as a Non-Executive Director of the Corus Group and a member of the Citibank Advisory Board.

Brief biographies of the members of the Senior Management Team who are not members of TNK-BP's Board of Directors are set forth below:

Robert Dudley	Mr. Dudley has been a member of the Senior Management Team and the President and CEO of TNK-BP since 2003. He holds a degree in chemical engineering from the University of Illinois, an MIM from Thunderbird and an MBA from SMU (U.S.). Mr. Dudley has worked broadly across the international oil industry and was based in Moscow from 1994 to 1997 with Amoco, where he held positions relating to development of Amoco's upstream and downstream businesses. In 1999, he served as the General Manager for BP Group Strategy and served in a similar position at Amoco Corporation in Chicago prior to the BP-Amoco merger. Mr. Dudley has served as an Executive Assistant to the BP Group CEO. He has also served as the Group Vice President for BP Renewables and Alternative Energy activities within the Gas, Power & Renewables stream for BP and, prior to joining TNK-BP, as the Group Vice President responsible for BP's upstream business in Angola, Egypt, Russia, the Caspian Region and Algeria.
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.
Tim Summers	Mr. Summers became a member of the Senior Management team and the Chief Executive Officer in April 2006. Mr. Summers joined BP as a Petroleum Engineer in 1989, with a BSc (Hons) in Chemical Engineering from the University of Manchester. He has worked in a variety of operational, commercial and HQ roles in BP including offshore production, well engineering, gas marketing, oil trading, business development, BP Solar, and general operations management. International experience includes the Caspian region (Azerbaijan and the surrounding countries) and Colombia, where he lived from 2000-2002. From 2002-2005, Mr. Summers was one of BP's Business Unit Leaders, based in Scotland, running one of 24 Global Business Units in Exploration and Production. He was also Deputy Chair of the "Step Change" cross-industry safety body. Until April 2006, Mr. Summers was Executive Assistant to Lord Browne, BP Group Chief Executive. He is a Chartered Engineer and a Fellow of the IChemE and the IMMM.
James Owen	Mr Owen became a member of the Senior Management team and the Chief Financial Officer in January 2006. Mr. Owen graduated from Liverpool College of Commerce. From 1970 to 1972, he worked as Senior Auditor for

	PricewaterhouseCoopers in Brussels. From 1972 to 1993 he held various financial management positions of Chevron, including the position of Director of Finance Department in 1982–1987 in the Indonesia Division of the company and in 1987–1990 in London. Between 1991 and 1993 he was Executive Director of Operations in Calson (Bermuda) and in Hyson (Nigeria). For eight years, from 1993 to 2004, Mr. Owen worked for Tengizchevroil, first as the Head of the Internal Control Department, and then as Chief Financial Officer.
Sergey Brezitsky	Mr. Brezitsky has been a member of the Senior Management Team since 2005. Mr. Brezitsky graduated from the Ivano-Frankovsk Oil and Gas Institute in 1984 with a degree in Technology and Comprehensive Mechanisation 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 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.
Tony Considine	Mr. Considine has been a member of the Senior Management Team since 2003. Mr. Considine holds an engineering degree from the University of London with a specialisation in the recovery and processing of minerals. He also completed an international management-training course at INSEAD University. Mr. Considine began his career in Australia but then relocated in 1986 to London, where he served as the Director of Refining at BP Europe. At BP, Mr. Considine's area of responsibilities was extended beyond Europe to include Africa and North America. Mr. Considine has also served as the CEO of International Marine, managing the integration of Castrol Marine into BP.
Mikhail Osipov	Mr Osipov became a member of the Senior Management in June 2006. Mr. Osipov has a degree in reservoir engineering and production technology from the Grozny Oil Institute. He is also a graduate of the Economic Academy of the RF Government with a degree in management. He began his career in the oil industry in 1983 in the Khanty-Mansiysk Autonomous District. From 2002 to 2004 he worked in the Orenburg Region, heading Orenburgneft, a major upstream subsidiary of TNK and then of TNK-BP. In 2004, Orenburgneft won the recognition as the "Best Upstream Company" in the TNK-BP Group. In June 2004, Mikhail was appointed Business Unit Leader, BU East. In March 2005, he moved to head the Orenburg-Saratov Business Unit. Mikhail has been awarded the title of Honorary Oilman by the RF Energy Ministry. In June 2006, he was appointed Executive Vice President, Oilfield Services.
Boris Kondrashov	Mr. Kondrashov has been a member of the Senior Management Team since 2003. He graduated from the Sverdlovsk Institute of Law in 1978. Mr. Kondrashov's has held a number of governmental and law enforcement agency posts including First class Justice Counselor 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's Executive Vice President, Security.
Igor Maidannik	Mr. Maidannik has been a member of the Senior Management Team since 2003. Mr. Maidannik graduated from the Moscow State University in 1987 with a degree in jurisprudence. From 1987 to 1991, he held various posts 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. Maidannik has been with TNK since 1998, initially as head of the legal department and then in 2003 as TNK-BP's Executive Vice President, Legal Support.
Tom Wright	Mr. Wright has been a member of the Senior Management Team since 2004. A member of the Institute of Chartered Accountants of Scotland, he has worked in the oil and gas industry for over 20 years first with Britoil and then BP. From 1992 through 1995 he served as Planning and Control Manager for BP's North European Upstream oil and gas business. His most recent position with BP was as Director of Audit where, among other things, he performed risk based reviews covering BP's global Upstream, Refining and Petrochemical Manufacturing operations.
Kris Sliger	Mr. Sliger has been a member of the Senior Management Team since 2003. Mr. Sliger graduated from the University of Texas with a degree in petroleum engineering and received an MBA degree from the University of Chicago Business School. Mr. Sliger served as the Vice President of the Gulf of Mexico Shelf Business Unit following the Amoco-BP merger. He was also a Vice President of BP with responsibility for strategy, planning and portfolio management.
Richard Herbert	Mr Herbert became a member of the Senior Management in June 2006. Mr. Herbert holds a bachelor's degree in geology from the University of Bristol in the UK. Before moving to Russia in 2003, Mr. Herbert spent nearly 20 years with BP in various international exploration and production assignments. In 2003 he led the restructuring of BP's North Sea business into 3 business units, following the divestment of the Forties Field and Southern Gas Basin assets. From 2001 to 2003 he managed the BP-operated Wytch Farm oilfield in the south of England and before that was Business Unit Leader for Angola Exploration. Prior to that he spent nearly 10 years in Latin America working on exploration and field development projects in Colombia, Mexico (with state company Petroleos Mexicanos) and Venezuela (with state company Petroleos de Venezuela). Mr. Herbert is a Fellow of the Geological Society of London and a member of the American Association of Petroleum Geologists. Richard Herbert was appointed Executive Vice President, Technology in June 2006. Before that he had been working as Exploration Vice-President for TNK-BP since the company's formation in September 2003.
Simon Bennett	Mr. Bennett has been a member of the Senior Management Team since 2003. He has a Master's degree in physics from the University of Leeds. Before joining BP in 1989, Mr. Bennett worked for the British Government in the Middle East (at the Abu Dhabi Gas Liquefaction Company) and in the North Sea (at Britoil). Since June 2000, he has held a number of senior positions in BP divisions related to the management of production assets and infrastructure.

The business address of the members of the Main Board and the Senior Management Team is 1 Arbat Street, Moscow 119019, Russian Federation.

Conflict of Interest

There are no potential conflicts of interest between any duties of the members of the Main Board and the Senior Management Team towards TNK-BP and their private interests and/or other duties.

APPENDIX 9

RELATED PARTY TRANSACTIONS

TNK-BP engages in transactions with Alfa Bank, an affiliate of the Alfa Group and one of TNK-BP's principal shareholders, BP, another of TNK-BP's principle shareholders, Slavneft, an equity affiliate of TNK-BP, and other related parties in the ordinary course of business. TNK-BP had the following balances due to and from Alfa Bank as of the dates shown:

	As of 31 December	
	2005	**2004**
	(U.S.$ millions)	
Cash and cash equivalents with Alfa Bank	80	127
Promissory notes of Alfa Leasing outstanding	1	1

TNK-BP was a beneficiary under property and liability insurance programmes, underwritten by Alfa Insurance acting as fronting insurer in the following amounts:

	Insurance Limit	**Period of insurance**
	(U.S.$ millions)	
Physical damage and business interruption insurance (including machinery breakdown)	600	15 May 2006 until 15 May 2007
General third party public and products liability insurance	25	15 April 2006 until 15 April 2007

TNK-BP had the following balances due to and from BP as of the dates shown:

	As of 31 December	
	2005	**2004**
	(U.S.$ millions)	
Accounts and notes receivable	17	62
Accounts and notes payable	–	7
Consulting, secondees and integration costs payable	66	70

TNK-BP also engaged in the following transactions with BP during the periods shown:

	Year ended 31 December		
	2005	**2004**	**2003**
	(U.S.$ millions, except as indicated)		
Sale of crude oil for export	214	1,589	1,039
Volumes (millions of tonnes)	0.6	6.4	5.5
Sales of refined products for export	697	335	361
Volumes (millions of tonnes)	1.4	1.9	2.2
Secondees and integration costs expensed	112	92	36

In 2005, TNK-BP commenced trading transactions with its equity affiliate, Slavneft. The following table presents balances due to and from Slavneft as of 31 December 2005 and sales and purchases of crude oil and oil products during the year then ended:

	As of and for the year ended 31 December 2005
	(U.S.$ millions, except as indicated)
Accounts and notes receivable	77
Accounts and notes payable	17
Sales of crude oil for export	15
Volumes (millions of tonnes)	0.1
Sales of refined products for export	80
Volumes (millions of tonnes)	0.2
Purchases of crude oil and petroleum products	1,050
Volumes (millions of tonnes)	4.9

TNK-BP had the following balances due to and from other related parties as of the dates shown:

	As of 31 December	
	2005	**2004**
	(U.S.$ millions)	
Advances to and receivables from other related parties	97	184
Accounts payable to other related parties	41	67

TNK-BP also engaged in the following transactions with other related parties during the periods shown:

	Year ended 31 December		
	2005	**2004**	**2003**
	(U.S.$ millions, except as indicated)		
Sales of crude oil and petroleum products	354	204	12
Volumes (millions of tonnes)	0.9	0.5	0.1
Purchases of crude oil and petroleum products	570	622	656
Volumes (millions of tonnes)	1.9	3.3	4.6
Other sales	5	–	17
Other purchases	–	–	5

APPENDIX 10

OVERVIEW OF THE RUSSIAN OIL AND GAS INDUSTRY

The information set forth in this section is based on publicly available information.

Introduction

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 major private oil companies (LUKOIL, Surgutneftegas, YUKOS, Sibneft, TNK and Sidanco) emerged. See "Regulation of the Russian Oil and Gas Industry."

The Russian natural gas industry developed during the Soviet era and expanded rapidly after the discovery in the 1960s of exceptionally large reserves of natural gas in the Yamal-Nenets Autonomous District (Yamal Nenets) of the Russian Federation in Western Siberia.

After the dissolution of the Soviet Union, the oil and coal industries were restructured into several regional enterprises (most of which have subsequently been privatised). The natural gas industry (including production, refining, transportation and sales), however, remains largely the business of Gazprom, a state-controlled monopoly. Russia, particularly west of the Urals mountains, has an extensive gas infrastructure, including the Single Gas Supply System ("SGSS") established as law through the Russian Gas Supply Law. The SGSS, 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, accounting for around 27% of the latter's 2004 consumption according to Wood Mackenzie, consultants to the energy industry.

The Russian oil and gas industry plays a vital role in the Russian economy by contributing a significant portion to the State budget revenues and helping to maintain positive balance of payments. The sector accounted for approximately 27% of Russia's gross domestic product and 63% of total exports in 2005, and is often referred to as the locomotive of the Russian economy due to its significant contribution to the growth in industrial output since the financial crisis in 1998.

Resources

Russia has some of the world's largest hydrocarbon resources. At the end of 2005, according to BP's Statistical Review of World Energy, Russia's proved oil and gas reserves stood at 74.4 billion barrels and 47.8 trillion cubic metres respectively. In comparison to the end of 2004 assessments, the oil and gas reserve estimates were up 2.8% and unchanged year-on-year respectively. At the end of 2005, the estimated oil and gas reserves represented 6.2% and 26.6% of the world totals, respectively.

Worldwide Proved Oil Reserves as of 31 December 2005

Region	% Share
Middle East	61.9
Africa	9.5
South & Central America	8.6
Russia	6.2
Other Europe and Eurasia	5.4
North America	5.0
Asia Pacific	3.4
Total	100.0

Source: BP's Statistical Review of World Energy, June 2006

Worldwide Proved Natural Gas Reserves as of 31 December 2005

Region	% Share
Middle East	40.1
Russia	26.6
Asia Pacific	9.0
Other Europe and Eurasia	8.3
Africa	8.0
North America	4.1
South & Central America	3.9
Total	100.0

Source: BP's Statistical Review of World Energy, June 2006

According to BP's Statistical Review of World Energy, Russia's estimated reserve-to-production (R/P) ratios at the end of 2005 were 21.4 years for oil and 80.0 years for natural gas reserves as compared to 21.3 years and 81.5 years, respectively at the end of 2004. These compared with 40.6 years and 65.1 years, respectively, for the world, and 11.2 years and 13.8 years, respectively, for OECD hydrocarbon resources. Excluding OPEC, Russia's reserves represent a significant percentage of the world's reserves. Vast potential oil and gas resources, lying either offshore (Barents Sea, Caspian Sea) or in frontier onshore areas (such as East Siberia or Timano Pechora) have already been found, but still need appraising and tapping.

Oil production in Russia declined from the late 1980s until the late 1990s. The decrease in production was attributable to many factors, including overproduction of wells during the Soviet period, lack of funds for capital expenditures to maintain operations, inefficient secondary recovery methods, insufficient transportation capacity in the pipeline system, losses during transit, and reduced demand attributable to Russian economic conditions. Oil output decreased from approximately 11.5 MMBbl/d in 1987-1988 to approximately 6.1 MMBbls/d in 1998-99. However, Russian production began to increase in 1999 and has been growing steadily to a peak of 9.4 MMBbls/d in September 2004, in part because of lower domestic costs which were driven by rouble depreciation and relatively high oil prices in recent years.

High cash flows generated by Russian oil companies from export sales over the past several years have spurred investments in advanced reservoir management and production technologies which allow for increased production with decreased drilling activity.

In 2005, Russia produced 470.0 million tonnes of crude oil and condensate (3,431 MMBbls), which represented a 2.7% increase over 2004. Crude oil and condensate production in Russia is mainly carried out by nine large, mostly vertically-integrated oil groups, Gazprom and 250 independent producers, represented both by Russian holders of producing rights, joint ventures with foreign participation, and production-sharing projects. The oil sector went through significant restructuring at the end of 2004 after Yukos' main subsidiary, Yuganskneftegaz was sold at an auction and was eventually acquired by the state owned oil company, Rosneft. The following table shows approximate crude oil production levels of Russian oil companies in 2005.

Company	2005 (MMBbls)	2004 (MMBbls)
LUKOIL	641.0	613.7
TNK-BP	550.0	512.9
Rosneft	545.5	157.7
Surgutneftegas	466.2	435.2
Sibneft[(1)]	240.9	248.1
Tatneft	184.9	183.2
YUKOS[(2)]	179.0	625.5
Slavneft	176.4	160.7
Bashneft	87.1	88.1
Gazprom	93.4	87.3
Others	266.6	236.9
Total	**3,431.0**	**3,349.3**

Source: Neftyana Torgovlya (Oil Trade Journal). Published by "Neft i Kapital" (Oil and Capital)

(1) In September 2005, Sibneft's former majority shareholders sold approximately 72% of Sibneft's voting shares to Gazprom, giving Gazprom control with 75% of the voting shares of Sibneft (now Gazpromneft).

(2) 2004 includes full production numbers for Yuganskneftegaz, which was sold at auction on 19 December 2004.

The Russian gas sector is dominated by Gazprom, the largest gas producing company in the world. Gazprom holds licences to fields containing more than 55% of Russia's proven gas reserves, produces 86% of Russia's gas and supplies more than 25% of gas consumed in Europe.

Crude Oil Exports

Russia has significantly increased its crude oil exports since 1991. Contributing factors include the fall in domestic demand, the substantial differential between domestic and foreign prices, and the elimination of export quotas and licensing requirements in 1995. Exports have been restricted in the medium term by limited domestic and international pipeline transportation and port capacity. At present more than 90% of Russian crude oil exports are destined for Europe, including CIS countries. However, supplies of Russian crude oil to Europe are unlikely to expand significantly over the next 10-15 years. This reflects the partial redirection in crude oil exports to growing markets in the Asia Pacific region.

Russia's crude oil exports decreased by 6.1% in 2005 to 241.1 million tonnes. Deliveries to non-CIS markets decreased by 7.9% to 109.2 million tonnes, and represented 88.8% of the total amount of crude oil exports. Shipments to CIS markets accounted for the balance after an increase of 10.3% to 23.7 million tonnes. Export volumes decreased because oil companies achieved higher netbacks via domestic product channels.

The table below shows the distribution of Russia's non-CIS crude oil deliveries in 2005.

	2005 (million tonnes)	% Exported	2004 (million tonnes)	% Exported
Rail net	9.2	2.0	34.1	7.4
Other by-passing infrastructure	2.0	0.4	5.7	1.2
Transneft (via pipeline)	179.0	38.1	166.8	36.4
Russia total	190.2	40.5	206.6	45.0
Oil transits through Transneft	23.7	–	21.5	–
Total crude oil exports from Russia	**213.9**	–	**228.1**	–

Source: Ministry of Industry and Energy, RPI FSU Oil and Gas Statistics Yearbook, Federal Customs Service, Renaissance Capital, Neft I Kapital.

Note: Other bypassing infrastructure includes overland rail exports, rail crude oil deliveries to seaports from refineries, or alternative offloading points, river shipping, offshore Sakhalin production and deliveries from proprietary sea terminals.

Gas Exports

The volume and share of Russian gas exports as a percentage of total Russian gas production have remained relatively unchanged since the start of 1990s. The UGSS connects Russia's gas fields with markets in the FSU, Europe and Turkey. Independent producers do not export gas beyond certain countries in the FSU such as Ukraine and Belarus. The rate at which demand for natural gas in Europe increases in excess of supply is expected to continue to grow in the immediate future as the decline of production in Europe, particularly the UK, is compounded by a significant increase in demand driven by the expansion of gas-fired electricity generation. Wood Mackenzie expects that Europe will require over 290 bcm per annum of imports by 2010 and up to 470 bcm per annum by 2020 to meet its needs. Gazprom's sales to Europe are expected by Wood Mackenzie to grow substantially both in absolute and relative terms, such that it supplies up to approximately 38% of the continent's natural gas, or 329 bcm, by 2020.

One of Gazprom's obligations under the Russian Gas Supply Law is to ensure an annual balance of supply and demand for natural gas in Russia. The following table sets forth data on the natural gas balance of the UGSS for the periods indicated (including natural gas in transit from Central Asia):

For the year ended December 31	**2005 (bcm)**	**2004 (bcm)**
Total amount received by the gas transportation system	**699.7**	**684.4**
Gas received by the system	646.9	635.2
Including Central Asian gas	54.6	50.4
Gas retrieved from UGSF in Russia	42.8	37.9
Decrease in gas reserves within the gas transportation system	10.0	11.3
Total distribution from the gas transportation system	**699.7**	**684.4**
Supply to Russian consumers	339.8	333.5
Including Central Asian gas	0.1	0.2
Supply outside Russia	251.2	245.9
Including Central Asian gas	54.5	50.3
Gas pumped into UGSF in Russia	46.3	42.6
Technological needs of the pas transportation system	51.7	52.0
Increase in gas reserves within the gas transportation system	10.7	10.4

Source: Gazprom 2005 annual Report.

Crude Oil And Refined Product and Gas Transportation Network

The Russian Federation has an extensive system of oil and gas pipelines, reflecting the inland location of major oil and gas reserves. The trunk pipelines for the transport of crude oil and refined products in Russia are controlled by Transneft and Transneftprodukt, both state-controlled monopoly companies whereas the gas transportation infrastructure, UGSS, is fully owned by Gazprom, in which the Russian State is a major shareholder. The Russian Government is expected to retain control over these entities for the foreseeable future.

The Transneft network consists of 48,610 kilometres of pipelines, 861 storage tanks with total capacity of 14.2 million cubic metres and 336 refilling stations.

The current capacity of the pipeline network acts as a constraint on crude oil production in Russia and especially affects the ability of producers to export crude oil. Furthermore, the pipeline facilities have not been well maintained in recent years, and effective capacity has significantly diminished. At present, the portion of the Transneft system dedicated to the export of crude oil is operating at or near capacity. However, declining demand from Eastern Europe and CIS countries has resulted in oil exports being redirected to other international markets, mainly Western and Northern Europe. Moreover, there are important capacity constraints in Russian oil shipment terminals.

The Russian Federation has long been exploring ways to export oil and gas to the Asia Pacific region, where China, Japan and South Korea are the primary markets. This intent is strongly backed by reciprocal interest from large energy importers in the region, which seek to diversify their supply sources outside the Middle East and ensure regional energy security. Higher oil prices in recent years have made rail and barge transport viable economic alternatives despite the higher costs relative to that of pipelines.

Refining

Although refinery utilisation increased in 2005 due to some increase in domestic demand and, more importantly, to an increase in the export of light petroleum products, refinery utilisation rates remain low by international measures. The existing level of refinery utilisation reflects the relatively low demand for refined products and the reluctance of vertically-integrated companies to expend resources on refining operations since returns are lower than for crude export operations.

In 2005, refined volume reached approximately 197 million tonnes (1,438.5 MMBbls), representing a 2.0% increase over 2004. The following table shows refined volumes for Russian oil companies in 2005.

Company	**2005 (MMBbls)**	**2004 (MMBbls)**
LUKOIL	270.0	257.3
YUKOS	235.2	230.3
Bashneftekhim	139.8	133.7
Surgutneftegas	133.5	116.5
TNK-BP	168.4	147.3
Sibneft	105.8	104.4
Slavneft	93.4	90.7
Moskovsky NPZ	68.3	68.6
Rosneft	76.4	67.9
Salavatnefteorgsintez	52.0	45.7
Gazprom	40.1	38.9
Others	56.1	115.0
Total	**1,439.0**	**1,416.3**

Source: Neftyanaya Torgovlya (Oil Trade Journal). Published by "Neft i Kapital" (Oil and Capital).

Regulation of the Russian Oil and Gas Industry

Privatisation

Presidential Decree No. 1403 dated 17 November 1992 established the federal framework for the privatisation of Russian oil companies and the basis for the transformation of state-owned oil exploration, production, distribution and refining enterprises into vertically-integrated private oil companies. Through this framework, most of Russia's production, processing and exploration companies were privatised by 1997.

Currently, Russian privatisation legislation is composed of a number of laws and regulations, the primary of which are the Civil Code of the Russian Federation (which establishes the general framework for privatisation transactions) and the Federal Law "On Privatisation of State and Municipal Property" of 21 December 2001, as amended (which sets specific requirements and procedures governing privatisation of state and municipal property).

The privatisation legislation permits challenges to privatisation transactions on the basis of a violation of applicable requirements and procedures. Pursuant to the amendments to the Civil Code introduced in July 2005, the statute of limitations for the invalidation of privatisations was decreased from ten to three years.

Regulatory Authorities

Responsibility for regulation of the Russian oil and gas industry has been reallocated as a result of the restructuring of federal executive bodies initiated by Presidential Decree No. 314 of 9 March 2004 ("Decree No. 314"). This restructuring has resulted in three broad categories of federal executive bodies: Ministries (which have rule-making authority and responsibility for overall strategy); Agencies (which have the authority to issue licences); and Services (which monitor compliance).

Prior to this restructuring, the MNR was the primary authority responsible for subsoil matters, including for issuing subsoil licences and monitoring compliance with subsoil licences. As a result of the recent changes, these powers have now been taken over by two bodies:

- The Federal Agency for Subsoil Use, under the jurisdiction of the MNR, 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 deposit development plans.
- The Federal Service for Supervision in the Area of Natural Resources, also under the jurisdiction of the MNR, oversees state control relating to subsoil management (including ecological expert reviews).

The Federal Service for Ecological, Technological and Nuclear Supervision, which reports directly to the Russian Government, is responsible for environmental issues and industrial safety compliance.

Prior to the restructuring of the federal executive bodies, the Ministry of Economic Development and Trade (the "MEDT") was responsible for production sharing agreements ("PSAs"). PSAs are commercial arrangements between the Russian Federation and investors relating to the sharing of production of oil and other mineral resources. The MEDT represented the Russian Government in most matters relating to PSAs, except for several aspects that were expressly reserved for the Russian Government. In addition, a PSA Commission,[1] which consisted of representatives of various ministries and governmental authorities, was responsible for coordinating PSA-related activities of federal executive bodies, executive authorities of the regions (i.e. constituent entities or "subjects" of the Russian Federation) and other companies and organisations. The PSA Commission was disbanded in April 2004.

On 16 June 2004 regulations setting out the functions and powers of the Ministry of Industry and Energy ("MIE") were introduced.[2] These regulations appointed the MIE as the "authorised body with respect to PSAs". The MIE Regulations do not specifically set out any PSA-related functions that would fall within its powers as an "authorised body".

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1 Government Resolution No. 1132 "On Measures to Secure Rights and Interests of the Russian Federation with respect to Concluding and Implementing Production Sharing Agreements", dated 2 September 1997.

2 Government Resolution No. 284, dated 16 June 2004 (the "MIE Regulations")

Legislative and Regulatory Framework

The licensing regime for exploration and production is established primarily by the Law "On Subsoil", dated 21 February 1992, as amended (the "Subsoil Law"), and the regulations issued pursuant to it (the "Subsoil Regulations"). Petroleum operations carried out under a PSA are governed by the Federal Law "On Production Sharing Agreements" of 30 December 1995, as amended (the "PSA Law"). Operations in offshore areas beyond the 12-mile territorial sea limit are separately governed by the Federal Law "On the Continental Shelf of the Russian Federation", dated 30 November 1995, as amended (the "Continental Shelf Law").

The Federal Law "On Gas Supply in the Russian Federation", dated 31 March 1999, as amended (the "Gas Supply Law"), and the Federal Law "On Natural Monopolies", dated 17 August 1995, as amended (the "Natural Monopolies Law") (together with the Subsoil Law), create a regulatory framework for natural gas exploration, production, transportation, storage and supplies. Under the Gas Supply Law, the federal authorities have substantial jurisdiction over natural gas supplies, including the development and implementation of state policy on the supply of natural gas, the regulation of strategic natural gas reserves, and control over the industrial and environmental safety of the natural gas supply systems. The Natural Monopolies Law recognises transportation of gas through pipelines as a natural monopoly and subjects entities involved in such activities to its regulation.

In June 2005 a new draft Subsoil Law was submitted by the Russian Government for the Parliament's consideration. However, reservations were expressed from various readers regarding the current version of the draft law. Subsequently, the MNR recalled the draft Subsoil Law to incorporate amendments concerning strategic deposits and provisions for the transitional period before the first reading in the Parliament could take place. It is the intention of the MNR to incorporate into the draft precise criteria for the determination of a "strategic deposit", in respect of which restrictions on foreign participation in exploration and development may be introduced. The se fields may include fields with balance reserves of crude oil of 70 million tones and more and gas fields with balance reserves of 50 bcm and more. There is no certainty that the suggested thresholds will not be further reduced before a new Subsoil Law is re-submitted to the Parliament. If adopted, this new law would substantially amend the regime established by the current Subsoil Law.

In addition, in July 2005 the MNR submitted to the Russian Government for consideration amendments to the current Subsoil Law. The draft amendments to the current Subsoil Law contain provisions that may restrict majority foreign owned or controlled companies (either directly or indirectly) and companies in which foreigners can nominate the majority of members of their governing bodies from participating in auctions and tenders for certain subsoil rights.

Licensing

Prior to January 2000, when substantial amendments to the Subsoil Law were introduced, exploration licences were typically granted for up to five years, while production licences were granted for up to twenty years and combined exploration/production licences were granted for up to twenty-five years. Pursuant to the Subsoil Law as currently in effect, the maximum term of an exploration licence is still five years, and the term of a production licence is as long as 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. The Subsoil Law does not expressly provide for a combined exploration/production term, but the subsoil use licensing authorities still issue combined licences for twenty-five years. A subsoil user may apply for an extension of an existing licence in order to complete exploration or development of the deposit or in order to complete liquidation/conservation measures, provided that such subsoil user has not violated the terms of its licence. As part of the licence renewal process, a subsoil user may be required to submit to the MNR/Federal Agency for Subsoil Use (or its regional department) a field development plan to justify the need to extend the licence.

Generally, production licences and combined licences are awarded by tender or auction. Until January 2005, tenders and auctions were held jointly by the Minister of Natural Resources/Federal Agency for Subsoil Use (or its regional department) and the relevant regional authority. Since January 2005, tenders and auctions have been conducted by the Federal Agency for Subsoil Use (or its regional department), which is responsible for forming the tender or auction commissions for such purposes. Representatives of the relevant regional authority are often allowed to participate in such tender or auction commissions. Until recently, the subsoil use licensing authorities organised tenders for the award of licences; however, this practice has changed recently, and auctions are now more commonly used to award production and combined licences.

The winner of a tender is generally the participant which submits the most technically competent, financially attractive and environmentally sound proposal that meets published tender terms and conditions. The winner of an auction is generally the participant that offers the highest one time (bonus) payment for the right to develop the subsoil resources.

Currently, exploration licences are generally awarded without a tender or auction by the special commission formed by the Federal Agency for Subsoil Use (or its regional department), which includes the participation of representatives of the relevant regional authority. The MN 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 the Federal Agency of Subsoil Use 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. Where more than one application is received with respect to an exploration licence, the Federal Agency for Subsoil Use sets up an auction for a combined licence (exploration and production) for the deposit. In the case where an exploration licence is issued, upon discovery of oil, a production licence is issued without a tender to a holder of an exploration licence. Before a subsoil user may begin development of the deposit pursuant to its licence, such subsoil user must obtain approvals from the relevant authorities with respect to its deposit development plan and obtain a mining allotment.

A subsoil licence may be transferred only under certain limited circumstances, including when the licencee changes its organisational form or legal status, merges with another legal entity, undergoes a division or spin off or (in certain circumstances) is deemed insolvent.

A licencee may also transfer its subsoil licence to a newly-created subsidiary established in order to carry out operations relating to a particular field, provided the following conditions are met: (i) the new subsidiary must be a Russian company; (ii) the property (physical assets) required to perform the operations (including the facilities located within the particular field) must be transferred to the new subsidiary; (iii) the new subsidiary must have obtained the permits (operational licences) necessary to carry out the operations; and (iv) at the time of the transfer of the subsoil licence, the original licencee must own at least 50% of the capital of the new subsidiary.

The licencee is ordinarily required to undertake certain commitments, including to maintain production at a certain level each year (applicable only to production and combined licence holders), to keep environmental pollutants within specified limits and to remedy environmental contamination. The licencee may also be obliged to fulfil certain social obligations in the licensing area, such as to pay certain compensation to local ethnic groups that populate the licensing area and provide them with other support. Failure to comply with the terms of the licence or with the provisions of the Subsoil Law or Subsoil Regulations can lead to fees and penalties, stoppages of production and suspension and/or revocation of the licence. The Federal Service for Supervision in the Area of Natural Resources currently oversees compliance with the terms of the licences.

If a subsoil licence is revoked, all oil and gas facilities in the relevant licensing area, including underground facilities, must be liquidated or undergo conservation. In accordance with both liquidation and conservation regulations, all mining facilities and oil and gas wells must be maintained at a level that is safe for the population, environment, buildings and other facilities. Conservation procedures must also secure the conservation of the relevant oil and gas field, mining facilities and wells for the full period of conservation.

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 Companies — Natural Resources Production Tax". In addition, the Subsoil Law and Subsoil Regulations 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), non-recurrent 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

A holder of a subsoil licence is generally granted rights to use the land which is the subject of the licence. Land use rights are generally obtained with respect to only those areas actually being used in the course of the relevant oil and gas operations.

Russian oil and gas companies generally use land on the basis of lease or "permanent (indefinite) use", although ownership and "gratuitous fixed-term use" are also available. Companies that use land on the basis of "permanent (indefinite) use" generally must purchase such land or convert such type of land use into a lease by concluding the relevant agreement with such owner of land by 1 January 2006.

Production Sharing Agreements

PSAs are commercial arrangements between the Russian Federation and investors relating to the sharing of production of oil and other mineral resources. Under the PSA Law, in exchange for relief from most types of taxes (except profits taxes), investors agree to give the Russian Government a share of the oil that it produces, generally after the investor has recovered its development costs.

The PSA Law governs petroleum operations carried out pursuant to PSAs. The PSA Law was signed into law by President Yeltsin in December 1995 and came into force in January 1996.[3] It established the principal legal framework for state regulation of PSAs relating to oil and gas field development and production. Under the PSA Law, the Russian Federation is represented (in its relations with investors under PSAs) by the federal government or the state bodies authorised by it. The PSA Law contains stabilisation rules purporting to protect investors against adverse changes in federal and regional laws and regulations.

The PSA Law provides that operations conducted under a PSA pursuant to the PSA Law will be governed by the PSA itself and will not be affected by contrary provisions of any other legislation, including the Subsoil Law. Furthermore, PSAs entered into by the Russian Federation prior to the enactment of the PSA Law (e.g., Sakhalin I, Sakhalin II and Kharyaga) are "grand-fathered" so that their provisions will be effective even if they are inconsistent with the PSA Law and certain other Russian legislation. Since its enactment, the PSA Law has been amended several times, with certain recent amendments significantly reducing the opportunities to develop fields on the basis of a PSA.

Crude Oil and Refined Product Transportation Regime

The trunk pipelines for transportation of crude oil and refined products in Russia are controlled by Transneft and Transneftprodukt, both state-controlled monopolies. The limited capacity of the pipeline network acts as a constraint on crude oil production in Russia and particularly affects the ability of producers to export crude oil. Furthermore, the pipeline facilities have not been well maintained in recent years. At present, the portion of the Transneft system dedicated to the export of crude oil is operating at or near capacity. Moreover, there are important capacity constraints in Russian oil-shipment terminals. Although there are government-sponsored and private programmes to improve pipeline and port capacity, it appears unlikely that the situation will improve significantly in the medium term.

Pursuant to the Natural Monopolies Law, pipeline and sea terminal access rights are allocated among oil producers and their parent companies in proportion to the volumes of oil produced and delivered to the Transneft pipeline system (and not in proportion simply to oil production volumes).[4]

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3 Federal Law No. 225-FZ "On Production Sharing Agreements", dated 30 December 1995, as amended (the "PSA Law").

4 Article 6 of the Federal Law No. 147-FZ "On Natural Monopolies", dated 17 August 1995 (as amended) (the "Natural Monopoly Law").

The Federal Energy Agency currently approves quarterly schedules that detail the precise volumes of oil that each oil producer can pump through the Transneft system. Once the access rights are allocated, oil producers generally cannot increase their allotted capacity in the export pipeline system, although they have limited flexibility in altering delivery routes. Oil producers are generally allowed to assign their access rights to others.[5]

Transneft has only a limited ability to transport individual batches of crude oil; generally, crude oil of differing qualities is blended in the Transneft system. Transneft does not currently operate a "quality bank", whereby companies shipping heavy and sour crude would compensate the shippers of higher-quality crude oil for the deterioration in the quality of crude oil arising from blending, although proposals for such a "quality bank" have been floated and are currently being discussed internally at Transneft.

Transneft's tariffs for using its pipelines are subject to oversight by the Federal Tariff Service.[6] Among other things, the Federal Tariff Service is charged with determining the tariffs for the gas industry and the transportation of crude oil and petroleum products in the trunk pipelines.

Natural Gas Supply and Transportation

Single Gas Supply System

The Gas Supply Law establishes as law the Single Gas Supply System ("SGSS") currently owned and operated by the state monopoly Gazprom. The SGSS is the centralised centre for natural gas production, transportation, storage and supply throughout Russia.

The Gas Supply Law requires the owner of the SGSS (Gazprom) to ensure the reliable supply of natural gas within Russia, to maintain and to develop the SGSS network, to monitor the operation of the SGSS facilities, to procure the use of equipment and processes for energy efficiency and environmental safety for the SGSS, to ensure industrial safety within the SGSS and to undertake disaster management.

The Gas Supply Law also regulates the ownership of shares in Gazprom. Until January 2006, foreign individuals and companies were not permitted to own more than 20 percent of its capital. The amendments to the Gas Supply Law that were adopted in December 2005 abolished the 20% limit on the foreign shareholding in Gazprom and established a new requirement that the State or state companies (i.e., companies, in which capital the Russian Federation has more than a 50% stake) must own not less than 50% plus one share in Gazprom.

Transportation of Gas

The relationship between natural gas suppliers and purchasers is governed by the Regulation On Natural Gas Supplies within the Territory of the Russian Federation.[7] Certain categories of purchasers have a priority right to enter into natural gas supply agreements, i.e. those purchasers that purchase natural gas for state needs and municipal/domestic services. Purchasers extending their existing natural gas supply agreements are also given priority.

Gazprom is required to give independent suppliers access to the SGSS.[8] However, this obligation is subject to the availability of spare capacity in SGSS, the natural gas from independent suppliers meeting certain quality specifications, and the availability of connecting and branch pipelines to consumers.

If consumers fail to make payments for natural gas supplies and transportation services, suppliers have the right to limit or suspend their natural gas supplies in accordance with specific procedures (the Russian

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5 Article 1 of the Regulations on the Procedure for the Assignment of the Right of Access to the System of Major Oil Pipelines and Sea Port Terminals as Crude Oil is Exported Out of the Customs Territory of the Russian Federation, dated 4 August 1995, as amended.

6 The 9 March 2004 Presidential Decree established the Federal Tariff Service as a successor to the Federal Energy Commission. Initially, the Federal Tariff Service was under MEDT; however, the 20 May 2004 Presidential Decree separated the Federal Tariff Service from MEDT and the Federal Tariff Service now reports directly to the Russian Government.

7 Resolution No. 162 of the Government of the Russian Federation "On Natural Gas Supplies within the Territory of the Russian Federation", dated 5 February 1998.

8 Resolution No. 858 of the Government of the Russian Federation "On Guaranteeing Access for Independent Organisations to the Gas Transport System of OAO "Gazprom"", dated 14 July 1997, as amended.

Government has issued a number of Resolutions regulating the restriction or suspension of supplies to certain customers, such as military institutions and fire prevention services).[9]

Price Regulation

Pricing is regulated by the General Provisions on Formation and State Regulation of Gas Prices and Tariffs for the Services of Gas Transportation.[10] The Federal Tariff Service establishes wholesale gas prices and tariffs for the transportation of gas by pipeline and regulates gas prices for sales to refineries. Gas prices are not subject to indexation according to crude oil prices. The prices may differ for different regions of the Russian Federation.

Imports and Exports

In the past, the Russian Government imposed seasonal limitations on the export of certain refined products (diesel, fuel oil, gasoline and kerosene). No such restrictions are applied at present.

To protect national economic interests, the Russian Government implements tariff regulations via the export duty. The amount of the export duty varies depending on the country's demand for oil products and the oil price.

Environmental

Two main laws govern environmental protection in Russia: the Environmental Protection Law[11] and the Ecological Expert Review Law.[12] These laws require that an environmental impact assessment be made prior to the implementation of a project related to the use of natural resources and allow construction and operation of an oil and gas facility only after a positive opinion of the ecological expert review has been received with respect to the relevant project documentation and activities. Companies are also required to obtain operational licences and permits authorising the discharge of pollutants into the air, water and soil under a "pay-to-pollute" regime.[13] If discharge exceeds permissible levels, a company is subject to fines calculated as a multiple of the original "fee" set for the discharge of pollutants.

The Environmental Protection Law contains environmental requirements for planning, design, construction, reconstruction and operation of production, refining, transportation, storage, processing and marketing. The Environmental Protection Law also deals with the production and circulation of potentially dangerous chemical and biological materials, including radioactive and other substances, and the use of chemical substances in forests. The Environmental Protection Law sets a 20-year statute of limitations for compensation claims related to environmental damage caused by violations of the Environmental Protection Law.

Continental Shelf and the Exclusive Economic Zone

Offshore hydrocarbon operations in areas on the continental shelf (generally within a 200 nautical mile limit) are separately governed by the Continental Shelf Law. Activities which take place on the continental shelf, including the drilling and laying of pipelines and the operation of oil and gas extraction facilities, fall under the jurisdiction of not only the Federal Service for Supervision in the Area of Natural Resources and other agencies operating within the auspices of the MNR, but also several other governmental entities, including the Federal Security Service, governmental technical oversight agency Federal Service for Ecological, Technological and Nuclear Supervision, and the Federal Fishery Agency.

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9 e.g. Resolution No. 364 of the Government of the Russian Federation "On Guaranteeing Stable Gas and Power Supply to the Organisations Financed from the Federal Budget and Providing for State Security", dated 29 May 2002, Resolution No. I of the Government of the Russian Federation "On the Proceeds for the Termination or Restriction of the Supply of Electric, Thermal Energy or Gas to Consumers Organisations in Case of Non-payment for Fuel and Energy Resources Provided to Them", dated 5 January 1998, as amended.

10 General Provisions on Formation and State Regulation of Gas Prices and Tariffs for the Services of Gas Transportation (approved by Resolution of the Government of the Russian Federation No. 1021, dated 29 December 2000, as amended).

11 Federal Law No. 7-FZ "On Environmental Protection", dated 10 January 2002 (the "Environmental Protection Law").

12 Federal Law No. 174-FZ "On Ecological Expert Review", dated 23 November 1995, as amended (the "Ecological Expert Review Law").

13 Article 23.4 of the Environmental Protection Law.

The "exclusive economic zone" of the Russian Federation is the marine area located from Russia's 12 mile territorial sea limit up to 200 nautical miles (or as otherwise provided by international law or treaty), including all islands located within this area. Oil and gas exploration and extraction activities that are carried out within this area are governed by the Federal Law "On Exclusive Economic Zone of the Russian Federation", dated 17 December 1998, as amended, in addition to the Subsoil Law, the Law on the Continental Shelf, the PSA Law (if applicable) and any international treaties to which the Russian Federation is a party.

The Exclusive Economic Zone Law focuses on protecting and monitoring the natural resources of the exclusive economic zone, including fish, sea mammals, molluscs and crustaceans, as well as minerals and tides. The Exclusive Economic Zone Law sets up a framework for protective measures with regard to dumping, accidents at sea, and protection and conservation of ice-bound and other specially designated areas. Users of resources in the exclusive economic zone must pay fees to the federal budget for such use.

Energy Charter Treaty

The Energy Charter Treaty ("ECT"), which entered into force in 1998, is a legally-binding multilateral treaty dealing specifically with inter-governmental cooperation and private investments in the energy sector on the European and Eurasian continents. Its origin was in the 1991 conference of the European Energy Charter, which was a political declaration of intent to open up the energy markets between Western Europe and the Soviet Union. To date, the ECT has been signed or acceded to by fifty-one states. Russia has signed but not yet ratified the ECT and, in accordance with the ECT, should apply the treaty provisionally pending ratification, wherever application of the ECT is not inconsistent with existing laws and regulations.

The ECT's provisions focus on five broad areas:

(1) the protection and promotion of foreign energy investments based on the extension of national treatment or most-favoured nation treatment (whichever is more favourable);

(2) free trade in energy materials, products and energy-related equipment (as defined in Annex EM of the treaty) based on WTO rules;

(3) freedom of energy transit through pipelines and grids;

(4) mechanisms for the resolution of state-to-state or investor-to-state disputes; and

(5) energy efficiency and related environmental aspects.

The ECT incorporates many WTO rules and principles and applies them directly to various aspects of trade and investment in energy products (the 1998 Amendment to the trade-related provisions of the ECT makes the relevant WTO rules applicable to contracting parties who are non-members of the WTO, pending admission).

Russia's promised ratification of the ECT hinges on the outcome of negotiations of the Transit Protocol, which would facilitate the transit of energy products on a non-discriminatory basis and establish transparency standards for setting transit tariffs. Given the large volume of oil and gas from the Caspian Sea and Central Asia, that transits Russia on its way to Europe, Russia has a particularly strong interest in seeing that the Transit Protocol takes its concerns into account (Gazprom is especially wary of the potential undermining of its monopoly status).

Kyoto Protocol

After years of uncertainty, Russia ratified the Kyoto Protocol[14] on 4 November 2004. The Kyoto Protocol came into effect on 16 February 2005, 90 days after the submission of Russia's ratification document to the United Nations.[15]

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14 Kyoto Protocol to the United Nations Framework Convention on Climate Change (the "Kyoto Protocol"). The Kyoto Protocol may be downloaded in English and Russian at http://unfccc.int/resource/convkp.html.

15 Article 25 of the Kyoto Protocol.

Under the Kyoto Protocol, Russia is entitled during the Kyoto compliance period (2008 through 2012) to emit as much emissions as it emitted during 1990, the base year for the Kyoto Protocol. Due to Russian industry's economic contraction during the 1990s, Russia's greenhouse gas emissions dropped by more than 30% from 1990 to 1998 and are now increasing only slightly.[16] In light of the slow economic growth of Russian industry, it is unlikely that Russia will reach its emissions output level of 1990 during the Kyoto Protocol compliance period. Therefore, the Russian Government most likely will not be required to impose restrictions on Russian companies in order to reduce its greenhouse gases to meet Kyoto Protocol quotas.

The Russian Federal Law "On the Ratification of the Kyoto Protocol to the UN Framework Convention on Climate Change", dated 4 November 2004, which ratifies the Kyoto Protocol, states that the Russian Federation "assumes that obligations binding the Russian Federation under the Protocol will have a serious impact on Russia's economic and social development".[17]

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, such as the Federal Law "On Collective Contracts and Agreements" of 11 March 1992, as amended; the Federal Law "On the Procedure of Settlement of Collective Labour Disputes" of 23 November 1995, as amended; the Federal Law "On Employment in the Russian Federation" of 19 April 1991, as amended; and the Federal Law "On the Fundamentals of Protection of Labour in the Russian Federation" of 17 July 1999, as amended.

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 limited-term employment contracts. However, an employment contract may 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 well as in other cases expressly identified by federal law.

An employer may terminate an employment contract only on the basis of the specific grounds enumerated in the Labour Code, including:

- liquidation of the enterprise or downsizing of staff;
- failure of the employee to comply with the position's requirements due to incompetence or health problems;
- systematic failure of the employee to fulfil his or her duties;
- any single gross violation by the employee of his or her duties; and
- provision by the employee of false documents or misleading information prior to entry into the employment contract.

An employee dismissed from an enterprise due to downsizing or liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, salary payments for a certain period of time.

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 dismiss mothers with a child under the age of three, single mothers with a child under the age of fourteen or other persons caring for a child under the age of 14 without a mother, other than due to liquidation of an enterprise, the health condition of such employee and for certain delinquent actions. An employment contract 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 the liquidation of an enterprise).

16 Source IEA; for further information please see: http://www.eia.doe.gov/emeu/cabs/russenv.html.

17 Paragraph 2 of the Federal Law 128-FZ, of 4 November 2004.

Any termination by an employer that is inconsistent with the Labour Code requirements may be invalidated by a court, and the employee may 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 termination and reinstatement (as well as for moral damages, should compensation be claimed by the employee).

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.

Annual paid vacation leave under the law is generally four weeks. The Labour Code contemplates additional paid vacation leave in a number of cases, including for work on an unlimited hours basis, work under harmful conditions and work in the Northern regions of Russia, etc. Companies may establish additional paid vacation leaves beyond the statutory minimums. TNK-BP employees who perform underground and open-pit mining operations or other 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 60 years for males and 55 years for females. However, the retirement age for male miners who have worked in underground mines for at least 10 years, and females who have worked in underground mines for at least seven years and six months, is 50 years and 45 years, respectively. Persons who have worked as miners in open-pit mines and/or underground mines for at least 25 years may also retire, regardless of age.

Salary

The minimum salary in Russia, as established by federal law, is calculated on a monthly basis and is currently 1,100 roubles (currently approximately U.S.$40). 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.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work 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 adequate grounds for termination.

Trade Unions

Although recent Russian labour regulations have curtailed the authority of trade unions, trade unions still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia. In this regard, TNK-BP management routinely interacts with trade unions in order to ensure the appropriate treatment of its employees and the stability of its business.

The activities of trade unions are generally governed by the Federal Law "On Trade Unions, Their Rights and Guaranties of Their Activity" of 12 January 1996, as amended (the "Trade Union Law"). Other applicable legal acts include the Labour Code of Russia, the Federal Law "On Collective Contracts and Agreements" of 11 March 1992, as amended, and the Federal Law "On the Procedure for Settlement of Collective Labour Disputes" of 23 November 1995, as amended, which provide for more detailed regulations relating to activities of trade unions.

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. National trade union associations, which coordinate activities of trade unions throughout Russia, are also permitted.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labour laws, collective contracts 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;
- participate in strikes; and
- monitor redundancy of employees 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. Employees who are members of trade unions or are officers of a trade union enjoy certain guarantees as well, such as:

- protection from being rendered "redundant" for those employees elected or appointed to the management of trade unions;
- protection from disciplinary punishment or dismissal on the initiative of the employer without prior consent of the management of the trade union and, in certain circumstances, the consent of the relevant trade union association;
- protection from losing job positions for those employees who stop working due to their election to the management of trade unions;
- protection from dismissal for employees who previously served in the management of a trade union for two years after the termination of the office term; and
- provision of the necessary equipment, premises and transportation vehicles by the employer for use by the trade union free of charge, if provided for by a collective bargaining contract or other agreement.

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 also 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.

To initiate a collective labour dispute, trade unions present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labour disputes are generally referred to mediation or labour arbitration.

The Trade Union Law provides that those who violate the rights and guaranties provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability. Although neither the Code of the Russian Federation on Administrative Misdemeanours of 30 December 2001, nor the Criminal Code of the Russian Federation of 13 June 1996, currently have provisions specifically relating to these violations, general provisions and sanctions may be applicable.

APPENDIX 11

GENERAL TAX REGIME RELATED TO RUSSIAN OIL & GAS COMPANIES

The Russian tax system includes federal (established by the federal authorities and applied to all entities doing business in Russia), regional (established by the Russian Tax Code and regional authorities and applied to entities registered or doing business in a particular region) and local (established by the Russian Tax Code and local authorities 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.

Profits Tax

The profit tax rate is currently 24%. The tax payment is split in the following proportion: 6.5% is subject to payment to the federal budget and 17.5% is payable to the regional budget.

The Tax Code permits the regional legislative bodies to decrease the rate of the profit tax payable to the regional budget from currently 17.5% to 13.5%. Thus the overall profit tax rate can be decreased from 24% to 20%.

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 can be depreciated on a straight-line or a double-rate declining balance method, using statutory life of the assets. In addition, a one-off depreciation in the amount of up to 10% is permitted for newly acquired or extended (modernised or reconstructed) fixed assets.

- *Subsoil licence expenses.* Expenses incurred in connection with obtaining a subsoil licence (including expenses for preliminary appraisal and audit of deposits, feasibility study, acquisition of geological information, tender or auction participation fees) are to be capitalised as intangible assets qualifying for depreciation over the term of a licence on a straight-line or a double-rate declining balance method. If no licence is obtained, these expenses are treated as deferred expenses deductible in even instalments over five years. Expenses for exploration of the subsoil licence area, including appraisal and prospecting deposits and acquisition of geological information, generally qualify for the deductbility. Upon completion of the exploration works, the relevant expenses can be deducted in even instalments over 12 months. If the exploration is unsuccessful, the deduction can be claimed after the relevant notification is filed with the responsible state authority. Expenses for preparation of the subsoil licence area and compensation payments for damages are deductible over up to five years; the relevant construction costs are usually deducted through depreciation of capitalised fixed assets.

- *Deductibility of interest expense.* Interest on a loan is deductible regardless of who the lender is and regardless of the purpose of the loan. However, for interest to be deductible, the loan must be economically justified and the interest rate must comply with (or may not vary by more than 20% from) the average interest rate for comparable loans, or, optionally, not exceed (i) 15% (if the loan is in a foreign currency) or (ii) the Russian Central Bank rate (currently 12%) multiplied by 1.1 (if the loan is in roubles).

- *Thin capitalisation.* The thin capitalisation rules provide for a 3:1 debt-to-equity ratio. The interest on the excessive portion of a loan (i.e., the excessive interest) is re-characterised as a dividend and, as such, is not deductible for the borrower's profit tax purposes and is subject to 15% dividend withholding tax. With effect from 1 January 2006, the thin capitalisation rules apply to (i) a loan obtained from a foreign company owning directly or indirectly more than 20% of the borrower's charter capital; (ii) a loan obtained from a Russian company which is, in accordance with Russian legislation, affiliated with a foreign company owning directly or indirectly more than 20% of the borrower's charter capital; and (iii) a loan whose repayment is secured in the form of a guarantee, surety or otherwise, by (a) a foreign company owning directly or indirectly more than 20% of the borrower's charter capital and/or (b) a Russian company which is, in accordance with Russian legislation, affiliated with the aforementioned foreign company.

It is unclear whether the Russian thin capitalisation rules (specifically, the non-deductibility of the excessive interest and the application of the 15% withholding tax[18] on this portion of interest) can be overridden by the applicable double taxation treaty.

- *General bad debt provisions.* Oil and gas companies are entitled to form bad debt provisions. If the relevant debt is overdue for more than 45 days, the profit tax deductbility is available for contributions into the provisions in the amount of 50% of the relevant debt, and if the relevant debt is overdue for more than 90 days, contributions into the provisions in the amount of 100% of the debt amount are deductible for profit tax purposes. However, the deductbility of contributions to bad debt provisions is limited to 10% of taxable income of the oil and gas company from realisation of goods (services, work). Unutilised provisions can be carried forward into the next year. Amounts of the bad debt provisions in excess of those required for the next year are to be included into the taxable income of oil and gas companies. If bad debt provisions are made, uncollectible debts are to be written- off against bad debt provisions. For profit tax purposes, uncollectible debts include (i) debts where the statute of limitations (which is, under Russian law, three years) has expired, (ii) frustrated debts, and (iii) debts against a liquidated debtor.[19]

- *Currency exchange profits and losses.* As a rule for financial accounting and tax purposes, receivables/liabilities payable in foreign currency are re-evaluated at each month/quarter and on their fulfilment/repayment date.[20]

- *Taxes.* Employment-related taxes and obligatory contributions and property related taxes are deductible from the taxpayers' taxable profits.

- *Loss carry-forward.* This allows taxpayers to offset tax losses against profits in future tax periods, is available over the next ten years, following the tax period, in which losses were incurred. In the year 2006, the amount of such carry-forwards may not exceed 50% of the annual tax base. This limitation will be abolished as of 1 January 2007.

Value Added Tax ("VAT")

VAT is a federal tax and is payable to the federal budget. VAT applies to Russian and foreign companies selling goods, performing works/services and transferring intellectual property rights insofar as the relevant "realisation" transactions are effected in Russia. VAT is also imposed on the importation of goods into Russia.

Under the Russian place of supply rules, works/services are generally deemed to be performed in Russia if the relevant provider 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 assignment of patents, licences or trademarks (or granting patents, licences and trademarks for use)) 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).

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18 Section 4 of Article 269 and Section 3 of Article 284 of the Tax Code.

19 Article 266 of the Tax Code.

20 Section (11) of Article 250 and Section 1(5) of Article 265 of the Tax Code.

The standard VAT rate is 18%. A reduced rate of 10% applies to certain types of food stuffs, children's goods and medical goods. The 0% VAT applies to export of goods (including the export of oil and gas) from Russia.

The Tax Code also provides for VAT exemptions for certain types of transactions and business activities (including sale of land plots, sale of shares, banking activities, insurance services, provision of loans in monetary form, etc.). The VAT exemption generally implies, however, that the relevant seller of goods or provider of services is not entitled to input VAT offset. Further, VAT exemption is provided for import of technological equipment and their accessories and spare parts which are intended for transfer as in-kind contributions to the charter capital of a Russian company (in addition, when transferred by a foreign shareholder, goods qualified as fixed assets (but, not accessories and spare parts) are exempt from customs duties).

From 2006 VAT is determined on an accrual basis (i.e., upon delivery (transfer) of goods (works, services)). Advance payments received are treated as being subject to VAT as well.

A company that performs activities that are subject to VAT (including export of oil and gas or other goods outside Russia which are subject to 0% VAT) is generally allowed to set-off any input VAT paid for raw materials, equipment, goods or services. Input VAT may be claimed for offset provided that it is properly documented with a VAT invoice issued in a statutory format (a so-called *"factura-invoice")* and, in respect of imported goods or services provided by foreign companies which are not registered with the Russian tax authorities, actually paid to customs authorities or the tax authorities, respectively (through reverse-charge mechanisms). Where input VAT relates to export sales, the input VAT offset is allowed as soon as the export delivery outside of Russia and the receipt of export proceeds are evidenced (all required documentary evidences are to be submitted to the tax authority within 180 days after the placement of goods under the export customs regime).

Employment-related Taxes and other Obligatory Payments

Employment expenses, including salary payments, bonuses and other employee benefits, are subject to the following taxes and obligatory payments:

- **State Pension Fund Contributions**

State Pension Fund contributions are payable by employers at a regressive rate schedule from 14% to the fixed amount of 56,800 roubles, depending on the level of employee's annual wages.

- **Unified Social Tax**

Currently, the unified social tax is assessed on a gross payroll according to a regressive rate schedule ranging from 26% to 2%, depending on the level of employee's annual wages. The State Pension Fund contributions are credited against the unified social tax liability. It is paid solely by the employer and is payable with respect to all Russian-based employees (including non-Russian citizens).

- **Accident Insurance Contributions**

Employers are liable for obligatory contributions to the Social Security Fund for insurance of 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 (for example, the rate of 1.0% applies to oil exploration, 0.5% applies to oil production and 0.3% applies to oil refining). These contributions are assessed on a gross payroll.

- **Individual Income Tax**

The Individual income tax is withheld at a rate of 13% for Russian tax residents (individuals who spend at least 183 days in a calendar year in Russia) or at a rate of 30% for non-residents. As a general rule, the employer is liable for withholding income tax simultaneously with the payment of salary and other benefits to its employees.

Property-related taxes

The Tax Code imposes the following taxes on a company's property:

- **Land Tax**

The Land tax is a local tax and applies to owners of land at rates, established by the 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 permits municipal authorities to establish tax incentives for certain categories of taxpayers.

- **Property Tax**

The Property tax is a regional tax and is currently levied at the rate of up to 2.2% of the average annual book value of fixed assets (except for land) per annum. The property tax rate is established by regional legislative bodies. The Tax Code permits regional legislative bodies to establish tax incentives for certain categories of taxpayers.

- **Transportation Tax**

The Transportation tax is a regional tax payable by persons in whose name the taxable means of transport are registered at the tax rates established for each particular type of transport. Regional legislative bodies are permitted to establish tax incentives for certain categories of taxpayers.

Natural Resources Production Tax

From 1 January 2002 until 31 December 2006, the natural resources production tax with respect to crude oil (dewatered, desalted and stabilised oil) is based on the amount of oil produced. The tax rate applicable from 1 January 2005 until 31 December 2006 is 419 roubles per tonne of crude oil, subject to an adjustment using a special coefficient reflecting the dynamics of the world prices for Urals blend and the rouble/U.S.$ exchange rate. This coefficient is applicable on a quarterly basis and represents a ratio in which (i) the numerator is the product of (x) the rouble/U.S.$ average exchange rate for the tax period and (y) the difference between average world oil price per barrel for Urals blend for the tax period and U.S.$ 9 and (ii) the denominator equals 261.

Starting 1 January 2007 production of crude oil will be taxed at the rate of 16.5% of the value of extracted crude oil, which may be calculated by reference to actual sale prices of crude oil (less VAT, excise tax, export duty, and transportation and insurance expenses) or the deemed value of crude oil.

For other types of hydrocarbons, natural resources production tax is imposed at the following rates:

- for gas condensate from all types of deposits which has undergone separation and condensation and separation of light fractions and other impurities: at the rate of 17.5% levied on the value of the extracted quantity; and

- natural fuel gas from all types of deposits, except for associated gas: at the rate of 147 roubles per 1000 cubic metres of gas extracted.

Oil-related Export Duties

In early 1999, the government reintroduced export customs duties on crude oil and oil products. Following increases in world oil prices, the export customs duties have been steadily increasing. In September 2001 and in May 2004, the Law on Customs Tariff (the "Law on Customs Tariff") was amended to establish procedures for calculating the maximum rates of export customs duties for crude oil based on the average world price of Urals blend for the two preceding months. The rate of customs duties is changed on a bi-monthly basis (as of 1 February 2006 it amounts to U.S.$160.8 per tonne).

The schedule for the calculation of the rates as provided by the Law on Customs Tariffs is based on the metric tones as follows:

U.S.$ / metric tonne		U.S.$ //barrel (1 metric tonne = 7.3 barrels)	
Average Price	**Export Customs Duty**	**Average Price**	**Export Customs Duty**
< and including 109.5	0%	< and including 15	0%
>109.5 – including 146	35% x(P – 109.5)	15 – including 20	35 % x(P – 15)
>146 – including 182.5	12.78 + [45% x (P – 146)]	20 – including 25	1.75 + [45% x (P – 20)]
>182.5	29.2 + [65% x (P – 182.5)]	>25	4.00 + [65%x(P – 25)]

Note: The Urals crude oil blend price is calculated as the price for Urals blend on world markets (Mediterranean and Rotterdam) for the two months immediately preceding the current two-month period.

Payments for the Use of Subsoil

The Subsoil Law provides for the following types of payments related to the use of the subsoil:

- **One-time Payments**

One-time payments are due upon the occurrence of events specified and in the amounts indicated in the subsoil licence. Minimal (initial) one-time payments may not be less than 10% of the natural resources production tax with respect to the average annual projected production capacity.

- **Fees**

Fees for geological information on subsoil resources are established by the Russian Government. Fees are charged for the tender or auction participation, and for the issuance of the subsoil licence.

- **Regular Payments**

Regular payments are imposed for the use of the subsoil not connected with extraction of natural resources. Their amount depends on economic and geographical conditions, the size of subsoil licence area, type of minerals, the duration of works, the degree of previous geological studies and the degree of risk.

With respect to hydrocarbons, the regular payments may be established by the Federal Agency for Subsoil Use within the following limits determined by the Subsoil Law:

Type of payments for use of subsoil	Rates (amount in roubles per lm^2)
Payments for the right to explore and appraise oil fields	120 up to 360 (50 up to 150 for offshore areas)
Payments for the right to prospect for natural resources	5,000 up to 20,000 (4,000 up to 16,000 for offshore areas)
Payments for the right to construct and use underground facilities:	
• for storage of oil and gas condensate	3.5 up to 5 (per tonne)
• for storage of natural gas	0.2 up to 0.25 (per 1,000 m^3)

Excise Tax on Oil Products

The Excise Tax is applicable to gasoline, diesel fuel and motor oil at the following rates:

Type of goods	Amount in roubles per tonne
Gasoline with octane not exceeding "80"	2,657
Gasoline with octane exceeding "80"	3,629
Straight-run gasoline	2,657
Diesel fuel	1,080
Motor oil	2,951

APPENDIX 12
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 partnership 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 Notes other than a U.S. Holder.

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 Shares.

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 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 US Dollars or a currency, composite currency or basket of currencies other than US 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 be treated as foreign source income for U.S. federal income tax purposes. For U.S. foreign tax credit limitation purposes, interest on the Notes generally will constitute passive income, or, in the case of certain U.S. Holders, financial services income, which are treated separately from other types of income in computing the foreign tax credit allowable to U.S. holders under U.S. federal income tax laws. U.S. holders should note however, that the "financial services income" category will be eliminated for taxable years beginning after December 31, 2006. Thereafter the foreign tax credit limitation categories will be limited to "passive category income" and "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 is more than 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. Original Issue Discount Notes containing such features may be subject to rules that differ from the general rules discussed herein. Persons considering the purchase of Original Issue 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 Original Issue Discount Notes with a maturity upon issuance of more than one year 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 an Original Issue 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 an Original Issue 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 notes having a term of one year or less ("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 portio 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 US Dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described under "Payments of 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" and will not be required to include any OID, if any, in income. 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 includible 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.

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. Moreover, any loss realised by a U.S. Holder on such sale or retirement may be allocable to foreign source income by reference to the source of interest income on the Notes. 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 US 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.

In the case of payments to a foreign simple trust, a foreign grantor trust or a foreign partnership, other than payments to a foreign simple trust, a foreign grantor trust or foreign partnership that qualifies as a withholding foreign trust or a withholding foreign partnership within the meaning of the U.S. Treasury Regulations and payments to a foreign simple trust, a foreign grantor trust or a foreign partnership that are effectively connected with the conduct of a trade or business in the United States, the beneficiaries of the foreign simple trust, the persons treated as the owners of the foreign grantor trust or the partners of the foreign partnership, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from backup withholding tax and information reporting requirements.

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

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 was incorporated pursuant to the International Business Companies Act CAP 291 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

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 interest paid to individual Noteholders, 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, upon repayment of the principal or upon redemption 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 ''Savings Directive'') and several agreements concluded between Luxembourg and certain dependent territories of the European Union, a Luxembourg based paying agent (within the meaning of the Savings Directive) is required since 1 July 2005 to withhold tax on interest and other similar income paid by it to (or under certain circumstances, to the benefit of) an individual resident in another Member State, unless the beneficiary of the interest payments opts for the procedure of the exchange of information or for the tax certificate procedure.

The withholding tax rate is initially 15%, increasing steadily to 20% and to 35%. 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 other countries.

Luxembourg resident individuals

A 10% withholding tax has been introduced, as from 1 January 2006, on interest payments made by Luxembourg paying agents (defined in the same way as in the Savings Directive) to Luxembourg individual residents. Only interest accrued after 1 July, 2005 falls within the scope of the withholding tax. This withholding tax represents the final tax liability for the Luxembourg individual resident taxpayers.

Taxation of the Noteholders

Taxation of Luxembourg non-residents

Taxation of Luxembourg non-residents Noteholders who are non-residents of Luxembourg and who have neither a permanent establishment nor a fixed base of business in Luxembourg with which the holding of the Notes is connected are not liable to 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 residents

Luxembourg resident individuals

The 10% Luxembourg withholding tax (see above "Withholding tax - Luxembourg resident individuals") represents the final tax liability on interest received for the Luxembourg resident individuals. For individual Luxembourg resident Noteholders, receiving the interest as income from their professional asset, the 10% Luxembourg withholding tax levied is credited against their final tax liability. They will not be liable for any Luxembourg taxation on income on repayment of principal.

Luxembourg resident individual Noteholders or non-resident individual Noteholders who have a fixed base of business in Luxembourg with which the holding of the Notes is connected 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 redemption of the Notes, individual Luxembourg resident Noteholders or non-resident individual Noteholders who have a fixed base of business in Luxembourg with which the holding of the Notes is connected must however include the portion of the redemption price corresponding to accrued but unpaid interest in their taxable income.

Luxembourg resident companies

Luxembourg resident corporate (sociétés de capitaux) Noteholders or foreign entities of the same type which have a permanent establishment in Luxembourg with which the holding of the Notes is connected, must include in their taxable income 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.

Luxembourg resident companies benefiting from a special tax regime

Luxembourg resident corporate Noteholders which are companies benefiting from a special tax regime (such as holding companies subject to the law of 31 July 1929 and undertakings for collective investment subject to the law of 20 December 2002) are tax exempt entities in Luxembourg, and are thus not subject to any

Luxembourg tax (i.e., corporate income tax, municipal business tax and net wealth tax) 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 inheritance taxes are 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 a directive on the taxation of savings income in the form of interest payments (the "EU Savings Tax Directive"). From 1 July 2005, each EU Member State is 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 resident in that other EU Member State; however, Austria, Belgium and Luxembourg will instead apply a withholding tax system for a transitional period in relation to such payments.

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 situate 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.

INDEX TO FINANCIAL STATEMENTS

TNK-BP INTERNATIONAL LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2005 AND 2004
AND FOR EACH OF THE YEARS IN THE THREE YEAR PERIOD
ENDED 31 DECEMBER 2005

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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 shareholders' equity present fairly, in all material respects, the financial position of TNK-BP International Limited and its subsidiaries as of 31 December 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended 31 December 2005 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 and International Standards on Auditing. 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.

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

Moscow, Russian Federation
30 May 2006

TNK-BP INTERNATIONAL LIMITED
Consolidated Balance Sheets
(expressed in millions of US Dollars, except as indicated)

	Note	31 December 2005	31 December 2004
Assets			
Cash and cash equivalents		1,321	477
Restricted cash	5	15	98
Accounts and notes receivable, net	7	5,205	3,657
Inventories	8	856	503
Other current assets		215	109
Total current assets		7,612	4,844
Long-term investments	9	1,893	1,785
Property, plant and equipment, net	10	11,704	11,050
Other long-term assets		318	459
Total assets		21,527	18,138
Liabilities and Shareholders' Equity			
Short-term debt and current portion of long-term debt	11	738	893
Trade accounts and notes payable		764	447
Other accounts payable and accrued expenses	12	791	599
Taxes payable	15	3,548	2,232
Dividends payable		1,549	-
Total current liabilities		7,390	4,171
Long-term debt	11	2,876	2,480
Asset retirement obligations	10	253	315
Deferred income tax liability	14	1,580	1,477
Other long-term liabilities		195	221
Total liabilities		12,294	8,664
Minority interest		866	755
Ordinary share capital (authorised and issued – 53,000 shares, USD 1.0 par value)	13	-	-
Additional paid-in capital		2,976	2,631
Retained earnings		5,391	6,088
Total shareholders' equity		8,367	8,719
Commitments and contingent liabilities	18	-	-
Total liabilities and shareholders' equity		21,527	18,138

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

Consolidated Statements of Income

(expressed in millions of US Dollars)

	Note	Year ended 31 December 2005	Year ended 31 December 2004	Year ended 31 December 2003
Revenues				
Sales and other operating revenues	16	30,025	17,097	12,065
Less: export duties		(7,389)	(2,561)	(1,372)
Less: excise taxes		(484)	(367)	(327)
Net revenues		**22,152**	**14,169**	**10,366**
Costs and other deductions				
Taxes other than income tax	15	5,540	3,046	1,929
Cost of purchased products		3,354	775	1,052
Transportation expenses		2,296	1,761	1,462
Operating expenses		2,060	1,731	1,336
Selling, general and administrative expenses		1,249	957	872
Depreciation, depletion and amortisation		1,206	1,039	814
Exploration expenses		88	160	70
Loss on disposals and impairment of assets		76	32	77
Total costs and other deductions		**15,869**	**9,501**	**7,612**
Other income and expenses				
Earnings from equity investments, net		823	645	477
Income from disposals of subsidiaries		766	-	-
Interest income and net other income		113	160	106
Exchange loss, net		(44)	(20)	(37)
Interest expense		(224)	(189)	(283)
Total other income and expenses		**1,434**	**596**	**263**
Income before income taxes and minority interest		**7,717**	**5,264**	**3,017**
Income taxes				
Current tax expense		2,849	1,273	405
Deferred tax expense (benefit)		54	(52)	(178)
Total income tax expense	14	**2,903**	**1,221**	**227**
Income before minority interest and cumulative effect of change in accounting principle		**4,814**	**4,043**	**2,790**
Minority interest		70	37	214
Income before cumulative effect of change in accounting principle		**4,744**	**4,006**	**2,576**
Cumulative effect of change in accounting principle	3	-	-	226
Net income		**4,744**	**4,006**	**2,802**

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

Consolidated Statements of Cash Flows

(expressed in millions of US Dollars)

	Note	Year ended 31 December 2005	Year ended 31 December 2004	Year ended 31 December 2003
Cash flows from operating activities				
Net income		4,744	4,006	2,802
Adjustments to reconcile net income to net cash provided by operating activities:				
Cumulative effect of change in accounting principle	3	-	-	(226)
Depreciation, depletion and amortisation		1,206	1,039	814
Deferred income tax expense (benefit)		54	(52)	(178)
Minority interest		70	37	214
Loss on disposals and impairment of assets		76	32	77
Income from disposals of subsidiaries		(766)	-	-
Earnings from equity investments less distributions		(181)	(199)	(185)
Non-cash provisions		36	208	99
Dry hole expenses		15	87	-
Other non-cash adjustments, net		2	28	4
Changes in operational working capital, excluding cash:				
Accounts and notes receivable		(1,521)	(961)	(228)
Inventories		(387)	(50)	82
Accounts and notes payable		488	(3)	152
Taxes payable		1,291	484	588
Other		(85)	31	67
Net cash provided by operating activities		**5,042**	**4,687**	**4,082**
Investing activities				
Capital expenditures		(1,764)	(1,293)	(849)
Proceeds from disposals of property, plant and equipment		31	34	-
Purchase of Rospan shares		-	(355)	-
Purchase of additional interests in consolidated subsidiaries	4	-	(59)	(992)
Purchase of investments		(24)	(46)	-
Proceeds from maturity of securities		-	181	141
Proceeds from sales of subsidiaries and joint ventures	4	1,039	24	-
Acquisition of Slavneft	9	-	-	(933)
Purchase of equity affiliates		-	-	(47)
Loans repaid		111	-	-
Loans issued		(9)	(149)	-
Net cash used for investing activities		**(616)**	**(1,663)**	**(2,680)**
Financing activities				
Proceeds from issuance of long-term debt		1,100	1,025	1,356
Repayment of long-term debt		(747)	(891)	(1,671)
Repayments of indebtedness related to Sidanco acquisition		-	-	(274)
Proceeds from issuance of short-term debt		530	526	359
Repayment of short-term debt		(619)	(80)	(490)
Change in restricted cash to secure long-term debt	5	84	17	(52)
Dividends paid to shareholders		(3,901)	(3,854)	(594)
Repurchase of bonds		-	-	(87)
Dividends paid by subsidiaries to minority interests		(17)	-	(228)
Net cash used for financing activities		**(3,570)**	**(3,257)**	**(1,681)**
Effect of exchange rate changes on cash and cash equivalents		(12)	15	27
Net change in cash and cash equivalents		**844**	**(218)**	**(252)**
Cash and cash equivalents at beginning of period		477	695	947
Cash and cash equivalents at end of period		**1,321**	**477**	**695**

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

(expressed in millions of US Dollars, except as indicated)

	Number of ordinary shares (thousands)	Ordinary share capital	Additional paid-in capital	Retained earnings	Total shareholders' equity
Balance at 31 December 2002	50	-	1,384	3,728	5,112
Net income		-		2,802	2,802
Shareholders' contribution (Note 4)		-	1,210	-	1,210
Dividends (Note 13)		-		(594)	(594)
Balance at 31 December 2003	50	-	2,594	5,936	8,530
Net income	-	-	-	4,006	4,006
Shareholders' contribution (Note 9)	-	-	37	-	37
Shares issued	3	-	-	-	-
Dividends (Note 13)	-	-	-	(3,854)	(3,854)
Balance at 31 December 2004	53	-	2,631	6,088	8,719
Net income	-	-	-	4,744	4,744
Reorganization of subsidiaries (Note 4)	-	-	345	-	345
Dividends (Note 13)	-	-	-	(5,441)	(5,441)
Balance at 31 December 2005	53	-	2,976	5,391	8,367

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

Note 1: Organisation

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.

Effective 29 August 2003, the Alfa Group and the Access-Renova Group (jointly "AAR") and BP formed TNK-BP Limited ("TNK-BP"), a British Virgin Islands company 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 100.0 percent interest in TNK-BP International, which in turn owned a 96.1 percent interest in OAO Tyumen Oil Company ("TNK") and a 100.0 interest in Sborsare Management Limited, which in turn effectively held a 68 percent interest in OAO Sidanco ("Sidanco"). BP contributed its 29.6 percent interest in Sidanco, 33.4 percent interest in OAO RUSIA Petroleum ("RUSIA") and 75.0 percent interest in 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.

Note 2: Basis of Presentation

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

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

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

Reporting and functional currency. The Company's and all its subsidiaries' functional currency is the US dollar as a significant portion of the Group's business is conducted in US dollars and management uses the US dollar 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 or the Ukrainian Hryvnia depending on the location and nature of the activities of the particular business, in which case their transactions and balances have been remeasured into US dollars in accordance with the relevant provisions of Statement of Financial Accounting Standards No. 52, *Foreign Currency Translation*. Consequently, monetary assets and liabilities are translated at closing exchange rates and non-monetary items are translated at historic exchange rates and adjusted for any impairment. The consolidated statements of income and cash flows have been translated at the average exchange rates for 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 losses in the accompanying consolidated statements of income.

Exchange restriction and controls. Exchange restrictions and controls exist relating to converting Russian Roubles to other currencies. At present, the Russian Rouble is not a convertible currency outside the Russian Federation. Future movements in the exchange rates between the Russian Rouble and the US dollar will affect the carrying value of the Group's Russian Rouble denominated monetary assets and liabilities. Such movements may also affect the Group's ability to realise non-monetary assets represented in US dollars in these consolidated financial statements. As of 31 December 2005, 2004 and 2003 exchange rates were 28.78, 27.75 and 29.45 Russian Roubles to the US dollar, respectively.

Any translation 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.

Note 3: Summary of Significant Accounting Policies

Principles of consolidation. The consolidated financial statements include the operations of all entities in which the Group directly or indirectly owns or controls more than 50 percent of the voting stock. Joint ventures and investments in which the Group has voting ownership interests between 20 and 50 percent and 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 realisable value and include value-added and excise taxes which are payable to tax authorities upon collection of such receivables.

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

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

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.* SFAS No. 144 requires long-lived assets with recorded values that are not expected to be recovered through future cash flows to be written down to current fair value. Fair value is generally determined from estimated discounted future net cash flows.

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

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

Other property, plant and equipment 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 are capitalised.

Asset retirement obligations. The Group incurs retirement obligations primarily 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 generally not recorded for downstream facilities, because the Group currently plans to operate such assets in perpetuity.

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

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

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

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

Income taxes. Deferred income tax assets and liabilities are recognised for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, in accordance with SFAS No. 109 *Accounting for Income Taxes*. Deferred income tax assets and liabilities are measured using enacted tax rates in the years in which these temporary differences are expected to reverse. Included in this calculation are deferred income taxes for 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 this liability to the amount calculated at enacted rates corresponding to the expected method of distribution. Valuation allowances are provided for deferred income tax assets when management believes it is more likely than not that the assets will not be realised.

Comprehensive income. Comprehensive income includes all changes in equity during a period except those resulting from investments by and distributions to the Company's shareholders. There is no difference between the Company's net income and comprehensive income for all periods presented.

Accounting changes. Effective 1 January 2003, the Group adopted Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* ("SFAS 143"). SFAS 143 addresses the accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 differs in several significant respects from the previous accounting employed by the Group. Prior to the adoption of SFAS 143, the Group accrued site restoration costs using the unit-of-production method of accounting.

Under SFAS 143, the Group recognises a liability for the fair value of an asset retirement obligation in the period in which it is incurred, and capitalises the associated asset retirement cost. In periods subsequent to initial measurement, the Group recognises period-to-period changes in the liability for an asset retirement obligation resulting from (a) the passage of time and (b) revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Certain downstream long-lived assets generally have indeterminate settlement dates for asset retirement since the Group intends to operate such assets in perpetuity. Accordingly, asset retirement obligations were not recognized for these assets, but may be in the future if and when such circumstances change.

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

In March 2005, the Financial Accounting Standards Board ("FASB") issued FIN No. 47, *Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143*. This interpretation clarifies that an entity is required to recognize a liability for a legal obligation to perform asset retirement activities when the retirement is conditional on a future event if the liability's fair value can be reasonably estimated. If the liability's fair value cannot be reasonably estimated, then the entity must disclose (1) a description of the obligation, (2) the fact that a liability has not been recognized because the fair value cannot be reasonably estimated, and (3) the reasons why the fair value cannot be reasonably estimated. FIN No. 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The adoption of this standard as of 31 December 2005 did not have a material impact on the Group's financial statements.

As of 31 December 2005 the Group adopted FASB Staff Position ("FSP") No. FAS 19-1, *Accounting for Suspended Well Costs*, which amended the guidance for suspended exploratory well costs in SFAS No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*. SFAS No. 19 requires costs of drilling exploratory wells to be capitalized pending determination of whether the well has found proved reserves. When a classification of proved reserves cannot yet be made, FSP No. FAS 19-1 allows exploratory well costs to continue to be capitalized when (1) the well has found a sufficient quantity of reserves to justify its completion as a producing well and (2) the enterprise is making sufficient progress assessing the reserves and the economic and operating viability of the project. FSP No. FAS 19-1 also requires provision of certain disclosures regarding capitalized exploratory well costs. The adoption of this pronouncement did not have a material impact on the Group's results of operations, financial position or liquidity.

Recent accounting standards. In November 2004, FASB Statement No. 151, *Inventory Costs*, an Amendment of ARB No. 43, (SFAS 151) was issued and became effective for the Group on 1 January 2006. The standard amends the guidance in Accounting Research Bulletin (ARB) No. 43, Chapter 4, *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and spoilage. In addition, the standard requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The adoption of this standard will not have a material effect on the Group's results of operations, financial position or liquidity.

Note 4: Shareholders' Contribution and Acquisitions and Disposals

Effective 29 August 2003, BP contributed its 29.6 percent effective interest in OAO Sidanco and its 33.4 percent interest in RUSIA to the Company. For financial accounting purposes, this transaction was treated as an acquisition by TNK-BP with the assets acquired and liabilities assumed recorded at fair value. The fair value of the net assets acquired amounted to USD 1,210 million. BP's 29.6 percent minority interest in Sidanco represented a majority of the value of BP's contribution. Since Sidanco was already a consolidated subsidiary of TNK Industrial, the primary impact of the transaction was a reduction in minority interest, an increase in property, plant and equipment and corresponding credits to deferred income taxes and additional paid-in capital.

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

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

Upon approval from the antimonopoly commission of the Russian Federation, the Group completed its acquisition of the remaining 56 percent of the share capital of Rospan Overseas Limited which is the sole shareholder of ZAO Rospan International for USD 355 million. This acquisition has been accounted for using the purchase method. Effective 19 October 2004 the Group consolidated its interests in ZAO Rospan

International and no longer uses equity method accounting. The purchase consideration of the assets acquired and liabilities assumed has been allocated based on their relative fair values.

In December 2005, the Company had completed two steps in its corporate restructuring program. The newly created holding company OAO TNK-BP Holding ("TBH") accessioned TNK, Sidanco and OAO ONAKO ("ONAKO"), key holding companies of TNK-BP International in Russia, and most of the minority shareholders in 14 key subsidiaries of the Group in Russia were consolidated within TBH through a voluntary share exchange program.

The voluntary share exchange program for the minority shareholders in the 14 key subsidiaries was completed in September 2005. As a result of the share exchange, approximately 70% of all minority interests in the participating subsidiaries exchanged their shares for the shares in TBH and received approximately a 2.5% interest in TBH.
The accession of TNK, Sidanco and ONAKO to TBH was completed on December 13, 2005. As the result of these accessions and the voluntary share exchange, minority shareholders received approximately 5% of the shares in TBH.

All purchases of minority interests have been treated as acquisitions and accounted for using the purchase method of accounting. The Company's subsidiary, TBH issued shares to acquire the minority interests in its subsidiaries resulting in an increase in shareholders' equity of USD 345 million.

In December 2005, Group companies entered into a contract with Russneft, a Russian oil and gas company, to sell their interests in a number of the Group's subsidiaries. The sale was completed on 21 December 2005 for cash consideration in the amount of USD 832 million. The Group recognized a gain of USD 746 million in relation to this transaction, which is included in income from disposals of subsidiaries in the consolidated statement of income.

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

As of 31 December 2005 and 2004 restricted cash included cash deposits used to secure bank debt and open letters of credit.

As of 31 December 2005 and 2004 cash balances included accounts denominated in Russian Roubles of USD 264 million and USD 294 million, respectively.

During the years ended 31 December 2005, 2004 and 2003, cash payments of interest totalled USD 236 million, USD 227 million and USD 332 million, respectively, and payments of income tax totalled USD 1,974 million, USD 1,373 million and USD 392 million, respectively.

Note 6: Financial and Derivative Instruments

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

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

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

(expressed in US Dollars, tabular amounts in millions)

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

Long-term debt. Loans under bank arrangements have variable interest rates that reflect currently available terms and conditions for similar debt. The carrying value of this debt is a reasonable approximation of its fair value. For corporate bonds issued, the future cash flows, discounted at the Group's incremental borrowing rate, or quoted market prices for exchange traded securities were used to determine fair value. As of 31 December 2005 and 2004, these bonds have a fair value of approximately USD 872 million and USD 921 million, while the carrying values are USD 810 million and USD 824 million, respectively.

Derivative instruments. In connection with the Group's Eurobond offering in November 2002 (see Note 11), the Group entered into an interest rate swap. Under the terms of the swap agreement, net cash payments, based on the difference between the fixed interest rate of 3.4943 percent and the US dollar LIBOR floating interest rate percentage by reference to the entire principal amount of USD 700 million are made semi-annually through November 2007. The fair values of the interest rate swap as of 31 December 2005 and 2004 were not material.

The Group does 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 statement of income as interest income and net other income. The net result of the Group's derivative instrument activity in 2005, 2004 and 2003 was a loss of USD 13 million, a gain of USD 11 million and a loss of USD 1 million, respectively.

Note 7: Accounts and Notes Receivable, Net

	31 December 2005	31 December 2004
Trade accounts and notes receivable (net of allowance for doubtful accounts of USD 26 million and USD 24 million as of 31 December 2005 and 2004, respectively)	1,243	644
Recoverable value-added tax	2,636	1,944
Advances issued	788	393
Taxes receivable	380	498
Other receivables (net of allowance for doubtful accounts of USD 8 million and USD 16 million as of 31 December 2005 and 2004, respectively)	158	178
Total accounts and notes receivable, net	5,205	3,657

Note 8: Inventories

	31 December 2005	31 December 2004
Crude oil and petroleum products	556	247
Materials and supplies	300	256
Total inventories	856	503

Note 9: Long-Term Investments

	31 December 2005	31 December 2004
Advances to and investments in affiliates and joint ventures:		
OAO NGK Slavneft ("Slavneft")	1,803	1,704
Other	63	55
Total advances to and investments in affiliates and joint ventures	1,866	1,759
Long-term investments, at cost	27	26
Total long-term investments	1,893	1,785

(expressed in US Dollars, tabular amounts in millions)

Slavneft. In January 2003, the Group along with companies affiliated with Sibneft paid a purchase price of USD 1,860 million (USD 930 million related to the Group's ownership) which completed the acquisition of Slavneft as a result of the Russian and Belarussian Governments privatisation auctions which were held in December 2002, bringing Sibneft and TNK-BP's combined ownership interest in Slavneft to 99.6 percent. This ownership is divided equally between the Group and companies affiliated with Sibneft. Accordingly, the Group owns approximately 49.8 percent of Slavneft and accounts for this investment using the equity method of accounting. Additionally, during 2004 certain shareholders of the Group paid for costs associated with the Group's investment in Slavneft in the amount of USD 37 million. Accordingly, the Group has recorded this payment as a capital contribution with a corresponding increase to the Group's investment in Slavneft.

The Group's earnings from its equity investment in Slavneft for the years ended 31 December 2005, 2004 and 2003 amounted to USD 742 million, USD 573 million and USD 428 million, respectively. The Group's share of dividends declared by Slavneft and its subsidiaries during 2005, 2004 and 2003 was USD 657 million, USD 399 million and USD 231 million, respectively.

For the years ended 31 December 2005, 2004 and 2003 the Group received cash dividends from other equity investments of USD 73 million, USD 47 million and USD 57 million, respectively.

Slavneft's consolidated balance sheet information as of 31 December 2005 and 2004 is as follows:

	31 December 2005	31 December 2004
Current assets	1,219	1,540
Property, plant and equipment	4,061	3,351
Other non-current assets	226	258
Total Assets	5,506	5,149
Current liabilities	996	910
Long-term debt	171	206
Other long-term liabilities	529	545
Total Liabilities	1,696	1,661

Slavneft's consolidated statement of income information for the years ended 31 December 2005, 2004 and 2003 is as follows:

	Year ended 31 December 2005	Year ended 31 December 2004	Year ended 31 December 2003
Revenues	7,532	6,124	3,399
Income before income taxes	2,271	1,801	978
Less income taxes	711	582	114
Net Income	1,560	1,219	864

(expressed in US Dollars, tabular amounts in millions)

Note 10: Property, Plant and Equipment and Asset Retirement Obligation

	Cost	Accumulated DD&A	Net book value
Oil and gas properties and equipment - proved	11,278	(2,998)	8,280
Oil and gas properties and equipment - unproved	592	-	592
Refining and related equipment	1,059	(275)	784
Oil field services properties and equipment	835	(462)	373
Other assets	323	(86)	237
Assets under construction	1,438	-	1,438
Balance as of 31 December 2005	15,525	(3,821)	11,704

	Cost	Accumulated DD&A	Net book value
Oil and gas properties and equipment - proved	10,125	(2,523)	7,602
Oil and gas properties and equipment - unproved	751	-	751
Refining and related equipment	1,077	(305)	772
Oil field services properties and equipment	799	(365)	434
Other assets	383	(102)	281
Assets under construction	1,210	-	1,210
Balance as of 31 December 2004	14,345	(3,295)	11,050

The Group's oil and gas fields are situated on land belonging to governmental authorities. The Group obtains licenses from such governmental authorities and pays exploration and production taxes to explore and produce oil and gas from these fields. These licenses expire up through 2038; however, they may be extended at the initiative of the Group provided it is in compliance with the license terms. Management expects to extend such licenses for properties expected to produce subsequent to their license expiry dates.

Asset retirement obligation is as follows:

Balance at 31 December 2003	281
Accretion expense	33
Liabilities incurred in the current period	1
Liabilities settled in the current period	-
Change in estimated costs and timing	-
Balance at 31 December 2004	315
Accretion expense	36
Liabilities incurred in the current period	1
Liabilities settled in the current period	(4)
Liabilities of disposed subsidiaries	(19)
Change in estimated costs and timing	(76)
Balance at 31 December 2005	253

Note 11: Debt

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

	31 December 2005	31 December 2004
Obligations to banks, US dollar denominated (composite variable interest: 2005 – Libor plus 1.1 percent, 2004 – Libor plus 2.4 percent)	437	526
Current portion of long-term debt	301	367
Total short-term debt and current portion of long-term debt	738	893

(expressed in US Dollars, tabular amounts in millions)

As of 31 December 2005 and 2004 short term debt is provided by International banks for funding working capital and is uncollateralized.

Long-term debt is as follows:

	31 December 2005	31 December 2004
Obligations to banks, US dollar denominated:		
Structured trade finance – variable interest debt	1,827	1,508
Medium-term finance – variable interest debt	500	-
Project finance – variable interest debt	13	50
US Ex-Im bank guaranteed – variable interest debt	-	334
US Ex-Im bank non guaranteed – variable interest debt	-	21
Corporate bonds:		
Eurobond – fixed interest debt	706	709
Russian Rouble denominated – fixed interest bonds	104	115
Other	27	110
Less: current portion of long-term debt	(301)	(367)
Total long-term debt	2,876	2,480

US dollar denominated structured trade finance. The Group has entered into various US dollar denominated credit facilities primarily for structured trade finance. These variable interest debt facilities bear composite interest at Libor plus 1.3 percent and are repayable through July 2010. They are collateralised by assignment of crude oil export contracts.

All outstanding structured long-term debt is subject to certain financial covenants stipulated by corresponding borrowing agreements. Among other things, these covenants require the Group to maintain certain financial ratios and limit the declaration of any dividends or other distributions to an amount which in aggregate does not exceed the Group's consolidated net income calculated in accordance with US GAAP relating to the financial year in which such dividend or distribution is proposed to be made. As further discussed in Note 18, the Group recorded a liability in 2005 amounting to USD 1,496 million, resulting in the amount of the Group's declared dividends during 2005 exceeding its consolidated net income for the year. The Group has received waivers from its creditors on collateralised outstanding debt and therefore all borrowings are classified in the consolidated statement of position in accordance with their original maturities.

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. Under the terms of the loan agreement the loan matures in three years and is repayable in one lump sum at the maturity date. The loan bears interest at LIBOR plus 0.7 percent and is uncollateralized. The loan amount outstanding as of 31 December 2005 was USD 500 million.

US Ex-Im Bank. In 2001 the Group, through TNK, entered into agreements with Commerzbank and JP Morgan Chase Bank to obtain US dollar denominated credit facilities for USD 334 million and USD 232 million, respectively. The loans were collateralised by certain crude oil export contracts, a lien on all movable property acquired with the loan proceeds and shares of TNK-Ryazan. The portions of each facility guaranteed by US Ex-Im Bank totalled USD 292 million and USD 232 million, were bearing interest at LIBOR plus 0.20 percent and LIBOR plus 0.125 percent, and were repayable in twelve equal semi-annual installments commencing June 2005 and fourteen equal semi-annual installments commencing December 2004, respectively. As of 31 December 2004, USD 334 million was drawn under these facilities. As of 31 December 2005, the loan was fully repaid.

The Commerzbank agreement also made available an unguaranteed facility for USD 42 million, bearing interest at LIBOR plus 2.0 percent and repayable in eight equal semi-annual installments commencing June 2005. As of 31 December 2004, USD 21 million was drawn under this facility. As of 31 December 2005, the loan was fully repaid.

(expressed in US Dollars, tabular amounts in millions)

Eurobonds. As of 31 December 2005 and 2004 the Group had USD 700 million of Eurobonds issued and outstanding. These Eurobonds bear interest at 11.0 percent per annum payable semi-annually, are uncollateralized and mature in November 2007. The Group has entered into an interest rate swap agreement in connection with this transaction. The fair values of the interest rate swap as of 31 December 2005 and 2004 were not material.

Russian Rouble denominated – fixed interest bonds. The Group through TNK placed two issues of coupon bearing corporate bonds with a face value of RR 3,000 million each. The bonds bear interest at 12.0 percent and 15.0 percent payable semi-annually and were placed at a USD 17 million discount. The remaining issue matures in 2006.

Aggregate maturities of long-term debt outstanding as of 31 December 2005 are as follows:

	31 December 2005
2007	1,057
2008	929
2009	618
2010	272
Total long-term debt	2,876

Note 12: Other Accounts Payable and Accrued Expenses

	31 December 2005	31 December 2004
Salaries payable and other related costs	258	220
Advances from customers	235	142
Interest accrued	30	42
Other	268	195
Total other accounts payable and accrued expenses	791	599

Note 13: Shareholders' Equity

The share capital of the Company comprises fifty-three thousand authorised, issued and outstanding ordinary shares of USD 1 par value

During the years ended 31 December 2005, 2004 and 2003 the Group declared dividends of USD 5,441 million, USD 3,854 million and USD 594 million, respectively.

Note 14: Income taxes

TNK-BP International is not subject to corporate income tax on a consolidated basis. 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, applying the specific provision for a foreign company 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 recognised for US GAAP financial reporting purposes and such amounts recognised for statutory tax purposes. Deferred income tax assets and liabilities primarily result from the difference between the carrying value of property, plant and equipment, working capital and liabilities associated with undistributed earnings of subsidiaries.

(expressed in US Dollars, tabular amounts in millions)

In 2004 the Group entered into an agreement with the Tyumen regional authorities which granted the Group a tax concession of four percent subject to the Group making qualified capital investments in the region. For the years ended 31 December 2005 and 2004, the Group's income tax expense in the accompanying financial statements includes a tax benefit relating to this tax concession of USD 227 million and 153 million, respectively. Management believes the Group met its required qualified investments during these years in order to receive the entire four percent tax concession.

The tax benefit discussed above is offset by non-deductible expenses and the additional tax provision discussed in Note 18, resulting in an effective tax rate of the Group of approximately 38 percent, 23 percent and 8 percent for the years ended 31 December 2005, 2004 and 2003, respectively.

For the year ended 31 December 2003, the Group's effective tax rate differs from the Russian statutory tax rate primarily due to the significant proportion of the Group's income accumulated in the Russian economic development zones where the tax rates are lower than the Russian statutory rate. Effective 1 January 2004, legislation was enacted which significantly reduced the tax benefits associated with the use of the Russian economic development zones.

Note 15: Taxes other than income tax and taxes payable

Taxes other than income tax for the years ended 31 December 2005, 2004 and 2003 comprise the following:

	Year ended 31 December 2005	Year ended 31 December 2004	Year ended 31 December 2003
Unified production tax	4,866	2,572	1,592
Tax penalties and interest	370	158	41
Unified social tax	162	144	119
Property tax	95	84	77
Non-reclaimable VAT expense	14	55	46
Other taxes	33	33	54
Total taxes other than income tax	5,540	3,046	1,929

Unified production tax. The rate for the tax is adjusted depending on the market price of Urals blend and the RR/USD exchange rate.

Current and long-term taxes payable as of 31 December 2005 and 2004 are as follows:

	31 December 2005	31 December 2004
Value-added tax	1,258	1,545
Income taxes	1,099	119
Unified production tax	457	226
Tax penalties and interest	453	209
Excise taxes	176	114
Current deferred income tax liability	55	19
Other taxes	68	50
Total taxes payable	3,566	2,282
Less: long-term taxes payable	(18)	(50)
Current taxes payable	3,548	2,232

(expressed in US Dollars, tabular amounts in millions)

Note 16: Revenues

Revenues for the years ended 31 December 2005, 2004 and 2003 comprise the following:

	Year ended 31 December 2005	Year ended 31 December 2004	Year ended 31 December 2003
Crude oil – export (Europe and CIS)	17,706	10,018	7,260
Crude oil – domestic	840	1,147	259
Petroleum products – export (Europe and CIS)	6,912	2,766	2,078
Petroleum products – domestic	4,032	2,679	2,050
Other revenues	535	487	418
Gross sales and other operating revenues	30,025	17,097	12,065

Note 17: Related Party Transactions

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

	31 December 2005	31 December 2004
Cash and cash equivalents with Alfa Bank	80	127
Promissory notes of Alfa Leasing outstanding	1	1

The Group has the following balances due to and for BP in the ordinary course of business:

	31 December 2005	31 December 2004
Accounts and notes receivable	17	62
Accounts and notes payable	-	7
Consulting, secondees and integration costs payable	66	70

In the ordinary course of business the Group has the following transactions with BP:

	Year ended 31 December 2005	Year ended 31 December 2004	Year ended 31 December 2003
Sales of crude oil for export	214	1,589	1,039
Volumes (millions of tons)	0.6	6.4	5.5
Sales of refined products for export	697	335	361
Volumes (millions of tons)	1.4	1.9	2.2
Secondees and integration costs expensed	112	92	36

In 2005 the Group began purchasing oil and oil products from its equity affiliate Slavneft, as noted below:

	As of and for the year ended 31 December 2005
Accounts and notes receivable	77
Accounts and notes payable	17
Sales of crude oil for export	15
Volumes (millions of tons)	0.1
Sales of refined products for export	80
Volumes (millions of tons)	0.2
Purchases of crude oil and petroleum products	1,050
Volumes (millions of tons)	4.9

In October 2004, the Group acquired 100 percent of the shares in OAO Payakha, OAO Suzun, OAO Russko-Rechenskoe and OOO Tagulskoe from Slavneft. The total cost of the interests acquired in these entities was USD 69 million. The companies hold oil and gas exploration and production licenses in Taymyrskiy AO and Yamalo-Nenetskiy AO.

(expressed in US Dollars, tabular amounts in millions)

Balances with other related parties are as follows:

	31 December 2005	31 December 2004
Advances to and receivables from other related parties	97	184
Accounts payable to other related parties	41	67

Transactions with other related parties are as follows:

	Year ended 31 December 2005	Year ended 31 December 2004	Year ended 31 December 2003
Sales of crude oil and petroleum products	354	204	12
Volumes (millions of tons)	0.9	0.5	0.1
Purchases of crude oil and petroleum products	570	622	656
Volumes (millions of tons)	1.9	3.3	4.6
Other sales	5	-	17
Other purchases	-	-	5

Note 18: Commitments and Contingent Liabilities

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

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

Gas production and marketing activities. Russian independent gas producers are currently only able to access the domestic gas transmission system subject to agreement with Gazprom, Russia's gas monopoly which owns and operates the system. The Russian Government is, however, discussing plans to allow Russian independent gas producers greater access to the gas transmission system, including to export gas through this system, and to gradually liberalise domestic gas prices. As of 31 December 2005 and 2004, the Group’s net investments in its gas producing subsidiaries amounted to USD 899 million and USD 816 million, respectively.

Taxation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent developments in the Russian environment suggest that the authorities are becoming more active in seeking to enforce, through the Russian court system, interpretations of tax legislation, in particular in relation to the use of certain commercial trading structures, 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.

No tax provision is accrued when, based on analysis of the current tax law, practice of the tax authorities and court precedents, management believes that the Group has complied with all tax laws and regulations and the Group’s tax, currency and customs positions will be sustained if challenged. Where management believe it is probable that a position can not be sustained, an appropriate amount has been accrued in the accompanying consolidated financial statements.

Tax audits. During 2004 and 2005 the Federal Tax Service (the "FTS") 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 (RUR 4 billion) including fines and penalty interest. Although during 2005 the Group successfully defended its position in the courts, the tax authorities continue to challenge the court rulings and therefore this claim is currently the subject of ongoing legal proceedings.

In February 2005, the Russian tax authorities presented tax acts, which, among other things, challenged the Group's internal transfer pricing activities in 2001; these totalled approximately USD 288 million (RUR 8 billion) including fines and penalty interest. Following objections presented by the Group, the amount of tax acts was reduced and the Russian tax authorities issued final decisions with respect to such tax acts in the total amount of approximately USD 7 million (RUR 183 million) including penalty interest. This amount was paid in August 2005.

The Russian tax authorities performed a repeat tax audit on TNK's 2001 activities and in April 2005 presented TNK with a tax act totalling approximately USD 578 million (RUR 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 (RUR 7 billion) including penalty interest and fines. In August 2005 the Group paid this amount in full.

In November 2005, a separate claim for 2001 was lodged in respect of profit tax concessions of a Group trading subsidiary in the amount of USD 340 million (RUR 9.8 billion). A tax decision in the same amount was received in January 2006 and is currently being challenged in the courts.

In December 2005 and February 2006, the FTS presented tax acts relating to 2002 and 2003 in respect of profit tax concessions claimed by TNK and Sidanco during the period. These acts amounted to USD 1,402 million (RUR 40.4 billion) and USD 442 million (RUR 12.7 billion), respectively. While the Group has filed objections with the tax authorities, no decisions have been received.

The tax environment in the Russian Federation is subject to frequent change, different and selective interpretations and inconsistent enforcement. In addition the Russian legal system may not be immune from economic, political or national influences and has little experience in interpreting new legislation and regulations. The above factors make it difficult to determine what amounts the Group will ultimately be required to pay upon the resolution of these tax audits. Management of the Group has assessed the Group's overall tax position with respect to the unresolved claims based on consideration of technical tax matters, the Group's experience in resolution of previous tax matters and an understanding of tax audit resolutions within the industry. Because of the preliminary stages of these tax claims in 2004 and because of the difficulties in determining tax claims in Russia as discussed above, management of the Group recorded a provision as of 31 December 2004 amounting to USD 123 million. During 2005 many of the 2001 claims were resolved and new claims for 2002 and 2003 were received. Based upon these additional developments management has recorded a liability as of 31 December 2005 amounting to USD 1,496 million (RUR 43 billion), related to the remaining open tax issues discussed above.

Oilfield licenses. The Group is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its oilfield licenses. Management of the Group correspond with governmental authorities to agree on remedial actions, if necessary, to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties or license limitation, suspension or revocation. The Group's management believes any issues of non-compliance will be resolved through negotiations or corrective actions without any materially adverse effect on the financial position or the operating results of the Group.

Environmental liabilities. The Group and its predecessor entities have operated in the Russian Federation for many years and certain environmental issues have arisen. Governmental authorities are continually considering environmental regulations and their enforcement and the Group periodically evaluates its obligations related thereto. As obligations are determined, they are recognized immediately, depending on their nature.

Based on management's current assessment the estimate of the Group's environmental obligations could range up to USD 300 million. The estimates used by management include uncertainties about a variety of factors including the extent of pollution, the technology to be used for remediation and the standards that will constitute an acceptable remediation. As additional information is available management will continue to adjust its estimated provision to an appropriate level. During the years ended 31 December 2005, 2004 and 2003 additional environmental liabilities of USD 24 million, USD 117 million and USD 41 million were accrued by the Group as operating expenses thereby increasing the Group's estimated environmental liability to USD 170 million and USD 158 million as of 31 December 2005 and 2004.

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

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

In February 2002, Norex Petroleum Limited filed a lawsuit against TNK and certain other defendants in the United States District Court for the Southern District of New York over the ownership of a company, which was owned by an affiliate of 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 ruled that Norex's complaint should not have been dismissed on jurisdiction and venue. The Group plans to petition the Court of Appeals for reconsideration of this decision and does not believe the resolution of the matter will have a significant adverse impact on the financial position or operating results of the Group.

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

In 2000, the Group acquired a 59.0 percent interest in LiNOS, a refining company, located in Eastern Ukraine in a privatisation auction. As of the date of acquisition, LiNOS was under external management appointed by the Supreme Arbitration Court of Ukraine on 6 September 2000 for a period of up to 10 years. The external manager was charged with restoring LiNOS to solvency through economic reform and restructuring the refinery's obligations. During the period of external management all claims against LiNOS were suspended. On 6 February 2003, the Ukrainian Court approved a plan by the external manager to restructure LiNOS. Under the restructuring plan, a new company, LINIK, was formed by the Group. In accordance with the plan the refining assets of LiNOS were contributed to LINIK, the Group and minority shareholders also contributed cash and their equity interests in LiNOS. In November 2003, the external manager obtained a final amicable agreement signed by the LiNOS creditors to indicate completion of the restructuring plan. Those creditors with valid claims against LiNOS when declared bankrupt were granted an equity interest in LINIK resulting in the bankruptcy proceedings being cancelled in December 2003. As a result of the restructuring plan, the Group's interest in LiNOS has been allocated to its investment in LINIK. In December 2003, creditors who were not part of the amicable agreement initiated a second bankruptcy against LiNOS. This bankruptcy was suspended in December 2003. Management estimates such claims could exceed USD 150 million. Management believes that the ultimate resolution of this matter will not have a material adverse impact on the financial position of the Group.

TNK-BP FINANCE S.A.
AUDITED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2005 AND FOR THE PERIOD FROM 11 APRIL 2005 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

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Report of the "Commissaire"

To the Shareholders of TNK-BP Finance S.A.
Luxembourg

Following our appointment by the Shareholders, we have audited the financial statements of TNK-BP Finance S.A. for the period from April 11, 2005 to December 31, 2005. The financial statements are the responsibility of the Management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the attached financial statements give, in conformity with the Luxembourg legal and regulatory requirements, a true and fair view of the financial position of TNK-BP Finance S.A. as of December 31, 2005 and of the results of its operations for the period then ended.

PricewaterhouseCoopers S.à r.l.
Réviseur d'entreprises
Represented by

Luxembourg, June 22, 2005

Simon

Günter Simon

R.C.S. Luxembourg B 65 477 - TVA LU17564447

BALANCE SHEET

AS AT 31 DECEMBER 2005

	Note	31 December 2005 USD
ASSETS		
Fixed assets		
Financial Assets		
Loans to group companies	3	500,000,000
Current assets		
Debtors		
Amounts owed by group companies		
a) becoming due and payable within one year		3,150,000
Other debtors	4	21,090
Cash at bank		39,962
Prepayments	5	16,343
		503,227,395
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Subscribed capital	6,7	40,067
Profit for the period		-
		40,067
Creditors		
Amounts owed to credit institutions	9	
a) becoming due and payable after more than one year		500,000,000
b) becoming due and payable within one year		3,150,000
Other Creditors		37,328
		503,227,395

The notes on pages 4 to 8 form part of these financial statements

M Bokuzos

PROFIT AND LOSS ACCOUNT

FOR THE PERIOD 11 APRIL 2005 TO 31 DECEMBER 2005

	Note	11 April 2005 to 31 December 2005 USD
CHARGES:		
Other external charges		50,917
Interest payable and similar charges		6,851,224
Income tax	11	10,271
Profit for the period		-
Total charges		**6,912,412**
INCOME:		
Other operating income		64,016
Income from loans forming part of the fixed assets a) derived from group companies		6,848,396
Total income		**6,912,412**

The notes on pages 4 to 8 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31st DECEMBER 2005

Note 1 - General

TNK-BP Finance S.A. ("the Company") was incorporated on 11 April 2005 in Luxembourg, as a société anonyme. The Company was established by its shareholders for the debt finance purpose of TNK-BP Group.

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.

It may in particular:

- 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;

- exercise all rights whatsoever attached to these securities and financial instruments;

- 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;

- make deposits at banks or with other depositaries and invest it in any other manner;

- 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 enumeration is enunciate and is not limitative.

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 31 July 1929. The first financial period begins at the incorporation of the company and ends on 31 December 2005.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31st DECEMBER 2005

Note 1 - General (cont.)

The Company ("the issuer") has issued a guaranteed debt issuance programme under which the issuer may issue and have outstanding at any time global medium term notes up to a maximum aggregate amount of USD 5 000 000 000.

The prospectus for this guaranteed debt issuance programme dated 7 September 2005 was approved by the "Commission de Surveillance du Secteur Financier".

The Company has received a support letter from TNK-BP International Limited as at December 31, 2005.

Note 2 - Accounting policies

The Company maintains its books in US Dollars ("USD"). The annual accounts are prepared in accordance with generally accepted accounting principles in force in the Grand-Duchy of Luxembourg.

2.1 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.

2.2 Current liabilities

Current liabilities are valued at nominal value.

2.3 Foreign currency translation

The Company holds its accounting records in US dollar as a significant portion of its shareholders' business is conducted in US dollars and management uses the US dollar 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 US dollar 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.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31st DECEMBER 2005

Note 3 - Loans to group companies

As at 31 December 2005, the Company's financial assets can be summarized as follows:

Company Name	Acquisitions for Period (USD)	Net Book Value (USD)
TOC Investments Corporation Loan	500,000,000	500,000,000
		500,000,000

Interest is payable on the loan at LIBOR + 0.7%. The loan is repayable three years from the date of the Facility Agreement being 16 September 2008. The loan is denominated in US Dollars.

Note 4 - Debtors

As at 31 December 2005 the outstanding debtor balance was USD 3 171 090. This is represented by the balance due from TNK-BP International Limited in respect of expenses incurred by the company as well as accrued interest of USD 3 150 000 on the loan grated to a group company.

Note 5 - Prepayments and accrued income

As at 31 December 2005 the prepayments balance was USD 16,343. This is represented by Mourant Luxembourg S.A. administration fee paid but related to 2006.

Note 6 - Shareholders' equity

	Share Capital (USD)	Profit and Loss Account (USD)	Legal Reserve (USD)
Shares issued 11 April 2005	40,067		
Profit of the period		-	
Contribution to legal reserve			-
Balance as at 31 December 2005	**40,067**	-	-

Note 7 - Subscribed share capital

The subscribed share capital is issued in EUR and represented by 31 shares fully paid up of EUR 1,000 each. Share capital was translated into USD at the exchange rate effective at the incorporation date.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31st DECEMBER 2005

Note 8 - 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 9 - Amounts owed to credit institutions

	(USD)
HSBC Bank plc	500,000,000
	500,000,000

The loan is guaranteed by TNK-BP International Limited. Interest is charged on the loan at LIBOR + 0.7%. The loan is repayable three years from the date of the Facility Agreement being 16 September 2008.

The loan is provided by a consortium of international banks for the general corporate purpose of the ultimate controlling party (Note 11). The loan is denominated in US Dollars.

Note 10 - Taxation

The Company is subject in Luxembourg to the general tax regulation applicable to all commercial companies. Income tax provision for 2005 amounted to USD 10,271.

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.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31st DECEMBER 2005

Note 12 - Subsequent Events

On 17 January 2006, the company borrowed USD 1,000,000,000 from Dresdner Bank AG under the terms of a Facility Agreement dated 23 December 2005. On the same date the company issued a loan to TOC Investments Corporation Ltd for USD 1,000,000,000.

Note 13 - Commitments and Contingent Liabilities

Economic and operating environment in the Russian Federation.

The Company's ultimate controlling party is TNK-BP Limited, incorporated in British Virgin Islands and operating in oil and gas industry primary located in Russian Federation and Ukraine. The Russian Federation and Ukraine continue to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of currencies that are not freely convertible in most countries outside of their territories, restrictive currency controls, and relatively high inflation.

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

ANNEX A: SUMMARY 2005 RESERVES REPORT OF DEGOLYER AND MACNAUGHTON

DeGolyer and MacNaughton
5001 Spring Valley Road
Suite 800 East
Dallas, Texas 75244

This is a digital representation of a DeGolyer and MacNaughton report.

This file is intended to be a manifestations of certain data in the subject report and as such are subject to the same conditions thereof. The information and data contained in this file may be subject to misinterpretation; therefore, the signed and bound copy of this report should be considered the only authoritative source of such information.

DeGolyer
and
MacNaughton

DeGolyer and MacNaughton
5001 Spring Valley Road
Suite 800 East
Dallas, Texas 75244

APPRAISAL REPORT
as of
DECEMBER 31, 2005
on
RESERVES
of
CERTAIN FIELDS
owned by
JSC TNK-BP

SEC CASE
SUMMARY

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DeGolyer and MacNaughton
5001 Spring Valley Road
Suite 800 East
Dallas, Texas 75244

APPRAISAL REPORT as of DECEMBER 31, 2005 on RESERVES of CERTAIN FIELDS owned by JSC TNK-BP

SEC CASE SUMMARY

FOREWORD

Scope of Investigation

This report presents an appraisal, as of December 31, 2005, of the extent and value of the proved crude oil and condensate and natural gas reserves of certain fields owned by JSC TNK-BP (also referred to as TNK-BP) through various subsidiary enterprises and an equity affiliate of TNK-BP. These various subsidiary enterprises and equity affiliate are presented herein in two subdivisions: TNK-BP – Consolidated and TNK-BP – JV. Included in the TNK-BP – Consolidated subdivision are the TNK-BP subsidiary enterprises Nizhnevartovskoye Neftedobyvaushee Predpriaytie (Nizhnevartovskoye NP), Novosibirskneftegaz, Orenburggeologiya, Orenburgneft, Orenburgnefteotdacha, Paiyakha, Radonezh Petroleum (Radonezh), Rospan International (Rospan), Rusia Petroleum Company (Rusia), Russko-Rechenskoye, Samotlorneftegaz, Suzun, Tagulskoye, TNK (HMAO) - Own Fields, TNK-Nizhnevartovsk, TNK-Nyagan, TNK-Uvat, Tyumenneftegaz, Udmurtneft, Varyoganneftegaz, Verkhnechonskneftegas, and Yugraneft Corporation (Yugraneft). Included in the TNK-BP – JV subdivision is the equity affiliate Vanyoganneft JV (Vanyoganneft). TNK-BP's interests in the subsidiary enterprises evaluated range from approximately 50 to 100 percent. TNK-BP's interest in the subsidiaries of the TNK-BP – Consolidated subdivision range from approximately

46 to 100 percent. TNK-BP's interest in Vanyoganneft is 47.2 percent. All of the fields evaluated are located in the Russian Federation and are held 100 percent by the respective subsidiary enterprise.

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 and condensate and gas to be produced from the fields after December 31, 2005. 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, 2005, 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. Prices and costs were provided in Russian rubles (R) or United States dollars (U.S.$). The exchange rate effective December 31, 2005, was R28.7825 per U.S.$1.00. All values were estimated in U.S. dollars, and all prices, costs, and revenue shown in this report are expressed in U.S. dollars. 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 TNK-BP future net revenue and TNK-BP 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. TNK-BP 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 TNK-BP net revenue. TNK-BP present worth is defined as TNK-BP 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 and condensate 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. James Dupree, Executive Vice President, Technology, TNK-BP.

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 by degree of proof 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

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 have been proved effective by actual tests in the area and in the same reservoir.

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, 2005, have been used to prepare the estimates shown herein. Gross production estimated through December 31, 2005, was deducted from gross ultimate recovery, when applicable, to arrive at the estimates of gross reserves.

Gas reserves estimated herein are reported as marketable-gas and sales-gas volumes. Marketable gas is defined as the total volume of gas to be produced from the reservoirs after reduction for field separation, usage, and losses but not from fuel usage. Marketable-gas reserves reported herein include fuel gas as estimated reserves. 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 field separation, usage, fuel, and losses. 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 (10^6ft^3) and millions of cubic meters (10^6m^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, except for Rospan, sales-gas reserves reported herein as proved reserves were estimated using annual sales volumes based on the lowest actual gas volumes sold during the past 2 years. Historical sales-gas volumes were reported by TNK-BP only at the subsidiary enterprise level and were not supplied for individual fields within the respective enterprises. Therefore, for purposes of reporting the estimated sales-gas reserves herein, 100 percent of the proved gas reserves for each subsidiary enterprise with historic gas sales was projected based on the lowest actual gas sales during the past 2 years as a maximum salable volume and was held constant until the subsidiary enterprise's proved reserves could not meet this level. At this point the projected salable volume was limited by the available gas for sale from the fields actually producing within the subsidiary enterprise. The initial sales-gas volumes were found to be typical of the historical gas sales in each of these enterprises. The proved reserves forecasts were not allowed to exceed the initial level for the duration of the economic life of these fields. Rospan sales-gas reserves reported herein as proved reserves were estimated using only 1 year of annual sales. For Rospan, certain other volumes (up to 90 billion cubic meters) would be susceptible to being classified as proved once certain conditions are met including the consummation of a long-term gas contract.

Oil and condensate reserves estimated are to be recovered by normal separation in the field. Estimates of oil and condensate are expressed in thousands of barrels (10^3bbl) and thousands of metric tons (10^3mt). In these estimates 1 barrel equals 42 U.S. gallons.

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, 2005. Values presented herein were estimated in U.S. dollars (U.S.$) using the December 31, 2005, Central Moscow Bank exchange rate of R28.7825 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 both a field price and a sales price for oil and condensate and gas. The field price is the price received at the wellhead upon which certain taxes were based. The sales price is a price realized from the sale of oil and condensate and gas to a third party. Both field and sales prices were based on information provided by TNK-BP.

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.

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 and condensate and gas were provided by TNK-BP.

Depreciation

Capital costs were amortized over a period of between 15 to 20 years depending on the type of asset beginning in the first year of the expenditure.

Abandonment Costs

Abandonment costs were provided by TNK-BP.

Taxes – A continuation of all regulatory practices approved or in place, as of December 31, 2005, 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 gas as follows:

Oil – Through 2006, the oil production tax was estimated using a reference rate of R419 per metric ton with an adjustment for the market price of oil. After 2006, oil production tax was estimated using a rate of 16.5 percent applied to the future gross revenue from oil sales less transportation costs.

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 estimated using a reference rate of R147 per thousand cubic meters of sales gas.

Profit Tax

Profit tax was estimated using a rate of 24 percent applied to taxable income. Taxable income was calculated by deducting transportation, operating expenses, depreciation, and other taxes from future gross revenue.

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 and condensate 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 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 Nizhnevartovskoye NP, Novosibirskneftegaz, Orenburggeologiya, Orenburgneft, Orenburgnefteotdacha, Paiyakha, Radonezh, Rospan, Rusia, Russko-Rechenskoye, Samotlorneftegaz, Suzun, Tagulskoye, TNK (HMAO) - Own Fields, TNK-Nizhnevartovsk, TNK-Nyagan, TNK-Uvat, Tyumenneftegaz, Udmurtneft, Varyoganneftegaz, Verkhnechonskneftegas, and Yugraneft 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. TNK-BP also owns interests in the Vanyoganneft equity affiliate included in the TNK-BP – JV subdivision. The total TNK-BP net proved oil and condensate and gas reserves, as of December 31, 2005, attributable to the subdivisions evaluated are estimated as follows, expressed in English and metric units. Oil and condensate volumes are expressed in thousands of barrels (10^3bbl) and thousands of metric tons (10^3mt). Gas volumes are expressed in millions of cubic feet (10^6ft^3) and millions of cubic meters (10^6m^3):

	TNK-BP Net Reserves					
	English Units			Metric Units		
Subdivision Classification	**Oil and Condensate (10^3bbl)**	**Marketable Gas (10^6ft^3)**	**Sales Gas (10^6ft^3)**	**Oil and Condensate (10^3mt)**	**Marketable Gas (10^6m^3)**	**Sales Gas (10^6m^3)**
TNK-BP – Consolidated						
Proved Developed	6,068,147	3,498,932	2,622,576	813,570	99,079	74,264
Proved Undeveloped	2,093,466	3,479,953	841,673	277,492	98,542	23,834
Total Proved	**8,161,613**	**6,978,885**	**3,464,249**	**1,091,062**	**197,621**	**98,098**
TNK-BP – JV						
Proved Developed	39,445	42,999	41,904	5,404	1,218	1,187
Proved Undeveloped	29,394	32,044	31,590	3,923	907	895
Total Proved	**68,839**	**75,043**	**73,494**	**9,327**	**2,125**	**2,082**

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 54-percent interest not owned by TNK-BP.

The estimated TNK-BP future net revenue and TNK-BP present worth attributable to the TNK-BP net proved reserves appraised, as of December 31, 2005, under the aforementioned assumptions concerning future prices and costs are summarized as follows, expressed in thousands of U.S. dollars (10^3 U.S.$):

Subdivision Classification	TNK-BP Future Net Revenue (10^3 U.S.$)	TNK-BP Present Worth at 10 Percent (10^3 U.S.$)
TNK-BP – Consolidated		
Proved Developed	64,962,418	30,789,419
Proved Undeveloped	17,612,557	5,760,973
Total Proved	**82,574,975**	**36,550,392**
TNK-BP – JV		
Proved Developed	407,862	275,973
Proved Undeveloped	242,016	68,643
Total Proved	**649,878**	**344,616**

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. TNK-BP values of the TNK-BP – Consolidated subdivision include up to 54-percent interest not owned by TNK-BP.

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 subdivision and 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: June 9, 2006

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