



U.S.\$400,000,000

11% Loan Participation Notes due 2007

*issued by, but without recourse to, Salomon Brothers AG
for the purpose of financing a loan to*

Joint Stock Company Tyumen Oil Company

such loan guaranteed by

TNK International Limited

Issue Price: 100%

Salomon Brothers AG (the "Bank") is issuing an aggregate principal amount of U.S.\$400,000,000 11% Loan Participation Notes due 2007 (the "Notes") for the sole purpose of financing a 5-year loan (the "Loan") to Joint Stock Company Tyumen Oil Company (the "Borrower") pursuant to a loan agreement dated 4 November 2002 (the "Loan Agreement") between the Bank and the Borrower unconditionally and irrevocably guaranteed (the "Guarantee") by TNK International Limited (the "Guarantor") pursuant to a guarantee agreement dated 4 November 2002 (the "Guarantee Agreement") between the Bank and the Guarantor. Subject as provided in the Trust Deed (as defined herein), the Bank will charge, by way of first fixed charge as security for its payment obligations in respect of the Notes and under the Trust Deed, its rights and interests as lender under the Loan Agreement and as a party to the Guarantee Agreement to The Law Debenture Trust Corporation plc., as trustee (the "Trustee"), for the benefit of the holders of the Notes (the "Noteholders") and will assign its administrative rights under the Loan Agreement and the Guarantee Agreement to the Trustee.

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Bank to make any such payment constitutes an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received by or for the account of the Bank pursuant to the Loan Agreement and/or the Guarantee Agreement. **Noteholders will be deemed to have accepted and agreed that they will be relying solely on the credit and financial standing of the Borrower and the Guarantor in respect of the financial service of the Notes.**

Interest on the Notes will be payable semi-annually in arrear on 6 May and 6 November of each year commencing on 6 May 2003, as described under "Terms and Conditions of the Notes-Interest." The Notes will bear interest at a rate of 11% per annum.

Except as set forth herein, payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes of the Federal Republic of Germany. The Loan may be prepaid at its principal amount, together with accrued interest, at the option of the Borrower upon the Borrower or the Bank being required to deduct or withhold any taxes of the Federal Republic of Germany or the Russian Federation from payments to be made by them in respect of the Notes or pursuant to the Loan Agreement, or following enforcement of the security created in the Trust Deed, upon the Trustee being required to deduct or withhold any taxes of the Russian Federation or the jurisdiction in which the Trustee is then resident. The Loan may also be prepaid in whole (but not in part) if it becomes unlawful for the Loan or the Notes to remain outstanding, as set out in the Loan Agreement, and thereupon (subject to the receipt of the relevant funds from the Borrower) the principal amount of all outstanding Notes will be prepaid by the Bank, together with accrued interest.

Investing in the Notes involves a high degree of risk. See "Risk Factors" beginning on page 21.

The Notes, the Loan and the Guarantee (collectively, the "Securities") have not been, and will not be, registered under the U.S. Securities Act of 1933 (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. The Notes will be offered and sold (a) within the United States to qualified institutional buyers (as defined in Rule 144A under the Securities Act ("Rule 144A")) that are also qualified purchasers as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940 (the "Investment Company Act") in reliance on the exemption from registration provided by Rule 144A (the "Rule 144A Notes") and (b) to certain persons in offshore transactions in reliance on Regulation S under the Securities Act (the "Regulation S Notes"). The Bank has not been and will not be registered under the Investment Company Act. The Notes are being sold in reliance on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Application has been made to list the Notes on the Luxembourg Stock Exchange. Application has also been made for the Rule 144A Notes to be designated as eligible for trading on The Portal Market of the NASDAQ Stock Market, Inc. ("PORTAL").

The Regulation S Notes and the Rule 144A Notes will be offered and sold in denominations of U.S.\$1,000, U.S.\$10,000 and U.S.\$100,000 or integral multiples thereof except that no Regulation S Note and no Rule 144A Note will be issued in an amount less than U.S.\$10,000. The Regulation S Notes will be evidenced by a global Note (the "Regulation S Global Note"), without interest coupons, which will be registered in the name of Citivac Nominees Limited as nominee of, and deposited on or about 6 November 2002 (the "Closing Date") with Citibank N.A., London office, as common depositary for, Euroclear Bank, S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). The Rule 144A Notes will be evidenced by a global Note (the "Rule 144A Global Note") and, together with the Regulation S Global Note, the "Global Notes"), without interest coupons, which will be registered in the name of Cede & Co. as nominee for, and deposited on or about the Closing Date with Citibank, N.A., London office, as custodian for, The Depositary Trust Company ("DTC"). Ownership interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear, Clearstream, Luxembourg and their respective participants. Notes in definitive form will be issued only in limited circumstances.

Joint Lead Managers

Credit Suisse First Boston

Merrill Lynch International

Schroder Salomon Smith Barney

International Managers

**Commerzbank Securities
Deutsche Bank**

**Moscow Narodny Bank Limited
WestLB**

Financial Adviser to the Borrower and the Russian Managers

**Alfa Bank
MDM Bank**

**Menatep SPB
Trust and Investment Bank**

The date of this Offering Circular is 4 November 2002

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In this Offering Circular, the following terms are used when referring to these entities:

- “TNK” refers to TNK International Limited and its consolidated subsidiaries, including Joint Stock Company Tyumen Oil Company;
- “TNK International” or the “Guarantor” refers only to TNK International Limited, a company incorporated under the laws of the British Virgin Islands; and
- “OAO TNK” or the “Borrower” refers only to Joint Stock Company Tyumen Oil Company, an open joint stock company incorporated under the laws of the Russian Federation.

Other than information relating to the Bank for which no representation or warranty is made by the Borrower or the Guarantor, the Borrower and the Guarantor, having made all reasonable enquiries, confirm that (i) this Offering Circular (the “Offering Circular”) contains all information with respect to the Borrower and the Guarantor and their subsidiaries, the Loan Agreement, the Guarantee Agreement and the Notes, which is (in the context of the issue and offering of the Notes) material; (ii) such information is true and accurate in all material respects and is not misleading in any material respect; (iii) any opinions, predictions or intentions expressed in this Offering Circular on the part of the Borrower and the Guarantor are honestly held or made, have been reached after considering all relevant circumstances, are based upon reasonable assumptions and are not misleading in any material respect; (iv) this Offering Circular does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the issue of the Notes) not misleading in any material respect; and (v) this Offering Circular does not contain any untrue statement of a material fact nor does it omit to state any material fact necessary to make the statements therein, in the light of the circumstance under which they were made, not misleading. Accordingly, save as set out below, the Borrower and the Guarantor accept responsibility for the information and statements contained in this Offering Circular other than information relating to the Bank. Salomon Brothers International Limited accepts responsibility for information in respect of the Bank. The sections entitled “Russian Federation — General Overview” and “Overview of the Russian Oil and Gas Industry” have been extracted from publicly available data, and the Borrower and the Guarantor accept responsibility for accurately extracting such data but accept no further responsibility in respect of such information.

No person has been authorised in connection with the offering of the Notes to give any information or make any representation regarding the Borrower, the Guarantor, the Bank, and the Notes other than as contained in this Offering Circular. Any such representation or information must not be relied upon as having been authorised by the Bank, the Borrower, the Guarantor, the Trustee or the Managers (as defined in “Subscription and Sale”). The delivery of this Offering Circular at any time does not imply that the information contained in it is correct as at any time subsequent to its date.

The Managers do not make any representation or warranty, express or implied, as to the accuracy or completeness of the information in this Offering Circular. Each person receiving this Offering Circular acknowledges that such person has not relied on the Managers or any person affiliated with any Manager in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Bank, the Borrower and the Guarantor and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment.

This Offering Circular does not constitute an offer or an invitation by or on behalf of the Bank, the Borrower, the Guarantor or the Managers to subscribe or purchase any of the Notes. The distribution of this Offering Circular and the offer or sale of the Notes in certain jurisdictions is restricted by law. Persons into whose possession this Offering Circular may come are required by the Bank, the Borrower, the Guarantor and the Managers to inform themselves about and to observe any such restrictions. In particular, 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 offering of the Notes or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States. In addition, the Bank has not authorised any issue of Notes to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (the “Regulations”). Notes may not lawfully be offered or sold to persons in the United Kingdom except in circumstances that do not result in an offer to the public in the United Kingdom within the meaning of the Regulations or otherwise in compliance with all other applicable provisions of the Regulations. Further information with regard to restrictions on offers and sales of the Notes and the distribution of this Offering Circular is set out under “Subscription and Sale” and “Transfer Restrictions”.

None of the Borrower, the Guarantor nor the Managers is providing prospective purchasers with any legal, business, tax or other advice in this Offering Circular. Prospective purchasers should consult with their own advisers as needed to assist in making their investment decision and to advise whether they are legally permitted to purchase Notes.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess this Offering Circular. Any consents or approvals that are needed in order to purchase any Notes must be obtained. The Borrower, the Guarantor and the Managers are not responsible for compliance with these legal requirements. The appropriate characterisation of the Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase the Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether or the extent to which the Notes constitute a legal investment for investors whose investment authority is subject to legal restrictions. Such investors should consult their legal advisers regarding such matters.

The Managers and their affiliates have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for the Borrower, the Guarantor and each of their affiliates.

In connection with this issue, Salomon Brothers International Limited or anyone acting on their behalf may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period in accordance with applicable laws and regulations. However, there may be no obligation on Salomon Brothers International Limited to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period.

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NOTICE TO RESIDENTS OF NEW HAMPSHIRE

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER RSA 421-b WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED 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 ANY EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE 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.

AVAILABLE INFORMATION

Each of the Borrower, the Guarantor and the Bank have agreed that, for so long as any Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, it will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934 (the “Exchange Act”) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner or to the Trustee for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or Trustee, the information satisfying the requirements of Rule 144A(d)(4) under the Securities Act.

INDUSTRY INFORMATION

In this Offering Circular, the Borrower and the Guarantor rely on and refer to information regarding the Russian oil and gas industry, its segments and its participants from market research reports, analyst reports and other publicly available information. Although the Borrower and the Guarantor believe that this information is reliable, neither the Borrower nor the Guarantor can guarantee the accuracy and completeness of the information, and the Borrower and the Guarantor have not independently verified it. The Borrower and the Guarantor accept responsibility for the information contained in this Offering Circular other than the country and industry information described in the sections entitled “Business”, “Russian Federation — General Overview” and “Overview of the Russian Oil and Gas Industry” (except where it relates specifically to the Borrower or the Guarantor), in respect of which the Borrower and the Guarantor only take responsibility for the correct extraction of that industry information from the relevant sources.

FORWARD-LOOKING STATEMENTS

Some statements in this Offering Circular as well as written and oral statements of the Borrower, the Guarantor or their representatives make from time to time in reports, filings, news releases, conferences, teleconferences, web postings or otherwise, may be deemed to be “forward-looking statements”. Forward-looking statements include statements concerning the Borrower’s and the Guarantor’s plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. The Borrower and the Guarantor use the words “anticipates”, “estimates”, “expects”, “believes”, “intends”, “plans”, “may”, “will”, “should” and any similar expressions to identify forward-looking statements. These forward-looking statements are contained in “Summary”, “Risk Factors”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Business” and other sections of this Offering Circular. These statements involve risks and uncertainties, including the risks that are identified in this Offering Circular, which are primarily described in “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The Borrower and the Guarantor have based these forward-looking statements on management’s current view with respect to future events and financial performance. These views reflect the best judgement of the Borrower’s and the Guarantor’s management but involve a number of risks and uncertainties which could cause actual results to differ materially from those predicated in the Borrower’s and the Guarantor’s forward-looking statements and from past results, performance or achievements. Although the Borrower and the Guarantor believe that the estimates and the projections reflected in the Borrower’s and the Guarantor’s forward-looking statements are reasonable, if one or more of the risks or uncertainties which the Borrower and the Guarantor have identified in this Offering Circular materialise or occur, or if any of the Borrower’s or the Guarantor’s underlying assumptions prove to be incomplete or incorrect, the Borrower’s or the Guarantor’s actual results of operations may vary from those expected, estimated or projected as a result of any of the following, among others:

- the Russian economy;
- oil, gas and refined product prices;
- TNK’s business development, operating development and financial condition;
- TNK’s estimated reserves or the net present value of TNK’s reserves;
- TNK’s estimated quantities of oil, gas and refined product production;
- TNK’s expansion and acquisition plans and TNK’s capital expenditures budget;
- the impact of TNK’s expansion on TNK’s revenue potential, cost basis and margins;
- TNK’s ability to remain competitive in the oil and gas industry;

- the effects of regulatory and fiscal developments and legal proceedings;
- TNK's debt and the impact of exchange rate fluctuations; and
- TNK's ability to meet TNK's obligations and develop and maintain additional sources of financing.

The Borrower and the Guarantor are not obliged to, and do not intend to, update or revise any forward-looking statements whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Borrower or the Guarantor, or persons acting on the Borrower's or the Guarantor's behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Offering Circular. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

ENFORCEABILITY OF JUDGMENTS

The Borrower is an open joint stock company organised under the laws of the Russian Federation. Some of the directors and executive officers of the Borrower are not residents of the United States, and all or a substantial portion of the assets of the Borrower and such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Borrower or such persons or to enforce against any of them in the United States courts judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any State or territory within the United States. Russian courts will not enforce any judgment obtained in a court established in a country other than Russia unless there is a treaty in effect between such country and Russia providing for reciprocal recognition and enforcement of court judgments. If there is such a treaty, Russian courts may nonetheless refuse to recognise and enforce a foreign court judgment on the grounds provided in such treaty and in Russian legislation in effect on the date on which such recognition and enforcement are sought. In September 2002, the new Arbitration Procedural Code of the Russian Federation entered into force providing for the procedure for the recognition and enforcement of judgments of foreign courts including an exhaustive list of grounds for refusal of such recognition and enforcement. Russian procedural legislation might be further changed, *inter alia*, by way of inserting further grounds preventing foreign court judgments from being recognised and enforced in Russia.

The Guarantor is incorporated in the British Virgin Islands. Judgments against the Guarantor rendered in courts outside of the British Virgin Islands would only be enforceable against the Guarantor in the British Virgin Islands if such Judgments were final and conclusive monetary judgments for a definite sum and the British Virgin Islands courts were satisfied that (i) the original court had jurisdiction in the matter and the Guarantor either submitted to such jurisdiction or was resident or carrying on business within the original court's jurisdiction and was duly served with process; (ii) the judgment given by the original court was not in respect of penalties, taxes, fines or similar fiscal or revenue obligations; (iii) in obtaining judgment there was no fraud on part of the person in whose favour judgment was given or on part of the original court itself; (iv) recognition or enforcement of the judgment in the British Virgin Islands would not be contrary to public policy; and (v) the proceedings pursuant to which judgment was obtained were not contrary to principles of natural justice. The British Virgin Islands is a party to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 and arbitral awards against the Guarantor rendered in other contracting states may be enforced in the British Virgin Islands under the provisions of the New York convention.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

This Offering Circular includes audited consolidated financial statements of the Guarantor and its consolidated subsidiaries as at and for the years ended 31 December 1999, 2000 and 2001, audited by ZAO PricewaterhouseCoopers Audit (“PricewaterhouseCoopers”), independent accountants, located at Kosmodamianskaya Nab., 52, Bld. 5, Moscow 113054, Russia. The audited consolidated financial statements as at and for the years ended 31 December 1999, 2000 and 2001, including the notes thereto (the “U.S. GAAP Financial Statements”), have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”). PricewaterhouseCoopers issued an unqualified report dated 29 May 2002 on the Guarantor’s U.S. GAAP Financial Statements following a restatement in respect of the Guarantor’s U.S. GAAP Financial Statements. This unqualified report supersedes the unqualified report PricewaterhouseCoopers had issued on 29 April 2002.

The restatement did not affect TNK’s operating cash flows, revenue, current liabilities or current assets for the relevant periods, nor did it have any effects on oil reserves or production for the relevant periods. The primary effects of the restatement comprised a revaluation of TNK’s fixed assets and a restatement of shareholders’ equity from U.S.\$3,985.4 million to U.S.\$3,032.2 million as at 31 December 2001, from U.S.\$3,609.8 million to U.S.\$2,745.3 million as at 31 December 2000 and from U.S.\$2,350.0 million to U.S.\$1,402.5 million as at 31 December 1999. The decrease in minority interests in the balance sheet as at 31 December 2000 compared to 31 December 1999 is due to TNK International acquiring the Russian Government’s 49.8% interest in OAO TNK with effect from 1 January 2000.

Net income was restated upwards for 2000 from U.S.\$1,624.5 million to U.S.\$1,707.5 million due to lower depreciation charges, while net income for 2001 was restated downwards from U.S.\$1,206.1 million to U.S.\$1,117.4 million because of a decreased deferred tax benefit. Net income was restated downwards from U.S.\$529.1 million to U.S.\$267.1 million in 1999 primarily due to the fact that during 1999 TNK International owned 50.1% of OAO TNK. Consequently, approximately half of the previously reported earnings have been allocated to the minority shareholders.

Before the restatement, certain assets were carried in the U.S. GAAP Financial Statements at values higher than their corresponding values under Russian tax legislation, resulting in a deferred tax liability. After the restatement, the fixed assets relating to OAO TNK are carried at a lower value than the corresponding Russian tax values, resulting, instead, in a deferred tax asset which is classified as “Other Assets” in the balance sheet. Following the restatement the value of Other Assets as at 31 December 2000 increased from U.S.\$71.4 million to U.S.\$535.0 million and as at 31 December 2001 from U.S.\$103.6 million to U.S.\$377.1 million. This reduction in the deferred tax assets between 2000 and 2001 is primarily attributable to the effect of the change in the corporate income tax rate from 35% to 24% on the accounting value assigned to the deferred tax asset recorded as part of the purchase adjustments. This reduction in the accounting value of the deferred tax asset between 2000 and 2001 was reflected in a reduced deferred tax benefit in the Consolidated Statement of Operations of U.S.\$164.2 million and which, together with the reduction in the depreciation charge of U.S.\$77.0 million, were the primary reasons for the reduction in net income of U.S.\$88.7 million between the previous and the restated Statements of Operations for the year ended 31 December 2001.

This Offering Circular also includes the unaudited financial statements of the Guarantor and its consolidated subsidiaries as of 30 June 2002 and for the six months then ended (including the consolidated statement of operations and consolidated statement of cash flows for the six months ended 30 June 2001) and the notes thereto which have been prepared in accordance with U.S. GAAP (the “U.S. GAAP Interim Financial Statements”).

Currency

In this Offering Circular, the following currency terms are used:

- “U.S. dollar”, “dollars”, or “U.S.\$” means the lawful currency of the United States;
- “RR”, “Rouble” or “rouble” means the lawful currency of the Russian Federation; and
- “EUR”, “Euro”, “euro” or “€” means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended by the Treaty on the European Union, signed at Maastricht on 7 February 1992.

Oil and Gas Reserves Data

At the request of TNK, Miller and Lents, Ltd. (“Miller and Lents”), independent petroleum engineers, have carried out evaluations of TNK’s proved gross reserves and future net revenues as at 1 January 2000, 2001 and 2002. Miller and Lents presented the results of their evaluation as at 1 January 2002 in three separate reserves reports (the “2002 Reserves Reports”). The 2002 Reserves Reports are included elsewhere in this Offering Circular as Annex A based upon the authority of Miller and Lents as an expert with respect to such matters. The first 2002 Reserves Report relates to reserves held by OAO TNK and its exploration and production subsidiaries – OAO Samotlorneftegaz (“Samotlorneftegaz”), OAO Nizhnevartovskoe Neftgazodobivajusee predpriyatie (“NNP”), OAO Tyumenneftegas (“Tyumenneftegas”), OAO TNK-Nyagan (“TNK-Nyagan”) and OAO TNK-Uvat (“TNK-Uvat”). In addition, following TNK’s acquisition of OAO ONAKO (“ONAKO”) in 2000 and OAO Orenburggeologia (“Orenburggeologia”) in 2001, as further described in “TNK’s Organisational Structure” and “Business”, Miller and Lents separately evaluated the proved reserves of ONAKO’s OAO Orenburgneft (“Orenburgneft”) subsidiary and Orenburggeologia. These evaluations are included in the second and third 2002 Reserves Reports, respectively. Miller and Lents also prepared reserves reports evaluating TNK’s proved reserves as at 1 January 2000 (the “2000 Reserves Reports”) and as at 1 January 2001 (the “2001 Reserves Reports” and, together with the 2000 Reserves Reports and the 2002 Reserves Reports, the “Reserves Reports”). This Offering Circular contains reserves data as at 1 January 2000, 2001 and 2002, which has been extracted without material adjustment from the relevant Reserves Reports. However, neither the 2000 nor the 2001 Reserves Reports are included in this Offering Circular.

Miller and Lents conducted its review of TNK’s fields using U.S. Society of Petroleum Engineers, Inc. and World Petroleum Congress (“SPE/WPC”) reserves classifications and methodologies. These standards differ in certain material respects from standards applied by the U.S. Securities and Exchange Commission (the “SEC”). The principal differences include the following:

- ***Duration of Licence.*** Under SPE/WPC standards, TNK’s proved reserves were projected to the economic producing life of the evaluated fields. Under standards applied by the SEC and guidance in respect thereof, oil and gas deposits may not be classified as proved reserves if they will be recovered after the expiration of a current licence period and renewals of licences should not be assumed unless the company has a history of obtaining renewals.
- ***Certainty of Existence.*** Under SPE/WPC standards, reserves in undeveloped drilling sites that are located more than one well location 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, any difference in the standards applicable to the certainty of existence of oil reserves would not be material.

Accordingly, information relating to TNK’s estimated oil and gas reserves and future net revenues included in this Offering Circular may not be indicative of information that would be reported under standards applied by the SEC.

If TNK calculated depreciation, depletion and amortisation using estimated reserves that were lower than would otherwise be reported under SPE/WPC standards, because TNK was unable to demonstrate a history of obtaining renewal of its licences, TNK 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.

Presentation of Reserves and Production Data

All figures for reserves of crude oil and gas presented in this Offering Circular are presented as gross figures without adjustment to reflect any minority ownership interests unless stated to be presented as net figures which are adjusted to reflect TNK's ownership interests in its exploration and production subsidiaries.

All figures for production of crude oil presented in this Offering Circular are presented as gross figures without any deduction for wastages or own use at the field unless stated to be presented as net figures. The net crude oil production figures are a measure of crude oil production delivered from the fields and do take account of wastage and own use at the field.

Conversion of Production, Refining and Marketing and other Data

This Offering Circular presents data relating to TNK's production, refining and marketing operations, which is expressed in barrels. TNK maintains its internal records regarding such data in metric tonnes. Solely for the convenience of the reader, such metric data has been converted into barrels at the rate of 7.3 barrels = one tonne of crude oil and 7.5 barrels = one tonne of refined products. In addition, this Offering Circular presents certain data relating to the Russian oil and gas industry, which has been derived from independent sources that publish such data in tonnes. For purposes of this Offering Circular, such data has been converted into barrels at the rate of 7.3 barrels = one tonne of crude oil.

Rounding

Some numerical figures included in this Offering Circular have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them.

SUMMARY

This summary may not contain all the information that may be important to prospective purchasers of the Notes. This entire Offering Circular, including the more detailed information regarding TNK's business and the U.S. GAAP Financial Statements and the U.S. GAAP Interim Financial Statements included elsewhere in this Offering Circular should be read. Investing in the Notes involves risks. The information set forth under "Risk Factors" should be carefully considered. Certain statements in this Offering Circular include forward-looking statements that also involve risks and uncertainties as described under "Forward-Looking Statements".

Overview

TNK is one of the largest vertically integrated oil and gas companies in Russia in terms of both proved oil reserves and crude oil production. TNK's oil and gas exploration and production operations are located primarily in Russia's Western Siberian and Volga-Ural basins. In the past five years, TNK has grown significantly in terms of reserves, production, refining capacity and sales. Its growth has been driven by both internal growth and acquisitions and has been led by a management team comprised of experienced Russian and international managers.

Below are some of TNK's business and operational highlights:

- *Reserves.* TNK's total proved reserves held through its exploration and production subsidiaries as at 1 January 2002 comprised 7,258 MMBbls of oil and condensate and 3,586 Bcf of gas (including both natural gas and associated gas), for a total of 7,898 MMBOE.
- *Production.* In 2001, the average daily oil production of TNK's exploration and production subsidiaries was 701 mbpd (692 mbpd net) and its average daily gas production was 414 MMcf/day for a total of 774 MBOE/day. For the six months ended 30 June 2002, TNK's average daily oil production was 734 mbpd (725 mbpd net) and its average daily gas production was 321 MMcf/day for a total of 791 MBOE/day. TNK generally either exports crude oil or uses it as a feedstock for its refineries.
- *Refining.* TNK refined 417 mbpd of crude oil in 2001 and 399 mbpd of crude oil for the six months ended 30 June 2002. TNK owns four refineries, three of which are located in Russia in the cities of Ryazan, Nizhnevartovsk and Orsk, with the fourth located in Lisichansk, Ukraine. TNK's refineries had a combined rated annual capacity of 900.2 mbpd in 2001 and of 899.4 mbpd for the six months ended 30 June 2002. TNK's refineries produce a variety of refined products, including gasoline, diesel fuel (gas oil), jet fuel (kerosene), fuel oil (mazut) and lubricants.
- *Exports.* In 2001, TNK exported 336 mbpd of crude oil (to Europe and the Commonwealth of Independent States (the "CIS")), which, including purchases of crude oil from third parties, was the equivalent of 49% of its crude oil production and was 41% of its total crude oil sales and deliveries in that year. TNK also exported 212 mbpd of refined products, the equivalent of 52% of its refined product output. For the six months ended 30 June 2002, TNK exported 355 mbpd of crude oil (to Europe and the CIS), which, including purchases of crude oil from third parties, was the equivalent of 49% of its crude oil production and was 47% of its crude oil sales and deliveries. In 2002, TNK also exported 230 mbpd of refined products, the equivalent of 56% of its refined product output for the six months ended 30 June 2002.
- *Refined Products Marketing and Retail.* TNK operates a network of branded retail filling stations in Russia which, as at 15 October 2002, consisted of 1,021 filling stations and 62 petroleum storage depots. The network also consists of 913 franchised filling stations in the Ukraine. For the first eight months of 2002, TNK had a 7.9% share of the Russian domestic market for light refined products such as gasoline and gas oil, including an 18.4% share of the Moscow and Moscow region market based on sales volumes (Source: "Kortes" Informational and Analytical Center).

- *Awards.* In 2000, OAO TNK became the first Russian company to win (and even be considered for) the prestigious Financial Times Energy Award, and was named the World's Best Oil and Gas Company of 2000 by the Financial Times Energy subdivision of the Financial Times.
- *Credit Rating.* TNK International is rated "Ba3" by Moody's Investors' Service ("Moody's"), "B+" by Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's") and "B+" by Fitch Ratings ("Fitch"). Moody's rated TNK International at the same level as the Russian Federation.

Strategy

TNK's strategic objective is to increase the value of its asset base to levels comparable to integrated oil and gas companies internationally in order to compete with such companies. Factors crucial to TNK's competitiveness include its ability to:

- attract and maintain a world class management team that is focused on increasing transparency and implementing international best practice in order to maximise shareholder value;
- take a balanced approach to growing its upstream and downstream segments to ensure that increasing production is linked to increasing refining and marketing capabilities; and
- to develop strong relationships with international strategic partners and investors to provide access to technology and capital.

In pursuit of its strategic objective:

- *Increase oil production.* TNK intends to exploit its reserve base using technical solutions to balance production increases and reserves recovery rates in order to increase returns on invested capital. As part of this strategy, TNK will balance its capital budget between projects that provide immediate cash flow and projects that enhance its existing reserve base. TNK plans to increase its oil production in its core geographic areas of the Western Siberian and Volga-Ural basins by accelerating field development, utilising improved drilling and recovery technology and modernising its production infrastructure. For example, TNK has commenced a rehabilitation project for its large Samotlor field under which it expects to spend a total of more than U.S.\$800 million between 2001 and 2005.
- *Reduce production costs.* TNK continually seeks methods of reducing its production costs. TNK is focused on reducing its production costs on a per BOE basis to maximise cash flow and earnings. As part of this strategy, TNK intends to divest non-core assets and outsource various ancillary oil field services, to continue to integrate international oil experts into the senior management team and to expand relationships with international oil field services suppliers. TNK solicits bids from domestic and international oil field service providers, including its current providers, to ensure competitive rates for services. In addition, TNK believes that by implementing better management reporting and control systems, employing advanced exploration and extraction technologies and improving its management training programmes, it can further reduce its production costs and improve its profitability.
- *Upgrade refineries.* TNK plans to upgrade its refineries and increase its refining capacity in line with production increases. The upgrades are intended to improve the conversion ratios and the quality of the refined products produced (higher octane gasoline and lower sulphur content diesel fuel) as well as enhance throughput and output capacity to meet projected domestic and CIS demand. A significant part of this strategy is TNK's ongoing modernisation project at its Ryazan Refinery, as well as at the newly acquired LiNOS and Orsk refineries. See "Business – Refining and Marketing – Refinery Modernisation Programme".
- *Expand and improve branded retail filling station network.* One of TNK's goals is to increase its market share in its core retail gasoline markets through the expansion of its network of branded retail filling stations. TNK's target markets are central Russia, the Urals, southern Russia and the Ukraine. TNK will focus particularly on Moscow and the Moscow region, where it had an 18.4% market share

in terms of light refined products for the first eight months of 2002, and which it considers to be one of the most attractive retail gasoline markets in Russia and the CIS. Furthermore, TNK expects to achieve significant market penetration of the Ukrainian retail market with oil products manufactured at the LiNOS refinery. In furtherance of this goal, in September 2002 TNK successfully tendered for a 45.85% stake in Lisichansk-Naftoproduct, a Ukrainian company operating a large filling station network and wholesale distribution business. See “Sales and Marketing of Refined Products – Retail Network Expansion Plans”. TNK will also combine convenience stores with its existing and new filling stations and upgrade its existing convenience stores. As part of TNK’s strategy to be more customer-focused, TNK will implement a comprehensive customer service training programme.

- *Enhance upstream gas assets.* TNK believes that natural gas is becoming a more important source of energy in Europe, China and the CIS and that the anticipated deregulation of these markets will provide significant long-term business opportunities. Accordingly, TNK intends to increase its natural gas reserves and production capabilities. As part of this strategy, TNK acquired through its holding of RUSIA Petroleum a 29% interest in the Kovykta gas field located in the Irkutsk region of Eastern Siberia near Mongolia. The Kovykta field is one of Russia’s largest gas fields. The Kovykta gas field is expected to be the gateway for Russian natural gas exports to China, South Korea and other Asian countries.
- *Pursue strategic alliances.* TNK plans to pursue strategic alliances with leading international oil and gas companies to gain additional exposure to cutting-edge exploration and production technologies and management practices while partnering in the financing of new projects. TNK’s major shareholder, TNK Industrial Holdings Limited, is in talks with BP and other major international oil companies about a possible equity participation in TNK. It is possible that such a transaction would be executed during the life of the Notes.
- *Pursue capital markets opportunities.* TNK intends to keep net debt at or near current levels. TNK plans to attract funding in the international capital markets in order to further reduce borrowing costs and increase the average maturity of its debt by replacing amortising trade finance facilities and, where possible, replacing short-term debt with long-term debt.
- *Consider attractively priced acquisitions in key CIS jurisdictions.* TNK substantially completed a major acquisition programme in 2001. To the extent that TNK undertakes further acquisitions, TNK currently intends to concentrate on attractively priced acquisition opportunities in key CIS markets, where TNK believes it has a competitive advantage in size and expertise. Consistent with its goal of maintaining net debt at or near current levels, TNK will take a conservative approach to evaluating additional acquisition opportunities and cannot rule out strategic acquisitions if opportunities meeting TNK’s investment return criteria arise. In particular, TNK may consider participating in the forthcoming privatisation of OAO Slavneft (“Slavneft”), provided that such an acquisition meets TNK’s investment criteria. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments”.

Summary Consolidated Financial Data

The following table presents summary consolidated financial data as at the dates and for the periods indicated. The balance sheet, statements of operations and cash flow data as at 31 December 2001, 2000 and 1999, and for the three years in the period ended 31 December 2001, was derived from the U.S. GAAP Financial Statements included elsewhere in this Offering Circular, audited by PricewaterhouseCoopers. The balance sheet, statements of operations and cash flow data as at 30 June 2002, and for the six months ended 30 June 2002 and the statements of operations and cash flow data for the six months ended 30 June 2001, were derived from the U.S. GAAP Interim Financial Statements included elsewhere in this Offering Circular. The interim financial results are not necessarily indicative of future financial results. This information should be read in conjunction with “Use of Proceeds”, “Selected Consolidated Financial Data”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, the U.S. GAAP Financial Statements and the U.S. GAAP Interim Financial Statements included elsewhere in this Offering Circular.

	Year ended 31 December			Six months ended 30 June	
	1999	2000	2001	2001	2002
	(U.S.\$ millions, except share and per share amounts) (unaudited)				
Statement of Operations:					
Revenues					
Sales and other operating revenues.....	1,858.2	4,711.0	6,173.1	3,149.0	2,725.2
Less: excise, fuel sales taxes and export duties	107.5	458.9	999.1	509.5	351.3
Total revenues	1,750.7	4,252.1	5,174.0	2,639.5	2,373.9
Costs and other deductions					
Operating expenses	328.6	659.4	1,005.0	456.0	384.3
Cost of purchased products	88.7	329.7	606.4	344.2	120.6
Taxes other than income tax	186.4	232.8	554.4	268.0	502.3
Selling, general and administrative expenses	335.9	622.5	997.2	496.8	584.0
Depreciation, depletion and amortisation ...	260.8	244.9	340.5	193.1	195.4
Maintenance of social infrastructure	25.6	25.5	25.3	9.4	7.8
Exploration expenses	20.4	48.5	53.6	22.6	23.9
Loss on asset disposals.....	71.5	104.7	34.1	4.7	20.4
Total costs and other deductions	1,317.9	2,268.0	3,616.5	1,794.8	1,838.7
Other income and expense					
Exchange (gains).....	(129.8)	(28.0)	(29.6)	(2.7)	(11.9)
Interest expense	47.3	164.2	304.6	139.6	180.3
Interest and other non-operating income	(11.4)	(133.9)	(184.8)	(50.6)	(48.9)
Equity in net loss of affiliates	0.8	1.3	1.3	—	—
Total other expense (income)	(93.1)	3.6	91.5	86.3	119.5
Income before income taxes and minority interest.....	525.9	1,980.5	1,466.0	758.4	415.7
Income taxes					
Current tax expense.....	70.1	193.5	301.6	183.3	111.6
Deferred tax (benefit) expense	(39.0)	78.4	(241.5)	72.3	(33.0)
Total income taxes.....	31.1	271.9	60.1	255.6	78.6
Income before minority interest	494.8	1,708.6	1,405.9	502.8	337.1
Minority interest	(227.7)	(1.1)	(288.5)	(96.5)	(34.9)
Net income	267.1	1,707.5	1,117.4	406.3	302.2
Weighted average number of ordinary shares outstanding.....					
	50,000	50,000	50,000	50,000	50,000
Basic and diluted net income per ordinary share –					
U.S. dollars	5,342	34,150	22,348	8,126	6,044

	At 31 December			At 30 June
	1999	2000	2001	2002
	(U.S.\$ millions, except share amounts)			
	(unaudited)			
Balance Sheet Data:				
<i>Assets</i>				
Cash and cash equivalents.....	143.0	535.6	178.6	294.7
Restricted cash.....	125.2	438.8	60.6	50.8
Accounts and notes receivable	567.6	1,164.8	1,431.6	1,473.5
Inventories	87.3	407.0	402.8	548.2
Other current assets	192.7	48.4	105.0	42.8
Total current assets	1,115.8	2,594.6	2,178.6	2,410.0
Long-term investments.....	205.7	708.0	596.5	612.3
Property, plant and equipment	4,756.8	5,814.2	6,045.9	5,882.3
Other assets.....	34.3	535.0	377.1	423.1
Total non-current assets	4,996.8	7,057.2	7,019.5	6,917.7
Total assets	6,112.6	9,651.8	9,198.1	9,327.7
<i>Liabilities and shareholder's equity</i>				
Short-term debt and current portion of long-term debt	379.7	1,783.4	1,668.9	1,221.3
Trade accounts and notes payable.....	428.2	564.2	580.2	438.9
Other accounts payable and accrued expenses	288.4	228.6	239.7	286.5
Current taxes payable.....	360.3	542.5	609.7	663.1
Deferred income tax liability	14.7	103.7	67.6	—
Total current liabilities	1,471.3	3,222.4	3,166.1	2,609.8
Long-term debt.....	172.5	750.7	1,110.8	1,502.2
Long-term taxes payable	61.3	42.5	49.9	50.6
Deferred income tax liability	243.3	931.8	565.0	590.7
Total long-term liabilities	477.1	1,725.0	1,725.7	2,143.5
Total liabilities	1,948.4	4,947.4	4,891.8	4,753.3
Minority interest	2,761.7	1,959.1	1,274.1	1,135.6
Ordinary share capital (authorised and issued – 50,000 shares, U.S.\$1 par value).....	—	—	—	—
Additional paid in capital	1,109.5	1,294.8	1,294.8	1,388.9
Retained earnings	293.0	1,450.5	1,737.4	2,049.9
Total shareholder's equity	1,402.5	2,745.3	3,032.2	3,438.8
Total liabilities and shareholder's equity	6,112.6	9,651.8	9,198.1	9,327.7

	Year ended 31 December			Six months ended 30 June	
	1999	2000	2001	2001	2002
	(U.S.\$ millions)			(unaudited)	

Cash Flow Data:

Net cash used for investing activities	(685.6)	(2,227.8)	(1,324.8)	(523.2)	(197.0)
Net cash provided by operating activities	413.5	1,515.6	1,235.8	645.1	342.4
Net cash (used for) provided by financing activities	399.1	1,110.7	(254.5)	(300.3)	(21.7)

	Year ended 31 December			Six months ended 30 June	
	1999	2000	2001	2001	2002
	(U.S.\$ millions, except ratios)				

Other Financial Data:

Adjusted EBITDA ⁽¹⁾	833.9	2,389.6	2,111.1	1,091.1	791.4
Cash interest	20.9	119.7	293.7	153.9	180.8
Ratio of earnings to fixed charges ⁽²⁾	12.1	13.1	5.8	6.4	3.3
Ratio of EBITDA to cash interest ..	39.9	20.0	7.2	7.1	4.4
Ratio of debt ⁽³⁾ to EBITDA	0.7	1.1	1.3	1.3 ⁽⁴⁾	1.7 ⁽⁴⁾

(1) Adjusted EBITDA is defined as earnings before interest expense, income tax expense, depreciation, depletion and amortisation and minority interest. TNK has presented adjusted EBITDA because it is a commonly used measure of a company's cash flow and a widely accepted financial indication of a company's ability to service and incur debt and make capital expenditures. EBITDA should not be considered as an alternative to U.S. GAAP measures of performance and in particular to net income as an indicator of operating performance or to cash flow from operations as a measure of liquidity. EBITDA presented by TNK may not be comparable to similarly titled figures reported by other companies.

(2) For purposes of computing the ratio of earnings to fixed charges, earnings consist of consolidated earnings (loss) from continuing operations before income taxes and extraordinary items, excluding undistributed equity earnings of affiliates whose debt is not guaranteed and impairment charges, plus fixed charges. Fixed charges consist of interest expense on debt and capitalised interest, plus amortisation of debt issuance costs, discounts and premiums, plus that portion of rental expense that is deemed to be representative of an interest factor.

(3) Debt is defined as the sum total of long-term and short-term debt.

(4) To make the ratios for the six months ended 30 June 2001 and 2002 comparable with the ratios for the years ended 31 December 1999, 2000 and 2001, the debt figure used to calculate the ratio for the six months ended 30 June 2001 and 2002 was reduced by 50% to reflect that the figure used for EBITDA was for six months rather than a year.

Summary Oil and Gas Reserves and Production Data

The following summary oil and gas reserves data is extracted without material adjustment (save as stated) from the Reserves Reports prepared by Miller and Lents, independent petroleum engineers. The 2002 Reserves Reports are included elsewhere in this Offering Circular. Reserve engineering is a process of forecasting the recovery and sale of oil and gas from a reservoir and is in part subjective. It is clearly associated with considerable uncertainty. The accuracy of any reserve information is a function of the quality of available data and of engineering and interpretation and judgment. See “Presentation of Financial and Other Information – Oil and Gas Reserves Data” and “Risk Factors – Risks Relating to TNK and the Russian Oil and Gas Industry – Uncertainties in Estimates of Oil and Gas Reserves”.

	Year ended 31 December		
	1999	2000	2001
Estimated proved reserves:			
Oil (MMBbls).....	7,428.6	7,700.1	7,258.1
Gas (Bcf)	3,963.1	4,111.5	3,586.1
Total (MBOE) ⁽¹⁾	8,136.3	8,434.3	7,898.4
Percent proved developed	57%	66%	70%
Percent proved undeveloped	43%	34%	30%
Average crude oil reserve life (years)	51	42	28

⁽¹⁾ Source: TNK

The following production and other data is extracted from data provided by TNK.

	Year ended 31 December			Six months ended 30 June	
	1999	2000	2001	2001	2002
Production:					
Oil (mbpd)	406	516	701	679	734
Gas (MMcf/day)	173	392	414	406	321
Total (MBOE/day).....	437	586	774	751	791
Average realised sales price per unit:					
Oil (Bbl).....	U.S.\$14.43	U.S.\$22.14	U.S.\$19.79	U.S.\$21.09	U.S.\$19.55

The summary oil and gas reserves data, as well as the production and other data set out in the tables above should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Business – Reserves, Exploration and Production – Oil and Gas Reserves” and “Business – Reserves, Exploration and Production – Oil and Gas Production”, the Oil and Gas Reserves Information in Annex B and the 2002 Reserves Reports included elsewhere in this Offering Circular. See “Glossary of Oil and Gas Terms” for definitions of certain terms used in the tables above and throughout this Offering Circular.

Summary Refining and Marketing Data

The table below shows TNK's refining and marketing data for the years ended 31 December 1999, 2000 and 2001 and for the six months ended 30 June 2001 and 2002. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations", the U.S. GAAP Financial Statements and the U.S. GAAP Interim Financial Statements included elsewhere in this Offering Circular.

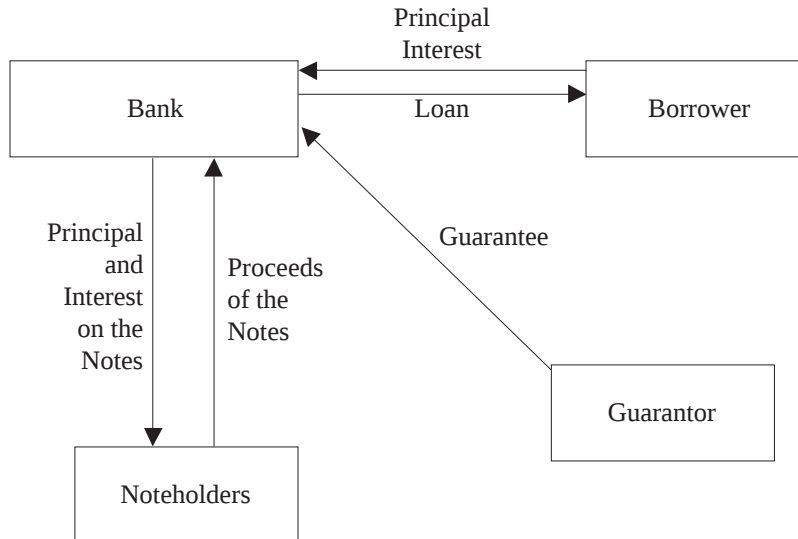
	Year ended 31 December			Six months ended 30 June	
	1999	2000	2001 (mbpd)	2001	2002
Average Rated Capacity	380.0	875.5	900.2	856.8	899.4
Refinery Input:					
Crude oil	232.7	272.8	416.5	421.6	398.9
Other feedstock	3.5	11.3	12.7	12.4	14.2
Total refinery input	236.2	284.1	429.2	434.0	413.1

	Year ended 31 December						Six months ended 30 June			
	1999		2000		2001 (mbpd, except %)		2001		2002	
Product Slate:										
Gasoline	39.9	18%	55.7	21%	94.3	23%	102.8	24%	105.8	26%
Diesel fuel (gas oil)...	55.5	25%	71.6	27%	114.8	28%	118.8	28%	113.9	28%
Fuel oil (mazut)	84.4	38%	82.1	31%	135.4	33%	142.7	34%	134.2	33%
Jet Fuel (kerosene)....	15.5	7%	15.9	6%	16.4	4%	19.3	5%	16.3	4%
Other products	26.6	12%	39.8	15%	49.2	12%	41.6	9%	36.6	9%
Total	221.9	100%	265.1	100%	410.1	100%	425.2	100%	406.8	100%

	Year ended 31 December			Six months ended 30 June	
	1999	2000	2001 (mbpd)	2001	2002
Sales Volume Information:					
Export crude sales.....	166.0	234.2	323.9	304.7	339.0
CIS crude sales	4.0	50.0	12.0	14.4	15.8
Domestic crude sales	12.0	40.0	60.0	71.8	4.5
Export refined products sales	98.6	117.1	211.6	201.9	229.6
Domestic refined products sales	137.7	154.1	203.4	195.5	166.2

DESCRIPTION OF THE TRANSACTION

The following summary description should be read in conjunction with, and is qualified in its entirety by, the information set forth under “Terms and Conditions of the Notes”, “The Loan Agreement” and “The Guarantee Agreement” appearing elsewhere in this Offering Circular.



The transaction will be structured as a loan to the Borrower by the Bank. The Bank will issue the Notes which will be limited recourse loan participation notes issued for the sole purpose of funding the Loan to the Borrower. The Notes will be constituted by, subject to, and have the benefit of, the Trust Deed. The obligations of the Bank to make payments under the Notes shall constitute an obligation only to pay to the Noteholders an amount equal to and in the same currency as sums of principal, interest and/or additional amounts (if any) actually received by or for the account of the Bank from the Borrower or the Guarantor pursuant to the Loan Agreement or the Guarantee Agreement.

As provided in the Trust Deed, the Bank will charge in favour of the Trustee for the benefit of the Noteholders as security for its payment obligations in respect of the Notes (a) its rights to principal, interest and additional amounts (if any) under the Loan Agreement or under the Guarantee Agreement, (b) its right to receive all sums payable by the Borrower or the Guarantor under any claim, award or judgment relating to the Loan Agreement or the Guarantee Agreement (as the case may be) and (c) amounts received pursuant to the Loan Agreement or the Guarantee Agreement in an account with Citibank, N.A., in the name of the Bank together with the debt represented thereby (the “Account”), in each case other than certain amounts in respect of certain Reserved Rights (as defined in the Trust Deed). The Bank will assign certain administrative rights under the Loan Agreement to the Trustee. The Borrower will be obliged to make payments under the Loan to the Bank in accordance with the terms of the Loan Agreement to the Account.

The Bank will covenant not to agree to any amendments to or any modification or waiver of, or authorise any breach or potential breach of, the terms of the Loan Agreement or the Guarantee Agreement unless the Trustee has given its prior written consent (except in relation to the Reserved Rights). The Bank (save as expressly provided in the Trust Deed, the Loan Agreement and the Guarantee Agreement or with the consent of the Trustee) shall not pledge, charge or otherwise deal with the Loan or the Charged Property (as defined in the Trust Deed) or any right or benefit either present or future arising under or in respect of the Loan Agreement, the Guarantee Agreement or the Account or any part thereof or any interest therein or purport to do so. Any amendments, modifications, waivers or authorisations made with the Trustee’s consent shall be notified to the Noteholders in accordance with Condition 13 (Notices) of the Terms and Conditions of the Notes and will be binding on the Noteholders.

The security under the Trust Deed will become enforceable upon the occurrence of a Relevant Event, as further described in the Terms and Conditions of the Notes.

Payments in respect of the Notes will, except in certain limited circumstances, be made without any deduction or withholding for or on account of taxes of the Federal Republic of Germany except as required by law. See “Terms and Conditions of the Notes – Taxation”. In that event, the Bank will only be required to pay additional amounts to the extent that it receives corresponding amounts under the Loan Agreement or the Guarantee Agreement. The Loan Agreement provides for the Borrower to pay such corresponding amounts in these circumstances. In addition, payments under the Loan Agreement will, except in certain limited circumstances, be made without any deduction or withholding for or on account of Russian taxes, except as required by law, in which event the Borrower will be obliged to increase the amounts payable under the Loan Agreement. Payments under the Guarantee Agreement will, except in certain limited circumstances, be made without any deduction or withholding for or on account of British Virgin Islands taxes, except as required by law, in which event the Guarantor will be obliged to increase the amount payable under the Guarantee Agreement. See “Risk Factors – Risks Relating to the Notes” – “Taxation”.

In certain circumstances (including following enforcement of the security upon a Relevant Event) the Loan may be prepaid at its principal amount, together with accrued interest, at the option of the Borrower upon the Borrower being required to increase the amount payable or to pay additional amounts on account of taxes of the Russian Federation or the Federal Republic of Germany pursuant to the Loan Agreement or required to pay additional amounts on account of certain costs incurred by the Bank. The Bank may (in its own discretion) require the Loan to be prepaid if it becomes unlawful for the Loan or the Notes to remain outstanding, as set out in the Loan Agreement. In each case (to the extent that the Bank has actually received the relevant funds from the Borrower) the payment amount of the relevant Notes (or in the case of a prepayment for tax reasons or illegality, all outstanding Notes) will be prepaid by the Bank together with accrued interest. See “Risk Factors – Risks Relating to the Notes”, “The Loan Agreement – Repayment and Prepayment – Prepayment in the Event of Taxes or Increased Costs” and “Terms and Conditions of the Notes – Redemption and Purchase”.

The Borrower has agreed and the Noteholders will be deemed to have acknowledged, accepted and agreed that the Bank is entitled to deduct an amount in respect of commissions, fees, costs and expenses in connection with the Loan Agreement and the Notes from the advance to be made to the Borrower pursuant to the Loan Agreement in the event that an amount in respect of such commission, fees, costs and expenses has not been paid by the Guarantor to Salomon Brothers International Limited prior to the making of the advance.

USE OF PROCEEDS

The net proceeds from the offering of the Notes will be U.S.\$400,000,000 which will be used by the Bank for the sole purpose of financing the Loan. The proceeds from the Loan, which is being funded in full by the Notes, will be used by OAO TNK to re-pay certain existing short-term indebtedness and for general corporate purposes (including potential strategic acquisitions), and the Bank shall not be concerned with the application thereof. TNK International will pay the fees, commissions, costs and expenses in the amount of approximately U.S.\$6,317,209.51 in connection with the issue of the Notes and the entering into of the Loan (which includes the commission of the Managers described in “Subscription and Sale”).

RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Offering Circular 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 together, could have a material adverse effect on TNK's business, operations and financial condition and/or the rights under the Notes of the holders of the Notes.

Risks Relating to the Russian Federation

Set out below is a description of some of the risks incurred by investing in Russia, although the list is not an exhaustive one.

Political and Social Risks

Russia has been undergoing a 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 the Borrower and its ability to meet its obligations under the Loan.

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 in 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 Borrower, potentially without adequate compensation, would have a material adverse effect on the Borrower.

The Russian Government has been highly unstable, having experienced four changes in prime minister since March 1998, as well as the resignation of former President Yeltsin on 31 December 1999 and the subsequent election of President Putin on 26 March 2000. The various government institutions and the relations between them, as well as the Russian Government's policies and the political leaders who formulate and implement them, are subject to rapid change. 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 Borrower.

Russia is a federation of republics, territories, regions, districts, cities of federal importance, and autonomous areas. The delineation of authority among the constituent entities 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 often results in the enactment of conflicting legislation at various levels, and may result in political instability. This lack of consensus may have negative economic effects on the Borrower, which could have a material adverse effect on its ability to meet its financial obligations.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict. Russian military and paramilitary forces have been engaged in Chechnya in the recent past and continue to maintain a presence there. The spread of violence, or its intensification, could have significant political consequences. These include the imposition of a state of emergency in some parts or throughout the Russian Federation. These events could have a material adverse effect on the investment environment in Russia.

The failure of some Russian companies to pay full salaries on a regular and timely basis, and the failure of salaries and benefits to keep pace with the increasing cost of living, could lead in the future to labour and social unrest. This may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism with restrictions on foreign involvement in the Russian economy and increased violence, any of which could have a material adverse effect on the Borrower.

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 Borrower's operations could be materially affected by the increased political independence of the regions in which it conducts its operations or through which its natural gas, crude oil or refined products are transported.

Economic Risks

Simultaneously with the enactment of political reforms, the Russian Government has been attempting to implement policies of economic reform and stabilisation. These policies have involved liberalising prices, reducing defence expenditures and subsidies, privatising state-owned enterprises, reforming the tax and bankruptcy systems, and introducing legal structures designed to facilitate private, market-based activities, foreign trade and investment.

Despite the implemented reform policies the Russian economy has been characterised by declining industrial production, significant inflation, an unstable but managed currency, rising unemployment and underemployment, high government debt relative to gross domestic product, high levels of corporate insolvency with little recourse to restructuring or liquidation in bankruptcy proceedings, a weak banking system providing limited liquidity to Russian enterprises, widespread tax evasion, high levels of corruption and the penetration of organised crime into the economy, and the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. 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 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 to raise funds on international capital markets. While the Russian economy has 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.

Although economic conditions in Russia have improved in the last 12 months, 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, 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 the operations of the Borrower.

Russia's Physical Infrastructure

Russia's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained over the past decades. Particularly affected are 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. The federal government is actively considering plans to reorganise the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The deterioration of Russia's physical infrastructure harms the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in Russia and can interrupt business operations, and this could have a material adverse effect on the Borrower.

Funding from International Organisations; Access to the International Capital Markets

Russia in the past has received substantial financial assistance from several foreign governments and international organisations, including the International Monetary Fund. No assurance can be given that further financial assistance will be provided to Russia and without such financial assistance economic development in Russia may be adversely affected.

Moreover, due to previous defaults on certain obligations and other factors, the Russian Government may be unable to raise funds on international capital markets, which may lead to direct or indirect monetary financing of the budget deficit, putting further pressure on inflation and the value of the Russian Rouble.

The considerable external debt of Russia, as well as the failure to obtain funding from foreign governments and international organisations, or increased rates of inflation or devaluation arising from the need to resort to monetary financing of the budget deficit in the absence of access to the international capital markets, could have a material adverse effect on the Russian economy.

Lack of Liquidity

Russian companies face significant liquidity problems due to a limited supply of domestic savings, few foreign sources of funds, high taxes, limited lending by the banking sector to the industrial sector and other factors. Many Russian companies cannot make timely payments for goods or services and owe large amounts of overdue federal, regional and local taxes, as well as wages to employees. Many Russian companies have also resorted to paying their debts or accepting settlement of accounts receivable through barter arrangements or through the use of promissory notes.

These problems were aggravated by the 1995 Russian banking crisis and by the impact on the Russian banking system of the events of August 1998, which further impaired the ability of the banking sector to act as a consistent source of liquidity to Russian companies. An intensification of liquidity problems or a further deterioration of the Russian banking system could have a material adverse effect on the Borrower's business, financial condition and results of operations.

Legal Risks

Risks associated with the Russian legal system include, *inter alia*: (i) the untested nature of the 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 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.

The laws in Russia regulating ownership, control and corporate governance of Russian companies are relatively new and, by and large, have not yet been 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 more developed legal systems. For example, although the bankruptcy law establishes 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's ability to enforce its rights, or to defend itself against claims by others in respect of its Russian subsidiaries, and could affect enforcement in Russia of any rights of the holders of the Notes against the Borrower. Further, no assurance can be given that the development or implementation or application of legislation (including Government resolutions or Presidential decrees) will not have a material adverse effect on 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 renationalise privatised businesses. Expropriation or nationalisation of any of TNK's entities or their assets, potentially without adequate compensation, would have a material adverse effect on TNK and the Borrower.

The existing business culture in Russia continues to be influenced by attitudes formed in the period of the Soviet planned economy, in which survival often depended on finding ways to avoid the imposition of (often arbitrarily applied) laws and regulations. As a result, the commitment of business people, Government officials and agencies, and the judicial system to abide by legal requirements and negotiated agreements is still uncertain.

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 the 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. 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 claims are often used to further political aims. From 1 September 2002, most of the provisions of the new 2002 Arbitration Procedural Code of the Russian Federation regulating the resolution of commercial disputes have come into effect, thereby replacing the 1995 Arbitration Procedural Code of the Russian Federation. The 2002 Arbitration Procedural Code introduced a number of significant changes into arbitration

procedures. However, the 2002 Arbitration Procedural Code has not been tested and its efficacy in resolving commercial disputes is unclear. Additionally, court decisions are not always enforced or followed by law-enforcement agencies. There is no guarantee that further judicial reform aimed at balancing the rights of private parties and governmental authorities in courts and reducing grounds for re-litigation of decided cases will be implemented and succeed in building a reliable and independent judicial system.

Foreign Court Judgments or Arbitral Awards

The Russian Federation is not a party to any multilateral or bilateral treaties with most Western jurisdictions 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 and the Loan Agreement contains a provision allowing for arbitration of disputes. 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 2002 Arbitration Procedural Code is in conformity with the Convention and thus has not introduced any substantial changes in 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 might be introduced. Further, new procedures introduced by the 2002 Arbitration Procedural Code are yet to be tested by the courts. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of Russian court 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

In recent years, the Rouble has experienced a 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 band was cancelled. 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 not convertible outside Russia. A market exists within Russia for the conversion of Roubles into other currencies, but it is limited in size and is subject to rules limiting the purposes for which conversion may be effected. There can be no assurance that such a market will continue indefinitely. Currently, 50% of foreign currency revenues from export sales must be converted into Roubles. 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.

While the current policy of the Russian Government is to allow the repatriation by foreign investors of profits earned in Roubles, there are restrictions on such repatriation. Rouble proceeds from certain operations of foreign investors are required to be frozen for 365 days before they may be converted into hard currency. The restrictions on its ability to convert its Rouble revenues into foreign currencies, or to reconvert the Roubles TNK obtains pursuant to the mandatory repatriation and conversion requirements, could have a material adverse effect on TNK's business, financial condition and results of operations.

Lack of Official Data Reliability

Official statistics and other data published by Russian federal, regional and local governments, and federal agencies are substantially less complete or reliable than those of Western countries, and there can be no assurance that the official sources from which certain of the information set forth herein has been drawn are reliable or complete. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia herein must therefore be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Privatisation

OAo TNK and its upstream, midstream and downstream subsidiaries were privatised in the middle of 1990s. Furthermore, TNK has acquired a number of privatised companies in Russia and Ukraine. To the extent that privatisation legislation has been vague, inconsistent and conflicting with other applicable legislation, and with conflicts even between federal and local privatisation legislation, most, if not all, privatisations are arguably deficient and therefore are vulnerable to challenge at least on formal grounds.

The Russian government did allege certain violations of legislation in the privatisation of OAo TNK as was the case for many other major Russian companies. However, no actions were taken towards the invalidation of OAo TNK's status as a privately-owned company. Currently, there are no material pending challenges to the privatisation of OAo TNK or any of TNK's other subsidiaries in Russia. In the event that any of TNK's privatised subsidiaries come under further attack as having been improperly privatised and TNK is unable to defeat such claims, TNK 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's business, financial condition and results of operations.

Taxation

Taxes payable by Russian companies are substantial and include value added tax, excise duties, profits and turnover taxes, payroll-related taxes, property taxes and other taxes. Historically, the system of tax collection has been relatively ineffective, resulting in the imposition of new taxes in an attempt to increase Government revenues. However, the Russian Government has initiated reforms of the tax system, including the enactment of the Tax Code (Part One entered into force in 1999 and some chapters of Part Two of the Tax Code were enacted in 2001 and in 2002). The reforms have resulted in a relative improvement in the tax climate. The recently enacted corporate profits tax chapter of the Tax Code reduced the corporate profits tax rate from 35% to 24% as at 1 January 2002.

Russia's tax laws and regulations are subject to frequent change, varying interpretations and inconsistent enforcement. In some instances, even though unconstitutional, Russian tax authorities have applied certain taxes retroactively. In addition to the usual tax burden imposed on the 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. This uncertainty could possibly expose TNK to significant fines and penalties and to enforcement measures despite its best efforts at compliance, and could result in a greater than expected tax burden. Additionally, Russia's largely ineffective tax collection system and continuing budget requirements increase the likelihood that Russia will impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on TNK's business, financial condition and results of operations.

It is expected that Russian tax legislation will become more sophisticated and introduce additional revenue raising measures. Although it is unclear how these provisions will operate, introduction of these provisions may affect TNK's overall tax efficiency and may result in significant additional taxes becoming payable. Although TNK will undertake to minimise such exposures with effective tax planning, TNK cannot offer any assurances that additional tax exposure will not arise while the Notes are outstanding. Additional tax exposure could cause TNK's financial results to suffer.

Additionally, financial statements of Russian companies are not consolidated for tax purposes. As a result, each entity in TNK's consolidated group pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity in TNK's consolidated group. Furthermore, any dividends within the entities comprising its consolidated group would be subject to Russian taxes at each level (less available deductions).

Corporate Governance and Disclosure

The corporate affairs of OAO TNK and other Russian subsidiaries of TNK International are governed by the laws governing companies incorporated in Russia and by their constitutive documents. The rights of shareholders and the responsibilities of members of the Board of Directors and Management Board under Russian law are different from, and may be subject to certain requirements not generally applicable to, corporations organised in the United States, the United Kingdom, and other jurisdictions.

A principal objective of the securities laws of the United States and the United Kingdom and other countries is to promote full and fair disclosure of all material corporate information to the public. OAO TNK and other Russian subsidiaries of TNK International are subject to Russian law requirements, which oblige them to publish, *inter alia*, annual financial statements and information on material events relating to the relevant company (such as major acquisitions and increase in charter capital). However, there is less publicly available or other information about OAO TNK and other Russian subsidiaries of TNK International than the information regularly published by or about listed companies in the United States, the United Kingdom or certain other jurisdictions.

Risks Relating to TNK and the Russian Oil and Gas Industry

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. The reserves data included in this Offering Circular, which is derived from the Reserves Reports, 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 by Miller and Lents were based on production data, prices, costs, ownership, geological and engineering data, and other information provided by TNK and accepted without independent verification. They were also prepared in accordance with SPE/WPC standards, which differ in certain material respects from standards applied by the SEC. See "Presentation of Financial and Other Information – Oil and Gas Reserves Data". The Reserves Reports assume, among other things, that the future development of TNK's oil fields and the future marketability of TNK'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.

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 numerous regulations. TNK's Russian companies currently conduct operations under numerous exploration and/or production licences. The Law on Subsoil provides that fines may be

imposed and/or licences may be suspended, amended, or terminated if a relevant TNK licensee fails to comply with licence requirements (such as stipulated levels of oil and gas extraction), or make timely payments of levies and taxes for the subsoil use, provide geological information to controlling bodies and meet other reporting requirements, etc. Imposition of any such sanctions might have an adverse effect on TNK's operations and the value of its assets.

To operate TNK's oil and gas business as currently contemplated, TNK's Russian subsidiaries are required to obtain other licences, and a number of 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 exploitation of hazardous objects (pipelines, refining equipment, etc.). TNK's Russian subsidiaries obtain these permits regularly. However, procedures for obtaining such licences, permits and approvals are often bureaucratic in the Russian Federation. It is possible that TNK's Russian subsidiaries may not be able to obtain or renew all required permits in the future due to this reason.

Failure to Acquire or Find and Develop Additional Reserves

The majority of the TNK's proved reserves are in the Khanty-Mansiiskii Autonomous Region in Western Siberia, a substantially developed resource province. Although TNK believes it has adequate reserves to maintain current production levels beyond the term of the Notes, TNK'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's long-term production is therefore dependent upon its success in finding or acquiring and developing additional reserves. If TNK 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.

Drilling

TNK is exploring in various geographical areas, including new resource areas in Khanty-Mansiiskii Autonomous Region, where environmental conditions are challenging and costs can be high. In addition, the use of advanced technologies by TNK, such as hydraulic fracturing and horizontal drilling requires greater pre-drilling expenditures than traditional drilling strategies. The cost of drilling, completing and operating wells is often uncertain. As a result, TNK 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, compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment. TNK's overall drilling activity or drilling activity within a particular project area may be unsuccessful. Such failure may have a material adverse effect on TNK's business, financial condition and results of operations.

Production

TNK's oil production declined in 1997 and 1998. A number of factors contributed to this decline in production, including decreased domestic demand due to weak economic conditions, export restrictions in relation to refined products, and impaired assets due to inadequate maintenance. In addition, some of TNK's principal producing oil fields (in common with those of many other Russian oil producers) are mature.

In 2001, TNK's production increased to 701 mbpd, a level which TNK plans to increase in 2002. For the six months ended 30 June 2002, TNK's production totalled 734 mbpd. However, decreases in oil prices or additional export limitations may constrain TNK's ability to maintain production at existing levels or to do so profitably.

Price of Crude Oil and Refined Products in Russia; Fluctuations in International Crude Oil and Refined Products Prices

TNK 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 in early 1995, but domestic prices have continued to be below world levels primarily due to large regional surpluses in Russia and Russia's economic condition. There can be no assurance that Russian domestic prices for crude oil will equal world market prices in the near future.

While prices for refined products are generally determined by the market, they may be occasionally still subject to government control. Decree No. 221 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 used in the domestic market of the Russian Federation. However, the Decree also imposes State control over a limited list of goods, including certain types of refined products, approved by the Government of the Russian Federation, federal agencies or regional authorities. Such list currently includes products such as fuel oil, kerosene and liquefied gas sold directly to the public.

No assurance can be given that governmental price controls will not be implemented or increased for political reasons, resulting in a significant difference between world market prices and the domestic prices for refined products.

Domestic prices for refined products may also be affected from time to time by limitations on the ability of TNK and other Russian oil companies to export crude oil as a result of any export limitations imposed by the Russian Government (as discussed further below) or due to capacity constraints in the state controlled network of crude oil trunk pipelines in Russia (the "Transneft system") operated by AK Transneft ("Transneft"). See "– Transport", "– Export Oil Sales; Export Capacity Allocation" and "– Export Quota and Licensing System". These limitations may lead to an oversupply of crude oil and, in turn, refined products in the domestic market, resulting in a decline in prices.

Furthermore, prices for oil and refined products have historically fluctuated widely in response to changes in many factors, over which TNK does not and will not have 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 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;
- price and availability 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, could ultimately lead to price movements. In the short term a conflict or anticipated conflict involving Iraq could result in increased prices due to real or perceived shortages in supply in the Middle East. However, in the longer term, an end to sanctions on Iraq's crude oil exports could lead to an increase in worldwide crude oil

production which, 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'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'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 "Management's Discussion and Analysis of Financial Condition and Results of Operations – External Factors Affecting Results of Operations – Price of Crude Oil". Lower crude oil or refined product prices also may reduce the amount of crude oil that TNK 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.

In the first half of 2002, the Russian Government lowered allowable export volumes in response to increasing pressure from OPEC to reduce the world's oil supply and maintain high commodity prices. Despite these restrictions, TNK was able to continue to export historically high levels of crude oil. However, these restrictions put downward pressure on Russian domestic crude oil and refined product prices, which has impacted TNK's margins for domestic refined product sales for the first half of 2002. While these restrictions were removed in July 2002, the imposition of future restrictions could have a negative effect on TNK's revenues from domestic or export sales.

Transport

The Russian oil export regime is complex, in a state of flux, and is subject to legislative uncertainty. No assurance can be given that TNK will be able to meet its sales objectives domestically or on the export market if factors outside the control of TNK prevent it from transporting and shipping oil. The uncertainty of continued availability and the physical condition of the Transneft system, sea terminals, possible changes in the governmental policy on access to the Transneft system and sea terminals for shipping oil, and overall economic conditions could affect TNK's ability to sell oil. A shortage of sea tankers, limited port storage capacity, limited railway facilities, and high railway-transportation tariffs present additional restrictions on the oil transportation system in Russia.

Approximately 90% of the crude oil produced in Russia, and almost all of TNK's crude oil, is transported through the Transneft system, which is a state-owned monopoly. The Transneft system is subject to breakdowns and leakage. In addition, although Transneft is expected to increase the capacity of the Transneft system over the next two years, Russian oil companies, including TNK, are expected to increase their production levels in future periods. The failure of Transneft to sufficiently increase the capacity of the Transneft system could limit the ability of TNK and other Russian oil companies to export their increased crude oil production, thereby requiring them to sell their excess production on the local market. This could result in a decline in domestic prices for refined products and in TNK's margins on such products. Transneft has also on two occasions been required 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 as well as following a dispute between the company and one of its minority shareholders. Although these legal disputes did not affect TNK, in light of the precedents set in the legal disputes described above, there can be no assurance that TNK's use of the Transneft system will not be interrupted in the future as a result of legal disputes between TNK and governmental authorities or other third parties.

Export Oil Sales; Export Capacity Allocation

Access to trunk pipelines and sea terminals is regulated by the Russian Government; access is granted in proportion to volumes of oil produced and delivered to the trunk pipeline system. Russian oil companies are generally allowed to export approximately one-third of their oil production. In past years, TNK has used available avenues to increase its levels of export. However, such higher levels of export may not be sustainable in the future and any material reduction in levels of export could have a material adverse effect on TNK's business, financial condition and results of operations. See "Business – Reserves, Exploration and Production – Crude Oil Sales and Deliveries".

Access rights were previously granted to TNK's production subsidiaries, rather than to OAO TNK or ONAKO, but starting in late 2001, these entities are now able to obtain access rights as parent companies of oil production subsidiaries. OAO TNK and ONAKO utilise pipeline and sea terminal access allocations granted to their production subsidiaries, either by effecting export sales on their behalf, or by having access rights assigned to them by their production subsidiaries in conjunction with the sale of oil. However, the laws currently governing the access rights to the pipeline system and sea terminals are unclear, and there is uncertainty in respect of the transferability and enforceability of such access rights. The allocation of access rights to the pipeline system and sea terminals and the potential assignment of such rights to third parties, as set forth in the relevant Russian regulations, depend upon, among other things, the absence of outstanding tax liabilities of the transferor and transferee (as applicable) of such access rights. Therefore, a failure by TNK or its production subsidiaries to meet tax obligations may adversely affect the ability of TNK to continue its export operations.

The system of access rights allocation may be subject to further reform. Although recent legislative developments indicate that the once-expected system of tender sale of access rights will not be introduced in the near future, there is no assurance that the law in this respect will not eventually change. The introduction of a tender system may substantially increase the costs of oil transportation for TNK.

Oil Quality – Related Compensation Payments

The oil that TNK transports through the Transneft system is blended with oil produced from other fields and by other oil companies and transported through the Transneft system. The sales that TNK and all such other oil companies make in the export market are of the oil blend that results from the mixing in the system. The Russian Government and Transneft have expressed their intent to launch a system whereby companies shipping heavy and sour crude will compensate the shippers of higher-quality crude oil for the deterioration in the crude quality arising from its blending in the Transneft system. TNK believes that it will benefit from the introduction of such compensatory system as its oil is of higher quality, although the effects on TNK of such a system, if adopted, cannot be predicted.

In July 2002, Gosstandart, a Russian governmental agency responsible for technical and standardisation regulation, introduced new oil quality standards which are believed to be stricter than the previous standards. It is not yet clear how Transneft will enforce these new standards when accepting crude oil for transportation.

Export Quota and Licensing System

The general system of export quotas and licensing of exports was abolished in 1995. At present, quantitative restrictions on export 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 lowered 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.

Required Domestic Supplies of Oil and Refined Products

Historically, the Russian Government has used and continues to use various administrative measures to ensure sufficient supplies of oil and refined products are made available to domestic customers. In particular, the Russian Government used to limit access to the pipeline system and sea terminals if a company failed to provide the required domestic supplies. The required domestic supply of oil and refined products, with or without the corresponding limitation or ban of export sales, may be used or extended if the domestic market starts experiencing a shortage of oil or refined products. Such extension is possible

with respect to domestic supplies of refined products on a seasonal basis, as it has been the case periodically for diesel, fuel oil and liquefied gas in recent years. Depending upon the level of such required supplies, these measures may force TNK to curtail its exports of refined products, which represent an important source of hard currency for TNK and sales of which are generally made at higher prices when exported than when sold in the domestic market. Therefore, the use or extension of domestic supply requirements could, depending upon the degree, have a material adverse effect on TNK's business, financial condition and results of operations.

Black Sea Shipments

A substantial part of TNK's export sales are routed through the Black Sea crude export terminals in Novorossiisk and Tuapse to the Mediterranean ports. The Novorossiisk sea terminal experiences occasional shutdowns due to bad weather. In addition, the transit capacity of the Bosphorus Strait, which is the only outlet from the Black Sea to the Mediterranean, imposes limits on the volume of oil and refined products that may be exported through Black Sea crude oil terminals. These climatic, geographical and infrastructure limits may adversely affect TNK's export operations.

Railway Transportation

TNK depends on railway transportation for its export and domestic supplies of refined products and relatively minor volumes of crude oil. Although railway transportation tariffs are subject to anti-monopoly control, historically they have tended to increase (the last increase being in July 2002). Accordingly, the increase in railway transportation tariffs results in a corresponding increase in the transportation costs and may have an adverse effect on the operations of TNK.

Use of the Russian railway system exposes TNK to risks such as the disruption in transportation schedules due to the declining physical condition of Russian railway facilities and shortage of tank cars, theft of products 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.

Tax-optimisation

TNK's results of operations have historically benefited significantly from the use of on-shore and off-shore tax-reduction mechanisms, principally involving certain of TNK's trading subsidiaries located in Russian economic development zones. These mechanisms operate within the constraint that the selling price between the producer and the trading company or between the trading company and the purchaser is not less than 20% below the relevant market price for crude oil or refined products. While there are practical difficulties in establishing a precise market price in some regions, TNK believes that it has complied and complies with such constraint. However, Russian tax legislation is subject to varying interpretation and inconsistent enforcement at federal, regional and local levels and may be interpreted retroactively. Therefore, there can be no assurance that such mechanisms will not be challenged. Furthermore, it is expected that the availability of the Russian economic development zones will be phased out by the Russian Government within the next three years. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – External Factors Affecting Results of Operations – Taxation". This may increase the tax burden of Russian companies, which could have a material adverse effect on TNK's business, financial condition and results of operations. For an illustration of the benefit of the Russian economic development zones on TNK's results of operations for the years ended 31 December 1999, 2000 and 2001, see the table regarding "income tax expense" in Note 15 to the U.S. GAAP Financial Statements.

Capital Requirements

TNK's business requires significant capital expenditures, including in exploration and development, production, refining and marketing, and to meet its obligations under environmental laws and regulations. TNK plans to make capital expenditures of approximately U.S.\$623 million in 2002, U.S.\$699 million in

2003 and U.S.\$547 million in 2004. TNK expects to finance a substantial portion of these capital expenditures out of cash flows from its operating activities. If TNK, due to any reasons, is unable to generate operating cash flow necessary for implementation of the capital expenditures programme, estimates used in TNK internal modelling of capital expenditures shall have to be revised accordingly or other sources of financing may be required if projected capital expenditures are to be maintained. If feasible, such financing may be arranged through bank borrowings and secured by TNK's exports of oil. As at 30 June 2002, less than 40% of TNK's monthly crude oil export volumes over the following 12 months were pledged as security for existing borrowings. Nonetheless, no assurance can be given that TNK will be able or willing to raise the financing required for its projected capital expenditures. In such circumstances, any such reduction in capital expenditures could adversely affect its ability to expand its business, and if the reductions are severe enough, could adversely affect its ability to maintain its operations at current levels.

Competition

Significant competition exists in the oil and gas sector in the Russian Federation. TNK competes with major Russian and international oil and gas companies. Some of these companies are more experienced, larger, and better capitalised than TNK, and carry out refining operations and market petroleum and other products on a world-wide basis. As a result of this competition, TNK may face pressure on its refining and marketing margins. See "Business – Competition".

Environmental Risks

TNK's operations are subject to the environmental risks inherent in the oil and gas industry. Russian environmental legislation consists of numerous federal and regional regulations which quite often conflict with each other and cannot be consistently interpreted. As a result, full environmental compliance may not 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.

Although measures taken by TNK 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 will not be material.

Insurance

The insurance industry is not yet well developed in Russia and many forms of insurance protection used in economically developed countries are unavailable on the terms common in such countries, including coverage for business interruption. TNK and some of its material subsidiaries have a number of agreements with ROSNO and Alfa Strakhovaniye, two Russian insurance companies, to insure their business. There can be no assurance that TNK will be able to renew this policy or that, given the nascent nature of Russia's insurance industry and the limited history of these two insurance companies, TNK will be able to collect amounts from such companies which would fully compensate TNK for losses suffered under, or liabilities incurred in respect of, events covered under such policy.

Dependence on Key Management

TNK is dependent on its senior management for the implementation of its strategy and operation of its day-to-day activities. In addition, personal connections and relationships of members of senior management are important to the conduct of its business. No assurance can be given that key members of senior management will remain at TNK.

Liability for the Obligations of Subsidiaries

The Civil Code and the Federal Law on Joint-Stock Companies provide that the shareholders in a Russian joint-stock company are not liable for the obligations of the joint-stock company and bear only the risk of loss of their investment. This may not be the case, however, when one company (the parent) is

capable of determining decisions made by another company (the subsidiary). The parent company bears joint and several liability for transactions concluded by the subsidiary in carrying out these decisions if (i) this decision-making capability arises from prevailing participation in the charter capital of the subsidiary or it is provided in a contract between the companies or arises due to certain other reasons, and (ii) the parent company gives obligatory directions to the subsidiary by virtue of provisions in the subsidiary's charter or an agreement between the parent company and the subsidiary.

In addition, the parent company is secondarily liable for the debts of the subsidiary if the subsidiary becomes insolvent or bankrupt resulting from the action or inaction of the parent company. This is the case when the parent company's capability to determine decision of the subsidiary arises from its right to give obligatory directions described above. In these instances, other shareholders of the subsidiary may claim compensation for the subsidiary's losses from the parent company which caused the subsidiary to take action(s) or fail to take action(s) knowing that such action(s) or failure to take action(s) would result in losses.

Risks Relating to TNK's Operations in Ukraine

TNK processes significant amounts of crude oil at the OAO Lisichansknefteorgsintez ("LiNOS") Refinery located in Lisichansk, Ukraine. For the year ended 31 December 2001 and also for the six months ended 30 June 2002, approximately 100 mbpd was processed at the LiNOS Refinery.

Most of the risks discussed in this "Risk Factors" section of the Offering Circular in relation to 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 Commonwealth of Independent States ("CIS") countries and imports a significant portion of its energy requirements primarily from Russia, including significant volumes of oil import. Currently, Ukraine is considering changes in the tax regime applicable to crude oil imports, which could have further adverse effect on TNK's operation in Ukraine based on processing imported Russian crude oil.

Equipment and infrastructure of the Ukrainian oil and gas industry have exceeded their estimated lifetime and require modernisation. To improve the situation, two new oil pipelines were constructed in 2001 allowing transportation of crude oil through Ukrainian territory to the Black Sea export terminals. However, the oil and gas industry in Ukraine is developing slowly. See also "Business – Refining and Marketing – Refining" and "– Refinery Modernisation Programme".

Risks Relating to the Notes

Taxation

In general, interest payments on borrowed funds made by a Russian entity to a non-resident are subject to Russian withholding tax at a rate of 20%, unless they are reduced or eliminated pursuant to the terms of an applicable double tax treaty. Based on professional advice it has received, TNK believes that interest payments on the Loan made by the Borrower to the Bank will not be subject to withholding under the terms of the double tax treaty between the Russian Federation and Germany. However, there can be no assurance that an exemption from withholding will be available. If payments under the Loan are subject to any withholding, the Borrower will be obliged to increase the amounts payable as may be necessary to ensure that the Bank receives a net amount that will not be less than the amount it would have received in the absence of such withholding. Based on professional advice it has received, payments in respect of the Notes will, except in certain limited circumstances, be made without deduction or withholding for or on account of German taxes except as required by law. In that event, the Bank will only be required to pay additional amounts to the extent that it receives corresponding amounts from the Borrower under the Loan Agreement or from the Guarantor under the Guarantee Agreement. The Loan Agreement and the

Guarantee Agreement provide for the Borrower or the Guarantor, as the case may be, to pay such corresponding additional amounts in these circumstances. There is some doubt as to whether the gross-up provisions contained in the Loan Agreement are enforceable under Russian law (whether in relation to Russian taxes which may be required to be withheld by the Borrower or German taxes which may be required to be withheld by the Bank). Currently, no withholding tax will be required to be deducted by the Guarantor on the payments under the Guarantee Agreement to the Bank, the Trustee or any Holder of a Note. Due to the limited recourse nature of the Notes, if the Borrower or the Guarantor fails to pay any such gross-up amounts due to such amounts payable under the Loan Agreement being held to be unenforceable under Russian law, the amounts payable by the Bank under the Notes will be correspondingly reduced. Any failure by the Borrower or the Guarantor to pay such amounts would constitute an Event of Default under the Loan Agreement. In certain circumstances (including in certain circumstances following enforcement of the security upon a Relevant Event (as defined in the Trust Deed)), in the event that the Borrower is obliged to increase the amounts payable, it may prepay the principal of the Loan together with accrued interest, and (to the extent that it has actually received the relevant funds from the Borrower) all outstanding Notes would be redeemed by the Bank.

The Bank has granted security by way of a charge in favour of the Trustee over certain of its rights and interests (i) as lender under the Loan Agreement (other than any rights over and benefits constituting Reserved Rights as defined in the Trust Deed) and (ii) as a party to the Guarantee Agreement (other than any rights and benefits constituting Reserved Rights) as security for its payment obligations in respect of the Notes and under the Trust Deed and has assigned absolutely certain administrative rights under the Loan Agreement and the Guarantee Agreement to the Trustee (the “Loan and Guarantee Administration Assignment”). In certain circumstances, the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by the Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Loan and Guarantee Administration Assignment). The security under the Trust Deed will become enforceable upon the occurrence of a Relevant Event, as further described in the Terms and Conditions of the Notes.

In these circumstances, payments under the Loan Agreement (other than in respect of Reserved Rights) would be required to be made to, or to the order of, the Trustee. Under Russian tax law, payments of interest and other payments made by the Borrower to the Trustee will in general be subject to Russian income tax withholding at a rate of 20%. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty. In addition, while it may be possible for some Noteholders who are eligible for an exemption from Russian withholding tax under double taxation treaties to claim a refund of tax withheld there would be considerable practical difficulties in obtaining any such refund. However, the Borrower, pursuant to the Loan Agreement, would be required in such circumstances to increase the payments due under the Loan Agreement to the Trustee and then may repay the Loan in whole (but not in part) at any time.

As indicated above, it is currently unclear whether the provisions obliging the Borrower to gross-up payments will be enforceable in Russia. If a Russian court does not rule in favour of the Bank or the Trustee on behalf of Noteholders and the Guarantor is consequently unable to make payment of any additional amounts, there is a risk that gross-up for withholding tax will not take place and that payment made by the Borrower under the Loan Agreement will be reduced by Russian income tax withheld by the Borrower at a rate of 20%.

As indicated above, currently no withholding tax will be required to be deducted by the Guarantor on the payments under the Guarantee Agreement to the Bank, the Trustee or any Holder of a Note.

See also “Loan Agreement – Repayment and Prepayment”, “Loan Agreement – Payments”, “Terms and Conditions of the Notes – Redemption”, “Terms and Conditions of the Notes – Taxation” and “Taxation – Russian Taxation”.

Payments under the Notes limited to the amount of certain payments received by the Bank under the Loan Agreement and the Guarantee Agreement

In each case where amounts of principal, interest and additional amounts (if any) under the Terms and Conditions of the Notes or the Trust Deed are to be paid by the Bank in respect of the Notes, the obligations of the Bank to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Bank pursuant to the Loan Agreement and/or the Guarantee Agreement.

Consequently, if the Borrower fails to meet its payment obligations under the Loan Agreement in full and the Guarantor fails to meet its payment obligations under the Guarantee Agreement in full, this will result in the Noteholders receiving less than the scheduled amount of principal or interest or other amounts (if any) on the relevant due date.

No direct recourse of the Noteholders to the Borrower and the Guarantor

Save as otherwise expressly provided in the Terms and Conditions of the Notes and in the Trust Deed, no proprietary or other direct interest in the Bank's right under or in respect of the Loan Agreement, the Loan or the Guarantee Agreement exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any provision of the Loan Agreement or the Guarantee Agreement or have direct recourse to the Borrower or the Guarantor except through action by the Trustee pursuant to the Loan and Guarantee Administration Assignment (as defined in the Terms and Conditions of the Notes) granted to the Trustee in the Trust Deed. Neither the Bank nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall be required to take proceedings to enforce payment under the Loan Agreement and/or the Guarantee Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction.

In addition, under the Terms and Conditions of the Notes, Noteholders will be deemed to have accepted that:

- (i) neither the Bank nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or liability, or (save as expressly provided in the Trust Deed or in paragraph (vi) below) obligation in respect of the performance and observance by the Borrower and the Guarantor of their respective obligations under the Loan Agreement and the Guarantee Agreement or the recoverability of any sum of principal, interest (or additional amounts (if any)) due or to become due from the Borrower or the Guarantor under the Loan Agreement and/or the Guarantee Agreement, as the case may be;
- (ii) neither the Bank nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of the Borrower or the Guarantor;
- (iii) neither the Bank nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement or of the Guarantor under or in respect of the Guarantee Agreement;
- (iv) neither the Bank nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Agents of their respective obligations under the Agency Agreement;
- (v) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by the Borrower of its obligations under the Loan Agreement or, as the case may be, by the Guarantor of its obligations under the Guarantee Agreement and their covenants,

credit and financial standing. The Borrower has represented and warranted to the Bank in the Loan Agreement that the Loan Agreement constitutes a legal, valid and binding obligation of the Borrower and the Guarantor has represented and warranted to the Bank in the Guarantee Agreement that the Guarantee Agreement constitutes a legal, valid and binding obligation of the Guarantor; and

- (vi) the Bank and the Trustee shall be entitled to rely on officers' certificates from duly authorised officers of the Borrower or, as the case may be, the Guarantor or, failing which, certification by an independent third party approved by the Bank or the Trustee, that the Borrower or the Guarantor are complying with their respective obligations under the Loan Agreement and the Guarantee Agreement, whether or not addressed to the Bank or the Trustee and whether their liability in relation thereto is limited (by its terms or by an engagement letter relating thereto entered into by the Bank or the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Bank and the Trustee shall not otherwise be responsible for investigating any aspect of the Borrower's or the Guarantor's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee shall not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Loan and Guarantee Administration Assignment and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Bank to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security; the Trustee has no responsibility for the value of such security.

The Borrower has a significant amount of secured indebtedness

The Borrower has a significant amount of secured indebtedness outstanding. See "Description of Indebtedness". All of the Borrower's secured indebtedness is senior to its obligations under the Loan, which are unsecured. As a result, if the Borrower defaults on the Loan, and this default triggers an event of default under any of its secured indebtedness, holders of its secured indebtedness will have priority over the Bank or the Trustee acting on behalf of the Noteholders.

Russian bankruptcy law is recent and developing, and is subject to varying interpretations. There is not enough precedent to be able to predict how claims of the Bank or Noteholders against the Borrower would be resolved in the event of bankruptcy of the Borrower. In the event of bankruptcy, the Borrower's obligations to the Bank or Noteholders will be subordinated to the following obligations:

- workplace injury obligations;
- severance pay, employment-related obligations, and royalties;
- secured creditors; and
- tax and other payment obligations to the government.

It is expected that the new Law on Insolvency (Bankruptcy) will enter into force in late 2002. Under the new Law on Insolvency (Bankruptcy), pledged assets will be separated from the other assets of an insolvent entity and claims of creditors secured by pledges will be settled with the money received from the sale of pledged assets. Claims of creditors secured by pledged assets will be subordinated to the following obligations: (i) injury obligations and moral damages obligations; and (ii) severance pay, employment-related obligations and royalties, if such obligations arose prior to the creation of pledge. Claims of creditors secured by pledged assets remaining unsatisfied upon the sale of pledged assets would be ranked as claims of unsecured creditors (i.e. after satisfaction of obligations mentioned in (i) and (ii) above, irrespective of the moment of creation thereof).

In the event of the Borrower's insolvency, Russian bankruptcy law may adversely affect its ability to make payments to the Bank or the Trustee.

No Existing Market/Market Volatility

Application has been made to list the Notes on the Luxembourg Stock Exchange. However, there can be no assurance that an active trading market for the Notes will develop, or, if one does develop, that it will be maintained. If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

The market for securities issued by Russian issuers is influenced by economic and market conditions in other Eastern European countries and other emerging markets. Although international markets have stabilised since the Asian crisis in 1997 and the devaluation of the Russian Rouble in August 1998, there can be no assurance that events will not cause a recurrence of such market volatility or that such volatility will not adversely affect the price of the Notes.

Credit Rating

Outstanding Eurobonds of the Russian Federation are rated “Ba3” (outlook positive) by Moody’s, “B+” (outlook positive) 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. TNK International has received a long-term foreign currency debt rating of “Ba3” from Moody’s, “B+” from Standard & Poor’s and “B+” from Fitch. Any change in the credit rating of either TNK or the Russian Federation could adversely affect the trading price for the Notes.

Investment Consideration Relating to the German Insolvency Code

The Trust Deed provides for an English law charge in favour of the Trustee for the benefit of Noteholders over certain amounts as well as certain claims and other rights of the Bank under the Loan. Section 166(2) of the German Insolvency Code (the “Insolvency Code”) provides that receivables assigned under German law for security purposes may, after the opening of an insolvency proceedings involving the assignor, only be enforced by the assignee if the insolvency administrator does not exercise its power of discretion to enforce the receivables. If the insolvency administrator does so, it will be entitled to withhold in favour of the bankruptcy estate from the enforcement proceeds a flat-rate fee for establishment and enforcement of a total of nine % subject to adjustment in case of higher or lower actual costs of enforcement, in each case plus value added tax, if any, thereon pursuant to Sections 170(1) and 171 of the Insolvency Code. If the insolvency administrator allows the assignee to enforce the receivables, the assignee will be obliged to pay a flat-rate fee of four % plus value added tax, if any, thereon to the bankruptcy estate pursuant to Sections 170(2) and 171(1) of the Insolvency Code. Section 166(2) of the Insolvency Code may therefore affect the security given pursuant to the Trust Deed, since it cannot be excluded that a German court would hold that an English law charge should be subject to such Section 166(2).

CAPITALISATION

The table below shows TNK's unaudited consolidated capitalisation as at 30 June 2002, and as adjusted to reflect the entering into of the Loan Agreement and U.S.\$6,317,209.51 of estimated fees associated with the issue of the Notes and the entering into of the Loan Agreement. This information should be read in conjunction with "Use of Proceeds", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the U.S. GAAP Interim Financial Statements included elsewhere in this Offering Circular.

	As at 30 June 2002	
	Actual	As Adjusted
	(U.S.\$ millions)	
	(unaudited)	
Short-term debt (including current portion of long-term debt)	1,221.3	1,221.3
Long-term debt (including):.....	1,502.2	1,902.2
Credit facilities.....	1,537.1	1,937.1
Corporate bonds	523.0	523.0
Other.....	65.7	65.7
Less current portion of long-term debt	(623.6)	(623.6)
Total long and short-term debt	2,723.5	3,123.5
Total minority interests.....	1,135.6	1,135.6
Ordinary share capital (authorised and issued – 50,000 shares, U.S.\$1 par value).....	—	—
Additional paid in capital.....	1,388.9	1,388.9
Retained earnings.....	2,049.9	2,043.6
Shareholders' equity	3,438.8	3,432.5
Total capitalisation.....	7,297.9	7,691.6

For details of TNK's long and short-term debt, see "Description of Indebtedness".

There has been no material change in TNK's consolidated capitalisation since 30 June 2002, save for a reduction in total long and short-term debt of U.S.\$280.5 million as at 30 September 2002 and a further reduction in total long and short-term debt of approximately U.S.\$122 million from 1 October 2002 to 31 October 2002. On 17 July 2002, TNK declared a dividend in the amount of U.S.\$200 million which will be paid before the end of 2002.

SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents selected consolidated financial data as at the dates and for the periods indicated. The balance sheet, statements of operations and cash flow data at of 31 December 2001, 2000 and 1999, and for the three years in the period ended 31 December 2001, was derived from the U.S. GAAP Financial Statements included elsewhere in this Offering Circular, audited by PricewaterhouseCoopers. The balance sheet, statements of operations and cash flow data as at 30 June 2002, and for the six months ended 30 June 2002 and the statements of operations and cash flow data for the six months ended 30 June 2001, were derived from the U.S. GAAP Interim Financial Statements included elsewhere in this Offering Circular. The interim financial results are not necessarily indicative of future financial results. This information should be read in conjunction with “Use of Proceeds”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, the U.S. GAAP Financial Statements and the U.S. GAAP Interim Financial Statements included elsewhere in this Offering Circular.

	Year ended 31 December			Six months ended 30 June	
	1999	2000	2001	2001	2002
	(U.S.\$ millions, except share and per share amounts)				
	(unaudited)				
Statement of Operations:					
<i>Revenues</i>					
Sales and other operating revenues.....	1,858.2	4,711.0	6,173.1	3,149.0	2,725.2
Less: excise, fuel sales taxes and export duties	107.5	458.9	999.1	509.5	351.3
<i>Total revenues</i>	1,750.7	4,252.1	5,174.0	2,639.5	2,373.9
<i>Costs and other deductions</i>					
Operating expenses	328.6	659.4	1,005.0	456.0	384.3
Cost of purchased products	88.7	329.7	606.4	344.2	120.6
Taxes other than income tax	186.4	232.8	554.4	268.0	502.3
Selling, general and administrative expenses	335.9	622.5	997.2	496.8	584.0
Depreciation, depletion and amortisation ...	260.8	244.9	340.5	193.1	195.4
Maintenance of social infrastructure.....	25.6	25.5	25.3	9.4	7.8
Exploration expenses	20.4	48.5	53.6	22.6	23.9
Loss on asset disposals.....	71.5	104.7	34.1	4.7	20.4
<i>Total costs and other deductions</i>	1,317.9	2,268.0	3,616.5	1,794.8	1,838.7
<i>Other income and expense</i>					
Exchange (gains).....	(129.8)	(28.0)	(29.6)	(2.7)	(11.9)
Interest expense	47.3	164.2	304.6	139.6	180.3
Interest and other non-operating income	(11.4)	(133.9)	(184.8)	(50.6)	(48.9)
Equity in net loss of affiliates	0.8	1.3	1.3	—	—
<i>Total other expense (income)</i>	(93.1)	3.6	91.5	86.3	119.5
<i>Income before income taxes and minority interest</i>	525.9	1,980.5	1,466.0	758.4	415.7
<i>Income taxes</i>					
Current tax expense.....	70.1	193.5	301.6	183.3	111.6
Deferred tax (benefit) expense	(39.0)	78.4	(241.5)	72.3	(33.0)
<i>Total income taxes</i>	31.1	271.9	60.1	255.6	78.6
<i>Income before minority interest</i>	494.8	1,708.6	1,405.9	502.8	337.1
<i>Minority interest</i>	(227.7)	(1.1)	(288.5)	(96.5)	(34.9)
<i>Net income</i>	267.1	1,707.5	1,117.4	406.3	302.2
<i>Weighted average number of ordinary shares outstanding</i>					
	50,000	50,000	50,000	50,000	50,000
<i>Basic and diluted net income per ordinary share –</i>					
<i>U.S. dollars</i>	5.342	34.150	22.348	8.126	6.044

	At 31 December			At 30 June
	1999	2000	2001	2002
	(U.S.\$ millions, except share amounts)			
	(unaudited)			
Balance Sheet Data:				
<i>Assets</i>				
Cash and cash equivalents.....	143.0	535.6	178.6	294.7
Restricted cash.....	125.2	438.8	60.6	50.8
Accounts and notes receivable	567.6	1,164.8	1,431.6	1,473.5
Inventories	87.3	407.0	402.8	548.2
Other current assets	192.7	48.4	105.0	42.8
Total current assets	1,115.8	2,594.6	2,178.6	2,410.0
Long-term investments.....	205.7	708.0	596.5	612.3
Property, plant and equipment	4,756.8	5,814.2	6,045.9	5,882.3
Other assets.....	34.3	535.0	377.1	423.1
Total non-current assets	4,996.8	7,057.2	7,019.5	6,917.7
Total assets	6,112.6	9,651.8	9,198.1	9,327.7
<i>Liabilities and shareholder's equity</i>				
Short-term debt and current portion of long-term debt	379.7	1,783.4	1,668.9	1,221.3
Trade accounts and notes payable.....	428.2	564.2	580.2	438.9
Other accounts payable and accrued expenses	288.4	228.6	239.7	286.5
Current taxes payable.....	360.3	542.5	609.7	663.1
Deferred income tax liability	14.7	103.7	67.6	—
Total current liabilities	1,471.3	3,222.4	3,166.1	2,609.8
Long-term debt.....	172.5	750.7	1,110.8	1,502.2
Long-term taxes payable	61.3	42.5	49.9	50.6
Deferred income tax liability	243.3	931.8	565.0	590.7
Total long-term liabilities	477.1	1,725.0	1,725.7	2,143.5
Total liabilities	1,948.4	4,947.4	4,891.8	4,753.3
Minority interest	2,761.7	1,959.1	1,274.1	1,135.6
Ordinary share capital (authorised and issued – 50,000 shares, U.S.\$1 par value).....	—	—	—	—
Additional paid in capital	1,109.5	1,294.8	1,294.8	1,388.9
Retained earnings	293.0	1,450.5	1,737.4	2,049.9
Total shareholder's equity	1,402.5	2,745.3	3,032.2	3,438.8
Total liabilities and shareholder's equity	6,112.6	9,651.8	9,198.1	9,327.7

	Year ended 31 December			Six months ended 30 June	
	1999	2000	2001	2001	2002
	(U.S.\$ millions)			(unaudited)	

Cash Flow Data:

Net cash used for investing activities	(685.6)	(2,227.8)	(1,324.8)	(523.2)	(197.0)
Net cash provided by operating activities	413.5	1,515.6	1,235.8	645.1	342.4
Net cash (used for) provided by financing activities	399.1	1,110.7	(254.5)	(300.3)	(21.7)

	Year ended 31 December			Six months ended 30 June	
	1999	2000	2001	2001	2002
	(U.S.\$ millions, except ratios)				
Adjusted EBITDA ⁽¹⁾	833.9	2,389.6	2,111.1	1,091.1	791.4
Cash interest	20.9	119.7	293.7	153.9	180.8
Ratio of earnings to fixed charges ⁽²⁾	12.1	13.1	5.8	6.4	3.3
Ratio of EBITDA to cash interest ..	39.9	20.0	7.2	7.1	4.4
Ratio of debt ⁽³⁾ to EBITDA	0.7	1.1	1.3	1.3 ⁽⁴⁾	1.7 ⁽⁴⁾

(1) Adjusted EBITDA is defined as earnings before interest expense, income tax expense, depreciation, depletion and amortisation and minority interest. TNK has presented adjusted EBITDA because it is a commonly used measure of a company's cash flow and a widely accepted financial indication of a company's ability to service and incur debt and make capital expenditures. EBITDA should not be considered as an alternative to U.S. GAAP measures of performance and in particular to net income as an indicator of operating performance or to cash flow from operations as a measure of liquidity. EBITDA presented by TNK may not be comparable to similarly titled measures reported by other companies.

(2) For purposes of computing the ratio of earnings to fixed charges, earnings consist of consolidated earnings (loss) from continuing operations before income taxes and extraordinary items, excluding undistributed equity earnings of affiliates whose debt is not guaranteed and impairment charges, plus fixed charges. Fixed charges consist of interest expense on debt and capitalised interest, plus amortisation of debt issuance costs, discounts and premiums, plus that portion of rental expense that is deemed to be representative of an interest factor.

(3) Debt is defined as the sum total of long-term and short-term debt.

(4) To make the ratios for the six months ended 30 June 2001 and 2002 comparable with the ratios for the years ended 31 December 1999, 2000 and 2001, the debt figure used to calculate the ratio for the six months ended 30 June 2001 and 2002 was reduced by 50% to reflect that the figure used for EBITDA was for six months rather than a year.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with "Selected Consolidated Financial Data" the U.S. GAAP Financial Statements and the U.S. GAAP Interim Financial Statements included elsewhere in this Offering Circular. 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 Offering Circular.

Background

TNK is one of the largest vertically integrated oil and gas companies in Russia in terms of both proved oil reserves and crude oil production. TNK is engaged in oil and gas exploration and production in the Russian Federation and petroleum refining and petroleum product distribution under the "TNK" brand name in the Russian and the Ukrainian markets. In the past five years, TNK has grown significantly in terms of both reserves, production, refining capacity and sales. TNK's growth has been driven by both internal growth and acquisitions and has been led by a management team comprised of experienced Russian and international managers. See "The Borrower", "The Guarantor", "TNK Organisational Structure" and "Business" for more information.

TNK through one of its Predecessors (as defined under "The Borrower — Privatisation") acquired 40% of OAO TNK in a Government privatisation auction in July 1997. Subsequent to this date, one of the Predecessors acquired an additional 10.1% in OAO TNK through private transactions. In December 1999, one of the Predecessors acquired the outstanding 49.8% of OAO TNK in a second Government privatisation auction see "The Borrower — Privatisation".

Among TNK's other acquisitions, in 1999 it acquired the producing assets of OAO Kondpetroleum for U.S.\$43.3 million which are currently held by TNK-Nyagan. During 2000, TNK made further acquisitions, the most significant occurring in September 2000, when the Russian Government offered an 85.0% equity interest in ONAKO in a privatisation auction. Together with private transactions in which TNK acquired an additional 12.8% interest in ONAKO, TNK's aggregate cost for ONAKO was U.S.\$1,184.8 million. The ONAKO structure currently includes significant minority shareholders in the Orenburgneft production subsidiary with approximately one third of the earnings of ONAKO being attributable to these minority shareholders. However, TNK is currently considering ways to consolidate its shareholdings in ONAKO and Orenburgneft so as to eliminate such minority shareholdings by exchanging them for shareholdings in either OAO TNK or TNK International. See "TNK Organisational Structure". In addition, TNK's refining capacity was further enhanced through the acquisition in June 2000 of the LiNOS refinery in the Ukraine for U.S.\$32.6 million.

During 2001, TNK acquired 84% of OAO Orenburggeologia, an oil and gas exploration company located in the Orenburg region of the Russian Federation for U.S.\$78.8 million. In December 2001, OAO TNK completed a share exchange and consolidation with its production subsidiaries Samotlorneftegas, Tyumenneftegas and NNP and a buy-out of the shares of minority shareholders resulting in a net cash outflow of U.S.\$132.0 million for purchased shares and a 2.8% increase in the minority shareholders' interest in OAO TNK. For more details on acquisitions made by TNK from 1999 to 2001, see Note 4 to the U.S. GAAP Financial Statements.

In May 2002, TNK acquired 44% of the common shares of ZAO Rospan International ("Rospan"), a Russian natural gas exploration and production company, for approximately U.S.\$44 million. The shares were acquired from companies affiliated with YUKOS, Rospan's major shareholder. In addition, TNK has receivables from Rospan totalling U.S.\$30 million which have been classified as other long-term assets. See Note 7 to the U.S. GAAP Interim Financial Statements. As a consequence of this transaction, bankruptcy proceedings, which were initiated in 1998 against Rospan, are expected to be terminated.

In addition to the above acquisitions, revenue growth in 2001 and 2000 was achieved from purchases of crude oil from TNK-Nizhnevartovsk ("TNK-N") (see "TNK Organisational Structure – SIDANCO"), a

company owned by the TNK Shareholders (as defined in “The Guarantor – Privatisation”), which was then sold by TNK on the export market or processed and sold as refined products. In 2001 and 2000, TNK purchased 42.3 MMBbls and 29.2 MMBbls of crude oil from TNK-N for a total cost of U.S.\$264.8 million and U.S.\$172.9 million, respectively. During the fourth quarter of 2001, the TNK Shareholders sold their interest in TNK-N to OAO SIDANCO (“SIDANCO”) and, accordingly, TNK no longer purchases crude oil from TNK-N on the same terms. For the six months ended 30 June 2002, TNK purchased 2.9 MMBbls of crude oil from TNK-N for a total cost of U.S.\$20.6 million. See also “Related Party Transactions”, Note 18 to the U.S. GAAP Financial Statements and Note 12 to the U.S. GAAP Interim Financial Statements.

In 2001, the Predecessors restructured their holdings in OAO TNK by forming TNK International and transferring their holdings in OAO TNK to TNK International. See “The Borrower – Reorganisation and Shareholder Structure”. All assets and liabilities previously consolidated under OAO TNK are consolidated under TNK International at acquisition cost of the Predecessors. This discussion and analysis has been prepared on the basis that TNK International is the accounting successor entity for the Predecessors.

External Factors Affecting Results of Operations

The results of TNK’s operations and the period to period comparability of the financial results are affected by various external factors. Because TNK’s primary exploration, production, refining and marketing operations are located in the Russian Federation and the Ukraine, certain of these factors are attributable to the special characteristics of these countries. Such factors include the fluctuation of exchange rates, the constraints on the export of crude oil and the high and varying incidence of taxes. Additionally, TNK is affected by general business and industry specific conditions such as the interest rate environment and the price of crude oil and refined products.

Constraints on the Export of Crude Oil

TNK is dependent on the Transneft system (a state owned network of crude oil trunk pipelines in Russia) for the transport of the majority of its crude oil. Access to the Transneft pipeline and seaports is regulated by the Russian Government; 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 one third of its production through the Transneft system. See “Risk Factors – Risks Relating to TNK and the Russian Oil and Gas Industry – Transport”, “Business – Reserves, Exploration and Production – Gathering and Transportation of Crude Oil” and “Overview of the Russian Oil and Gas Industry – Crude Oil and Refined Product Transportation Network”. There are, however, other avenues for increasing exports, including purchasing export rights from third parties and exporting through alternative transportation means such as rail. Although the system of allocation of access rights to the Transneft pipeline is currently being reformed, recent legislative developments indicate that the once expected system of the sale of access rights by tender will not be introduced in the near future. The introduction of a tender system could substantially increase the cost of crude oil transportation.

In addition, the Russian Government has historically used various administrative measures to ensure sufficient supplies of crude oil and refined products were available on the domestic market including the mandatory domestic supply of crude oil and petroleum products. See “Risk Factors – Risks Relating to TNK and the Russian Oil and Gas Industry – Required Domestic Supplies of Oil and Refined Products”.

Price of Crude Oil

TNK’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 OPEC production levels. During the first six months of 2002, international crude oil and refined product prices

declined. Russian domestic prices also have remained relatively low, due in part to the Russian Government's voluntary lowering of allowable export volumes to comply with pressure from OPEC. However, these export restrictions were removed in July 2002, which has had a positive effect on domestic prices. See "Risk Factors – Risk Relating to TNK and the Russian Oil and Gas Industry – Price of Crude Oil and Refined Products; Fluctuations in International Crude Oil and Refined Product Prices". In addition, because the crude oil TNK sells is a blend of oil transported through the Transneft pipeline system, it has been historically traded internationally at a variable discount to benchmark Dated Brent. There are various financial instruments available to manage oil price risk. TNK has only used these instruments in limited circumstances and has only purchased oil price put options to manage a small part of its down-side oil price risk.

Foreign Exchange Fluctuations

A large portion of TNK's revenues are denominated in U.S. dollars, while most of TNK's operating costs are denominated in Roubles. The relative movements of Rouble inflation and exchange rates therefore significantly affect TNK's results of operations. In particular, operating margins are generally adversely affected by a real appreciation of the Rouble against the U.S. dollar (i.e., by an inflation rate that is higher than the rate at which the Rouble is devaluing against the U.S. dollar) because this will generally cause TNK's costs to increase in real terms relative to its revenues. Conversely, TNK'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 revenues. Historically, TNK has partially managed this currency exposure by preferring to borrow in U.S. dollars. TNK has not historically used exchange rate swaps or other similar instruments to manage its exchange rate exposure.

The following shows the rates of inflation in Russia, the period end and average U.S. dollar exchange rates and the rates of nominal devaluation 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:

	Year ended 31 December			Six months ended 30 June	
	1999	2000	2001	2001	2002
Rouble inflation	37%	20%	19%	13%	9%
US dollar year end exchange rate	27.00	28.16	30.14	29.07	31.45
Average US dollar exchange rate	24.61	28.12	29.17	28.76	31.02
Nominal devaluation of the Rouble	31%	4%	7%	3%	4%
Real Rouble appreciation (depreciation)	5%	15%	11%	9%	5%

Exchange restrictions and controls exist relating to converting Roubles to other currencies. At present, the Russian Rouble is not generally convertible into currencies outside the Russian Federation and TNK is required to convert 50% of its hard currency (U.S. dollar) proceeds from exports to Roubles. Future movements in the exchange rates between the Rouble and the U.S. dollar will affect the carrying value of TNK's Rouble denominated assets and liabilities. Such movements may also affect TNK's ability to realise non-monetary assets represented in U.S. dollars in the U.S. GAAP Financial Statements. See "Risk Factors – Risks Relating to the Russian Federation – Exchange Rates, Exchange Controls and Repatriation Restrictions".

Taxation

TNK is subject to numerous taxes. Export tariffs, excise taxes and sales fuel tax are recorded as a deduction from revenues, and mineral use tax (royalty tax), mineral restoration tax, road users tax, property tax and other taxes are recorded as production expenses. In addition, TNK is subject to income taxes on income generated from operations. These taxes have had a significant effect on TNK's results of operations.

Effective 1 January 2002, two new chapters of the Russian Tax Code were introduced that significantly affect TNK's results of operations. Under the first of these chapters, the rate of corporate income tax was reduced from 35% to 24% (which also had the result of reducing the effective corporate income tax rate in the Russian economic development zones where a number of TNK's trading companies are located from 11% to 7.5%), however, investment tax credits that could be used to halve the corporate tax rate have been abolished. Under the second chapter, mineral restoration tax and mineral use tax (at the effective rate of approximately 6% and 8%, respectively, of oil and gas revenues recognised for Russian statutory purposes) and excise tax on crude oil production of approximately U.S.\$0.30/Bbl were replaced with a unified natural resources production tax. The unified natural resources production tax effective through 31 December 2004 is computed as U.S.\$1.55/Bbl multiplied by a coefficient established quarterly and linked to market prices for Urals blend crude oil (the "Urals price") over U.S.\$8.00/Bbl. From 1 January 2005, the unified rate is set by law at 16.5% of oil and gas revenues recognised for Russian statutory purposes.

Historically, export duties were set periodically by the Russian Government. Effective 1 January 2002, export duties are set as a progressive tax computed as zero if the Urals price is less than U.S.\$15/Bbl; 35% of the premium of the Urals price over U.S.\$15/Bbl; and U.S.\$3.5/Bbl and 40% of the premium of the Urals price over U.S.\$25/Bbl. Russian tax legislation is currently in transition and is subject to constant changes, varying interpretations and inconsistent enforcement at federal, regional and local levels. In this respect, it is expected that the availability of the Russian economic development zones to reduce taxes will be phased out by the Russian Government in the next three years. See "Risk Factors – Risks Relating to TNK and the Russian Oil and Gas Industry – Tax-optimisation". In certain instances the tax laws may be interpreted retroactively to the detriment of taxpayers. A combination of all or any of the above-mentioned taxes or factors could have the effect of increasing transparency and reducing administrative costs, while increasing the overall tax burden on TNK and other Russian oil companies. See also "Risk Factors – Risks Relating to the Russian Federation – Taxation".

Exploration Licence Fees

Following amendments to the Law on Subsoil enacted by the Russian Government, from 2002 holders of exploration licences will be liable to pay regular fees for use of the subsoil covered by such licence based on surface area. The level of such fees will be determined by the relevant regional authorities (otherwise the maximum levels established by the Government are applicable) and could be up to RR20,000 per square kilometre. The fee will be payable until production starts from the area covered by the licence or until surrender or reduction of unused licences. Management does not expect these new fees to materially affect TNK.

Interest Rates

TNK has significant short-term and long-term debt obligations with both fixed and variable interest rates. Fluctuations in interest rates can have an impact on operating results. TNK currently does not participate in any hedging activities related to floating interest rate exposure. However, TNK may from time to time enter into arrangements to swap its fixed interest rate exposure into floating rate exposure to take advantage of historically lower interest rates.

Results of Operations

Six Months Ended 30 June 2002 Compared to Six Months Ended 30 June 2001

Revenues

Sales of crude oil decreased by 15% to U.S.\$1,271.7 million in the six months ended 30 June 2002 from U.S.\$1,492.3 million in the six months ended 30 June 2001, largely due to the effect of lower prices and a decrease in volumes sold as a result of lower purchases of oil from TNK-N and other third parties, but the decrease was partially offset by higher production and increased export sales volumes. The increase in

crude oil production was mainly due to the results of enhanced recovery techniques and TNK's capital expenditure programme. Whilst overall crude oil sales volumes decreased to 359 mbpd in the first half of 2002 from 391 mbpd in the first half of 2001, export crude sales volumes (including exports to the CIS) increased to 355 mbpd in the first half of 2002, compared to 319 mbpd in the first half of 2001. In the first half of 2002, export sales were U.S.\$1,263.2 million compared with U.S.\$1,318.9 million in the first half of 2001. Domestic crude oil sales to third parties in the first half of 2002 were U.S.\$8.5 million compared to U.S.\$173.4 million in the first half of 2001, reflecting the lower amount of third party purchases. The average sales price realised for export and domestic crude oil sales was U.S.\$19.55/Bbl in the first half of 2002 compared to U.S.\$21.09/Bbl in the same period in 2001, following the downward trend in domestic and world prices for crude oil during the first six months of 2002.

Sales of refined products decreased by 10% to U.S.\$1,344.1 million in the six months ended 30 June 2002 from U.S.\$1,494.1 million in the six months ended 30 June 2001. In the same period in 2002, U.S.\$810.2 million of these sales consisted of export sales compared to U.S.\$785.1 million in the first half of 2001, and in the first half of 2002, U.S.\$533.9 million consisted of domestic sales to third parties compared to U.S.\$709.0 million in the first half of 2001. The decrease in refined product sales in the first half of 2002 was primarily due to weak domestic product prices, particularly in the first three months of 2002 as a result of export restrictions imposed by the Russian Government in response to pressure from OPEC, and an overall decrease in export product prices. Sales volumes were approximately 396 mbpd in the first halves of 2002 and 2001.

Other revenues decreased by 33% to U.S.\$109.4 million in the six months ended 30 June 2002 from U.S.\$162.6 million in the six months ended 30 June 2001. Other revenues represent activities including sales of natural gas, sales of services such as drilling services, materials and merchandise, including merchandise sold through TNK's network of retail filling stations. The decrease in other revenues was primarily due to lower non-core external services provided to third parties in the first half of 2002, reflecting a greater focus on internal services provided to core businesses.

Excise taxes and export duties decreased by 31% to U.S.\$351.3 million in the six months ended 30 June 2002 from U.S.\$509.5 million in the same period in 2001. Excise taxes and export duties represented approximately 12.9% of gross revenues in the first half of 2002 compared to 16.2% in the first half of 2001. This decrease as a percentage of gross revenues was due primarily to the replacement of excise taxes on crude oil with a unified natural resources tax effective from 1 January 2002, as discussed below in "– Taxes other than income tax", and a decrease in crude export duty rates to U.S.\$1.59/Bbl during the six months ended 30 June 2002 compared to U.S.\$3.94/Bbl in the same period in 2001. This was partially offset by a slight increase in excise taxes on refined products beginning 1 January 2002 and the introduction of an excise tax in Ukraine. The average excise tax rate for refined products was U.S.\$4.71/Bbl in the first half of 2002 and U.S.\$4.47/Bbl in the first half of 2001.

Costs and other deductions

Operating expenses decreased by 16% to U.S.\$384.3 million in the six months ended 30 June 2002 from U.S.\$456.0 million in the six months ended 30 June 2001. Operating expenses can be divided principally into upstream and downstream operating expenses (including refining operations).

Upstream operating expenses decreased by 13% to U.S.\$304.1 million in the six months ended 30 June 2002 from U.S.\$349.3 million in the six months ended 30 June 2001. The decrease was due to a reduction in per barrel operating expenses. Upstream operating expenses per barrel decreased by 19% to U.S.\$2.32/Bbl in the first half of 2002 compared to U.S.\$2.88/Bbl in the first half of 2001. This decrease in per barrel operating expenses was largely due to increased production from lower cost fields (Orenburgneft's field), decreasing production from higher cost fields (TNK-Nyagan's field) and TNK's continuing cost cutting measures aimed at undertaking only those projects that result in higher returns. The decrease in upstream operating expenses was partially offset by an overall increase in crude oil production volumes. Crude oil production averaged 725 mbpd (net) in the six months ended 30 June 2002 compared to 656 mbpd (net) in the six months ended 30 June 2001. For a definition of net production figures, see "Presentation of Financial Information – Presentation of Reserves and Production Data".

Downstream operating expenses decreased by 25% to U.S.\$80.2 million in the six months ended 30 June 2002 from U.S.\$106.7 million in the six months ended 30 June 2001. This decrease was due to lower per barrel refining expenses. Downstream operating expenses per barrel averaged US\$1.18/Bbl in the first half of 2002 compared to US\$1.49/Bbl in the first half of 2001. The higher per barrel refining expenses in the first six months of 2001 was due to the real appreciation of the Rouble against the U.S. dollar, additional costs associated with the higher value-added mix of refined products produced, higher electricity tariffs and prices for catalysts. The decrease in downstream operating expenses was partially offset by an overall decrease in the volumes of refined products produced. The volume of refined products produced decreased by 4% to 73.6 MMBbl in the first half of 2002 compared to 76.9 MMBbl in the first half of 2001, as it was more profitable to export crude oil than to produce and sell refined products.

Cost of purchased products decreased by 65% to U.S.\$120.6 million in the six months ended 30 June 2002 from U.S.\$344.2 million in the same period of 2001. Purchased products in the first half of 2002 included purchases of 12.8 MMBbl of crude oil and refined products for U.S.\$114.6 million including U.S.\$20.6 million (2.9 MMBbls) of crude oil purchased from TNK-N and SIDANCO, related parties through common ownership. Other purchases totalling U.S.\$6.0 million related primarily to the purchase of materials for resale and recorded as “Other revenues” as described above. Purchased products in the first half of 2001 included purchases of 31.4 MMBbl of crude oil and refined products for U.S.\$267.7 million, including U.S.\$132.0 million (21.9 MMBbls) of crude oil purchased from TNK-N, a related party through common ownership. Other purchases totalled U.S.\$76.5 million.

Taxes other than income tax increased by 87% to U.S.\$502.3 million in the six months ended 30 June 2002 from U.S.\$268.0 in the six months ended 30 June 2001. Of this increase, U.S.\$222.4 million was attributable to the introduction of the unified natural resources production tax in 2002, offset slightly by the repeal of the royalty and mineral restoration tax. See “– External Factors Affecting Results of Operations – Taxation”. Through to 31 December 2004, the base rate for the unified natural resources production tax is set at 340 roubles per tonne of crude oil produced and is to be adjusted depending on the market price of Urals blend and the rouble/dollar exchange rate.

Selling, general and administrative expenses consist primarily of transportation costs, wages and salaries and selling and distribution expenses (including those related to storage depots, terminals and commissions). Selling, general and administrative expenses increased by 18% to U.S.\$584.0 million in the six months ended 30 June 2002 from U.S.\$496.8 million in the same period in 2001. The increase in the first half of 2002 was due primarily to an increase in transportation expenses resulting from increased pipeline and railway tariffs. Transportation costs were U.S.\$347.5 million in the first half of 2002 as compared to U.S.\$254.0 million in the first half of 2001. Pipeline tariffs for crude oil averaged U.S.\$1.15/Bbl in first half of 2002 compared to U.S.\$1.08/Bbl in the first half of 2001. Railway tariffs for refined products averaged U.S.\$2.54/Bbl in the first half of 2002 compared to U.S.\$1.77/Bbl in the first half of 2001.

Depreciation, depletion and amortisation (“DD&A”) remained stable, totaling U.S.\$195.4 million in the six months ended 30 June 2002 and U.S.\$193.1 million in the six months ended 30 June 2001. Production of crude oil increased by 11% in the first half of 2002 as compared to the first half of 2001, resulting in a reduction in DD&A per barrel of U.S.\$1.49/Bbl for the six months ended 30 June 2002 as compared to U.S.\$1.63/Bbl for the six months ended 30 June 2001.

Maintenance of social infrastructure amounted to U.S.\$7.8 million for the six months ended 30 June 2002 as compared to U.S.\$9.4 million for the same period in 2001. These expenses related to TNK’s support of the social needs of the employees and local trade unions in remote locations of its production operations.

Exploration expenses remained relatively stable, totalling U.S.\$23.9 million for the six months ended 30 June 2002 compared to U.S.\$22.6 million for the six months ended 30 June 2001.

Loss on asset disposals amounted to U.S.\$20.4 million for the six months ended 30 June 2002 as compared to U.S.\$4.7 million for the six months ended 30 June 2001. The increase is mainly attributable to the losses recognised on the disposal of non-core assets in remote locations.

Other income and expense

Foreign exchange gains increased by U.S.\$9.2 million to U.S.\$11.9 million in the six months ended 30 June 2002 from U.S.\$2.7 million in the six months ended 30 June 2001. This increase was due to the nominal devaluation of the Rouble against the U.S. dollar, which was 4% in the first half of 2002 compared to 3% in the first half of 2001.

Interest expense increased by 29% to U.S.\$180.3 million in the six months ended 30 June 2002 from U.S.\$139.6 million in the six months ended 30 June 2001. TNK holds fixed and variable rate borrowings in Roubles and U.S. Dollars. The increase in interest expense in the first half of 2002 was due to an increase in average gross debt, including repurchased securities, but not giving effect to foreign exchange gains as a result of the devaluation of the Rouble. The increase in interest expense was offset slightly by falling LIBOR and LIBOR margin on TNK's variable rate loans.

Interest and other non-operating income decreased by 3% to U.S.\$ 48.9 million in the six months ended 30 June 2002 from U.S.\$50.6 million in the six months ended 30 June 2001. Interest and other non-operating income in the first half of 2002 includes interest income on cash holdings and interest income and accretion of discounts on securities linked to OAO TNK corporate debt held by TNK ("TNK Securities") of U.S.\$2.7 million and U.S.\$27.7 million, respectively. Significant components of interest and other non-operating income for the six months ended 30 June 2001 included U.S.\$4.8 million in interest income on cash holdings and U.S.\$28.2 million in interest and accretion of discounts on TNK Securities.

Income tax expense amounted to U.S.\$78.6 million in the six months ended 30 June 2002 compared to U.S.\$255.6 million in the six months ended 30 June 2001. The decrease in 2002 was primarily due to the change in Russian statutory corporate income tax rates from 35% to 24% and the decrease in TNK's revenues in the first half of 2002 and non-tax deductible expenditures. TNK's effective tax rate for the six months ended 30 June 2002 and 2001 was 18.9% and 33.7%, respectively.

Minority interests was U.S.\$34.9 million in the six months ended 30 June 2002 compared to U.S.\$96.5 million in the six months ended 30 June 2001. Minority interest decreased due to a decrease in earnings attributable to minority interest owners and due to TNK completing a share consolidation in December 2001, thereby reducing the number of subsidiaries with minority interest holders. See "The Borrower – Reorganisation of Shareholding Structure".

Year Ended 31 December 2001 Compared to Year Ended 31 December 2000

Revenues

Sales of crude oil increased by 10% to U.S.\$2,866.7 million in 2001 from U.S.\$2,617.8 million in 2000. In 2001, U.S.\$2,604.7 million of these sales consist of export sales compared to U.S.\$2,411.5 million in 2000, and in 2001, U.S.\$262.0 million consist of domestic sales to third parties compared to U.S.\$206.3 million in 2000. The increase in crude oil sales in 2001 was primarily attributable to increased volumes sold, partially offset by lower crude oil prices. Sales volumes of crude oil increased to 396 mbpd in 2001 from 324 mbpd in 2000. The increase in sales volume resulted from increased production due to the acquisition of a majority stake in ONAKO, enhanced recovery techniques, TNK's capital expenditure programme and to an increase in the volumes of crude oil purchased from third parties and resold. The average sales price realised for export and domestic crude oil sales was U.S.\$19.79/Bbl in 2001 compared to U.S.\$22.14/Bbl in 2000, following the downward trend in world prices for crude oil.

Sales of refined products increased by 59% to U.S.\$3,077.7 million in 2001 from U.S.\$1,935.8 million in 2000. In 2001, U.S.\$1,602.7 million of these sales consisted of export sales compared to U.S.\$823.3 million in 2000, and in 2001, U.S.\$1,475.0 million consisted of domestic sales to third parties compared to U.S.\$1,112.5 million in 2000. The increase in refined product sales in 2001 was primarily due to increased sales volumes and improved refinery conversion rates, as well as higher refined product prices in the Russian and CIS markets, which remain relatively independent from international prices. Sales volumes increased to 415 mbpd in 2001 from 271 mbpd in 2000 in line with increased crude oil production and TNK's strategy to refine as much of the crude oil that it cannot export rather than selling such crude oil in the domestic market.

Other revenues increased by 45% to U.S.\$228.7 million in 2001 from U.S.\$157.4 million in 2000. This increase was primarily due to the acquisition of ONAKO, which contributed U.S.\$49 million of other revenues in 2001.

Excise, fuel sales tax and export duties increased by 118% to U.S.\$999.1 million in 2001 from U.S.\$458.9 million in 2000, which represented approximately 16.2% of gross revenues in 2001 compared to 9.7% in 2000. This increase in percentage of gross revenues was due primarily to the increase in export duty rates and excise taxes. Crude export duty rates averaged U.S.\$3.6/Bbl in 2001 compared to U.S.\$2.8/Bbl in 2000. Excise taxes on refined products increased due to the extension of excise taxes to other products sold by TNK not previously covered by such taxes, and an increase of excise tax rates in 2001. The average excise tax rate was U.S.\$4.68/Bbl in 2001 and U.S.\$2.37/Bbl in 2000.

Costs and other deductions

Operating expenses increased by 52% to U.S.\$1,005.0 million in 2001 from U.S.\$659.4 million in 2000. Upstream operating expenses increased by 29% to U.S.\$743.1 million in 2001 from U.S.\$573.5 million in 2000. This increase was due to an increase in crude oil production, which averaged 692 mbpd (net) in 2001 compared to 506 mbpd (net) in 2000 (the 2000 production includes the annualised effect of two months of ONAKO production). ONAKO contributed 140 mbpd to this increase in production, while enhanced recovery techniques and the effect of TNK's capital expenditure programme contributed the remainder. Upstream operating expenses averaged U.S.\$2.94/Bbl in 2001 compared to U.S.\$3.11/Bbl in 2000, representing a 5% decrease in 2001. This improvement in per barrel expenses was largely due to increasing production from lower cost fields and TNK's continuing cost cutting measures.

Downstream operating expenses increased by 151% to U.S.\$172.0 million in 2001 from U.S.\$68.4 million in 2000. This increase was due to increased volumes of refined products produced and increased per barrel expenses of refining, which averaged U.S.\$1.14/Bbl in 2001 compared to U.S.\$0.69/Bbl in 2000. The increase in per barrel refining expenses was due to the real appreciation of the Rouble against the U.S. dollar, additional costs associated with the higher value-added mix of refined products produced, as well as relatively higher costs associated with the LiNOS Refinery. Remaining operating expenses related to costs associated with other sales.

Cost of purchased products increased by 84% to U.S.\$606.4 million in 2001 from U.S.\$329.7 million in 2000. The purchased products in 2001 included purchases of 53.7 MMBbl of crude oil and refined products for U.S.\$490.7 million including U.S.\$264.8 million (42.3 MMBbls) of crude oil from TNK-N. Other purchases totalling U.S.\$115.8 million related primarily to the purchase of materials which were resold and recorded as "other revenues". The purchased products in 2000 included purchases of 38.8 MMBbl of crude oil and refined products for U.S.\$322.5 million and other purchases for U.S.\$7.2 million.

Taxes other than income tax increased by 138% to U.S.\$554.4 million in 2001 from U.S.\$232.8 million in 2000. Of this increase, U.S.\$101.8 million was attributable to the non-recoverability of VAT on crude sales to Ukraine, compared to U.S.\$9.0 million of non-recoverable VAT in 2000. Additionally, in 2000, TNK recorded a one time release of tax penalties and interest accrual of U.S.\$84.7 million following the settlement of NNG's external management, which reduced the amount paid in 2000. See Note 16 to the U.S. GAAP Financial Statements. The remaining increase of 42% was primarily due to a 35% increase in production volumes.

Selling, general and administrative expenses increased by 60% to U.S.\$997.2 million in 2001 from U.S.\$622.5 million in 2000. Of the U.S.\$374.7 million increase in 2001, U.S.\$307.7 million was due to an increase in transportation expenses resulting from increased crude oil and refined product production and sales volumes, as well as higher per barrel pipeline and railway tariffs. Pipeline tariffs averaged U.S.\$1.14/Bbl in 2001 compared to U.S.\$1.04/Bbl in 2000 for crude oil and U.S.\$1.50/Bbl in 2001 compared to U.S.\$0.85/Bbl in 2000 for refined products.

Depreciation, depletion and amortisation increased by 39% to U.S.\$340.5 million in 2001 from U.S.\$244.9 million in 2000. The increase in 2001 was due to the acquisition of ONAKO. DD&A per barrel of production was U.S.\$1.35/Bbl in 2001 compared to U.S.\$1.33/Bbl in 2000.

Maintenance of social infrastructure remained stable, totalling U.S.\$25.3 million in 2001 and U.S.\$25.5 million in 2000.

Exploration expenses increased by 11% to U.S.\$53.6 million in 2001 from U.S.\$48.5 million in 2000.

Loss on asset disposals decreased by 67% to U.S.\$34.1 million in 2001 from U.S.\$104.7 million in 2000. The losses related primarily to disposals of non-core assets at production subsidiaries in remote locations.

Other income and expense

Foreign exchange gains increased by 6% to U.S.\$29.6 million in 2001 from U.S.\$28.0 million in 2000. This increase was due to the nominal devaluation of the Rouble against the U.S. dollar, which was 7% in 2001 compared to 4% in 2000. This devaluation was partly offset by the fact that TNK maintained a smaller net Rouble liability position in 2001 compared with prior years.

Interest expense increased by 86% to U.S.\$304.6 million in 2001 from U.S.\$164.2 million in 2000. TNK held fixed and variable rate borrowings in Roubles, U.S. dollars and Euros. The increase in interest expense in 2001 was due to an increase in average debt, offset by falling LIBOR and LIBOR margin on TNK's variable rate loans, although the decrease in interest rates was itself partially offset by a growing proportion of relatively expensive Russian bank debt and Rouble denominated bonds in TNK's debt portfolio.

Interest and other non-operating income increased by 38% to U.S.\$184.8 million in 2001 from U.S.\$133.9 million in 2000. Significant components of interest and other non-operating income in 2001 include U.S.\$24.7 million of interest on cash holdings, U.S.\$50.9 million of interest and accretion of discounts on securities linked to "TNK Securities", and U.S.\$17.4 million of income on sales of investments in OAO Slavneft ("Slavneft"). Significant components of interest and other non-operating income in 2000 include interest on cash holdings of U.S.\$13.9 million, U.S.\$43.2 million of interest and accretion of discounts on the TNK Securities, and gains on early redemption of promissory notes of U.S.\$35.2 million. See Note 10 and 12 to the U.S. GAAP Financial Statements for a description of the TNK Securities.

Income tax expense amounted to U.S.\$60.1 million in 2001 compared to U.S.\$271.9 million in 2000. The decrease in 2001 was primarily due to the change in corporate income tax rates from 35% to 24%. Although the change in rates came into effect on 1 January 2002, it was enacted in 2001 and therefore applied to temporary differences expected to reverse subsequent to 2001 in accordance with U.S. GAAP, which resulted in a U.S.\$237.1 million income tax benefit. Excluding the impact of the change in income tax rates, the income tax expense in 2001 would have been U.S.\$297.2 million and TNK's effective tax rate would have been 20.3% compared to 12.5% in 2000. The increase in the effective tax rate (excluding the change in income tax rates) is due to a reduced use of low tax rates attributable to the Russian economic development zones and a high incidence of non-tax deductible expenditures.

Minority interests was U.S.\$(288.5) million in 2001 compared to U.S.\$(1.1) million in 2000. Minority interests increased following the acquisition of ONAKO in September 2000 as approximately one third of ONAKO's consolidated earnings accrue to minority shareholders.

Year Ended 31 December 2000 Compared to Year Ended 31 December 1999

Revenues

Sales of crude oil increased by 173% to U.S.\$2,617.8 million in 2000 from U.S.\$958.9 million in 1999. In 2000, U.S.\$2,411.5 million of these sales consisted of export sales compared to U.S.\$939.4 million in 1999, and in 2000, U.S.\$206.3 million consisted of domestic sales to third parties compared to

U.S.\$19.5 million in 1999. The increase in crude oil sales in 2000 was primarily due to increased prices, as well as increased volumes sold. The average sales price realised for export and domestic crude oil sales was U.S.\$22.14/Bbl in 2000 compared to U.S.\$14.43/Bbl in 1999, reflecting the high world price of crude oil. Sales volumes of crude oil increased to 324 mbpd in 2000 from 182 mbpd in 1999. The increase in sales volume resulted from increased production due to the acquisition of TNK-Nyagan, enhanced recovery techniques, TNK's capital expenditure programme and to an increase in the volumes of crude oil purchased from third parties and resold.

Sales of refined products increased by 126% to U.S.\$1,935.8 million in 2000 from U.S.\$855.8 million in 1999. In 2000, U.S.\$823.3 million of these sales consisted of export sales compared to U.S.\$366.2 million in 1999, and in 2000, U.S.\$1,112.5 million consisted of domestic sales to third parties compared to U.S.\$489.6 million in 1999. The increase in refined product sales in 2000 was primarily due to higher product prices, increased sales volumes and improved refinery conversion rates. Sales volumes increased to 271 mbpd in 2000 from 236 mbpd in 1999. In 2000, TNK's average refined product price was U.S.\$19.5/Bbl compared to U.S.\$9.9/Bbl in 1999. This increase is not as significant as the increase in crude oil sales as TNK diverted sales to the more profitable crude oil export market.

Other revenues increased by 262% to U.S.\$157.4 million in 2000 from U.S.\$43.5 million in 1999. As a part of TNK's reorganisation efforts, certain support divisions were encouraged to seek external customers in addition to serving the needs of TNK producing entities resulting in additional revenues.

Excise, fuel sales tax and export duties increased by 327% to U.S.\$458.9 million in 2000 from U.S.\$107.5 million in 1999, which represented approximately 9.7% of gross revenues in 2001 compared to 5.8% in 1999. The absolute increase was primarily due to increased oil prices and volumes sold and increases in tax rates in 2001. The increase in percentage of gross revenues was due primarily to the re-introduction of export duties in May 1999. Export duties on crude oil averaged U.S.\$2.80/Bbl in 2000 compared to U.S.\$0.55/Bbl in 1999, partially offset by the impact of the abolishment of fuel sales tax effective 1 January 2000. Excise tax rates also increased year-on-year and averaged U.S.\$ 2.37/Bbl in 2000 compared to U.S.\$2.17/Bbl in 1999.

Costs and other deductions

Operating expenses increased by 100% to U.S.\$659.4 million in 2000 from U.S.\$328.6 million in 1999. Upstream operating expenses increased by 91% to U.S.\$573.5 million in 2000 from U.S.\$285.8 million in 1999. This increase was due to a 25% increase in oil production, which averaged 506 mbpd (net) in 2000 (the 2000 production includes the annualised effect of two months of ONAKO production) compared to 406 mbpd (net) in 1999. TNK-Nyagan contributed 52 mbpd to this increase in production, while enhanced recovery techniques and the effect of TNK's capital expenditure programme, particularly in the Samotlor field, contributed the remainder. Upstream operating expenses averaged U.S.\$3.11/Bbl in 2000 compared to U.S.\$1.93/Bbl in 1999, representing a 61% increase in 2000. The higher per barrel expenses in 2000 were primarily attributable to the Rouble devaluation, which artificially lowered U.S. dollar costs of production in 1999. Per barrel operating expenses in 2000 also increased due to the terms of OAO TNK's privatisation, which required investment in various upstream feasibility studies which added a one time charge of approximately U.S.\$0.20/Bbl to operating expenses.

Downstream operating expenses increased by 146% to U.S.\$68.4 million in 2000 from U.S.\$42.0 million in 1999. This increase was due to increased volumes of refined products produced and increased per barrel expenses of refining, which averaged U.S.\$0.69/Bbl in 2000 compared to U.S.\$0.49/Bbl in 1999. The increase in per barrel refining expenses was primarily due to the Rouble devaluation, which artificially lowered 1999 costs.

Cost of purchased products increased by 272% to U.S.\$329.7 million in 2000 from U.S.\$88.7 million in 1999. The increase is primarily attributable to the increases in purchase of oil and refined products, which totalled U.S.\$322.6 million. Of this amount, U.S.\$172.9 million of crude oil was purchased from TNK-N.

Taxes other than income tax increased by 25% to U.S.\$232.8 million in 2000 from U.S.\$186.4 million in 1999. Included in the 2000 expense is a one time release of tax penalties and interest accrual of U.S.\$84.4 million following the settlement of Nizhnevartovskneftegas' liabilities once it emerged from external management. See Note 20 to the U.S. GAAP Financial Statements. Excluding this effect, taxes other than income tax increased by 70% over the prior year, which was due to the 25% increase in production volumes in 2000 and the increases in per barrel prices as the majority of these production taxes are revenue-based.

Selling, general and administrative expenses increased by 85% to U.S.\$622.5 million in 2000 from U.S.\$335.9 million in 1999. Of the U.S.\$286.6 million increase in 2000, U.S.\$130.4 million was due to an increase in transportation expenses. Transportation expenses increased due to increased oil production and sales volumes, as well as higher per barrel pipeline tariffs which averaged U.S.\$1.04/Bbl in 2000 compared to U.S.\$0.89/Bbl in 1999. In addition, transportation expenses relating to rail and other transport methods for refined products also increased. These expenses averaged U.S.\$0.85/Bbl in 2000 compared to U.S.\$0.50/Bbl in 1999. Selling, general and administrative expenses also increased in 2000 as TNK expanded its downstream and trading activities, which necessitated increased head count and the need to employ outside expertise. TNK also paid a commission of U.S.\$62.0 million in 2000 to parties affiliated to its shareholders for assistance with TNK's marketing operations. The remaining U.S.\$89.2 million increase or 26% is due to the selling and administration activities associated with ONAKO.

Depreciation, depletion and amortisation decreased by 6% to U.S.\$244.9 million in 2000 from U.S.\$260.8 million in 1999. This net decrease was due to the acquisition of the Russian Government's 49.8% interest in OAO TNK and the resultant acquisition cost adjustment, reducing the book value of OAO TNK's assets, which were offset by additional DD&A resulting from the acquisition of ONAKO. The acquisition of the 49.8% interest in OAO TNK reduced the DD&A charge by U.S.\$45.3 million in 2000 compared to 1999, while the acquisition of ONAKO increased the DD&A charge by U.S.\$32.3 million for the two months from 1 November 2000. Other movements in DD&A were due to the significant increases in capital expenditures compared with prior years, partially offset by purchase price adjustments to properties as TNK acquired additional interests in its subsidiaries. DD&A per barrel of production was U.S.\$1.33/Bbl in 2000 compared to U.S.\$1.76/Bbl in 1999, largely as a result of acquisition cost adjustments and increased reserves.

Maintenance of social infrastructure remained stable, totalling U.S.\$25.5 million in 2000 and U.S.\$25.6 million in 1999.

Exploration expenses increased by 138% to U.S.\$48.5 million in 2000 from U.S.\$20.4 million in 1999. TNK has focused more on increasing production from its existing reserve base and less on increasing its reserves base and therefore has not invested heavily in exploratory activities in recent years. However, 50% of TNK's mineral restoration tax obligation could be offset by qualifying exploration expenditures and therefore TNK engaged in exploration activities where it was in TNK's interest.

Loss on asset disposals increased by 46% to U.S.\$104.7 million in 2000 from U.S.\$71.5 million in 1999. The losses related primarily to disposals of non-core assets at production subsidiaries in remote Siberian locations. Significant amounts of these disposals in 2000 and 1999 are due to reorganisation processes in Nizhnevartovsk.

Other income and expense

Foreign exchange gains decreased by 78% to U.S.\$28.0 million in 2000 from U.S.\$129.7 million in 1999. The decrease in 2000 was a result of a more stable exchange rate environment between the Rouble and the U.S. dollar in 2000 compared to 1999. Additionally, TNK maintained a smaller net Rouble liability position in 2000 compared with prior years as financing needs were primarily met by U.S. dollar denominated credit facilities.

Interest expense increased by 247% to U.S.\$164.2 million in 2000 from U.S.\$47.3 million in 1999. TNK held fixed and variable rate borrowings in both Roubles and U.S. dollars. The increase in interest expense was due to an increase in average debt in 2000 and the increase in the proportion of short-term Rouble borrowings of U.S.\$759.0 million in the fourth quarter of 2000 to finance the ONAKO acquisition, partially offset by a reduction in LIBOR in 2000.

Interest and other non-operating income increased by 1,074% to U.S.\$133.9 million in 2000 from U.S.\$11.4 million in 1999. Significant components of interest and other non-operating income in 2000 include interest on cash holdings of U.S.\$13.9 million, interest and accretion of discounts on the TNK Securities totalling U.S.\$43.2 million and gains on early redemption of promissory notes of U.S.\$35.2 million. There were no significant interest and other non-operating income items in 1999.

Income tax expense increased by 744% to U.S.\$271.9 million in 2000 from U.S.\$31.1 million in 1999. The increase in income tax expense was primarily due to TNK's increased profitability in 2000. In addition, the enacted change in corporate income tax rates from 30% to 35% resulted in an additional U.S.\$24.5 million income tax expense. Excluding the impact of the change in income tax rates, the income tax expense in 2000 would have been U.S.\$247.4 million and TNK's effective tax rate would have been 12.5% compared to 15.3% in 1999.

Minority interests was U.S.\$(1.1) million in 2000 compared to U.S.\$(227.7) million in 1999. In 1999 the Government owned 49.8% of OAO TNK, consequently 49.8% of earnings have been allocated to it as minority shareholder. Effective as of 1 January 2000 TNK acquired the Government's 49.8% interest in OAO TNK and there was therefore no minority interest in 2000. TNK generally operates its subsidiaries as cost centres, and budgets for such entities to break even on a Russian statutory cash basis. In 1999, however, certain subsidiaries recorded losses due to the conversion to U.S. GAAP. The proportionate amounts of these losses have been allocated to the minorities in 1999. There were no significant U.S. GAAP conversion adjustments in 2000.

Liquidity and Capital Resources

The following table summarises the statements of cash flows for the years ended 31 December 1999, 2000 and 2001 and for the six months ended 30 June 2001 and 2002.

	Year ended 31 December			Six months ended 30 June	
	1999	2000	2001	2001	2002
	(in U.S.\$ millions)			(unaudited)	
Net cash provided by operating activities	413.5	1,515.6	1,235.8	645.1	342.4
Net cash used for investing activities	(685.6)	(2,227.8)	(1,324.8)	(523.2)	(197.0)
Net cash (used for) provided by financing activities	399.1	1,110.7	(254.5)	(300.3)	(21.7)

Net Cash Provided by Operating Activities

Net cash provided by operating activities amounted to U.S.\$342.4 million in the six months ended 30 June 2002 compared to U.S.\$645.1 million in the six months ended 30 June 2001. The decrease in operating cash flow is a result of lower net income in 2002 primarily related to lower crude oil and refined product prices and an increase in working capital.

Net cash provided by operating activities amounted to U.S.\$1,235.8 million in 2001 compared to U.S.\$1,515.6 million in 2000. Lower net income in 2001 resulted primarily from lower realised crude oil and refined product prices and a higher tax burden. Excluding income tax, taxation averaged 25.2% of revenues in 2001 compared with 14.7% in 2000.

Working Capital Position

As at 30 June 2002, the working capital deficit amounted to U.S.\$199.8 million compared to U.S.\$987.5 million as at 31 December 2001. Historically, TNK has maintained a negative working capital position since its liabilities, being primarily Rouble denominated, depreciated as the Rouble devalued. The improvement in TNK's working capital position in 2002 is primarily due to a decrease in short-term debt and increases in inventory and cash balances. Short-term debt totalled U.S.\$1,221.3 million as at 30 June 2002 compared to U.S.\$1,668.9 million as at 31 December 2001.

As at 31 December 2001, the working capital deficit amounted to U.S.\$987.5 million compared to U.S.\$627.8 million as at 31 December 2000. The increase in the negative working capital position in 2001 and 2000 is primarily due to TNK's acquisition activities, increased capital expenditures and loans paid to shareholders (subsequently declared as dividends – see Note 14 to the U.S. GAAP Financial Statements). Due to the limited availability of long-term lending facilities in the past, these activities had been funded by TNK's own resources and additional short-term financings. Short-term loans totalled U.S.\$1,668.9 million at 31 December 2001 compared to U.S.\$1,783.4 million at 31 December 2000.

Net Cash Used for Investing Activities

Net cash used for investing activities amounted to U.S.\$197.0 million in the six months ended 30 June 2002 compared to U.S.\$523.2 million in the six months ended 30 June 2001. Investing activities were primarily related to TNK's capital expenditure programme. See "Capital Expenditures".

Net cash used for investing activities amounted to U.S.\$1,324.8 million in 2001 compared to U.S.\$2,227.8 million in 2000. Of the U.S.\$1,324.8 million of net cash used for investing activities in 2001, the majority was used for funding TNK's capital expenditures, which totalled U.S.\$1,062.2 million, representing a 38% increase over 2000. TNK's capital spending increased over prior periods as TNK implemented a plan to increase production volumes and improve the operational efficiency of TNK's refineries. Strategic acquisitions totalled U.S.\$410.0 million including the purchase of additional interests in TNK's consolidated subsidiaries for U.S.\$255.3 million (including the share consolidation programme – see "The Borrower – Reorganisation and Shareholder Structure"), the purchase of Orenburggeologia for U.S.\$78.8 million and the purchase of additional interests in RUSIA Petroleum for U.S.\$64.0 million. The partial sale of TNK's interest in Slavneft contributed U.S.\$155.0 million to cash provided by investing activities.

This compares with U.S.\$2,227.8 million of net cash used for investing activities in 2000, of which approximately U.S.\$1,514.8 million related to acquisitions, including ONAKO for approximately U.S.\$1,120.3 million, additional interests in consolidated subsidiaries for U.S.\$170.7 million and additional interests in Slavneft and its subsidiaries for U.S.\$139.1 million. TNK's capital expenditures totalled U.S.\$772.5 million. Additionally, TNK issued and repurchased the TNK Securities. See Notes 10 and 12 to the U.S. GAAP Financial Statements.

Net Cash Used for or Provided by Financing Activities

Funding of TNK's capital expenditure programme during the first six months of 2002 was obtained primarily from internally generated cash flow. TNK's overall debt level decreased slightly from 31 December 2001 to 30 June 2002. Consistent with TNK's strategy of replacing short-term debt with long-term debt, short-term debt decreased by approximately US\$447.6 million in the six months ended 30 June 2002 while long-term debt increased by US\$391.4 million during the first half of 2002. Long-term debt totalled US\$1,502.2 million as at 30 June 2002 compared to US\$1,110.8 million as at 31 December 2001. During the period from 1 January 2002 to 1 April 2002, TNK made disbursements of U.S.\$290 million to TNK Industrial Holdings Limited ("TNK Industrial Holdings") to finance installment payments for the SIDANCO acquisition. See "TNK Organisational Structure – SIDANCO". In April 2002, TNK Industrial Holdings received U.S.\$375 million from the sale of 15% of SIDANCO to British Petroleum Plc ("BP"). Of such proceeds, U.S.\$354.1 million have been used to repay fully TNK's

disbursements made to date in 2002. From 1 April 2002, TNK Industrial Holdings' remaining deferred payment obligations for the purchase of SIDANCO shares amount to U.S.\$539 million and will fall due through June 2003. As such payment obligations fall due, they will be funded either by ordinary dividends from TNK to TNK Industrial Holdings, dividends from SIDANCO to TNK Industrial Holdings or through other sources of liquidity available to TNK Industrial Holdings.

Funding of TNK's acquisitions and capital expenditure programme was obtained from internally generated cash flow and borrowings. As indicated above, short-term debt decreased by approximately U.S.\$114.5 million in 2001 compared with an increase in short-term debt of U.S.\$1,403.7 million in 2000. Long-term debt increased by U.S.\$360.1 million during 2001 compared with an increase of U.S.\$578.2 million during 2000. Long-term debt totalled U.S.\$1,110.8 million as at 31 December 2001 compared to U.S.\$750.7 million as at 31 December 2000. However, long-term debt included approximately U.S.\$332.2 million of TNK Securities, which TNK purchased and recorded as long-term investments. See Note 10 to the U.S. GAAP Financial Statements. Total debt net of the TNK Securities was U.S.\$2,447.5 million and U.S.\$2,201.9 million as at 31 December 2001 and 2000, respectively, representing 61% of shareholders' equity in both years.

In the year ended 31 December 2001, TNK paid no dividends. In 2000, TNK paid a dividend of U.S.\$20.4 million. However, TNK provided shareholders and their affiliates with loans aggregating U.S.\$781.9 million in 2001 and U.S.\$529.6 million in 2000. These loans, totalling U.S.\$1,311.5 million at 31 December 2001, were treated as a reduction from shareholders' equity for financial reporting purposes in the U.S. GAAP Financial Statements. These loans have subsequently been declared as dividends in April 2002. See Note 14 to the U.S. GAAP Financial Statements. In addition, dividends in the amount of U.S.\$200 million were declared in July 2002 and are expected to be paid by the end of 2002. Dividends and loans to shareholders are determined by the Company's board of directors based on profitability, capital expenditures, available financing and other factors.

For a description of TNK's indebtedness, see "Description of Indebtedness".

Capital Expenditures

TNK anticipates a capital expenditure programme for 2002 of approximately U.S.\$622.9 million, exclusive of any strategic acquisitions. However, TNK had spent U.S.\$194.3 million through 30 June 2002, and, in management's view, capital expenditures for the full year may be less than, and will not be more than, the budgeted full year amount, as TNK's oil production has exceeded projections with lower than estimated capital expenditures. See "Capital Expenditures". For the remainder of 2002 TNK anticipates its capital expenditure programme will include expenditures for drilling and infrastructure development costs associated with its crude oil production activities (including the Samotlorfield) and for its refining and marketing activities (including the Ryazan refinery project). TNK cannot, however, rule out strategic acquisitions if opportunities meeting TNK's investment return criteria arise. The primary funding source for TNK's capital expenditure programme is expected to be internally generated funds and U.S. Export-Import Bank ("U.S. Ex-Im Bank") guaranteed financing. A significant portion of TNK's current operations is financed using trade finance, which is collateralised by assignment of crude oil and production export contracts. These arrangements are typically replaced as they expire, but require that 10% of OAO TNK's export quota is free of any liens. TNK does have access to certain unused credit facilities or overdrafts. TNK does not expect any problems in meeting its future requirements for funds. TNK intends to keep net debt at or near current levels. At 30 June 2002, consolidated net indebtedness totalled U.S.\$2,089.7 million, TNK also plans to attract funding in the international capital markets in order to further reduce borrowing costs and increase the average maturity of its debt by replacing amortising trade finance facilities and where possible replacing short-term debt with long-term debt.

Critical Accounting Policies

TNK's consolidated financial statements have been prepared in accordance with U.S. GAAP. TNK's significant accounting policies are further discussed in Notes 2 and 3 to the U.S. GAAP Financial Statements included elsewhere in this Offering Circular. Inherent in the application of many of these

accounting policies is the need for TNK 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.

Oil Exploration and Producing Activities

TNK accounts for its exploration and production activities using the successful efforts method as it provides a more timely accounting of the success or failure of TNK's exploration and production activities.

Assets associated with the exploration and production activities are primarily depleted using the unit-of-production method which is based on estimates of crude oil reserves existing in the field. Reserve estimates can vary significantly as a result of changes in such factors as forecasted oil prices, costs, reservoir performance and oil field technology. See "Presentation of Financial and Other Information – Oil and Gas Reserves Data" and "Risk Factors – Risks Relating to TNK and the Russian Oil and Gas Industry – Uncertainties in Estimates of Oil and Gas Reserves".

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 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.

Site Restoration and Environmental Conservation Costs

Site restoration costs that may be incurred by TNK at the end of the operating life of certain of its facilities and properties are recognised ratably over the asset's productive life. Liabilities for the environmental conservation are recorded when it is probable that obligations have been incurred and the amounts can be reasonably estimated.

The recording of liabilities for these costs is prescribed by U.S. GAAP. Estimating the amounts and timing of these obligations that should be recorded requires significant TNK judgement. This judgement is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Liabilities for site restoration are subject to change because of changes in laws, regulations and their interpretation.

Derivative Instruments

TNK makes limited use of derivative instruments. Presently TNK has only purchased limited amounts of crude oil put options to reduce exposure to downward movement in the price of crude oil. As permitted by U.S. GAAP, TNK has elected not to account for these put options using hedge accounting and instead recognises any changes in their fair value directly in results of operations. TNK may in the future elect to apply hedge accounting to any qualifying derivative contracts that it may enter into.

Foreign Currency Translation

The "functional currency", as defined in U.S. GAAP, is the local currency for TNK's operations in the Russian Federation and the Ukraine. For all other operations the functional currency is considered to be the U.S. dollar. U.S. GAAP does not require a company to prepare and report its financial statements in the same currency as its functional currency. Accordingly, TNK has elected to use the U.S. dollar as its reporting currency as a significant portion of its business is conducted in U.S. dollars and management uses the U.S. dollar to manage business risk and exposures and measure performance. The translation of the consolidated financial statements into U.S. dollars is in accordance with the method prescribed by U.S. GAAP for hyperinflationary economies.

Because of exchange restrictions relating to converting Roubles into other currencies and because the Rouble is not a convertible currency outside the Russian Federation the translation into U.S. dollars should not be construed as a representation that such Rouble amounts have been, could be or will in the future be converted into U.S. dollars at the exchange rates disclosed in the Notes to the U.S. GAAP Financial Statements.

Income Tax Accounting

The computation of TNK's income tax expense requires the interpretation of complex tax laws and regulations in many tax jurisdictions. This is particularly evident in the Russian Federation where tax legislation is constantly changing (specifically the statutory profits tax rate) and is subject to interpretation by the various tax authorities. As further discussed in Note 15 to the U.S. GAAP Financial Statements, the change in the Russian statutory tax rate can significantly affect TNK's deferred tax liability. As prescribed by U.S. GAAP any changes to the statutory tax rate are recognised by TNK in the period the tax law is enacted rather than the effective date of the change.

The above assessment of critical accounting policies is not meant to be an all-inclusive discussion of the uncertainties to financial results that can occur from the application of the full range of TNK's accounting policies. Materially different results could occur in the application of the accounting policies as well. Additionally materially different results can occur upon the adoption of the new accounting standards promulgated by the various rule-making bodies.

Recent Developments

Moody's, Standard & Poor's and Fitch rating agencies have recently changed their ratings outlook of the Russian Federation from stable to positive, reflecting continued improvement in the Russian business and investment climate. Fitch has also increased its rating of the Russian Federation to BB-. This is also reflected in the debt and equity capital markets, which have been giving higher valuations to many Russian assets.

In October 2002 the Russian Government announced plans for the privatisation of Slavneft, a Russian vertically integrated oil company, through a sale of 75% of its issued share capital. Press reports have indicated that such a sale could be completed by the end of February 2003 for a consideration anticipated to be in excess of U.S.\$1.3 billion. The announcement indicated a major shift in the Government's plans, which previously provided for a sale of approximately 20% of Slavneft. TNK may tender in this privatisation deal in conjunction with another company, if the price of the shares is attractive and if management believes that the acquisition will not put an undue strain on TNK's financial position.

Recent Accounting Pronouncements

In June 2000, the FASB issued SFAS No. 141, (FAS 141), *Business Combinations* and SFAS No. 142 (FAS 142), *Goodwill and Other Intangible Assets*. FAS 141 is effective for all business combinations initiated after 30 June 2001, and for all business combinations accounted for using the purchase method for which the date of acquisition is 1 July 2001, or later. FAS 142 is effective for fiscal years beginning after 15 December 2001, except for goodwill and intangible assets acquired after 30 June 2001, which were immediately subject to the amortisation and non-amortisation provisions of the FAS 142. The adoption of FAS 141 and FAS 142 had no significant effect on the Group's interim consolidated financial statements.

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations* (FAS 143). FAS 143 is effective for fiscal years beginning after 15 June 2002. FAS 143 differs in several significant respects from current accounting for asset retirement obligations under SFAS No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*. Adoption of FAS 143 will affect future accounting and reporting of the assets, liabilities and expenses related to these obligations. The magnitude of the effect has not yet been determined.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FAS 144). FAS 144 is effective for fiscal years beginning after 15 December 2001, with initial application effective as of the beginning of the fiscal year adopted. TNK adopted the standard from 1 January 2002. Adoption of FAS 144 had no significant effect on TNK's interim consolidated financial statements.

THE BORROWER

Foundation

OAo TNK was established as a state-owned Russian joint stock company on 9 August 1995 in accordance with 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 No. 1403”), and pursuant to the Resolution of the Russian Government No. 802 “On Foundation of the Open Joint Stock Company Tyumen Oil Company”, dated 9 August 1995 (“Resolution No. 802”). OAo TNK was officially registered as an open joint stock company on 5 October 1995 under No. 642 by the Registration Chamber of the City of Tyumen at the following address: 67, Ulitsa Lenina, Tyumen, 625000, Russian Federation. The head office of OAo TNK is located at 18/2 Schipok Street, Moscow, 115093, Russian Federation.

In accordance with Resolution No. 802, OAo TNK was established to hold a number of former state-owned upstream and downstream assets, with a view to its further privatisation through the sale of its shares at specialised cash auctions and commercial investment tenders, and to distribute a small portion of shares among its employees.

Under Russian law, an open joint stock company is a company whose charter capital is divided into a number of shares certifying the rights and obligations of shareholders of the company. There can be any number of shareholders in an open joint stock company. Generally, shareholders are not liable for the obligations of an open joint stock company and, as such, shareholders bear the risk of losses related to the activities of the company only to the extent of the value of shares owned by them. An open joint stock company can have two classes of shares: ordinary shares and preference shares. Except for certain circumstances, only ordinary shares carry voting rights.

Article 3 of OAo TNK’s Charter (the initial version was approved by Resolution No. 802 and was subsequently amended; the latest version having been approved on 18 April 2002 as amended in June and July 2002 (the “2002 Charter”)) permits OAo TNK to undertake a wide range of activities relating to the development, production, processing, storage, transportation and sale of crude oil and gas and their derivative products. OAo TNK undertakes such activities in conjunction with its subsidiaries and affiliated companies. The 2002 Charter expressly authorises OAo TNK to engage in operations with precious metals and stones; scientific, technical, publishing, marketing, consulting and training activities as well as to become involved in investment and federal state supplies. Furthermore, OAo TNK may undertake other activities which are not restricted by Russian law.

The Share Capital

Under the 1995 Charter of OAo TNK, the issued share capital was initially to be set at the amount of RR7,741,459,000, which was divided into 7,741,459 ordinary shares, each with a nominal value of RR1,000. Pursuant to Resolution No. 802, the issued share capital was formed through the contribution of shares of ten of OAo TNK’s subsidiaries, of which nine were former state oil and gas enterprises then recently reorganised into open joint stock companies, and the tenth was a state enterprise, “Obneftegasgeologia”, then yet to be reorganised into an open joint stock company. These shares were transferred to OAo TNK in accordance with Resolution No. 802 and Resolution No. 1230-r of the State Property Management Committee, dated 4 September 1995. Upon the contribution of the shares into the share capital of OAo TNK, OAo TNK’s share capital was recalculated and increased to RR7,908,221,000. In 1998, due to the change in face value of the currency of the Russian Federation, the issued share capital was again recalculated to RR7,908,221.

The shares of OAo TNK were split twice, in 1995 and 1999. In accordance with Article 4 of the 2002 Charter of OAo TNK, the issued share capital of OAo TNK is RR7,908,221 divided into 3,163,288,400 ordinary shares, each with a nominal value of RR0.0025. In addition, OAo TNK may issue an additional 1,400,000,000 ordinary shares with a nominal value of RR0.0025 per share.

OAO TNK has retained ZAO Irkol, a Russian duly licensed registry, to act as the registry with respect to the register of OAO TNK's shareholders and to maintain all necessary records for this purpose.

Financial Information

As at 31 December 2000 and 2001, the total assets of OAO TNK, on a non-consolidated basis, amounted to U.S.\$3,475.9 million and U.S.\$4,643.3 million, which represented 36% and 50%, respectively, of TNK's total consolidated assets.

As at 31 December 2000 and 2001, the total liabilities of OAO TNK, on a non-consolidated basis, amounted to U.S.\$2,429.1 million and U.S.\$3,292.5 million, which represented 49% and 67%, respectively, of TNK's total consolidated liabilities.

For the years ended 31 December 2000 and 2001, total sales and other operating revenues of OAO TNK amounted to U.S.\$2,072.2 million and U.S.\$3,118.9 million, which represented 44% and 51%, respectively, of TNK's total consolidated revenues. For the years ended 31 December 2000 and 2001, total costs and other deductions of OAO TNK amounted to U.S.\$1,613.0 million and U.S.\$2,327.5 million, which represented 71% and 64%, respectively, of TNK's total consolidated costs and other deductions.

As at 30 June 2001 and 2002, the total assets of OAO TNK, on a non-consolidated basis, amounted to U.S.\$3,891.2 million and U.S.\$5,246.6 million, which represented 41% and 56%, respectively, of TNK's total consolidated assets.

As at 30 June 2001 and 2002, the total liabilities of OAO TNK, on a non-consolidated basis, amounted to U.S.\$2,786.6 million and U.S.\$3,841.4 million, which represented 57% and 81%, respectively, of TNK's total consolidated liabilities.

For the six months ended 30 June 2001 and 2002, total sales and other operating revenues of OAO TNK amounted to U.S.\$1,362.2 million and U.S.\$1,254.7 million, which represented 43% and 46%, respectively, of TNK's total consolidated revenues. For the six months ended 30 June 2001 and 2002, total costs and other deductions of OAO TNK amounted to U.S.\$1,000.4 million and U.S.\$914 million, which represented 56% and 50%, respectively, of TNK's total consolidated costs and other deductions.

Privatisation

From 1995 to 2001, OAO TNK underwent several privatisation proceedings before it became a fully privately-owned joint stock company. In December 1995, a specialised cash auction was conducted and resulted in the sale of 0.02% of OAO TNK's voting shares to 29 different persons and entities. In 1996, the Russian Government entered into a transaction with Menatep Bank, a Russian commercial bank, pursuant to which the Government exchanged 9.0% of the shares in OAO TNK for Menatep shares. In 1997, the Russian Government privatised a further 40.0% of OAO TNK's voting shares by holding a commercial investment tender. ZAO Novy Holding, an entity ultimately owned on an equal basis by the Alfa Group ("Alfa Group") and the Access-Renova Group (the "Access-Renova Group" and, together with the Alfa Group, the "TNK Shareholders"), was the successful bidder in the tender. In 1998, Novy Petroleum Limited, another Alfa Group and Access-Renova Group investment vehicle, acquired 9.0% of the voting shares of OAO TNK previously acquired by Menatep Bank from private shareholders and approximately 1.1% of OAO TNK's voting shares in a specialised cash auction held by the Russian Government. In 1999, the Russian Government held the second commercial investment tender for the sale of 49.8% of OAO TNK voting shares. ZAO Novy Priorities, another Alfa Group and Access-Renova Group investment vehicle, was the successful bidder in that tender. As a result of this series of share acquisitions, by the beginning of 2001 after fulfillment of the terms of investment tender by ZAO Novy Priorities, the three entities, ZAO Novy Holding, Novy Petroleum Limited and ZAO Novy Priorities (together, the "Predecessors") owned by the Alfa-Group and the Access Renova Group, together indirectly owned a total of 99.9% of the voting shares of OAO TNK.

Reorganisation and Shareholder Structure

In 2001, OAO TNK underwent a comprehensive reorganisation and restructuring programme involving the reorganisation of its shareholders' ownership structure, the foundation of TNK International in the British Virgin Islands as a holding company for OAO TNK and other companies (see "TNK Organisational Structure") and a share consolidation and exchange programme involving OAO TNK's major upstream subsidiaries. The principal reasons for this reorganisation were to:

- operate under a more defined and generally recognised corporate body of law at the holding company level;
- achieve flexibility in raising capital outside of Russia;
- achieve tax efficiency;
- improve control over key subsidiaries; and
- create a more transparent ownership structure.

As a result of the incorporation of TNK International, the reorganisation of OAO TNK's shareholding structure and a number of share sale-purchase transactions in 2001, TNK International, indirectly (acting through its wholly-owned Cyprus subsidiary, Novy Investments), became the owner of all of the shares of OAO TNK previously owned by ZAO Novy Holding, Novy Petroleum Limited and ZAO Novy Priorities (97% of the currently issued share capital of OAO TNK). See "The Guarantor" and "TNK Organisational Structure".

In December 2001, the shareholders of OAO TNK effected a share consolidation and exchange programme involving three of OAO TNK's major upstream production subsidiaries (Samotlorneftegas, Tyumenneftegas and NNP). Minority shareholders of these subsidiaries that chose to participate in the share consolidation and exchange programme entered into share exchange agreements with OAO TNK's shareholders and obtained OAO TNK shares in exchange for their shares in the above-mentioned OAO TNK subsidiaries. As a result, the percentage of minority interests in OAO TNK increased from approximately 0.1% to 3%. The exchange ratios and buy-out prices were determined in accordance with the market value of the shares of OAO TNK's subsidiaries based on the appraisal made by the international financial advisor, Ernst & Young L.L.P. The table below shows the exchange ratios and buy-out prices:

	Exchange Ratio		Buy-out Price	
	Subsidiary's Share	OAO TNK Shares	Subsidiary's Share	U.S.\$
NNP	1 ordinary	15.360	1 ordinary	17.20
	1 preferred	7.680	1 preferred	8.60
Samotlorneftegas	1 ordinary	34.820	1 ordinary	39.00
	1 preferred	17.410	1 preferred	19.50
Tyumenneftegas	1 ordinary	0.250	1 ordinary	0.28
	1 preferred	0.125	1 preferred	0.14

Minority shareholders in such OAO TNK subsidiaries that did not wish to participate in the share consolidation and exchange programme opted to accept cash for their shares in OAO TNK's subsidiaries, and, at the request of such shareholders, their shares were bought by the relevant OAO TNK subsidiaries at the corresponding buy-out price. Following the share exchanges, the nominal value of the shares in these OAO TNK subsidiaries was increased and the number of shares outstanding was correspondingly decreased. Russian legislation then in force did not allow the issue of fractional shares to the holders of minority interests in the course of a share consolidation. Thus, all fractional interests in such OAO TNK subsidiaries remaining after consolidation were cancelled and all holders of such fractional interests were compensated in cash in accordance with the applicable procedures. As a result of the share consolidation

and exchange programme and the cancellation of fractional interests described above, OAO TNK now owns 100% of the currently issued share capital in each of these production subsidiaries. The share consolidation and exchange programme is, though, currently being challenged by some of the former shareholders. See “Business — Legal Proceedings”.

Current Shareholders

As a result of the reorganisation and restructuring programme, the Alfa Group (through its affiliate, Alfa Petroleum Holdings Limited, British Virgin Islands) and the Access-Renova Group (through its affiliate, Oil and Gas Industrial Partners Ltd., British Virgin Islands), indirectly hold 97% of OAO TNK’s shares through their indirect holdings of 100% of the issued share capital of both TNK International and Novy Investments Limited, Cyprus, the latter company currently being the direct owner of 97% of OAO TNK’s shares. See “The Guarantor – The Share Capital”.

The Alfa Group businesses include commercial and retail banking, securities trading, investment banking, commodities trading, communications, food and retail trading, real estate development and hotel management. The core of the Alfa Group is comprised of OAO Alfa Bank (“Alfa Bank”), one of the largest banks in Russia, and OOO Alfa-Eko (“Alfa-Eko”), one of the largest commodities trading companies in Russia and the CIS. The Alfa Group also owns Crown Resources AG, an international commodity trading company that is a significant off-taker of TNK’s crude oil export volumes. See “Related Party Transactions” and Note 18 to the U.S. GAAP Financial Statements.

The Access-Renova Group acts as both principal investor and operator in a variety of industries, including aluminium smelting, petroleum, coal mining, telecommunications and industrial equipment, including Sibirsko-Uralskaya Aluminium Company, Bogatyr Coal Mine and other companies.

As at 29 October 2002, the remaining 3% of OAO TNK’s shares were owned by 12,487 shareholders (including nominees).

THE GUARANTOR

Foundation

TNK International was incorporated under the laws of the British Virgin Islands on 9 August 2001, and registered with the Registrar of Companies of the British Virgin Islands under number 457338. Pursuant to Clause 4(1) of its Memorandum of Association, the object of TNK International 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. TNK International was established as a holding company for OAO TNK and other assets. Since its incorporation, TNK International has been engaged in activities commensurate with its status as a holding company. The registered office of TNK International is Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands.

The Share Capital

TNK International's issued and paid up capital is U.S.\$50,000. The issued share capital consists of one series of shares divided into 50,000 shares, par value U.S.\$1.00 per share.

TNK Industrial Holdings is the sole owner of TNK International's issued share capital. The table below shows the current ownership of TNK Industrial Holdings' issued and paid up share capital:

	Shares Owned ⁽¹⁾	
	Number	Percent
Oil and Gas Industrial Partners Ltd	25,000 ⁽²⁾	50.0%
Alfa Petroleum Holdings Ltd.....	25,000 ⁽³⁾	50.0%

(1) TNK Industrial Holdings' share capital is U.S.\$50,000. The share capital consists of two classes and one series of shares consisting of 25,000 Class A Shares, par value US\$1 per share (the "Class A Shares"), and 25,000 Class R Shares, par value US\$1 per share (the "Class R Shares").

(2) Representing all of the Class R Shares.

(3) Representing all of the Class A Shares.

As at 29 October 2002, TNK International indirectly (through its wholly owned subsidiary, Novy Investments Limited, Cyprus) owned 3,062,754,478 shares, nominal value RR 0.0025 per share, or 97%, of OAO TNK.

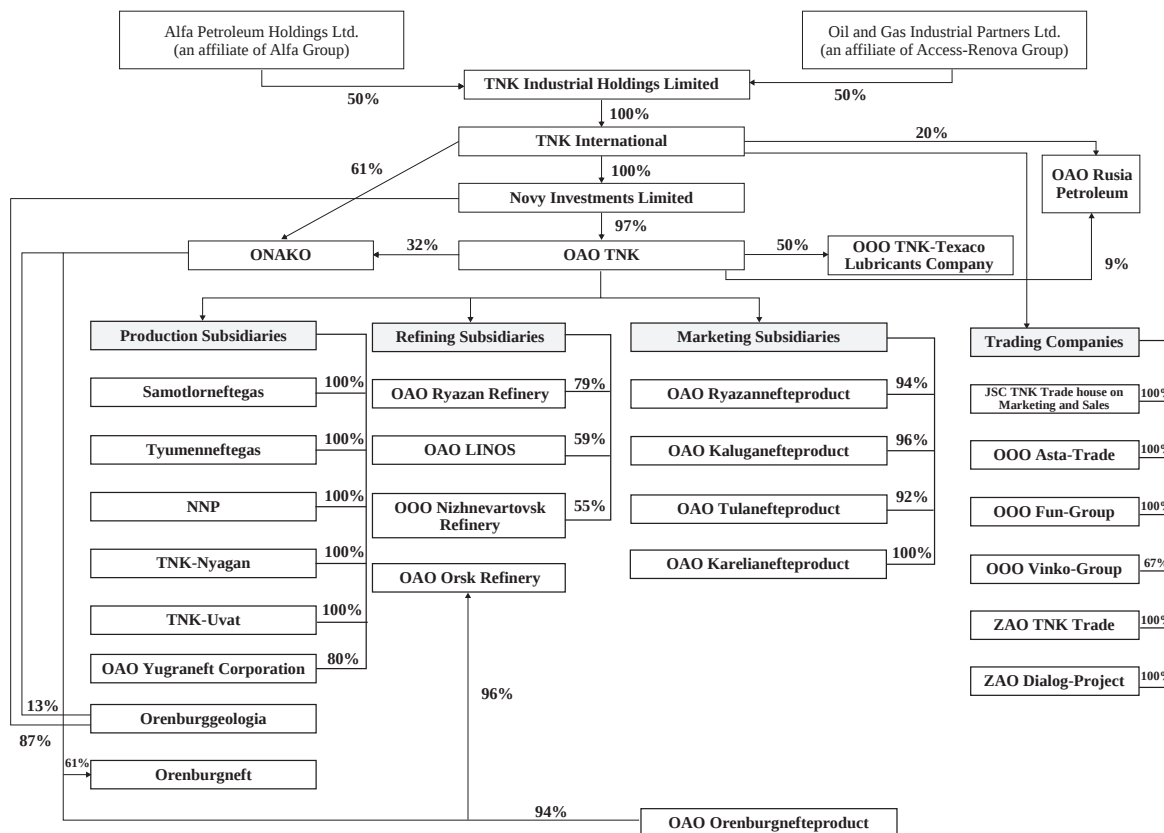
TNK ORGANISATIONAL STRUCTURE

TNK International is the holding company for TNK's oil and gas industry interests held through a number of subsidiaries and affiliates, primarily those of OAO TNK and ONAKO and a number of wholly-owned trading companies. TNK International is the consolidation level for purposes of the U.S. GAAP Financial Statements.

OAO TNK also has a number of subsidiaries and affiliates. Having started its activity with ten subsidiaries in 1995, as at 29 October 2002, it had 55 subsidiaries.

ONAKO is a Russian vertically integrated oil and gas company involved in upstream and downstream operations primarily through its subsidiaries and affiliates. The Russian government established ONAKO as an open joint stock company in 1994 to hold certain state-owned assets including 51% of the voting shares of Orenburgneft. ONAKO subsequently increased its stake in Orenburgneft to 61% of the voting shares. In 2000, TNK acquired 85% of the voting shares in ONAKO through a privatisation tender. TNK also acquired through private transactions an additional 12.8% stake in ONAKO and 3.2% in Orenburgneft in 2000. In November and December 2001, TNK participated in a share exchange and consolidation process under which some minority shareholders in Orenburgneft exchanged their shares for shares in ONAKO resulting in an increase in ONAKO's share of Orenburgneft to 61%, an increase in ONAKO's share of the Orsk Refinery to 96%, an increase of ONAKO's share in Orenburgnefteproduct to 94% and an increase in minority interest in ONAKO from 2% to 8%. As a result of such share exchange and consolidation, as at 29 October 2002, 61.34% of ONAKO was indirectly owned by TNK International, and 31.67% was owned by OAO TNK.

Below is a simplified chart showing (i) the current shareholding structure in TNK International, (ii) the current shareholding structure in OAO TNK and (iii) TNK's subsidiaries currently involved in its oil and gas activities. All percentages represent share of voting power of OAO TNK, as well as those of its affiliates or TNK affiliates, do not necessarily reflect ownership interests with respect to share of net profit and are rounded to the nearest whole number.



After a period of rapid growth through acquisitions TNK is now focused on improving efficiency of its operations. Among other measures, TNK is undertaking a simplification of its corporate structure. As a result several layers of the corporate structure could be removed by transferring the assets directly to TNK.

Currently OAO Sibneft (“Sibneft”), a competitor Russian oil company, owns approximately 35% of the voting shares of Orenburgneft. In line with the policy of simplifying its corporate structure, TNK and TNK’s Shareholders are currently in discussions with Sibneft to agree to a share exchange programme based on similar principles as the share consolidation and exchange programme in December 2001 involving OAO TNK and its oil producing subsidiaries (see “The Borrower” — “Reorganisation and Shareholder Structure”). Pursuant to this programme, Sibneft would swap its stake in Orenburgneft for a stake in either OAO TNK or TNK International. If such a share exchange were to be agreed, TNK estimates that such stake received by Sibneft in OAO TNK or TNK International would be less than 10% of TNK’s charter capital. TNK would also consider extending a similar form of share exchange to other minority holders in Orenburgneft with the ultimate aim of fully consolidating Orenburgneft within TNK.

TNK is also currently considering the establishment of a management company, incorporated in Moscow, to manage and administer all of the assets of TNK. If such a management company were to be incorporated, it would be fully consolidated within TNK.

As at 31 December 2001, the following companies comprised TNK’s material subsidiaries representing at least 10% of TNK’s consolidated net assets or accounting for at least 10% of the consolidated net profit of TNK: (i) OAO TNK; (ii) TNK’s production subsidiaries Samotlorneftegas, NNP and Orenburgneft; and (iii) TNK’s trading companies OOO Asta-Trade (“Asta-Trade”), OOO Vinko-Group (“Vinko-Group”) and ZAO Dialog-Project (“Dialog-Project”). Samotlorneftegas, NNP and Orenburgneft are described in further detail in “Business – Reserves, Exploration and Production – Production Subsidiaries”.

Brief information with respect to each of these material subsidiaries is set forth below:

Samotlorneftegas was incorporated under the laws of the Russian Federation on 17 May 1999 and registered as an open joint stock company under No. NB – 11118454 by Nizhnevartovsk City Administration at the following address: 4 Lenin Street, 628606 Nizhnevartovsk, Tyumen Khanty-Mansiiskii Autonomous Region. The object of Samotlorneftegas is to engage in exploration and production of oil and gas and other related activities. The issued share capital of Samotlorneftegas is RR3,151,195.48 divided into 2 ordinary shares, each with a nominal value of RR1,383,317.71 and 1 preferred share with a nominal value of RR384,560.06, all of which are fully paid up. As at 29 October 2002, OAO TNK held 100% of the Samotlorneftegas shares, which accounted for 100% of the voting power. The amount of dividends paid by Samotlorneftegas to OAO TNK in the year ended 31 December 2001 was RR302,942,843.

NNP was incorporated under the laws of the Russian Federation on 17 May 1999 and registered as an open joint stock company under No. NB-11 118 455 by Nizhnevartovsk City Administration at the following address: 17 Kuzovatkin Street, 628616 Nizhnevartovsk, Tyumen Region, Khanty-Mansiiskii Autonomous Region. The object of NNP is to engage in exploration and production of oil and gas and other related activities. The issued share capital of NNP is RR738,930.60 divided into 8 ordinary shares, each with a nominal value of RR81,055.74 and 2 preferred shares, each with a nominal value of RR45,242.34, all of which are fully paid up. As at 29 October 2002, OAO TNK held 100% of the NNP shares, which accounted for 100% of the voting power. The amount of dividends paid by NNP to OAO TNK for the year ended 31 December 2001 was RR156,674,293.

Orenburgneft was incorporated under the laws of the Russian Federation on 15 March 1994 and registered as an open joint stock company under No. 155-TS by Orenburg City Registration Chamber at the following address: 33 Tereshkova Street, 460006 Orenburg. The object of Orenburgneft is to engage in exploration and production of oil and gas and other related activities. The issued share capital of Orenburgneft is RR3,513,350 divided into 66,060,625 ordinary shares, each with a nominal value of

RR0.04 and 21,773,125 preferred shares, each with a nominal value of RR0.04, all of which are fully paid up. As at 29 October 2002, TNK held through its 93% ownership in ONAKO 46% of the Orenburgneft shares, which accounted for 57% of the voting power. Orenburgneft did not distribute dividends in 2001.

Asta-Trade was incorporated under the laws of the Russian Federation on 19 January 2000 and registered as a limited liability company under No. EM-V 189 by the State Committee of the Kalmykian Republic for Registration of Subjects of Entrepreneurial Activity at the following address: 505-249 Lenin Street, 358000 Elista, Kalmykian Republic, Russian Federation. The object of Asta-Trade is to engage in trading activities. The charter capital of Asta-Trade is RR8,400, all of which is fully paid up. As at 29 October 2002, TNK held 100% of the participation interest in Asta-Trade, which accounted for 100% of the voting power. The amount of dividends paid by Asta-Trade to TNK for the year ended 31 December 2001 was RR13,241,495,000.

Vinko-Group was incorporated under the laws of the Russian Federation on 26 September 2000 and registered as a limited liability company under No. E-XX 178 by the State Committee of the Kalmykian Republic for Registration of Subjects of Entrepreneurial Activity at the following address: 505-249 Lenin Street, 358000 Elista, Kalmykian Russian, Russian Federation. The object of Vinko-Group is to engage in trading activities. The charter capital of Vinko-Group is RR2,791,400, all of which is fully paid up. As at 29 October 2002, TNK held 67% of the participation interest in Vinko-Group, which accounted for 67% of the voting power. The amount of dividends paid by Vinko-Group to TNK for the year ended 31 December 2001 was RR5,243,331,560.

Dialog-Project was incorporated under the laws of the Russian Federation on 26 June 2001 and registered as a closed joint stock company under No. 7-IV-2171 by the State Committee of the Kalmykian Republic for Registration of Subjects of Entrepreneurial Activity at the following address: 407b, 1 Y.Klykov Street, 358000 Elista, Kalmykian Republic, Russian Federation. The object of Dialog-Project is to engage in trading activities. The issued share capital of Dialog-Project is RR200,000, divided into 100 ordinary shares each with a nominal value of RR2,000, all of which are fully paid up. As at 29 October 2002, TNK held 100% of the issued share capital of Dialog-Project. Dialog-Project did not distribute dividends in 2001.

SIDANCO

In December 1999, OAO TNK, through its then wholly-owned subsidiary TNK-N, acquired the assets of OAO Chernogoroneft ("Chernogoroneft"), a production subsidiary of SIDANCO, for U.S.\$176 million in a bankruptcy auction. In March 2000, OAO TNK transferred the shares of TNK-N to the TNK Shareholders at cost. The TNK Shareholders were in dispute with the shareholders of SIDANCO, including BP and the Interros Group as to the ownership of the assets of Chernogoroneft held by TNK-N. This dispute over Chernogoroneft was resolved in 2001 and, *inter alia*, the TNK Shareholders acquired 84% of SIDANCO for U.S.\$1,257 million in May and August 2001 and TNK-N's shares were transferred to SIDANCO by the TNK Shareholders. In April 2002, BP purchased an additional 15% interest in SIDANCO from the TNK Shareholders for U.S.\$375 million, with the result that while the TNK Shareholders remain the majority shareholders of SIDANCO, BP now holds a 25% plus one share blocking stake.

The TNK Shareholders currently hold their interest in SIDANCO through TNK Industrial Holdings, which is the immediate parent company of TNK International. See "The Guarantor — The Share Capital" and the organisational chart above. As a consequence, SIDANCO is held outside of TNK but is a sister company of TNK. However, there are no guarantees between SIDANCO and TNK nor recourse to each other's assets under outstanding indebtedness and all transactions between TNK and SIDANCO and its subsidiaries are conducted on an arm's-length basis.

When the TNK Shareholders acquired the majority stake in SIDANCO, they agreed that the purchase price would be made under a deferred payment plan (together with interest) over the period of three years. During the period from 1 January 2002 to 1 April 2002, TNK made disbursements of U.S.\$290.0 million

to TNK Industrial Holdings to finance installment payments under the deferred payment plan for the SIDANCO acquisition. In April 2002, TNK Industrial Holdings received U.S.\$375 million from the sale of 15% of SIDANCO to BP. Of these proceeds, U.S.\$354.1 million have been used to repay fully TNK's disbursements made to date in 2002. From 1 April 2002, TNK Industrial Holdings' remaining deferred payment obligations for the purchase of SIDANCO shares amount to U.S.\$539 million and will fall due through June 2003. As such payment obligations fall due, they will be funded either by ordinary dividends from TNK to TNK Industrial Holdings, dividends from SIDANCO to TNK Industrial Holdings or through other third party sources of liquidity available to TNK Industrial Holdings.

There are currently no plans to combine the operations or share capital of TNK and SIDANCO, although such a combination could occur during the life of the Notes. The terms of the Loan Agreement and the Guarantee would permit such a combination in the future as long as the combination did not result in a Material Adverse Effect or a Ratings Downgrade. See "Loan Agreement — Mergers" and "The Guarantee Agreement — Mergers".

BUSINESS

Overview

TNK is one of the largest vertically integrated oil and gas companies in Russia in terms of both proved oil reserves and crude oil production. TNK's oil and gas exploration and production operations are located primarily in Russia's Western Siberian and Volga-Ural basins. In the past five years, TNK has grown significantly in terms of reserves, production, refining capacity and sales. Its growth has been driven by both internal growth and acquisitions and has been led by a management team comprised of experienced Russian and international managers.

Below are some of TNK's business and operational highlights:

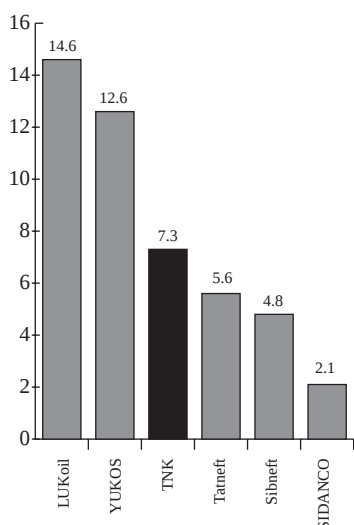
- *Reserves.* TNK's total proved reserves held through its exploration and production subsidiaries as at 1 January 2002 comprised 7,258 MMBbls of oil and condensate and 3,586 Bcf of gas (including both natural gas and associated gas), for a total of 7,898 MMBOE.
- *Production.* In 2001, the average daily oil production of TNK's exploration and production subsidiaries was 701 mbpd (692 mbpd net) and its average daily gas production was 414 MMcf/day for a total of 774 MBOE/day. For the six months ended 30 June 2002, TNK's average daily oil production was 734 mbpd (725 mbpd net) and its average daily gas production was 321 MMcf/day for a total of 791 MBOE/day. TNK generally either exports crude oil or uses it as a feedstock for its refineries.
- *Refining.* TNK refined 417 mbpd of crude oil in 2001 and 399 mbpd of crude oil for the six months ended 30 June 2002. TNK owns four refineries, three of which are located in Russia in the cities of Ryazan, Nizhnevartovsk and Orsk, with the fourth located in Lisichansk, Ukraine. TNK's refineries had a combined rated annual capacity of 900.2 mbpd in 2001 and of 899.4 mbpd for the six months ended 30 June 2002. TNK's refineries produce a variety of refined products, including gasoline, diesel fuel (gas oil), jet fuel (kerosene), fuel oil (mazut) and lubricants.
- *Exports.* In 2001, TNK exported 336 mbpd of crude oil (to Europe and the CIS), which, including purchases of crude oil from third parties, was the equivalent of 49% of its crude oil production and was 41% of its total crude oil sales and deliveries in that year. TNK also exported 212 mbpd of refined products, the equivalent of 52% of its refined product output. For the six months ended 30 June 2002, TNK exported 355 mbpd of crude oil (to Europe and the CIS), which, including purchases of crude oil from third parties, was the equivalent of 49% of its crude oil production (and was 47% of its crude oil sales and deliveries). In 2002, TNK also exported 230 mbpd of refined products, the equivalent of 56% of its refined product output for the six months ended 30 June 2002.
- *Refined Products Marketing and Retail.* TNK operates a network of branded retail filling stations in Russia which, as at 15 October 2002, consisted of 1,021 filling stations and 62 petroleum storage depots. The network also consists of 913 franchised filling stations in the Ukraine. For the last eight months of 2002, TNK had a 7.9% share of the Russian domestic market for light refined products such as gasoline and gas oil, including a 18.4% share of the Moscow and Moscow region market based on sales volumes.
- *Awards.* In 2000, OAO TNK became the first Russian company to win (and even be considered for) the prestigious Financial Times Energy Award, and was named the World's Best Oil and Gas Company of 2000 by the Financial Times Energy subdivision of the Financial Times.
- *Credit Rating.* TNK International is rated "Ba3" by Moody's, "B+" by Standard & Poor's and "B+" by Fitch rating agencies. Moody's rated TNK International at the same level as the Russian Federation.

TNK'S Position in the Russian Oil Industry

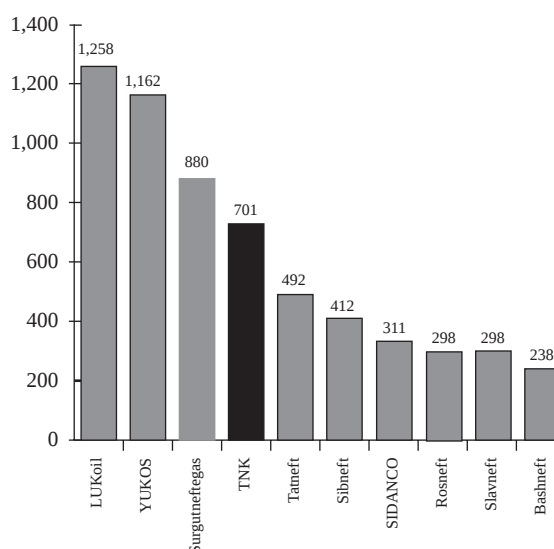
Reserves and Production

TNK's proved oil reserves were the third largest among Russian integrated oil and gas companies in 2000, and it was the fourth largest producer of oil by volume among such companies in 2001. The charts below show the relative ranking of TNK as compared with Russia's leading integrated oil and gas companies by proved oil reserves and production volumes:

Top Russian Companies and TNK by Proved Oil Reserves as at 1 January 2002
(billions of barrels)⁽¹⁾



Top Russian Companies and TNK by 2001 Crude Oil Production (mbpd)⁽²⁾



(1) Source: Reserves data is derived principally from data published by the relevant companies. Reserves data for Surgutneftegas, Bashneft, Rosneft and Slavneft have not been included in this table as no equivalent information was available. As at 1 January 2001, Surgutneftegas reported proved oil reserves of 5.5 billion barrels.

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

Strategy

TNK's strategic objective is to increase the value of its asset base to levels comparable to integrated oil and gas companies internationally in order to compete with such companies. Factors crucial to TNK's competitiveness include its ability to:

- attract and maintain a world class management team that is focused on increasing transparency and implementing international best practice in order to maximise shareholder value;
- take a balanced approach to growing its upstream and downstream segments to ensure that increasing production is linked to increasing refining and marketing capabilities; and
- to develop strong relationships with international strategic partners and investors to provide access to technology and capital.

In pursuit of its strategic objective:

- *Increase oil production.* TNK intends to exploit its reserve base using technical solutions to balance production increases and reserves recovery rates in order to increase returns on invested capital. As part of this strategy, TNK will balance its capital budget between projects that provide immediate cash flow and projects that enhance its existing reserve base. TNK plans to increase its oil production in its core geographic areas of the Western Siberian and Volga-Ural basins by accelerating field development, utilising improved drilling and recovery technology and modernising its production infrastructure. For example, TNK has commenced a rehabilitation project for its large Samotlor field under which it expects to spend a total of more than U.S.\$800 million between 2001 and 2005.
- *Reduce production costs.* TNK continually seeks methods of reducing its production costs. TNK is focused on reducing its production costs on a per BOE basis to maximise cash flow and earnings. As part of this strategy, TNK intends to divest non-core assets and outsource various ancillary oil field services, to continue to integrate international oil experts into the senior management team and to expand relationships with international oil field services suppliers. TNK solicits bids from domestic and international oil field service providers, including its current providers, to ensure competitive rates for services. In addition, TNK believes that by implementing better management reporting and control systems, employing advanced exploration and extraction technologies and improving its management training programmes, it can further reduce its production costs and improve its profitability.
- *Upgrade refineries.* TNK plans to upgrade its refineries and increase its refining capacity in line with production increases. The upgrades are intended to improve the conversion ratios and the quality of the refined products produced (higher octane gasoline and lower sulphur content diesel fuel) as well as enhance throughput and output capacity to meet projected domestic and CIS demand. A significant part of this strategy is TNK's ongoing modernisation project at its Ryazan Refinery, as well as at the newly acquired LiNOS and Orsk refineries. See “– Refining and Marketing – Refinery Modernisation Programme”.
- *Expand and improve branded retail filling station network.* One of TNK's goals is to increase its market share in its core retail gasoline markets through the expansion of its network of branded retail filling stations. TNK's target markets are central Russia, the Urals, southern Russia and the Ukraine. TNK will focus particularly on Moscow and the Moscow region, where it had a 18.4% market share in terms of light refined products for the first eight months of 2002 (source: “Kortes” Informational and Analytical Center), and which it considers to be one of the most attractive retail gasoline markets in Russia and the CIS. Furthermore, TNK expects to achieve significant market penetration of the Ukrainian retail market with oil products manufactured at the LiNOS refinery. In furtherance of this goal, in September 2002 TNK successfully tendered for a 45.85% stake in Lisichansk-Naftoproduct, a Ukrainian company operating a large filling station network and wholesale distribution network. See “Sales and Marketing of Refined Products – Retail Network Expansion Plans”. TNK will also combine convenience stores with its existing and new filling stations and upgrade its existing convenience stores. As part of TNK's strategy to be more customer-focused, TNK will implement a comprehensive customer service training programme.
- *Enhance upstream gas assets.* TNK believes that natural gas is becoming a more important source of energy in Europe, China and the CIS and that the anticipated deregulation of these markets will provide significant long-term business opportunities. Accordingly, TNK intends to increase its natural gas reserves and production capabilities. As part of this strategy, TNK acquired through its holding of RUSIA Petroleum a 29% interest in the Kovykta gas field located in the Irkutsk region of Eastern Siberia near Mongolia. The Kovykta field is one of Russia's largest gas fields. The Kovykta gas field is expected to be the gateway for Russian natural gas exports to China, South Korea and other Asian countries.
- *Pursue strategic alliances.* TNK plans to pursue strategic alliances with leading international oil and gas companies to gain additional exposure to cutting-edge exploration and production technologies and management practices while partnering in the financing of new projects. TNK's major

shareholder, TNK Industrial Holdings Limited, is in talks with BP and other major international oil companies about possible equity participation in TNK. It is possible that such a transaction would be executed during the life of the Notes.

- *Pursue capital markets opportunities.* TNK intends to keep net debt at or near current levels. TNK plans to attract funding in the international capital markets in order to further reduce borrowing costs and increase the average maturity of its debt by replacing amortising trade finance facilities and, where possible, replacing short-term debt with long-term debt.
- *Consider attractively priced acquisitions in key CIS jurisdictions.* TNK substantially completed a major acquisition programme in 2001. To the extent that TNK undertakes further acquisitions, TNK currently intends to concentrate on attractively priced acquisition opportunities in key CIS markets, where TNK believes it has a competitive advantage in size and expertise. Consistent with its goal of maintaining net debt at or near current levels, TNK will take a conservative approach to evaluating additional acquisition opportunities and cannot rule out strategic acquisitions if opportunities meeting TNK's investment return criteria arise. In particular, TNK may consider participating in the forthcoming privatisation of Slavneft, provided that such an acquisition meets TNK's investment criteria. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments".

Reserves, Exploration and Production

Licences

As at 15 October 2002, TNK held a total of 167 licences comprising 120 production licences, 24 combined exploration and production licences and 23 exploration licences. Nearly half of TNK's licences were issued prior to January 2000. For a discussion of the typical duration of licences issued prior to and after January 2000, see "Overview of the Russian Oil and Gas Industry – Regulation of the Oil and Gas Industry – Licensing". The terms of TNK's production and combined licences require it to maintain the exploration works and levels of oil and gas production for each field in accordance with the feasibility study approved by the Central Commission on the Fields Development of the Russian Ministry of Energy. Furthermore, TNK is obliged to make a progressive annual minimum exploration investment relating to the exploration blocks in respect of which the exploration licences are issued.

TNK's most important licences are held through Samotlorneftegaz and TNK-Nyagan, which hold one and three production licences, respectively. As at 1 January 2002, the fields covered by these licences held approximately 71% of TNK's total gross proved reserves of oil and 75% of TNK's total net proved reserves of oil (taking into account its ownership interests in its production subsidiaries). None of these licences will, under their terms, expire prior to 2013 and TNK believes that such licences will be renewed upon expiration.

TNK has been continuously increasing the number of its oil and gas fields, which is illustrated by the growing number of oil and gas licences held by its subsidiaries. In particular, through the acquisition of ONAKO by TNK in 2000, and TNK's acquisition of assets of the Russian oil production company OAO Kondpetroleum in late 1999 (the assets of which are currently owned by TNK-Nyagan), TNK added 103 exploration and production licences and three production licences, respectively, to its licence portfolio.

Oil and Gas Reserves

Miller and Lents, independent petroleum engineers, have carried out an independent evaluation of TNK's estimated proved reserves and future net revenues as at 1 January 2000, 2001 and 2002. The following oil and gas reserves data is extracted without material adjustment from the Reserves Reports prepared by Miller and Lents unless otherwise indicated. The 2002 Reserves Reports are included elsewhere in this Offering Circular.

Reserves have been estimated in accordance with SPE/WPC standards, which differ in certain material respects from standards applied by the SEC. See "Presentation of Financial and Other Information – Oil and Gas Reserves Data". Prospective purchasers should read the 2002 Reserves Report in its entirety as well as the "Glossary of Oil and Gas Terms" included elsewhere in this Offering Circular. See also "Risk Factors – Risks Relating to TNK and the Russian Oil and Gas Industry – Uncertainties in Estimates of Oil and Gas Reserves".

The table below shows TNK's proved oil and gas reserves as at 1 January 2000, 2001 and 2002:

	As at 1 January		
	2000 ⁽¹⁾	2001 ⁽²⁾	2002
Total proved oil reserves (MMBbls).....	7,428.6	7,700.1	7,258.1
Developed.....	4,256.6	5,073.6	5,010.7
Undeveloped.....	3,172.0	2,626.5	2,247.4
Total proved gas reserves (Bcf)	3,963.1	4,111.5	3,586.1
Developed.....	2,330.7	2,939.5	2,694.9
Undeveloped.....	1,632.4	1,172.0	891.2
Total oil equivalent reserves (MBOE) ⁽³⁾	8,136.3	8,434.3	7,898.4
Developed ⁽³⁾	4,672.8	5,598.5	5,491.9
Undeveloped ⁽³⁾	3,463.5	2,835.8	2,406.5

(1) Excludes reserves of Orenburgneft, a subsidiary of ONAKO, which was acquired in 2000 and TNK-Uvat, which was established in 2000.

(2) Excludes reserves of Orenburggeologia, which was acquired in 2001.

(3) Source: TNK

The table below shows TNK's net proved oil and gas reserves, i.e. adjusted to reflect its ownership interests in its exploration and production subsidiaries as at 1 January 2000, 2001 and 2002.

	As at 1 January		
	2000 ⁽¹⁾	2001 ⁽²⁾	2002
Total estimated proved oil reserves (MMBbls)	5,463.8	6,569.9	6,868.7
Developed.....	2,944.6	4,222.3	4,701.4
Undeveloped.....	2,519.2	2,347.6	2,167.3
Total estimated proved gas reserves (Bcf).....	2,956.0	3,411.0	3,289.2
Developed.....	1,666.5	2,414.2	2,459.7
Undeveloped.....	1,289.5	996.8	829.5
Total oil equivalent reserves (MBOE).....	5,991.7	7,179.0	7,456.1
Developed.....	3,242.2	4,653.4	5,140.6
Undeveloped.....	2,749.5	2,525.6	2,315.5

(1) Excludes reserves of Orenburgneft, a subsidiary of ONAKO, which was acquired in 2000 and TNK-Uvat, which was established in 2000.

(2) Excludes reserves of Orenburggeologia, which was acquired in 2001.

Source: TNK

TNK's reserves are held through OAO TNK and seven of its exploration and production subsidiaries. The reserve life index of TNK's proved reserves is 28 years for crude oil. Due to TNK's high reserve life index for crude oil, in the short-term TNK believes it can continue to increase oil production from its existing proved reserves base without requiring a corresponding increase in proved reserves. Furthermore, TNK believes that the development of oil fields at this level of reserves life index is more prudent than further exploration to increase its proved reserves. Accordingly, TNK's financial and operational resources have been focused more on increasing production from its existing proved reserves base and less on increasing its reserves base. The decrease in TNK's proved reserves between 1 January 2001 and 1 January 2002 reflects this approach. The decrease in reserves was also due to lower oil prices, which resulted in downward revisions of its proved reserves to take account of the economic viability of extracting certain reserves in light of the lower price environment.

The table below shows TNK's proved oil and gas reserves information as at 1 January 2000, 2001 and 2002 by subsidiaries:

	As at 1 January								
	2000			2001			2002		
	Oil MMBbls	Gas Bcf	Oil Equivalent MBOE ⁽⁴⁾	Oil MMBbls	Gas Bcf	Oil Equivalent MBOE ⁽⁴⁾	Oil MMBbls	Gas Bcf	Oil Equivalent MBOE ⁽⁴⁾
Samotlorneftegas	3,821.3	2,137.5	4,203.0	3,784.8	2,240.6	4,184.9	3,699.9	2,269.8	4,105.2
TNK-Nyagan	2,677.8	1,642.1	2,971.0	1,892.5	1,005.2	2,072.0	1,450.8	513.1	1,542.4
Orenburgneft ⁽¹⁾	N/A	N/A	N/A	1,011.9	803.4	1,155.4	972.2	754.6	1,106.9
NNP	515.1	144.3	540.8	484.5	39.3	491.6	696.6	36.5	703.1
Tyumenneftegas.....	380.1	21.7	384.0	324.8	12.2	327.0	264.1	10.3	265.9
Orenburggeologia ⁽²⁾	N/A	N/A	N/A	N/A	N/A	N/A	65.5	1.9	65.9
TNK-Uvat ⁽³⁾	N/A	N/A	N/A	75.5	0.0	75.5	62.3	0.0	62.3
OAo TNK	34.3	17.5	37.5	126.1	10.8	127.9	46.7	0.0	46.7
Total.....	7,428.6	3,963.1	8,136.3	7,700.1	4,111.5	8,434.3	7,258.1	3,586.2	7,898.4

(1) Orenburgneft was acquired in 2000 and accordingly no reserves data is available as at 1 January 2000.

(2) Orenburggeologia was acquired in 2001 and accordingly no reserves data is available as at 1 January 2000 or 2001.

(3) TNK-Uvat was established in 2000 and accordingly no reserves data is available as at 1 January 2000.

(4) Source: TNK.

The table below shows TNK's net proved oil and gas reserves information as at 1 January 2000, 2001 and 2002 by subsidiaries, i.e. adjusted to reflect its ownership interest in such subsidiaries:

	As at 1 January								
	2000			2001			2002		
	Oil MMBbls	Gas Bcf	TNK interest	Oil MMBbls	Gas Bcf	TNK interest	Oil MMBbls	Gas Bcf	TNK Interest
Samotlorneftegas	2,138.8	1,196.3	55.97%	3,258.7	1,929.2	86.10%	3,699.9	2,269.8	100.00%
TNK-Nyagan	2,677.8	1,642.1	100.00%	1,892.5	1,005.2	100.00%	1,450.8	513.1	100.00%
Orenburgneft ⁽¹⁾	N/A	N/A	0.00%	531.2	421.8	52.50%	589.6	457.6	60.65%
NNP	291.8	81.7	56.65%	414.4	33.6	85.53%	696.6	36.5	100.00%
Tyumenneftegas.....	321.1	18.4	84.47%	277.7	10.5	85.48%	264.1	10.3	100.00%
Orenburggeologia ⁽²⁾	N/A	N/A	0.00%	N/A	N/A	0.00%	65.5	1.9	99.99%
TNK-Uvat ⁽³⁾	N/A	N/A	0.00%	69.3	0.0	91.81%	56.9	0.0	91.30%
OAo TNK	34.3	17.5	100.00%	126.1	10.7	100.00%	45.3	0.0	97.07%
Total.....	5,463.8	2,956.0		6,569.9	3,411.0		6,868.7	3,289.2	

(1) Orenburgneft was acquired in 2000 and accordingly no reserves data is available as at 1 January 2000.

(2) Orenburggeologia was acquired in 2001 and accordingly no reserves data is available as at 1 January 2000 or 2001.

(3) TNK-Uvat was established in 2000 and accordingly no reserves data is available as at 1 January 2000.

Source: TNK

Oil and Gas Production

TNK conducts its upstream business primarily through five of its seven exploration and production subsidiaries. TNK is focusing on developing oil reserves in its core geographic areas of Western Siberia and the Volga-Urals, where it has developed substantial expertise in oil exploration and production.

The following table sets forth TNK's average daily oil and gas production for the years ended 31 December 1999, 2000 and 2001 and for the six months ended 30 June 2001 and 2002:

	Year ended 31 December			Six months ended 30 June	
	1999	2000	2001	2001	2002
Total gross oil production (mbpd).. Including gross oil production from acquired companies as follows:	406	516	701	679	734
ONAKO from 1 November 2000 (mbpd)	—	20	160	155	174
TNK-Nyagan from 1 January 2000 (mbpd)	—	55	62	61	61
Total gas production (MMcf/day) ..	173	392	414	406	321
Total oil equivalent production (MBOE/day)	437	586	774	751	791

The following table sets forth the total annual production volumes of TNK's production subsidiaries by field for the years ended 31 December 1999, 2000 and 2001 (full year's production has been included for the subsidiaries in the year of acquisition):

	Year ended 31 December								
	1999			2000			2001		
	Oil MMBbls	Gas Bcf	Oil Equivalent MMBOE	Oil MMBbls	Gas Bcf	Oil Equivalent MMBOE	Oil MMBbls	Gas Bcf	Oil Equivalent MMBOE
Samotlorneftegas	107.3	61.1	118.2	109.1	66.0	120.9	116.3	73.5	129.5
Samotlor	107.3	61.1	118.2	109.1	66.0	120.9	116.3	73.5	129.5
Orenburgneft	N/A	N/A	N/A	54.6	58.2	65.1	58.5	59.0	68.9
Rostashinskoye	N/A	N/A	N/A	6.5	16.1	9.4	6.7	17.2	9.8
Pokrovskoye	N/A	N/A	N/A	3.3	0.6	3.4	3.7	0.7	3.8
Sorochinsko-Nikolskoye	N/A	N/A	N/A	7.9	1.9	8.2	8.4	2.0	8.7
Garshinskoye	N/A	N/A	N/A	1.9	2.7	2.4	2.0	3.2	2.6
Bobrovskoye	N/A	N/A	N/A	5.1	1.5	5.4	5.4	1.5	5.7
Dolgovskoye	N/A	N/A	N/A	2.1	0.5	2.2	1.9	0.5	2.0
Pronkinskoye	N/A	N/A	N/A	1.9	25.0	6.3	2.0	22.6	6.0
Rodinskoye	N/A	N/A	N/A	1.6	0.4	1.7	1.6	0.4	1.7
Others	N/A	N/A	N/A	24.3	9.5	26.1	26.8	10.9	28.6
NNP	25.6	1.5	25.8	32.2	1.8	32.4	38.1	2.1	38.5
Khokhryakovsky	16.8	0.4	16.9	21.4	0.8	21.5	23.3	0.9	23.5
Permyakovsky	2.6	0.0	2.6	3.3	0.0	3.3	3.6	0.0	3.6
Yershovoy	3.5	1.0	3.7	3.5	1.0	3.7	3.2	0.9	3.4
Koshilsky	2.3	0.0	2.3	3.4	0.0	3.4	7.0	0.1	7.0
Kolik-Egansky	0.2	0.0	0.2	0.4	0.0	0.4	0.5	0.0	0.5
Others	0.2	0.1	0.1	0.2	0.0	0.1	0.5	0.2	0.5
TNK-Nyagan⁽¹⁾	N/A	N/A	N/A	21.5	16.2	24.4	22.7	15.4	25.5
Talinsky (North & South)	N/A	N/A	N/A	11.3	13.1	13.6	10.5	11.4	12.6
Em-Egovsky	N/A	N/A	N/A	9.5	3.0	10.1	11.6	3.9	12.3
Kamenny	N/A	N/A	N/A	0.7	0.1	0.7	0.6	0.1	0.6
Tyumeneftegas	15.2	0.6	15.3	15.7	0.9	15.8	16.1	0.8	16.2
Ermakovsky	11.5	0.5	11.6	11.5	0.7	11.6	10.3	0.5	10.4
Kalchinsky	3.6	0.1	3.7	4.0	0.2	4.0	5.0	0.3	5.0
Others	0.1	0.0	0.0	0.2	0.0	0.2	0.8	0.0	0.8
Other subsidiaries⁽²⁾	N/A	N/A	N/A	N/A	N/A	N/A	4.0	0.2	4.1
Total	148.1	63.2	159.3	233.1	143.1	258.6	255.7	151.0	282.7

(1) TNK-Nyagan was acquired in October 1999; however its oil field licences were not transferred to TNK until 2000.

(2) Includes OAO TNK and Orenburggeologia. Excludes TNK-Uvat, which does not currently produce crude oil and gas.

The following table sets forth the total production volumes of TNK's production subsidiaries by field for the six months ended 30 June 2001 and 2002.

	Six months ended 30 June 2001			Six months ended 30 June 2002		
	Oil MMBbl	Gas Bcf	Oil Equivalent MMBOE	Oil MMBbl	Gas Bcf	Oil Equivalent MMBOE
Samotlorneftgas	56.6	36.0	63.0	59.0	22.4	63.0
Samotlor	56.6	36.0	63.0	59.0	22.4	63.0
Orenburgneft	28.0	29.1	33.2	31.4	30.2	36.7
Rostashinskoye	3.3	8.4	4.8	3.3	8.2	4.8
Pokrovskoye	1.7	0.3	1.7	2.1	0.4	2.1
Sorochinsko-Nikolskoye	4.1	1.0	4.3	4.4	1.0	4.5
Garshinskoye	1.0	1.6	1.3	1.0	1.7	1.3
Bobrovskoye	2.6	0.7	2.7	2.9	0.5	3.0
Dolgovskoye	0.9	0.2	1.0	0.8	0.2	0.9
Zaikinskoye	0.9	11.5	3.0	1.1	11.5	3.1
Rodinskoye	0.8	0.2	0.8	0.9	0.2	0.9
Other	12.7	5.2	13.6	14.9	6.5	16.1
NNP	17.7	1.1	17.9	20.1	0.8	20.2
Khokhryakovsky	11.1	0.5	11.2	11.4	0.5	11.5
Permyakovsky	1.6	0.0	1.6	2.1	0.0	2.1
Yershovy	1.5	0.4	1.6	1.5	0.2	1.5
Koshilsky	3.0	0.1	3.0	4.6	0.1	4.6
Kolik-Egansty	0.2	0.0	0.2	0.3	0.0	0.3
Others	0.3	0.1	0.3	0.2	0.0	0.2
TNK-Nyagan	11.0	6.9	12.3	11.0	3.2	11.6
Talinsky (North and South)	5.0	5.1	5.9	5.5	2.2	5.9
Em-Egovsky	5.7	1.8	6.0	5.2	1.0	5.4
Kamenny	0.3	0.0	0.4	0.3	0.0	0.3
Tyumeneftegaz	7.8	0.4	7.9	7.9	0.4	8.1
Ermakovsky	5.1	0.3	5.2	4.6	0.3	4.7
Kalchinsky	2.3	0.1	2.3	2.8	0.1	2.9
Others	0.4	0.0	0.4	0.5	0.0	0.5
Other subsidiaries⁽¹⁾	1.7	0.0	1.7	3.5	1.0	3.6
Orenburggeologia	1.7	0.0	1.7	2.2	0.7	2.3
Yugraneft ⁽²⁾	N/A	N/A	N/A	1.3	0.3	1.3
OAO TNK	0.0	0.0	0.0	0.0	0.0	0.0
Total	122.8	73.5	136.0	132.9	58.0	143.2

⁽¹⁾ Excludes TNK-Uvat, which does not currently produce crude oil and gas.

⁽²⁾ TNK acquired an 80% stake in Yugraneft in the first half of 2002.

Production Subsidiaries

The following is a summary of each of TNK's five principal exploration and production subsidiaries:

Samotlorneftgas. Samotlorneftgas' major asset is a licence to develop the Samotlor field, one of the largest oil fields in the world. The term of the licence for this field is 14 years and expires in December 2013. Production at this field represented approximately 72% of TNK's production in 1999. As TNK has diversified its reserve and production base since 1999, the production at this field has represented a smaller percentage of TNK's total crude oil production, with the result that production at this field represented 47% and 46% of TNK's total oil production in 2000 and 2001, respectively. For the six months ended 30 June 2002, production at this field accounted for approximately 44% of TNK's total oil production. The Samotlor field is located in the area of Nizhnevartovsk in the Tyumen region. This field was discovered in 1965 and commenced production in 1969. Its reservoir depth is between 4,900 and 6,600

feet. In December 1999, Samotlorneftegas entered into a production sharing agreement (“PSA”) with the Russian government and the administration of Khanty-Mansiiskii Autonomous Region to develop the Samotlor field. However, the application of the PSA has been suspended due to tax law uncertainties and the absence of an effective PSA tax regime. Thus, TNK never began operating under the PSA and does not expect to operate under the PSA in the near future.

The Samotlor field had:

- proved oil reserves of 3,699.9 MMBbls (2,754.0 MMBbls proved developed reserves and 945.9 MMBbls of proved undeveloped reserves) as at 1 January 2002;
- proved gas reserves of 2,269.8 Bcf (1,689.5 Bcf of proved developed reserves and 580.3 Bcf of proved undeveloped reserves) as at 1 January 2002;
- an oil and gas reserve life of 30 years as at 1 January 2002;
- a depletion ratio of 69.9% as at 31 December 2001;
- average watercut of 94.4% for the year ended 31 December 2001;
- average oil production of 318.8 mbpd for the year ended 31 December 2001 and 325.8 mbpd for the six months ended 30 June 2002; and
- a total of 10,978 wells (5,870 operating production wells, 2,554 idle production wells, 1,716 operating injection wells and 838 idle injection wells) as at 31 December 2001 and a total of 10,671 wells (5,303 operating production wells, 2,825 idle production wells, 1,631 operating injection wells and 912 idle injection wells) as at 30 June 2002.

The Samotlor field began decreasing production in 1981. TNK believes that the age of the field and the consequences of over-intensive exploitation in the past are challenging for its further development. However, as a result of the rehabilitation project, TNK intends to extend the life of this field. In 2001, for example, TNK was able to increase production in this field compared to the previous year. Samotlor field currently requires further significant investments in order to continue its successful development. To improve the level of production at the Samotlor field, TNK has launched a comprehensive rehabilitation project. TNK’s rehabilitation project envisages the drilling and completion of 70 new horizontal wells, hydraulic fracturing and re-completion of over 150 existing wells, and rework and optimisation of production on more than 1,000 wells. TNK has engaged Halliburton Energy Services as the general contractor for the project and expects that the rehabilitation project will require capital expenditure of over U.S.\$800 million between 2001 and 2005. As at 15 October 2002, U.S.\$90.35 million out of the U.S.\$292 million facility guaranteed by U.S. Ex-Im Bank had been drawn down under the facility and spent on the rehabilitation project at the Samotlor field.

Orenburgneft. TNK’s stake in Orenburgneft was acquired with the acquisition of a majority stake in ONAKO. See “TNK’s Organisational Structure”. Orenburgneft holds licences to develop 95 fields located in South Urals. Orenburgneft’s licences terms are from one year (for exploration) to 25 years (for production). These fields were discovered starting in 1959 and entered production in 1964. The average reservoir depth in these fields is between 7,800 and 8,600 feet. Orenburgneft’s proved oil reserves are spread over a large number of fields. Only one field, the Sorochinsko-Nikolskoye field, accounted for more than 10% of Orenburgneft’s total proved reserves. This field had 171.2 MMBbls of oil reserves at 1 January 2002, representing 17.6% of Orenburgneft’s proved oil reserves and 2.35% of TNK’s total proved oil reserves. In each of 2000 and 2001 and for the six months ended 30 June 2002, the Sorochinsko-Nikolskoye field accounted for approximately 3% of TNK’s total oil production. Production at Orenburgneft’s fields increased in the first six months of 2002.

Orenburgneft’s fields had:

- proved oil reserves of 972.2 MMBbls (786.2 MMBbls proved developed reserves and 186.0 MMBbls of proved undeveloped reserves) as at 1 January 2002;
- proved gas reserves of 754.6 Bcf (597.5 Bcf of proved developed reserves and 157.1 Bcf of proved undeveloped reserves) as at 1 January 2002;

- an oil and gas reserve life of 16 years as at 1 January 2002;
- a depletion ratio of 56.4% as at 31 December 2001;
- average watercut of 69.5% for the year ended 31 December 2001;
- average oil production of 160 mbpd for the year ended 31 December 2001 and 173.6 mbpd for the six months ended 30 June 2002;
- a total of 3,657 wells (2,142 operating production wells, 733 idle production wells, 524 operating injection wells and 258 idle injection wells) as at 31 December 2001 and a total of 3,647 wells (2,159 operating production wells, 696 idle production wells, 505 operating injection wells and 287 idle injection wells) as at 30 June 2002.

NNP. NNP holds licences to develop 14 fields located in Western Siberia. NNP's licence terms range from 13 to 23 years. These fields were discovered from 1972 to 1987. The fields entered production from 1985 to 1992. The average reservoir depth in these fields is between 7,800 and 8,600 feet. NNP is the operator of the Khokhryakovsky field. As at 1 January 2002, this field had 399.8 MMBbls proved oil reserves, representing 5.5% of TNK's total proved oil reserves. In 1999, 2000 and 2001, production at the Khokhryakovsky field represented approximately 11%, 9% and 9% of TNK's total oil production, respectively, and for the six months ended 30 June 2002 production at this field accounted for approximately 9% of TNK's total of oil production. The fields in which NNP holds licences are currently at the peak of their production with a prospect of declining production starting from 2003.

NNP's fields had:

- proved oil reserves of 696.6 MMBbls (635.9 MMBbls proved developed reserves and 60.7 Bbl of proved undeveloped reserves) as at 1 January 2002;
- proved gas reserves of 36.5 Bcf (33.4 Bcf of proved developed reserves and 3.1 Bcf of proved undeveloped reserves) as at 1 January 2002;
- an oil and gas reserve life of 18 years as at 1 January 2002;
- a depletion ratio of 42.1% for the Khokhryakovsky field (57% of total proved crude oil reserves) as at 31 December 2001;
- average watercut of 54.3% for the year ended 31 December 2001;
- average oil production of 104.2 mbpd for the year ended 31 December 2001 and 110.8 mbpd for the six months ended 30 June 2002; and
- a total of 1,965 wells (1,076 operating production wells, 429 idle production wells, 300 operating injection wells and 160 idle injection wells) as at 31 December 2001 and a total of 1,942 wells (971 operating production wells, 491 idle production wells, 300 operating injection wells and 180 idle injection wells) as at 30 June 2002.

TNK-Nyagan. TNK-Nyagan was formed by OAO TNK to hold the production assets of OAO Kondpetroleum, which was acquired by OAO TNK in late 1999 through a bankruptcy auction. TNK-Nyagan holds licences to develop four fields located in Western Siberia. TNK-Nyagan's licences each have terms of 13 years. These fields were discovered in 1962, and entered production in 1981. The average reservoir depth in these fields is between 7,800 and 8,600 feet. TNK-Nyagan's largest field in terms of oil reserves is the Kamenny field, with proved oil reserves of 499.9 MMBbls as at 1 January 2002, representing 6.8% of TNK's total proved reserves. In 2000 and 2001, production at this field represented approximately 0.3%, and 0.2% of TNK's total oil production and for the six months ended 30 June 2002, production at this field represented approximately 0.2% of TNK's total oil production. TNK-Nyagan's second largest field is the Em-Egovsky field, with proved oil reserves of 420.4 MMBbls as at 1 January

2002, representing 5.8% of TNK's total proved oil reserves. In 2000 and 2001, production at this field represented approximately 4% and 5% of TNK's total oil production and for the six months ended 30 June 2002, production at this field represented approximately 4% of TNK's total oil production. TNK-Nyagan's Talinsky North and Talinsky South fields held a combined 530.4 MMBbls of proved oil reserves as at 1 January 2002, representing 7.3% of TNK's total proved reserves. In 2000 and 2001, production at these fields represented approximately 5% and 4% of TNK's aggregate oil production and for the six months ended 30 June 2002, production at this field represented approximately 4% of TNK's total oil production. TNK-Nyagan production volumes are stable, with a potential to reach maximum production volumes between 2004 and 2006.

TNK-Nyagan's fields had:

- proved oil reserves of 1,450.8 MMBbls (618.2 MMBbls proved developed reserves and 832.6 MMBbls of proved undeveloped reserves) as at 1 January 2002;
- proved gas reserves of 513.1 Bcf (362.8 Bcf of proved developed reserves and 150.3 Bcf of proved undeveloped reserves) as at 1 January 2002;
- an oil and gas reserve life of 60 years as at 1 January 2002;
- a depletion ratio of 11.5% as at 31 December 2001;
- average watercut of 85.2% for the year ended 31 December 2001;
- average oil production of 62.4 mbpd for the year ended 31 December 2001 and 60.7 mbpd for the six months ended 30 June 2002; and
- a total of 3,565 wells (1,545 operating production wells, 1,409 idle production wells, 215 operating injection wells and 396 idle injection wells) as at 31 December 2001 and a total of 3,566 wells (1,470 operating production wells, 1,478 idle production wells, 243 operating injection wells and 375 idle injection wells) as at 30 June 2002.

Tyumenneftegas. Tyumenneftegas holds licences to develop 12 fields located in Western Siberia. Tyumenneftegas' licence terms range from nine to 25 years. The Ermakovsky field is Tyumenneftegas' largest field in terms of proved oil reserves. The Ermakovsky field was discovered in 1974 and production began in 1986. At 1 January 2002, this field had 129.6 MMBbls proved oil reserves, representing 1.78% of TNK's total proved oil reserves. In 1999, 2000 and 2001, production at the Ermakovsky field represented approximately 8%, 5% and 4% of TNK's total oil production, respectively and for the six months ended 30 June 2002, production at this field represented approximately 3.5% of TNK's total oil production. Tyumenneftegas also holds a licence for the Russkoye field, which was discovered in 1960. The Russkoye field is located in the Yamalo-Nenetskiy Autonomous Region above the Arctic Circle. Development of this field is complicated by a number of factors including the harsh climate and remote location of the field. Although the Russkoye field only held 52 MMBbls proved oil reserves as at 1 January 2002, TNK believes that this field has the potential to make a significant contribution to TNK'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 this field. The average reservoir depth of the fields operated by Tyumenneftegas is between 5,200 and 8,900 feet. Production at the fields operated by Tyumenneftegas in 2002 remained at approximately the same level as for 2001. However, according to the 2002 Reserves Reports, production volumes may be increased if undeveloped reserves are brought into production.

The fields under licences held by Tyumenneftegas had:

- proved oil reserves of 264.1 MMBbls (177.1 MMBbls proved developed reserves and 86.9 MMBbls of proved undeveloped reserves) as at 1 January 2002;

- proved gas reserves of 10.3 Bcf (9.8 Bcf of proved developed reserves and 0.5 Bcf of proved undeveloped reserves) as at 1 January 2002;
- an oil and gas reserve life of 17 years as at 1 January 2002;
- a depletion ratio of 52.4% for the Ermakovsky field (49% of the total proved reserves) and 10.3% of the Kalchinsky field (15% of the total proved reserves). Remaining reserves are mostly undeveloped as at 31 December 2001;
- average watercut of 34.1% (79.7% for the Ermakovsky field) for the year ended 31 December 2001;
- average oil production of 44.0 mbpd for the year ended 31 December 2001 and 43.9 mbpd for the six months ended 30 June 2002; and
- a total of 1,083 wells (640 operating production wells, 164 idle production wells, 177 operating injection wells and 102 idle injection wells) as at 31 December 2001 and a total of 1,090 wells (598 operating production wells, 201 idle production wells, 193 operating injection wells and 98 idle injection wells) as at 30 June 2002.

Other Subsidiaries. In addition to these five principal exploration and production subsidiaries, TNK also holds reserves through OAO TNK and its TNK-Uvat and Orenburggeologia subsidiaries, which, on a combined basis, held 174.4 MMBbls of proved oil reserves as at 1 January 2002, or 2.4% of TNK's total proved oil reserves. OAO TNK and Orenburggeologia in aggregate produced 4.0 MMBbls of crude oil in 2001. TNK-Uvat did not produce oil in 2001 and will not produce in 2002. For the six months ended 30 June 2002, these subsidiaries, which also include OAO Yugraneft Corporation ("Yugraneft"), in aggregate produced 3.5 MMBbls of crude oil. TNK consolidated Yugraneft into its financial and production data in 2002 following the acquisition of an 80% stake in Yugraneft by TNK upon the conclusion of litigation in Russia over the ownership of Yugraneft. See "– Legal Proceedings".

The following table shows basic characteristics of TNK's crude oil with a breakdown by TNK's five principal production subsidiaries:

	Density (g/sm ³)	Viscosity (MP.a.s)	Sulphur Content
Samotlorneftegas	0.84	1.6	1.1%
Orenburgneft	0.83	3.7	1.4%
NNP	0.82	0.6	0.3%
TNK-Nyagan	0.82	1.0	0.4%
Tyumenneftegas	0.87	2.5	1.3%

Gosstandart, a Russian governmental agency responsible for technical and standardisation regulation, enacted new, detailed standards for crude oil specifications in July 2002. By the density measured at 20°C, crude oil is now divided into the following five types: (i) superlight oil (density not exceeding 0.83 g/sm³); (ii) light oil (density in the range of 0.83-0.85 g/sm³); (iii) medium oil (density in the range of 0.85-0.87 /sm³); (iv) heavy oil (density in the range of 0.87-0.895 g/sm³), and (v) bituminous oil (density exceeding 0.895g/sm³). By sulphur content crude oil is divided into the following types: (i) low sulphur content (up to 0.6%), (ii) average sulphur content (0.61%-1.8%), (ii) high sulphur content (1.81%-3.5%), and (iv) very high sulphur content (exceeding 3.5%). The oil standards also specify crude oil on certain other characteristics.

The crude oil exported by the Russian oil companies including TNK falls within either of the following characteristics: density of 0.85 g/sm³ and sulphur content of 0.6% for the Urals Blend; density of 0.87 g/sm³ and sulphur content of 1.8% for the Siberian Light Blend.

Existing Wells

As at 31 December 2001, TNK had a total of 21,289 wells, 11,313 of which were active production wells and 2,932 were active injection wells and a total of 21,257 wells (10,663 of which were active production wells and 2,898 were active injection wells,) as at 30 June 2002. Production wells are used to extract oil, while injection wells are used to pump water or other agents into the reservoir in order to maintain pressure and enhance oil recovery. The table below shows certain information on TNK's wells as at 31 December 1999, 2000 and 2001:

	Year ended 31 December											
	1999				2000				2001			
	Production Wells		Injection Wells		Production Wells		Injection Wells		Production Wells		Injection Wells	
	In operation	Idle	In operation	Idle	In operation	Idle	In operation	Idle	In operation	Idle	In operation	Idle
Samotlorneftegaz	4,984	3,024	1,477	1,017	5,241	2,866	1,599	961	5,870	2,554	1,716	838
Orenburgneft	N/A	N/A	N/A	N/A	2,117	696	501	287	2,142	733	524	258
TNK-Nyagan	N/A	N/A	N/A	N/A	1,542	1,205	221	349	1,545	1,409	215	396
NNP	836	543	252	118	1,020	409	253	153	1,076	429	300	160
Tyumeneftegaz	471	187	154	103	589	156	145	119	640	164	177	102
Orenburggeologia	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	40	1	—	—
Total	6,291	3,754	1,883	1,238	10,509	5,332	2,719	1,869	11,313	5,290	2,932	1,754

The table below shows certain information on TNK's wells as at 30 June 2001 and 2002.

	Six months ended 30 June							
	2001				2002			
	Production Wells		Injection Wells		Production Wells		Injection Wells	
	In operation	Idle	In operation	Idle	In operation	Idle	In operation	Idle
Samotlorneftegaz	5,507	2,791	1,639	916	5,303	2,825	1,631	912
Orenburgneft	2,234	615	533	257	2,159	696	505	287
TNK-Nyagan	1,582	1,291	229	361	1,470	1,478	243	375
NNP	1,028	422	289	139	971	491	300	180
Tyumeneftegaz	628	154	178	95	598	201	193	98
Orenburggeologia	N/A	N/A	N/A	N/A	43	—	—	—
Yugraneft	N/A	N/A	N/A	N/A	119	113	26	40
Total	10,979	5,273	2,868	1,768	10,663	5,804	2,898	1,892

A significant increase in the number of total wells in operation and idle wells in 2000 was mainly due to the acquisitions of Orenburgneft and assets of OAO Kondpetroleum (currently owned by TNK-Nyagan).

Exploratory Operations and Drilling

During 2001, TNK's exploration activities were focused primarily on the fields operated by OAO TNK, Orenburgneft and NNP.

TNK utilises 2D and 3D seismic surveys for its exploratory operations. TNK believes that these seismic surveys ensure comprehensive horizontal and vertical analysis of sites under investigation. As shown in the table below, since 1999, TNK has significantly increased the use of seismic surveys:

	Year ended 31 December			Six months ended 30 June	
	1999	2000	2001	2001	2002
2D method, km	6,867	9,097	6,105	4,528	3,707
3D method, sq. km	100	495	1,145	533	475

For the year ended 31 December 2001, TNK's exploratory drilling totalled 122.9 kilometres, representing a 45% increase from the 84.5 kilometres exploratory drilling in 2000. For the six months ended 30 June 2002, TNK's exploratory drilling totalled 6.0 kilometres. Prior to 2002, allowances under the mineral restoration tax laws provided a tax incentive to TNK to conduct exploratory drilling. However, due to changes in the tax regime introduced on 1 January 2002 (which, in part, are applicable to restrictions on deduction of drilling expenses by oil and gas companies), TNK has taken a more selective approach with respect to the drilling of new wells. Since the crude oil production from the operating wells is steadily increasing, TNK does not intend to maintain the number of new wells drilled at the levels which were reached in the 1999-2001. TNK's drilling operations are currently conducted by TNK subsidiaries and by third party drilling and service companies such as Halliburton Energy Services that carry out these operations for TNK after being selected through tenders.

For the year ended 31 December 2001, TNK put into operation (i) 514 new production wells compared to 347 new production wells in 2000 and (ii) 139 new injection wells compared to 140 injection wells in 2000. For the six months ended 30 June 2002, TNK put in operation (i) 91 new production wells compared to 292 new production wells for the six months ended 30 June 2001 and (ii) 44 new injection wells compared to 62 injection wells for the six months of 2001.

For the year ended 31 December 2001, TNK completed 3,708 well work-overs and 15,326 well maintenance repairs, an increase of 2% and 5%, respectively, compared to 2000. For the six months ended 30 June 2002, TNK completed 1,081 well work-overs and 7,244 well maintenance repairs, a decrease of 33% and 4% respectively, compared to six months ended 30 June 2001.

The table below shows TNK's productive wells and dry wells drilled for the years ended 31 December 1999, 2000 and 2001:

	Year ended 31 December											
	1999				2000				2001			
	Exploratory Wells		Development Wells ⁽²⁾		Exploratory Wells		Development Wells ⁽²⁾		Exploratory Wells		Development Wells ⁽²⁾	
	Dry ⁽¹⁾	Productive	Dry ⁽¹⁾	Productive	Dry ⁽¹⁾	Productive	Dry ⁽¹⁾	Productive	Dry ⁽¹⁾	Productive	Dry ⁽¹⁾	Productive
Samotlorneftegas	1	4	1	32	1	5	—	90	6	9	—	134
NNP	—	4	—	69	3	4	3	127	3	4	1	124
TNK-Nyagan	N/A	N/A	N/A	N/A	2	2	—	70	2	2	—	70
Orenburgneft	N/A	N/A	N/A	N/A	1	6	—	52	3	9	1	66
Tyumeneftegas	—	6	—	2	1	4	—	63	1	8	—	59
OAO TNK	—	—	—	—	1	—	—	—	1	1	—	—
Orenburggeologia	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1	1	—	—
TNK-Uvat	N/A	N/A	N/A	N/A	—	—	—	—	1	—	—	—
Total	1	14	1	103	9	21	3	402	18	34	2	453

(1) Dry wells are defined as oil wells incapable of production.

(2) Development wells include both production and injection wells.

The table below shows TNK's productive wells and dry wells drilled for the six months ended 30 June 2001 and 2002.

	Six months ended 30 June 2001				Six months ended 30 June 2002			
	Exploratory Wells		Development Wells ⁽²⁾		Exploratory Wells		Development Wells ⁽²⁾	
	Dry ⁽¹⁾ Productive		Dry ⁽¹⁾ Productive		Dry ⁽¹⁾ Productive		Dry ⁽¹⁾ Productive	
Samotlorneftegas	4	4	—	93	—	2	—	21
NNP	2	2	—	58	5	1	1	24
TNK-Nyagan	2	—	—	64	1	2	1	8
Orenburgneft	—	6	—	43	—	5	3	25
Tyumeneftegaz	—	5	—	34	1	—	—	8
OAo TNK	—	1	—	—	1	3	—	—
Orenburggeologia	—	—	—	3	1	—	2	3
TNK-Uvat	—	—	—	—	—	—	—	—
Yugraneft	N/A	N/A	N/A	N/A	—	—	—	2
Total	8	18	0	295	9	13	7	91

(1) Dry wells are defined as oil wells incapable of production.

(2) Development wells include both production and injection wells.

Gathering and Transportation of Crude Oil

The Russian national crude oil pipeline network is operated by a State-controlled company, Transneft. See “Risk Factors – Risks Relating to TNK and the Russian Oil and Gas Industry – Transport” and “Overview of the Russian Oil and Gas Industry – Crude Oil and Refined Product Transportation Network”. TNK transports almost all of its crude oil by Transneft pipelines. TNK transports its production to the Transneft system through a series of gathering systems of more than 10,000 kilometres in total length, which TNK owns and operates. Once TNK's production is in the Transneft system, it is transported to TNK's refineries, sea terminals or various foreign destinations.

The table below shows TNK's typical crude oil transportation costs from the Volga-Ural basin (Orenburgneft) and Western Siberia (Samotlorneftegas) on 31 December 2001 with a breakdown for various destinations (sea terminals, export destinations and TNK's refineries) from TNK's oil fields:

	Orenburgneft			Samotlorneftegas		
	Rouble Component	Dollar Component	Payment (Foreign countries transportation)	Rouble Component	Dollar Component	Payment (Foreign countries transportation)
	(VAT included)	(VAT included)		(VAT included)	(VAT included)	
	Rbl/bbl ⁽¹⁾	U.S.\$/bbl ⁽¹⁾	U.S.\$/bbl ⁽¹⁾	Rbl/bbl ⁽¹⁾	U.S.\$/bbl ⁽¹⁾	U.S.\$/bbl ⁽¹⁾
Destination:						
<i>by sea terminals:</i>						
Novorossiysk	10.37	1.00	—	21.38	1.42	—
Ventspils	5.18	0.70	0.47	15.58	1.31	0.67
Tuapse	—	—	—	19.50	1.22	—
<i>by export destinations:</i>						
Slovakia	—	—	—	14.67	1.29	0.87
Germany, Poland	5.28	0.72	0.36	14.67	1.29	0.36
<i>by TNK refineries:</i>						
LiNOS	4.04	0.40	0.14	18.56	1.09	0.14
Ryazan Refinery	—	—	—	17.66	—	—
Orsk Refinery	2.02	—	—	15.76	—	—

(1) Rouble component and dollar component are paid in Roubles.

The table below shows TNK's typical crude oil transportation costs from the Volga-Ural basin (Orenburgneft) and Western Siberia (Samotlorneftegas) on 30 June 2002 with a breakdown for various destinations (sea terminals, export destinations and TNK's refineries) from TNK's oil fields:

	Orenburgneft			Samotlorneftegas		
	Rouble	Dollar	Payment	Rouble	Dollar	Payment
	Component	Component	(Foreign	Component	Component	(Foreign
	(VAT included)	(VAT included)	countries	(VAT included)	(VAT included)	countries
	Rbl/bbl ⁽¹⁾	U.S.\$/bbl ⁽¹⁾	transportation)	Rbl/bbl ⁽¹⁾	U.S.\$/bbl ⁽¹⁾	transportation)
			U.S.\$/bbl ⁽¹⁾			U.S.\$/bbl ⁽¹⁾
Destination:						
<i>by sea terminals:</i>						
Novorossiysk	12.52	0.62	—	24.25	1.03	—
Ventspils	—	—	—	18.51	0.70	0.57
Tuapse	—	—	—	22.05	0.77	—
<i>by export</i>						
<i>destinations:</i>						
Slovakia	5.99	0.35	0.87	17.00	0.74	0.87
Germany, Poland	5.99	0.35	0.36	17.00	0.74	0.36
<i>by TNK refineries:</i>						
LiNOS	5.89	0.27	0.14	20.48	0.79	0.14
Ryazan Refinery	—	—	—	44.25	—	—
Orsk Refinery	5.96	—	—	36.87	—	—

(1) Rouble component and dollar component are paid in Roubles.

Crude Oil Sales and Deliveries

Crude oil produced by TNK's exploration and production subsidiaries is generally purchased by TNK's trading companies located primarily in Russian economic development zones and sold on the export market, used internally as feedstock for TNK's refineries or sold to third parties in Russia. For a discussion of Russian economic development zones, see "Risk Factors – Risks Relating to TNK and the Russian Oil and Gas Industry – Tax – optimisation". TNK also acquires crude oil from third parties, which it exports or uses as feedstock for its refineries. In 2001, TNK purchased approximately 50 MMBbls of crude oil from other parties, including related parties. See "Related Party Transactions" and Note 18 to the U.S. GAAP Financial Statements. For the six months ended 30 June 2002, TNK purchased approximately 10 MMBbls of crude oil from third parties. See Note 12 to the U.S. GAAP Interim Financial Statements.

Since export prices for crude oil are higher than domestic prices, TNK exports its oil in the maximum amounts allowable under quarterly schedules determined by the Russian Government. TNK, like other oil and gas companies, has effectively been subject to an allocation of volumes of crude oil it can export equal to approximately one-third of its production. See "Overview of the Russian Oil and Gas Industry — Regulation of the Russian Oil and Gas Industry — Crude Oil and Refined Product Transportation Regime". In 1999, 2000 and 2001, TNK managed to increase the average export allocations of approximately one-third of production for Russian oil companies due to the purchase of crude oil from other parties, primarily TNK-N, and the corresponding assignment of export allocations in respect of such purchased crude oil to TNK. In 2001, TNK exported 336 mbpd of crude oil, which, including purchases of oil from third parties, was equivalent to 49% of its crude oil production and was 41% of its crude oil sales

and deliveries. For the six months ended 30 June 2002, TNK exported 355 mbpd of crude oil, which, including purchases of crude oil from third parties, was equivalent to 49% of its crude oil production and was 47% of its crude oil sales and deliveries. Since the transfer of TNK-N to SIDANCO in 2001 (see “TNK Organisational Structure – SIDANCO”), the availability of such third party purchases of crude oil and corresponding export allocations may not be available at the same level or on the same terms and, consequently, previous levels of export may not be sustainable in the future. There are, however, other avenues for increasing exports, including purchase of export rights from other third parties and exporting through alternative means such as rail.

TNK can be required by the Russian Government to make specific deliveries of crude oil or refined products on the domestic market. See “Risk Factors — Risks Relating to TNK and the Russian Oil and Gas Industry — Required Domestic Supplies of Oil and Refined Products”. However, in 2001 and for the six months ended 30 June 2002, TNK’s ability to export was not affected by any such requirements to deliver crude oil or refined products made by the Russian Government.

The table below shows TNK’s crude oil deliveries and sales for the years ended 31 December 1999, 2000, and 2001:

	Year ended 31 December					
	1999	%	2000	%	2001	%
	(mbpd, except %)					
Refinery feedstock	233	56%	273	46%	417	51%
LiNOS	N/A	N/A	12	2%	100	12%
Nizhnevartovsk	7	1%	15	3%	24	3%
Orsk	N/A	N/A	14	2%	81	10%
Ryazan	226	55%	232	39%	212	26%
Exports (Europe and the CIS)	170	41%	284	47%	336	41%
Domestic sales	12	3%	40	7%	60	8%
Total	415	100%	597	100%	813	100%

The table below shows TNK’s crude oil deliveries and sales for the six months ended 30 June 2001 and 2002:

	Six months ended 30 June			
	2001	%	2002	%
	(mbpd, except %)			
Refinery feedstock	422	52%	399	52%
LiNOS	95	12%	100	13%
Nizhnevartovsk	24	3%	25	3%
Orsk	83	10%	78	10%
Ryazan	220	27%	196	26%
Exports (Europe and the CIS)	319	39%	355	47%
Domestic sales	72	9%	4	1%
Total	813	100%	758	100%

Domestic crude oil and oil product prices in Russia are normally lower compared to world market prices. The difference between international and domestic oil prices dramatically increased after the 1998 Rouble devaluation. As a result, TNK seeks to minimise domestic crude oil sales and since 1999 has tended to export the maximum allowable amounts of its crude oil production and to refine the maximum possible amounts of the remaining crude oil production.

From 1995 a significant portion of the crude oil sold by TNK outside the former Soviet Union was supplied to customers located in Germany, Poland, Slovakia, Hungary and other Eastern European countries (including Estonia from 2000) via the “Druzhba” pipeline operated by Transneft, with the remainder exported to customers located in other European countries by sea via the ports of Novorossiysk, Tuapse and Ventspils. The table below shows the breakdown of TNK’s daily crude oil export volumes by destination:

	Export Sales for 1999	Export Sales for 2000	Export Sales for 2001	Export Sales for the six months ended 30 June 2001	Export Sales for the six months ended 30 June 2002
	(mbpd)				
Destination:					
<i>by sea terminals:</i>					
Novorossiysk	51.5	61.4	79.0	63.3	90.2
Ventspils	14.6	20.4	34.2	36.0	12.6
Tuapse.....	13.8	26.7	17.2	17.4	16.5
Primorsk.....	0.0	0.0	0.4	0.0	27.5
Tallin.....	0.0	0.0	0.0	0.0	18.8
<i>by export destinations:</i>					
Germany	22.8	61.0	52.6	69.4	21.8
Poland	17.2	31.9	44.9	36.1	40.9
Slovakia	14.8	11.7	9.2	18.6	0.0
Estonia	0.0	1.1	30.1	24.8	28.0
Hungary	1.0	6.8	15.6	9.3	20.2
Other	30.3	13.2	40.7	29.8	62.5
CIS	4.0	50.0	12.0	14.4	15.8
Total	170.0	284.2	335.9	319.1	354.8

TNK sells most of its export crude oil to major international companies including Total International Limited, a subsidiary of TotalFinaElf (“Total”), Crown Resources AG (“CRAG”), BP, Royal Dutch Shell, Fortum Oil & Gas, Vitol and Glencore. TNK has concluded several supply contracts with Total, CRAG and BP that provide for crude oil delivery arrangements through 2003.

To secure its repayment obligations under trade financings provided by western banks, TNK enters into crude oil pledge agreements. As at 30 June 2002, the quantity of oil pledged under financing facility agreements was less than 40% of TNK’s monthly crude oil export volumes over the following 12 months. Crude oil is generally exported on the FOB relevant Russian port basis (in case of shipment by oil carrier) INCOTERMS or for delivery at Russian borders (in case of cross-border pipeline transport).

Refining and Marketing

Refining

TNK operates three refineries in Russia located in the cities of Ryazan, Nizhnevartovsk and Orsk, and one refinery in Lisichansk, Ukraine. TNK acquired the LiNOS Refinery and the Orsk Refinery (through its acquisition of ONAKO) in 2000. TNK intends to use the LiNOS Refinery as a platform to enter the Ukrainian and southern Russian markets in the short-term and the southern and Eastern European markets in the long-term. TNK intends to use the Orsk Refinery to expand its retail presence in the Orenburg region of Russia.

The petroleum refining industry is cyclical and highly volatile. Refineries are capital intensive assets with high fixed costs. Refiners mostly compete for sales volumes of refined products on the basis of their price, quality, logistic chains (in some cases) and the brand image. TNK believes that it has significantly improved its competitiveness in the refining industry for the past three years by:

- continually upgrading the efficiency and safety of its refineries (see “Refining Modernisation Programme”);
- maintaining consistent throughput by supplying its refineries with its own crude oil;
- satisfying customer demands 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 approximately 118 miles from Moscow.

The following map shows TNK’s current refining assets and their proximity to upstream production assets:



The table below shows rated capacity, refinery input, conversion ratio, light products output and utilisation rate of TNK's refineries for the year ended 31 December 2001:

	Year ended 31 December 2001			
	Ryazan	Nizhnevartovsk	LINOS	Orsk
	(mbpd, except %)			
Rated capacity	360.8	86.8	320.0	132.6
Refinery input:				
Crude oil	212.1	23.6	100.0	80.8
Other feedstock.....	11.5	0.0	0.6	0.6
Total refinery input.....	223.6	23.6	100.6	81.4
Conversion ratio	58%	26%	66%	65%
Light products output	47%	26%	60%	51%
Utilisation	61%	27%	31%	61%

The table below shows rated capacity, refinery input, conversion ratio, light products output and utilisation rate of TNK's refineries for the six months ended 30 June 2001 and 2002:

	Six months ended 30 June 2001				Six months ended 30 June 2002			
	Ryazan	Nizhnevartovsk	LINOS	Orsk	Ryazan	Nizhnevartovsk	LINOS	Orsk
	(mbpd, except %)				(mbpd, except %)			
Rated Capacity.....	318.0	86.8	320.0	132.0	360.0	86.8	320.0	132.6
Refinery Input:								
Crude oil	220.1	23.7	94.8	83.0	196.3	24.9	100.2	77.5
Other feedstock.....	11.9	0.0	0.5	0.0	10.5	0.0	0.3	3.4
Total refinery input.....	232.0	23.7	95.3	83.0	206.8	24.9	100.5	80.9
Conversion ratio	59%	26%	66%	66%	58%	27%	66%	57%
Light products output	47%	26%	60%	51%	49%	27%	57%	50%
Utilisation	73%	27%	30%	63%	57%	29%	31%	61%

The table below shows the mix and production volumes of products produced by TNK's refineries for the years ended 31 December 1999, 2000 and 2001:

	Year ended 31 December					
	1999		2000		2001	
	(mbpd, except %)					
Product Slate:						
Gasoline	39.9	18%	55.7	21%	94.3	23%
Diesel fuel (gas oil)...	55.5	25%	71.6	27%	114.8	28%
Fuel oil (mazut)	84.4	38%	82.1	31%	135.4	33%
Jet Fuel (kerosene)....	15.5	7%	15.9	6%	16.4	4%
Other products	26.6	12%	39.8	15%	49.2	12%
Total	221.9	100%	265.1	100%	410.1	100%

The table below shows the mix and production volumes of products produced by TNK's refineries for the six months ended 30 June 2001 and 2002:

	Six months ended 30 June 2001		Six months ended 30 June 2002	
	mbpd (except %)		mbpd (except %)	
Product Slate:				
Gasoline	102.8	24%	105.8	26%
Diesel fuel (gas oil)	118.8	28%	113.9	28%
Fuel oil (mazut)	142.7	34%	134.2	33%
Jet fuel (Kerosene)	19.3	5%	16.3	4%
Other products	41.6	9%	36.6	9%
Total	425.2	100%	406.8	100%

The Ryazan, Nizhnevartovsk, LiNOS and Orsk refineries process only crude oil supplied by TNK. Below is a brief description of each of the TNK refineries.

Ryazan Refinery. The Ryazan Refinery manages over 50% of TNK's oil refining and oil product manufacturing operations. The plant was commissioned in 1960 to meet the demand for fuel in central Russia. The Ryazan Refinery accounted for approximately 6% of the total crude oil processed at Russian refineries in 2001. The Ryazan Refinery had rated capacity of 361 mbpd and crude oil throughput of 212 mbpd in 2001 and approximately the same rated capacity and crude oil throughput of 196 mbpd for the six months ended 30 June 2002. The Ryazan Refinery is a complex facility, producing light fuels (gasoline, gas oil and jet fuel), heavy fuels (including heavy fuel oil, bitumen, lubricants, waxes and solvents) and some petrochemicals.

TNK believes that the Ryazan Refinery's close proximity (190 kilometres) to Moscow and two direct refined product pipelines from the refinery to Moscow provide TNK with a competitive advantage with respect to the Moscow and the Moscow region refined products market. With the exception of the Moscow Refinery, the Ryazan Refinery benefits from the most advantageous logistics in Russia to deliver refined products to Moscow and the Moscow region. The Ryazan Refinery also supplies oil products to TNK's marketing subsidiaries in other regions via the Transnefteproduct pipeline and railway and to wholesale customers in the central, northern and southern regions of Russia.

TNK continues to improve processing methods at the Ryazan Refinery to increase the volume of high-octane automobile gasoline production. In October 1998, the high-octane gasoline (AI-92, AI-95) produced by the Ryazan Refinery was named among the 100 best Russian products selected annually by various Russian organisations including the State Committee on Standards of Russia, the Standards of Quality Magazine and the Academy of Quality. The Ryazan Refinery has converted production to more environmentally friendly gasoline. The recent introduction of five new types of industrial and motor lubricants has expanded TNK's brand line of products.

In 1999, OAO TNK entered into a joint venture agreement with Texaco to launch a division that will use the Ryazan Refinery's facilities to produce lubricants. In 2000, lubricants produced by this joint venture at the Ryazan Refinery were named the "Best Russian Oil Product of 2000" by Russia's National Trade Association. See – "Joint Ventures".

Nizhnevartovsk Refinery. The Nizhnevartovsk Refinery accounted for approximately 6% of TNK's oil refining operations in 2001. The Nizhnevartovsk Refinery initiated operations in late 1998 and had a rated capacity to process 87 mbpd of crude oil and crude oil throughput of 24 mbpd in 2001 and crude oil throughput of 25 mbpd for the six months ended 30 June 2002. The Nizhnevartovsk Refinery extracts light fractions such as straight run gasoline, gas oil and kerosene from the crude oil delivered by NNP and Samotlorneftegas. The by-product of extracting light fractions is stabilised oil. TNK 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. After extracting the light fractions, TNK delivers the stabilised oil into the Transneft system for sale to third parties.

Orsk Refinery. The Orsk Refinery accounted for approximately 19% of TNK's oil refining operations in 2001. TNK took control of the Orsk Refinery after the acquisition of ONAKO. See "TNK Organisational Chart". The refinery is a medium-size plant with a rated capacity of 132 mbpd and crude oil throughput of 81 mbpd in 2001 and crude oil throughput of 78 mbpd for the six months ended 30 June 2002. The Orsk Refinery accounted for 2.3% of the total crude oil processed at Russian refineries in 2001. The Orsk Refinery product range include gasoline, gas oil, kerosene and fuel oil.

LiNOS Refinery. In a July 2000 privatisation auction, TNK-Ukraine-Invest, a 75%-owned subsidiary of OAO TNK, acquired a 67% stake in LiNOS, the largest and most modern refinery in the Ukraine. Since then, TNK-Ukraine-Invest has increased its stake in LiNOS to 78%. Through this acquisition, TNK intends to build a base for expansion into the Ukrainian and southern Russian markets and has developed a strategic plan to create a TNK branded retail network in Kiev and other regions of the Ukraine that will be supplied by the LiNOS Refinery. See – "Retail Network Expansion Plan".

When TNK-Ukraine – Invest acquired LiNOS, LiNOS was involved in bankruptcy proceedings which had resulted in the appointment of an external manager to manage LiNOS and facilitate its financial recovery. Currently, LiNOS remains under external management. The external manager is responsible for restoring LiNOS's solvency by means of economic reform and restructuring of LiNOS's debts. Under Ukrainian bankruptcy legislation, external management may be extended for a period up to 10 years. While LiNOS is officially run by the external manager, TNK finances and supplies all of the crude oil processed by LiNOS, and markets the refined products produced by LiNOS. TNK also has arranged a U.S.\$75 million syndicated working capital facility through WestLB to finance the refining process. This facility was arranged on a limited recourse basis to TNK.

The refinery has been under-utilised since 1992. In 1999 and 2000 the plant was idle for about 320 and 190 days, respectively. Since the acquisition by TNK in July 2000, operations at LiNOS have stabilised. In 2000, refining volumes reached 48 mbpd compared to only 11.2 mbpd in 1999. In 2001, LiNOS has further increased crude oil throughput to 100 mbpd with TNK's support which level it maintained (having slightly increased crude oil throughput up to 100.2 mbpd) for the six months ended 30 June 2002). TNK also intends to improve LiNOS's technological facilities in order to increase the conversion ratio and quality of gasoline produced.

Refinery Modernisation Programme

TNK 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 in 2004. The project has U.S.Ex-Im Bank guaranteed financing of U.S.\$232 million and western technology supplied by ABB Lummus Global, Chevron-Texaco and ExxonMobil. TNK's strategy is to transform the Ryazan Refinery into the leading refinery in Russia. In November 2001, TNK completed the reconstruction of the Ryazan Refinery's fluid catalytic cracking (FCC) unit six months ahead of schedule. The total cost of the project is estimated at approximately U.S.\$300 million. As at 15 October 2002, U.S.\$142.74 million of the U.S.\$232 million facility guaranteed by U.S. Ex-Im Bank had been drawn down and spent on the Ryazan Refinery modernisation project.

The goal of the programme is to provide for a significant improvement of the product mix at the Ryazan Refinery in favour of higher value refined products, including increasing gasoline production from 17% to 27% and increasing gas oil production from 25% to 29%, with a decrease in sulphur content from 0.2% to 0.05% for some grades of diesel fuel and decreasing fuel oil production from 43% to 24%. The upgrade is also intended to increase the conversion ratio of crude oil from 58% to 78% by the end of 2003 (with a further increase to 80% in 2005) and to improve the quality of gasoline produced to European standards.

TNK also intends to upgrade the LiNOS and Orsk Refineries to increase the efficiency of refining operations by modernising the oil processing equipment, increasing conversion ratios, improving the quality of refined products, reducing costs and optimising headcount. See also "Capital Expenditures".

Refined Product Distribution and Export

Refined products are delivered to sales outlets inside Russia and the 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 tends 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.

Sales and Marketing of Refined Products

Refined Products Sales

TNK sells its refined products on a wholesale basis through its marketing subsidiaries and directly to third party wholesalers, both on international and domestic markets. TNK also sells fuel oil to Russian farmers and power stations. As at 15 October 2002, TNK was selling a substantial portion of its refined products on a retail basis through a network of 1,934 filling stations, of which 1,021 filling stations are located in the Russian Federation and 913 are located in the Ukraine.

The table below shows TNK's refined products' sales volumes for the years ended 31 December 1999, 2000 and 2001:

	Year ended 31 December					
	1999	%	2000	%	2001	%
	(mbpd, except %)					
Export Sales:⁽¹⁾						
Gasoline	0.5	0%	1.2	1%	2.1	1%
Gas oil	27.6	28%	25.8	22%	57.1	27%
Jet Fuel	3.0	3%	10.5	9%	0.2	0%
Fuel oil	53.2	54%	53.8	46%	137.6	65%
Other	14.3	15%	25.8	22%	14.6	7%
	98.6	100%	117.1	100%	211.6	100%

(1) Export sales include refined product sales volumes of LINOS in the Ukrainian market.

Year ended 31 December						
	1999	%	2000	%	2001	%
	(mbpd, except %)					
Domestic Sales:						
Gasoline	35.8	26%	44.7	29%	67.2	33%
Gas oil	30.3	22%	41.6	27%	63.1	31%
Jet fuel	12.4	9%	10.8	7%	14.2	7%
Fuel oil	37.2	27%	35.4	23%	38.6	19%
Other	22.0	16%	21.6	14%	20.3	10%
	137.7	100%	154.1	100%	203.4	100%
Total	236.3		271.2		415.0	

The table below shows TNK's refined products sales volumes for the six months ended 30 June 2001 and 2002.

	Six months ended 30 June 2001		Six months ended 30 June 2002	
	mbpd	%	mbpd	%
Export Sales:⁽¹⁾				
Gasoline	28.6	14%	35.3	15%
Gas oil	60.7	30%	62.1	27%
Jet fuel	0.0	0%	0.7	0%
Fuel oil	101.1	50%	123.2	54%
Other	11.5	6%	8.3	4%
	201.9	100%	229.6	100%

(1) Export sales includes refined product sales volumes of LiNOS in the domestic Ukrainian market.

Domestic Sales:				
Gasoline	57.1	29%	51.4	31%
Gas oil	51.5	26%	51.2	31%
Jet fuel	17.7	9%	16.6	10%
Fuel oil	48.8	25%	20.9	12%
Other	20.4	11%	26.1	16%
	195.5	100%	166.2	100%
Total	397.4		395.8	

Exports. In 2001, TNK's exports of refined products primarily consisted of heavy fuel oil and gas oil. TNK increased its refined product exports from 117 mbpd in 2000 to 211.6 mbpd in 2001 due to favourable international market conditions and an increase in output of refined products at the Ryazan Refinery. In 2001, export volumes amounted to approximately 50% of TNK's total refined product output for the year, compared to approximately 44% in 2000. For the six months ended 30 June 2002, TNK's refined product exports amounted to 229.6 mbpd, compared to 201.9 mbpd for the same period in 2001. TNK's oil products are mainly exported through the Ventspils port and other northern ports.

Domestic sales. In 2001, TNK's domestic sales of refined products primarily consisted of gasoline and gas oil. TNK increased its domestic sales from 154.1 mbpd in 2000 to 203.4 mbpd in 2001 due to expansion on the domestic retail market. In 2001, domestic sales volumes amounted to approximately 50% of TNK's total refined products output for the year, compared to approximately 57% in 2000. For the six months ended 30 June 2002, TNK's domestic sales volumes amounted to 166.2 mbpd, compared to 195.5 mbpd for the same period in 2001.

Wholesale. From 1998 to the present, TNK has strengthened its position in the domestic refined product market due to an active marketing policy and output growth. In 2001, approximately 72% of TNK's total refined product output was sold to wholesale customers, both foreign and domestic. For the six months ended 30 June 2002 and 2001, approximately 68% and 78%, respectively, of TNK's total refined products was sold to wholesale customers, both foreign and domestic. Fuel oil and kerosene are the principal products sold to wholesale customers. TNK's wholesale customers consist primarily of large end-users and independent distributors, such as power stations and agricultural enterprises.

Retail. As at 15 October 2002, TNK had a network of filling stations in Russia consisting of 1,021 TNK branded filling stations, which are either owned by TNK (386 filling stations) or franchised (635 stations). In addition, TNK had a network of 913 franchised filling stations in the Ukraine. 364 of these stations are TNK branded, and TNK intends to convert the remainder to the TNK brand in the future. In 2001, retail supplies amounted to approximately 28% of the total refined product output. For the six months ended 30 June 2002, retail supplies amounted to approximately 32% of the total refined product output, compared to 22% of the total refined product output for the six months ended 30 June 2001. As at 31 December 2001, TNK's share of the Moscow and Moscow region light oil products market was approximately 28% based on sales volume as compared to 18% in 2000. For the first eight months of 2002, TNK's share of the Moscow and Moscow region light oil products market was 18.4% based on sales volumes.

The table below shows a geographic breakdown of TNK's retail filling station network as at 31 December 1999, 2000 and 2001:

Geographic Region:	Number of filling stations 31 December 1999			Number of filling stations 31 December 2000			Number of filling stations 31 December 2001			(%) 2001/2000
	Owned	Fran- chised	Total	Owned	Fran- chised	Total	Owned	Fran- chised	Total	
Russia										
Moscow.....	—	25	25	—	62	62	19	115	134	116%
Tyumen.....	65	—	65	58	—	58	12	9	21	-64%
Kaluga.....	43	53	96	37	61	98	31	88	119	21%
Ryazan.....	50	69	119	50	88	138	50	90	140	1%
Tula.....	48	60	108	47	74	121	43	104	147	21%
Kursk.....	57	15	72	57	31	88	64	75	139	58%
Karelia.....	18	16	34	19	14	33	20	14	34	3%
Orenburg.....	—	—	—	127	—	127	102	—	102	-20%
Other regions.....	—	45	45	—	132	132	—	133	133	1%
Total Russia.....	281	283	564	395	462	857	341	628	969	13%
Ukraine.....	—	—	—	—	—	—	—	727	727	
Total.....	281	283	564	395	462	857	341	1,355	1,696	98%

The table below shows a geographic breakdown of TNK's retail filling station network as at 30 June 2001 and 2002:

Geographic Region:	Number of filling stations 30 June 2001			Number of filling stations 30 June 2002			(%) 2002/2001
	Owned	Fran- chised	Total	Owned	Fran- chised	Total	Total
Russia							
Moscow	17	92	109	23	130	153	40%
Tyumen	60	9	69	13	5	18	-74%
Kaluga	33	84	117	44	77	121	3%
Ryazan	48	89	137	49	94	143	4%
Tula	48	94	142	54	86	140	-1%
Kursk	60	73	133	63	67	130	-2%
Karelia	20	14	34	20	12	32	-6%
Orenburg	101	—	101	101	—	101	0%
Rostov	—	—	—	19	—	19	—
Other regions	—	116	116	—	188	188	62%
Total Russia	387	571	958	386	659	1,045	9%
Ukraine	—	584	584	—	838	838	43%
Total	387	1,155	1,542	386	1,497	1,883	22%

Retail Network Expansion Plans

TNK intends to increase sales from retail operations by:

- expanding the retail network, particularly in Moscow and the Moscow region;
- upgrading existing filling stations;
- combining convenience stores with existing and new filling stations; and
- entering into franchise agreements with small, independent retail operators.

TNK believes that the Moscow and Moscow region, which together accounted for the largest regional percentage of refined products consumption in Russia in 2001, represents an attractive expansion opportunity for TNK due to the Ryazan Refinery's geographic proximity and direct pipeline access to Moscow. TNK's strategy in Moscow and the Moscow region is to increase sales of gasoline and revenues from convenience stores, and to increase sales of higher-margin products such as lubricants.

In 1999, TNK established a joint venture with Texaco for the joint production of lubricants at the Ryazan Refinery and to build and operate Texaco Star Mart convenience stores, car washes, quick service oil change garages and retail filling stations in Moscow and Kiev. See " – Joint Ventures".

Since the number of sites available within the Moscow metropolitan area for new construction is limited, TNK intends to expand its retail presence in Moscow by purchasing existing stations or networks of stations and by franchising. TNK believes that franchising is a capital-efficient approach to expand its retail network because franchisees incur the capital costs of building, renovating and maintaining filling stations. Franchisees are permitted to use the brand name "TNK" under a licence and are required to purchase refined products from TNK.

TNK's strategy with respect to the Russian refined products market is to increase the number of filling stations from 969 as at 31 December 2001 up to 1,126 by the end of 2002 and up to 1,310 by the end of 2005. TNK also plans to focus on improving the efficiency of its existing retail network by reducing

operating costs through a regular review of the network stations. TNK is also upgrading existing filling stations and investing in new sites, principally in markets where TNK believes there is growing demand for value-added services such as convenience stores. TNK intends to purchase selected stations operated by franchisees in certain key markets, such as Moscow and the Moscow region market, to increase its portfolio of owned stations in such markets.

In particular, to strengthen its positions on the Ukrainian refined products market, on 24 September 2002 TNK-Ukraine Invest was successful in the tender for the purchase of a 45.85% stake in Lisichansk – Naftoproduct, a large filling station network and wholesale distribution business in the eastern region of the Ukraine, which also has three oil storage depots. TNK-Ukraine Invest paid US\$100,000 for the stake and consequently now holds a total of 50.99% of Lisichansk-Naftoproduct. Prior to winning the tender, in August 2002 TNK-Ukraine Invest had also signed a contract for the lease of Lisichansk-Naftoproduct storage depots for 49 years to serve its largest retail network of gasoline stations in Ukraine.

Natural Gas Projects

Currently, gas sales represent an insignificant portion of TNK's overall revenues. However, TNK believes that natural gas is becoming a more important source of energy in Europe, China and the CIS and that deregulation in these markets, to the extent it occurs, will provide significant marketing opportunities. Therefore, TNK participates in the joint development of what it believes are the most promising Russian gas fields.

In 2001, TNK became involved in a large natural gas exploration and development project at the Kovykta field. In February 2001, OAO RUSIA Petroleum ("RUSIA Petroleum") (the operator co-owned by BP (approximately 30%), the Administration of Irkutsk Region (12%), and other shareholders (29%)) consolidated its exploration and production licenses for the Kovykta field with those for two adjacent deposits held by TNK in exchange for a stake in RUSIA Petroleum. As a result of several transactions during 2001, as at 29 October 2002, TNK held 29% of the voting shares of RUSIA Petroleum.

The Kovykta field is one of Russia's richest gas fields, which is located in the Irkutsk region of Eastern Siberia near Mongolia. TNK believes that Kovykta's potential natural gas reserves are approximately 67,144 Bcf (C1, C2 categories under Russian reserves classification, see "Glossary of Oil and Gas Terms". TNK believes that the field and the two adjacent natural gas deposits – Khanda and Yuzhno-Ust-Kut – may become a gateway for Russian natural gas exports to China, South Korea and other Asian countries, provided that gas pipelines are constructed to deliver their gas.

Management of RUSIA Petroleum plans to form a working group including representatives of TNK and BP to arrange a production sharing agreement, which may provide a beneficial tax regime for investors in the Kovykta project. Although a number of tax and other legal uncertainties surround the PSA regime, preliminary steps toward obtaining government approval of the production sharing agreement have already been taken.

BP is currently leading the development of this project. RUSIA Petroleum will be placing additional shares in late 2002 or early 2003 for a total amount of U.S.\$16 million and TNK may be required to make capital contributions or face dilution. TNK is committed to funding its capital contribution commitments to maintain its 29% interest in RUSIA Petroleum and TNK estimates such contributions will amount to approximately U.S.\$5 million in 2002 or 2003, as and when such additional shares are placed. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources".

Joint Ventures

In accordance with the Joint Venture Agreement between OAO TNK and Texaco Overseas Holding Corporation, dated 9 June 1999, a Russian joint venture, OOO TNK-Texaco Lubricants Company ("TNK-Texaco"), was formed in 1999 to:

- package lubricants from oil supplied by TNK;

- engage in commercial development and marketing of lubricants and base oil and oil products in Russia, Belarus and the Ukraine;
- market imported Texaco branded lubricant products in Russia, Belarus and the Ukraine;
- build and operate Texaco Star Mart convenience stores, car washes, quick service oil change garages and retail gasoline stations in Moscow and Moscow region and Kiev; and
- to operate as the exclusive distributor in Russia, Belarus and the Ukraine for marketing and sale of imported Texaco-branded goods.

TNK-Exaco commenced operations in early 2000. Lubricants and other oil products are either produced and packed at the Ryazan refinery or imported. TNK-Exaco currently distributes TNK and Exaco branded oil products in most of developed regions of Russia and most of the Ukraine. TNK-Exaco plans to further expand its activities by increasing the volumes of produced and distributed lubricants and other oil products, installing new packaging facilities and increasing imports of Exaco branded lubricants.

In late 2001 TNK (through OAO TNK) formed Closed Joint Stock Company “Parker-TNK-Drilling” a joint venture with Parker Drilling Company (“Parker”), under which Parker will provide contract drilling services for exploration and development wells and work over services, sidetrack drilling and completion activities, rig moving, related transportation and training services, to TNK and other customers in Russia. Parker has a 60% interest in this company and TNK has a 40% interest. TNK expects that Parker will be able to improve the safety, cost effectiveness and efficiency of TNK’s drilling operations by employing internationally accepted oil field, logistics and procurement practices.

TNK is considering its future participation in the development of oil fields offshore at Sakhalin. In particular, TNK is considering participation in the Sakhalin-5 project in conjunction with other international oil companies. It is estimated that the total investments that will be required by participants in the Sakhalin-5 project amount to approximately U.S.\$4 billion. However, TNK has not made any arrangements or agreements with respect to joint exploration and/or development of Sakhalin offshore oil fields. TNK is currently planning to invest up to US\$60 million in the course of the next three to four years to conduct certain exploration works on its newly acquired Lopukhovskiy field within the territory of Sakhalin-5 project.

Competition

In the domestic market TNK mainly competes against other Russian oil and gas vertically integrated companies, including LUKOIL, YUKOS, Surgutneftegas, Tatneft, Slavneft and Sibneft. 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 companies’ marketing subsidiaries are located. Many regions only have one or a few such subsidiaries, which therefore creates a quasi-monopoly status in that region.

An exception to this practice is Moscow and the Moscow region market, which is the largest regional market for oil products in Russia, in which all major Russian oil companies and some leading foreign companies (BP, Agip) are present. In Moscow and the Moscow region TNK’s competitive position benefits from the proximity of the Ryazan Refinery and subsequent low transportation costs. The ongoing upgrade of the Ryazan Refinery will allow TNK to meet the increasing demand for higher quality refined products and will improve TNK’s competitiveness in the market of high quality refined products.

The Ukrainian refined product market is currently undeveloped and in the formation stage. The main participants in the Ukrainian refining and marketing sector are the major Russian oil companies, such as LUKOIL, Slavneft, Tatneft, and TNK. TNK expects that competition may increase once these oil companies and other participants strengthen their positions in the market.

Insurance

In the course of the last three years TNK has maintained various insurance policies, mostly from such Russian insurers as ZAO Rossiiskoye Strakhovoye Narodnoye Obschestvo “Rosno” and OOO Alfa Strakhovaniye.

As at 15 October 2002, TNK had taken out over eighty three insurance policies, covering over U.S.\$7.7 billion in aggregate, thereby insuring itself against the loss of operational revenues and assets due to an accident, fire or operational failure. In general, the insurance policies cover risks arising out of, or in connection with: damage to buildings, plants, machinery or vehicles; operation of hazardous production facilities and performance of various construction works.

As required by Russian legislation, all of TNK subsidiaries that handle and utilise hazardous material and substances as part of TNK's production, transportation and refining processes have obtained all of the mandatory insurance policies.

In addition to the compulsory health insurance of its employees, TNK provides its employees with voluntary health insurance policies according to its Comprehensive Health Insurance Programme. Furthermore, in 2000-2001 TNK obtained non-governmental pension insurance policies for its employees from the Non-State Pension Insurance Fund "Vladimir".

Legal Proceedings

On 26 February 2002, a lawsuit was filed against TNK and certain other defendants in the United States District Court for the Southern District of New York by Norex Petroleum Limited ("Norex"). The complaint alleges that Norex was injured as a result of a purported "illegal takeover" of ZAO Yugraneft Corporation ("Yugraneft"), a Russian oil company of which Norex alleges it was the majority shareholder, and that TNK was involved in an "illegal scheme" which effected this alleged takeover. Yugraneft was historically a subsidiary of Chernogorneft, whose assets are currently owned by the TNK Shareholders through SIDANCO. See "TNK Organisational Structure – SIDANCO". Yugraneft is a relatively small crude oil producer, producing approximately 7.2 mbpd in 2001. Prior to this lawsuit, Norex and the TNK Shareholders had been since 2000 involved in a series of legal proceedings in Russian courts disputing the ownership of Yugraneft. Such legal proceedings in the Russian courts relating to Yugraneft were concluded in 2002 and TNK has subsequently acquired an 80% stake in Yugraneft.

The complaint filed by Norex alleges six claims for damages, all of which are based upon purported violations of the U.S. Racketeer Influenced and Corrupt Organizations ("RICO") statute (18 U.S.C. 1961 et seq.). The complaint seeks compensatory damages in excess of U.S.\$500 million and requests that this amount be trebled pursuant to the provisions of the RICO statute. The complaint was only recently filed in court. TNK believes that it has substantial defences to jurisdiction and venue in the United States, and it intends to file a comprehensive motion to dismiss the complaint. In the event that the motion to dismiss is denied, TNK intends to vigorously defend this action, and believes that the resolution of this complaint will not have a material adverse effect on its business, financial condition or results of operations.

In connection with the share consolidation and exchange programme conducted in December 2001, some former minority shareholders of Samotlorneftegas and NNP initiated proceedings to challenge the consolidation and exchange in relation to their former shares in these subsidiaries. The former Russian shareholders and their offshore affiliate have won a number of claims for the return of their shares, comprising less than 4% of the issued share capital of each of Samotlorneftegas and NNP, at the first, second and, with respect to certain claims, third instance. TNK is contesting decisions in favour of the former minority shareholders that the approval of the results of the entire issue of shares in Samotlorneftegas and NNP made in connection with the share consolidation and exchange was invalid. In particular, TNK has initiated proceedings for the revocation of such decisions in the higher courts. On 29 October 2002, one such decision was revoked by the Supreme Arbitration Court of the Russian Federation and the dispute was sent back to the first-instance court for new proceedings. TNK believes that the share consolidation and exchange programme was carried out lawfully and for fair value and that it has strong arguments against the decision. TNK will continue to vigorously defend these claims. TNK does not believe that any outcome of such proceedings could have a material adverse effect on its business, financial condition or results of operations or on its shareholdings in its production subsidiaries.

TNK is a party to various other legal proceedings. TNK does not, however, believe the pending legal proceedings, individually or taken together, will have a material adverse effect on its results of operations or financial condition.

MANAGEMENT AND EMPLOYEES

Management

TNK International Management

The Board of Directors is responsible for the management of TNK International's business and affairs as provided by British Virgin Islands laws and the relevant provisions of TNK International's Memorandum and Articles of Association. The TNK International's Board of Directors consists of five members. Brief biographies of TNK International's directors are set out below:

Michael Georghiou	Mr. Georghiou (38) graduated in 1988 from Leeds University, UK with a specialisation in Economics and Accounting. He started work in 1998 at the Audit Department of Ernst & Young, Leeds, UK. Currently, he is also a partner at Abacus Financial Services.
Stella Raouna	Ms. Raouna (42) graduated in 1982 from Athens Economics University with a specialisation in Business Administration Section. She started work in 1983 as a Senior Accountant at Moore Stephens International, Piraeus, Greece. Currently, she is also a Senior Manager at Abacus Financial Services.
Charalambos Michaelides	Mr. Michaelides (50) graduated in 1977 from Hammersmith and West London College with a specialisation in Business Administration. He started work in 1972 as a Junior Audit Clerk at the Auditor General of the Republic of Cyprus. Currently, he is also a Principal Manager in Abacus Financial Services, Nicosia Office.
Maria Pitta	Ms. Pitta (45) graduated in 1977 from Westmont High School, Montreal. She started work in 1978 as a Senior Associate at PriceWaterhouseCoopers International Business Service Department, Nicosia. Currently, she is also a Senior Associate at Abacus Financial Services, Nicosia.
Stella Herodotou	Ms. Herodotou (31) graduated in 1989 from Hotel and Catering Institute with Front Office Diploma. She started work in 1989 as a Secretary to the Sales Manager of Medical Division at Cyprus Pharmaceutical Organisation Limited. Currently, she is also an Executive Secretary to the Managing Partner at Abacus Financial Services.

The total aggregate amount of remuneration, including base salary, bonuses and benefits in kind, paid or granted by TNK International to all members of the Board of Directors in 2001 was U.S.\$41,033.

OAO TNK Management

Several members of OAO TNK's senior management team received their business education and training in the United States of America. The management team of OAO TNK has extensive experience in the oil and gas industry and international recognition of its performance. OAO TNK and its management team have received the following recognition and awards:

- OAO TNK was chosen as the World's Best Oil and Gas Company of 2000 by The Financial Times Energy, a leading provider of information to the energy industry, becoming the first Russian company to win this award. OAO TNK was chosen for its management's achievements in restructuring and streamlining the business while continuing to attract significant western investments and technology.

- OAO TNK received the American Society for Competitiveness Award in 2000 for leadership in developing and implementing globally competitive practices in an emerging economy.
- In 2001, Company, a leading Russian weekly magazine, named Mr. Simon Kukes, a member of the Board of Directors, a member of the Management Board and President of OAO TNK, as one of Russia's best executive officers for successfully implementing OAO TNK's business strategy, increasing its market share and creating new brands.

OAO TNK's management structure consists of the Board of Directors, the Management Board and the Chairman of the Management Board.

Board of Directors

The Board of Directors is responsible for the general management of OAO TNK's business and affairs as provided by Russian law and the relevant provisions of OAO TNK's Charter. Except for matters expressly reserved to the shareholders, OAO TNK's Board of Directors has the full authority to make decisions on all aspects of OAO TNK's activities. Members of the Board of Directors are elected at the annual General Meeting of Shareholders for a one-year period and can be re-elected for an unlimited number of terms. Members of the Board of Directors may be removed by OAO TNK's shareholders. According to OAO TNK's Charter, the annual General Meeting of Shareholders is required to be held no later than 1 July of each year.

Currently, OAO TNK's Board of Directors consists of thirteen members who are as follows:

Name	Age	Position
Sergey S. Sobyenin	44	Chairman of the Board of Directors
Victor F. Vekselberg	45	Member of the Board of Directors, Chairman of the Management Board, First Vice-President
Leonard V. Blavatnik	45	Member of the Board of Directors
Alexander V. Filipenko	52	Member of the Board of Directors
Mikhail M. Fridman	38	Member of the Board of Directors
Sergey L. Katanandov	47	Member of the Board of Directors
Gherman B. Khan	41	Member of the Board of Directors, Executive Director, First Deputy of the Chairman of the Management Board, First Vice-President
Simon G. Kukes	56	Member of the Board of Directors, President
Vyacheslav N. Lubimov	55	Member of the Board of Directors
Eldar A. Karimov	41	Member of the Board of Directors
Sergey V. Karpukhovich	45	Member of the Board of Directors
Vladimir V. Kuznetsov	41	Member of the Board of Directors
Vladimir V. Tatarchuk	27	Member of the Board of Directors

Brief biographies of the members of the Board of Directors are set out below:

Sergey S. Sobyenin	Mr. Sobyenin has been a member of the Board of Directors since 2001. He graduated in 1989 from All-Union Law Open Institute with a specialisation in Law. He started work in 1990 as the Head of the State Tax Inspection at the town of Kogalym in Tyumen Region. In 1991-1997 he took several positions in the local authorities and state bodies of the town of Kogalym and Khanti-Mansiiskii Autonomous Region. Since January 2001 he has served as the Governor of the Tyumen Region.
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Victor F. Vekselberg	Mr. Vekselberg has been a member of the Board of Directors since 1998. He graduated from the Moscow Railway Engineers Institute, with a specialisation in automatic monitoring systems and completed a post-graduate course at the Computer Centre of the Academy of Sciences of the USSR. In 1974-1979 he served as an Academician at the International Environment and Vital Functions Safety Academy of Sciences and a member of the Commission for Federal, Inter-Regional and Regional Society and Economic Policy. In 1978-1990 Mr. Vekselberg worked at the Special Designing Bureau as an engineer and department manager. In 1988 he served as the General Director in Kovmek, and since 1990 as the Chairman of the Board of Directors in ZAO Renova. Mr. Vekselberg is also the General Director of Sibirsko-Uralskaya Aluminium Company. Currently, Mr. Vekselberg also serves as a Member of the Board of Directors of ONAKO and SIDANCO.
Leonard V. Blavatnik	Mr. Blavatnik has been a member of the Board of Directors since 1998. He is the President, founder and principal shareholder of Access Industries. He also serves on Boards of Directors of most of the companies in which Access Industries has made principal investments. Mr. Blavatnik previously held executive positions with Arthur Andersen & Co., Macy's Department Stores and General Atlantic Partners, a private New York investment firm. Mr. Blavatnik holds an MBA degree from Harvard Business School. Currently, Mr. Blavatnik also serves as a Member of the Board of Directors of SIDANCO.
Alexander V. Filipenko	Mr. Filipenko has been a member of the Board of Directors since 2001. He graduated in 1973 from the Siberian Automotive and Highway Institute and in 1987 from the Higher Communist Party School. From 1967 until 1977 he worked as an engineer. In 1997 he was elected the Governor of the Khanti-Mansiiskii Autonomous Region and in 1999 he was elected the Head of the Cabinet of the Khanti-Mansiiskii Autonomous Region.
Mikhail M. Fridman	Mr. Fridman has been a member of the Board of Directors since 1998. From 1992 to 1999 Mr. Fridman served as the Chairman of the Board of Directors of Alfa-Eko. Mr. Fridman is a Member of the Board of Directors of OAO Vimplecom, a leading Russian telecommunications company, and Chairman of the Board of Directors of Alfa Bank. Currently, Mr. Fridman also serves as a Member of the Board of Directors of SIDANCO.
Sergey L. Katanandov	Mr. Katanandov has been a member of the Board of Directors since 2001. He graduated in 1977 from Petrozavodskii State University with a specialisation in construction engineering and further graduated from the Academy of State Service with a specialisation in "Administration" and "Jurisprudence". For almost 12 years he worked as a construction engineer at construction sites. In 1991 – 1998 he held several positions in the local authorities of the town of Petrozavodsk. In 1998 he was elected as the Head of the Cabinet of the Karelian Republic and was re-elected to the same position in 2002.

Gherman B. Khan	Mr. Khan has been a Member of the Board of Directors of OAO TNK since 1997 and a Member of the Management Board of OAO TNK since 1998. He graduated from the Kiev Technical College in 1982 and from the Moscow Institute of Steel and Alloys in 1987. He started his business career at Cooperative Poisk (Moscow) in 1988. From 1995 to 1998 Mr. Khan served as the Head of the Natural Resources Department of Alfa-Eko. Since 2000, Mr. Khan has served as the Deputy Chairman of the Management Board and the First Vice-President of OAO TNK. Currently, Mr. Khan also serves as a Member of the Board of Directors of Alfa Bank, ONAKO, and SIDANCO and as the Chairman of the Board of Directors of Orenburgneft.
Simon G. Kukes	Mr. Kukes has been a member of the Board of Directors, member of the Management Board and President of OAO TNK since 1998. He graduated from the Mendeleev Moscow Chemical Technologies Institute in 1969 with a specialisation in the “Technology of Vacuum Processes,” and received a Ph.D. in the Scientific Institute of the USSR, Academy of Sciences in 1973. He began his business career in 1969 as an engineer at the Titan Factory. In 1979-1986 he served as the Technical Director of Philips Petroleum in Oklahoma. In 1993-1996 he worked for Amoco Oil, first as Technical Director, then as Director of the International Department of Oil Refining, Marketing and Transportation, and held the position of Vice President and Head of the Ryazan Refinery Modernisation Project. In 1996-1998 Mr. Kukes served as the First Vice President and a Member of the Management Board of YUKOS. Currently, Mr. Kukes also serves as a Member of the Board of Directors of ONAKO and SIDANCO.
Vyacheslav N. Lubimov	Mr. Lubimov has been a member of the Board of Directors since 1999. He graduated in 1979 from the Higher Communist Party School in the town of Gorkii (Nizhnii Novgorod) and 1985 he graduated from the Ryazan Agricultural Institute. From 1973-1978 he worked on the construction of the Ryazan State Regional Power Station. From 1997 to 2001 he held the position of the Governor of the Ryazan Region.
Eldar A. Karimov	Mr. Karimov has been a member of the Board of Directors since 2002. He graduated from the Moscow State University in 1983 with a Ph.D. in Economic Cybernetics. From 1995 he has held the position of the Deputy Chief Executive Officer in Alfa Bank. From 2001 Mr. Karimov has also been a member of the Board of Directors of Alfa Insurance.
Sergey V. Karpukhovich	Mr. Karpukhovich has been a member of the Board of Directors since 2002. He graduated from the Yaroslav State University in 1979. From 1993 until 1999 he was a Director of TOO Yarinterkom-Service. From 1996 Mr. Karpukhovich has served as a General Director of ZAO Park Avenue Capital. He also currently holds a position of the First Vice President of Access Industries, Inc, which he started in 1997. From 1998 to 1999 Mr. Karpukhovich served as a Deputy Director in the Representative office of Access Industries (Eurasia), Inc. He was appointed a Director of the Representative office of Access Industries Inc. (Eurasia) in 2000 and currently holds this position.
Mr. Vladimir V. Kuznetsov	Mr. Kuznetsov has been a member of the Board of Directors since 2002. He graduated from the Moscow Institute of World Economy and International Relations with Ph.D. in Economics in 1990, and completed his Master’s Degree in International Affairs in Columbia University in 1991. From 1984 until 1992 Mr. Kuznetsov was working as a Senior

Research Fellow and Head of the Securities Market Research Department at the Moscow Institute of World Economy and International Relations. From 1992 to 1994 he worked as an Oil and Gas Associate New York and Deputy Director of the Moscow Office for Goldman Sachs. From 1994 to 1998 Mr. Kuznetsov held a position of Director in Salomon Smith Barney, London and also served as a General Director of Salomon Brothers, Moscow. From 1999 he has served as a General Director of the Financial and Consulting Services company and, from 2001, also as a Finance Director of Renova, Inc. From 2002 Mr. Kuznetsov has held a position of the Director of the New York Representative Office of SUAL Holding.

Mr. Vladimir Tatarchuk

Mr. Tatarchuk has been a member of the Board of Directors since 2002. He graduated from the Moscow State University with a degree in Law. From 1997 to 1998 he worked as the Head of the Legal Department of Alfa Bank. Currently he is the Deputy Head of the Corporate Finance Department of Alfa Bank.

Management Board

The Management Board and Chairman of the Management Board are responsible for OAO TNK's day-to-day management as provided by Russian law and the relevant provisions of the OAO TNK's 2002 Charter. Except for matters specifically reserved to the Board of Directors and the shareholders, the Management Board has the authority to make decisions on all aspects of OAO TNK's activities. The Chairman of the Management Board, together with the other members of the Management Board, is appointed by the Board of Directors for at least a one-year term. The Chairman and other members of the Management Board may be removed at any time by decision of the Board of Directors. Except for matters specifically reserved for the Management Board, the Board of Directors or the shareholders, the Chairman of the Management Board has the full authority to make decisions on all aspects of OAO TNK's activities.

Currently, the Management Board consists of nine members who are as follows:

Name	Age	Position
Victor F. Vekselberg	45	Member of the Board of Directors, Chairman of the Management Board, Head of Strategic Corporate Development Department, First Vice-President
Joseph A. Bakaleynik	50	Chief Financial Officer
Gherman B. Khan	41	Member of the Board of Directors, Deputy Chairman of the Management Board, Executive Director, First Vice-President
Simon G. Kukes	56	Member of the Board of Directors, President
Igor N. Dibtsev	31	Senior Vice-President, Head of Geology, Crude Oil and Gas Production Block
Alexander I. Kaplan	33	Vice-President, Head of Marketing, Sales and Refining Block
Vyacheslav S. Timchenko	47	Vice-President, Head of Business Support Block
Boris P. Kondrashov	45	Vice-President, Head of Security Block
Feliks V. Lyubashevsky	28	Acting Head of Services Block
Alexander Bloh	48	Acting Head of the IT and Communications Block

Below are brief biographies of the members of the Management Board of OAO TNK who are not members of its Board of Directors:

Joseph A. Bakaleynik	Mr. Bakaleynik has been a Member of the Management Board and First Vice President of OAO TNK since 1998. He graduated from Moscow State University in 1978 with a Ph.D. in economics. In 1980-1983 he served as the Department Manager of the Engine Design and Technology Institute. In 1983-1990 Mr. Bakaleynik worked as the Deputy Director for Economics at Vladimir Tractor Factory. After receiving an MBA at the Harvard Business School in 1992, Mr. Bakaleynik served as a consultant at Braxton Associates in 1990-1991 and as an Investment Officer in the International Finance Corporation. In 1994, Mr. Bakaleynik returned to Vladimir Tractor Factory and served as its General Director until 1997, also working with Access-Renova Group on restructuring its companies including the Bogatyr coal mine in Kazakhstan.
Igor N. Dibtsev	Mr. Dibtsev has been a member of the Management Board since 2001. He graduated in 1994 from the State Academy of Administration named after S. Ordzhonikidze with a specialisation in Management and Marketing. He started work in 1994 as an economist at AOZT Alfa-Eko. In 1999-2000 he acted as a Deputy Director of the Economics and Finance Block at OAO TNK. Currently, he is Acting Director of the Geology and Crude Oil and Gas Production Block at OAO TNK.
Alexander I. Kaplan	Mr. Kaplan has been a member of the Management Board since 2001. He is studying at the Moscow State Law Academy from 1999 specialising in Business and Civil Law. He started work in 1994 as an Export Department specialist at Alfa-Eko. In 1997 he started working at OAO TNK as the Vice-President and Director of the Refining and Marketing Department. Currently he is Acting Director of Marketing, Sales and Refining Block at OAO TNK.
Vyacheslav S. Timchenko	Mr. Timchenko has been a member of the Management Board since 2001. He graduated in 1978 from the Polytechnic Institute named after S. Ordzhonikidze with a specialisation in purification of natural waters and waste waters. He started work in 1990 as a Deputy Director of the "Territoria" programme at the Russian-American University of Moscow. In 1997-1998 he worked at Alfa Bank as a Deputy Director of the State Bodies Relations Department. In 1998 he started working at OAO TNK in the position of a Director of the Federal State Bodies Relations Department. Currently, he is a Director of the Business Support Block at OAO TNK.
Boris P. Kondrashov	Mr. Kondrashov has been a member of the Management Board since 2000. He graduated in 1978 from the Law Institute of Sverdlovsk with a specialisation in Law. In 1993-1999 he served in internal affairs bodies and at the Ministry of Justice of the Russian Federation. He started work in 1999 as the Adviser to the President at OAO TNK. Currently he is a Director of the Security Block and the First Vice-President of OAO TNK.
Feliks V. Lyubashevsky	Mr. Lyubashevsky has been a member of the Management Board since 2002. He graduated in 1994 from the Russian Academy of Economics named after G.V. Plekhanov with a specialisation in economic cybernetics. In 1994-1995 he worked as an Executive Director of OAO

Financial-Investment Corporation “Trastinvest”. In 1995-1998 he acted as the President of OAO Investment Company National Centre of Financial Investments”. In 1998 he started working at OAO TNK as the Director of Company’s Reorganization Department. Currently he is the Acting Head of Services Blocks at OAO TNK.

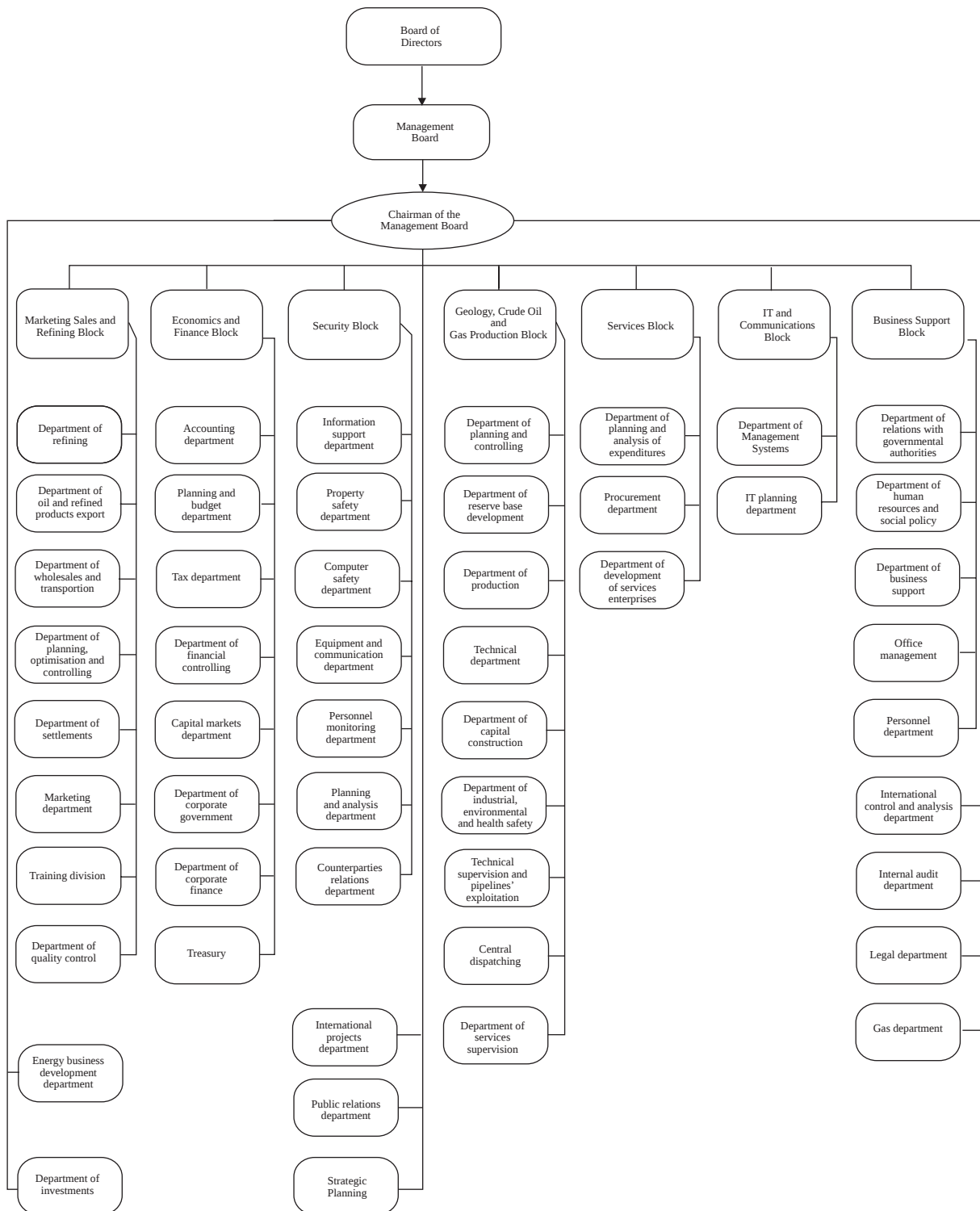
Alexander Bloh

Mr. Bloh has been a member of the Management Board since 2002. He graduated from the Columbia University in 1980, and continued his studies in the Sidney Institute of Technologies from 1986 through 1990. He started working in 1986 as the First Deputy IT and Communication Manager at ANZ Bank. In 1990-2000 he acted as a Director of IT strategy at PricewaterhouseCoopers. In November 2000 he started working at OAO TNK as the Deputy Head of Economics and Finance Block responsible for communications. Currently he is the Acting Head of the IT and Communications Block at OAO TNK.

The total aggregate amount of remuneration, including base salary, bonuses and benefits in kind, paid or granted by OAO TNK to all members of the Board of Directors and the Management Board in 2001 was U.S.\$11,096,929.

The TNK Shareholders intend to establish an Advisory Council in the near future consisting of independent members, to which end TNK Shareholders are currently in discussions with potential appointees to such an Advisory Council.

OAO TNK Organisation Chart



Employees

In 2001, TNK had an average of 91,382 employees and, during the six months ended 30 June 2002, the average number of employees was 84,181. TNK also contracts with various independent contractors for accounting, legal, engineering, land research and fieldwork. Management believes that TNK's relationship with its employees is satisfactory.

The following table shows the average number of employees of TNK in 1999, 2000 and 2001 and for the six months ended 30 June 2001 and 2002:

	Year ended 31 December			Six months ended 30 June	
	1999	2000	2001	2001	2002
Exploration and production	14,064	35,608	34,560	35,589	30,718
Refining	4,443	14,668	12,864	14,130	10,763
Marketing and sales	3,986	5,905	5,643	5,976	5,265
Service companies	21,450	32,984	34,440	33,367	32,912
Headquarters	494	628	789	812	809
Other	1,900	2,100	3,086	2,536	3,714
TOTAL	46,337	91,893	91,382	92,410	84,181

RELATED PARTY TRANSACTIONS

TNK has transactions in the ordinary course of business with Alfa Bank, an affiliate of the Alfa Group, one of the TNK Shareholders. Alfa Bank acts as one of TNK bankers. TNK maintains deposits with Alfa Bank and has short-term debt from Alfa Bank. As at 30 June 2002, TNK had U.S.\$146.5 million in short-term loans from Alfa Bank.

As at 30 June 2002, TNK had additional loans from Alfa Bank secured by deposits with companies affiliated with the Bank. These loans and deposits totalled RR4,988 million (U.S.\$158.6 million). See Note 18 to the U.S. GAAP Financial Statements and Note 12 to the U.S. GAAP Interim Financial Statements.

TNK enters into transactions in the ordinary course of business with Crown Trade and Finance Ltd., Crown Resources, Alfa-Eko, NTK Alfa Cracking and Prodintorg, all of which are affiliates of the Alfa Group. These transactions are conducted on an arm's-length basis. These transactions include export and domestic sales of crude oil and petroleum products. In 2001, export crude oil sales to these affiliates totalled 46.7 MMBbls and export refined product sales to these affiliates totaled 31.5 MMBbls. For the six months ended 30 June 2002, export and domestic crude sales totalled 64.9 MMBbls and export refined product sales totalled 41.5 MMBbls. See also "Business – Reserves, Exploration and Production – Crude Oil Sales and Deliveries", Note 18 to the U.S. GAAP Financial Statements and Note 12 to the U.S. GAAP Interim Financial Statements.

In February 2000, TNK sold its interest in TNK-N at cost to Novy Petroleum Finance Limited, an affiliate of the TNK Shareholders, for U.S.\$176 million. Currently, TNK-N is a subsidiary of SIDANCO, which is indirectly controlled by the TNK Shareholders. See "TNK Organisational Structure – SIDANCO". During 2000 and 2001, TNK purchased crude oil from TNK-N, which was then sold by TNK on the export market or processed and sold as refined products. In 2001, purchases of crude oil by TNK from TNK-N totalled U.S.\$264.8 million. During the fourth quarter of 2001, the TNK Shareholders sold their interest in TNK-N to SIDANCO, and accordingly, TNK no longer purchases crude oil from TNK-N on the same terms. For the six months ended 30 June 2002, purchases of crude oil from TNK-N totalled U.S.\$20.6 million. See "Risk Factors – Risks Relating to TNK and the Russian Oil and Gas Industry – Export Oil Sales; Export Capacity Allocation" and "Business – Reserves, Exploration and Production – Crude Oil Sales and Deliveries". See also Note 18 to the U.S. GAAP Financial Statements and Note 12 to the U.S. GAAP Interim Financial Statements.

In connection with the TNK Shareholders' acquisition of a controlling stake in SIDANCO in 2001, the TNK Shareholders financed the acquisition through a deferred payment plan jointly and severally guaranteed by TNK and other entities controlled by the TNK Shareholders. In February 2002, the guarantee provided by TNK was assigned to other companies controlled by the TNK Shareholders. During the period from 1 January 2002 to 1 April 2002, TNK made disbursements of U.S.\$290 million to TNK Industrial Holdings to finance instalment payments for the SIDANCO acquisition. In April 2002, TNK Industrial Holdings repaid U.S.\$354.1 million to TNK from the proceeds of the sale of 15% of SIDANCO to BP. TNK Industrial Holdings' remaining deferred payment obligations for the purchase of SIDANCO shares amount to U.S.\$539 million and will fall due through June 2003. Such instalment payments under the deferred purchase plan will be funded either by ordinary dividends from TNK to TNK Industrial Holdings, dividends from SIDANCO to TNK Industrial Holdings or through other third party sources of liquidity available to TNK Industrial Holdings. See "TNK Organisational Structure – SIDANCO", "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Net Cash Used for or Provided by Financing Activities", Note 18 to the U.S. GAAP Financial Statements and Note 12 to the U.S. GAAP Interim Financial Statements.

In 2000 and 2001, TNK granted loans to affiliates of the TNK Shareholders which totalled U.S.\$529.6 million and U.S.\$781.9 million, respectively. These loans were subsequently declared as dividends in April 2002 and any interest payments thereon were waived. See Notes 14 and 18 to the U.S. GAAP Financial Statements and Note 12 to the U.S. GAAP Interim Financial Statements.

In June 2001, TNK issued a U.S.\$39.0 million guarantee to secure borrowings of OAO Kamensk-Uralsky metallurgical plant, a company controlled by the Renova Group. At 30 June 2002, the outstanding amount of borrowing guaranteed by TNK totaled U.S.\$4.0 million. The guarantee was terminated in August 2002. See Note 18 to the U.S. GAAP Financial Statements and Note 12 to the U.S. GAAP Interim Financial Statements.

In 2000 and 2001, TNK paid management fees and commissions to affiliates of TNK Shareholders for assistance with TNK's marketing operations. These payments totalled U.S.\$62.0 million and U.S.\$60.8 million in 2000 and 2001, respectively. In the six months ended 30 June 2002, TNK paid less than U.S.\$1 million in such fees and commissions. See Note 18 to the U.S. GAAP Financial Statements and Note 12 to the U.S. GAAP Interim Financial Statements.

See Note 18 to the U.S. GAAP Financial Statements and Note 12 to the U.S. GAAP Interim Financial Statements for other transactions and balances between TNK and companies affiliated with the TNK Shareholders.

In connection with the development of a new headquarters building, in December 2001 TNK entered into a surety agreement in relation to a loan advanced to a property development company affiliated to Alfa Bank (an affiliate of the Alfa Group, one of TNK's Shareholders) in which TNK also holds a 45% stake. The loan (and TNK's contingent liability under the surety agreement) is to be for an amount up to U.S.\$47,700,000 and will be drawdown in instalments over a three year period from the entering into of the loan.

ENVIRONMENTAL MATTERS

TNK strives for environmental awareness in all its activities. In carrying out its policies, TNK seeks to comply with international standards for environmental protection and to monitor its compliance with these principles. TNK works with its operational subsidiaries to implement government regulations and meet safety standards.

TNK seeks input from recognised experts in environmental studies to evaluate the impact of TNK's operations on the environment and to assist TNK in developing its environmental programmes. For example, in 1999, TNK contracted Arthur D. Little, Inc. to prepare a report on Environmental Strategy Development for Tyumenneftegas and the Ryazan Refinery. As a result of recommendations contained in this report, TNK is currently in the process of developing an Environmental Management System for a Vertically Integrated Company based on the ISO 14000 international standard which it plans to implement in the course of 2003.

TNK is in the process of conducting environmental audits in respect of its operational subsidiaries. A number of these audits have already been completed, such as the environmental audit of NNP in 2000 and 2002. Further, in 2001, the Institute of Natural Resources Management completed its health, safety and environmental audit of Samotlorneftegas.

Each year all of TNK's subsidiaries adopt Emergency Control Plans which are approved by Gosgortekhnadzor, a state agency. These plans include a set of measures aimed at preventing and controlling emergency oil spills. In addition, in light of Government Resolution No. 613, dated 21 August 2000, TNK's subsidiaries have adopted Plans to Prevent and Control Emergency Oil Spills, which were also approved by relevant local authorities.

These plans are designed to enable TNK's subsidiaries to react quickly to emergencies and take measures to localise and control the effects of environmental pollution by crude oil and refined products. Moreover, TNK places particular importance on the upgrade and replacement of ageing and low-quality pipes with new pipes which have anti-corrosion protection. TNK monitors the number and volume 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 controlling air, water and soil pollution and replacing worn out or damaged sections of pipes, TNK is installing up-to-date environmental protection facilities.

TNK's total expenses on environmental protection were approximately U.S.\$6.3 million in 1999, U.S.\$8.7 million in 2000 and U.S.\$25.8 million in 2001. For the six months ended 30 June 2002, TNK's total expenses on environmental protection were U.S.\$23.9 million.

TNK is not currently subject to any material legal claims or disputes in relation to violations of environmental laws or regulations. See also "Risk Factors — Risks Relating to TNK and the Russian Oil and Gas Industry — Environmental Risks".

CAPITAL EXPENDITURES

TNK has significant capital expenditure requirements in order to maintain its existing operations. In addition, TNK's strategies of utilising improved drilling and recovery technology, modernising its production infrastructure, modernising its refineries and expanding its retail network will require a large commitment of resources and capital.

TNK's investment activity is largely aimed at the development of its major lines of business: oil production, oil refining and marketing and sales. The bulk of the capital expenditures in 2001 related to the comprehensive investment programmes for the modernisation of its production infrastructure through the rehabilitation of the Samotlor field and the modernisation of the Ryazan Refinery, which were U.S.\$225 million and U.S.\$271 million, respectively. The percentage total of capital expenditures in 2001 spent on exploration and production was 66%, on refining 27%, and on marketing and distribution 4%. The percentage total of capital expenditures for the six months ended 30 June 2002 spent on exploration and production was 77%, on refining 17%, and on marketing and distribution 4%.

The capital expenditures of TNK are funded through cash flow from its operations and its credit facilities. TNK's net capital expenditures for the years ended 31 December 1999, 2000 and 2001 and for the six months ended 30 June 2002 were as follows:

	Year ended 31 December			Six months ended 30 June	
	1999	2000	2001	2001	2002
	(U.S.\$ in millions)				
Exploration and production	131.6	553.6	712.7	323.2	150.3
Refining	34.0	152.8	296.4	119.1	32.3
Marketing and distribution	8.7	37.3	45.4	22.6	8.3
Other	0.0	29.3	31.8	7.2	3.4
Total	174.3	773.0	1,086.3	472.0	194.3

TNK's capital expenditure for the six months ended 30 June 2002 has been, and TNK expects that its capital expenditures for the rest of 2002 and the foreseeable future will be, funded by its cash flow from operations and available funding under existing and future credit facilities including the U.S. Ex-Im Bank guaranteed financing. See "Description of Indebtedness". TNK has a five-year capital expenditure programme. The table below shows details regarding this programme.

	Year ended 31 December					
	2002	2003	2004	2005	2006	2002-2006
	(U.S.\$ in millions)					
Production:	446.91	484.01	355.05	365.64	352.28	2,003.89
Samotlorneftegas.....	219.71	214.18	85.41	80.46	78.97	678.73
NNP.....	32.01	42.44	40.05	42.83	42.19	199.52
Tyumenneftegas.....	23.41	28.26	26.47	34.47	29.34	141.95
TNK Nyagan.....	31.90	37.01	43.57	50.40	50.29	213.17
Orenburgneft.....	92.26	108.67	103.09	97.54	95.88	497.44
Orenburggeologia	16.72	19.26	18.27	17.27	5.91	77.43
Other	4.49	0.32	0.32	0.28	0.25	5.66
Exploration Works Programme	26.41	33.87	37.87	42.39	49.45	189.99
Refining	125.35	154.95	131.95	77.39	65.38	555.02
Ryazan Refinery.....	114.53	120.00	90.00	50.00	40.00	414.53
Nizhnevartovsk Refinery	0.00	0.32	0.30	0.28	0.27	1.17
Orsk Refinery	3.20	10.00	20.00	15.00	15.00	63.20
LiNOS	7.55	24.50	21.53	12.00	10.00	75.58
Other	0.07	0.13	0.12	0.11	0.11	0.54
Marketing and Sales	26.90	40.00	40.00	40.00	40.00	186.90
Administrative.....	23.69	20.00	20.00	20.00	20.00	103.69
Total	622.85	698.96	547.00	503.03	477.66	2,849.5

The actual amounts and timing of capital expenditures, and of funds raised, are subject to change depending on economic and political conditions. See "Forward-Looking Statements" and "Risk Factors — Risk Relating to TNK and the Russian Oil and Gas Industry — Capital Requirements". Specifically, capital expenditures for the year 2002 to date have been less than were anticipated for such period in the programme detailed above and any such shortfall will be deferred to later years.

DESCRIPTION OF INDEBTEDNESS

TNK has obtained external financing from Russian and foreign banks in recent years, both to carry out its ordinary activities and to accomplish particular projects. The Russian Federation does not finance TNK's activities. The loans granted to TNK are generally secured by the pledge of property and the rights under crude oil export contracts. In order to satisfy the loan terms and perform its obligations to foreign banks, TNK maintains a certain level of crude oil exports.

The table below shows the current status of outstanding loans of TNK and its significant subsidiaries as at 30 September 2002.

Borrower	Lender	Principal amount (U.S.\$)	Interest rate	Outstanding debt ⁽¹⁾ (U.S.\$)	Final maturity date	Repayment schedule ⁽³⁾	Security
OAo TNK	BNP Paribas	150,000,000	5.5%+Libor	123,750,000	02.07.2004	quarterly U.S.\$3,750,000 from October 01 to July 02; monthly U.S.\$5,625,000 from August 02	Pledge of rouble and dollar accounts, assignment of crude oil export contracts, suretyship of Samotlorneftegaz, guarantee of TNK International
OAo TNK	BNP Paribas	150,000,000	3.75%+Libor	127,187,500	02.07.2004	quarterly U.S.\$3,750,000 from January 02 to July 02; monthly U.S.\$5,781,250 from August 02	Pledge of rouble and dollar accounts, assignment of crude oil export contracts, suretyship of Samotlorneftegaz, guarantee of TNK International
OAo TNK	West LB	200,000,000	3.75%+ Libor	164,705,882	27.01.2005	monthly U.S.\$5,882,352.94 from April 02	Pledge of rouble and dollar accounts; assignment of crude oil export contracts, assignment of purchase agreement, guarantee of TNK International
OAo TNK	CSFB	50,000,000	4.25%+ Libor	46,666,667	14.02.2006	quarterly U.S.\$3,333,333.33 from August 02	Pledge of rouble and dollar accounts; crude oil export deliveries
OAo TNK	CSFB	150,000,000	4.5%+ Libor	46,666,667	05.08.2005	U.S.\$3,333,333.33 in February 02, quarterly U.S.\$3,888,888.89 from November 02	Pledge of rouble and dollar accounts, crude oil export deliveries
OAo TNK	Deutsche Bank	150,000,000	6.75%+ Libor	150,000,000	17.06.2004	—	Guarantee of TNK International
OAo TNK	Deutsche Bank	200,000,000	3.25%+ Libor	200,000,000	25.07.2007	quarterly U.S.\$11,764,705.88 from July 03	Pledge of TNK rouble and dollar accounts, assignment of export contracts, guarantee of TNK International, pledge of TNK International reserve account, commercial and financial suretyship of Samotlorneftegaz, assignment of supply contract, assignment of off-take contract pledge of TNK Trade collection account, assignment of insurance policy
OAo TNK	Natexis	60,000,000	4.875%+ Libor	32,000,000	30.06.2003	monthly U.S.\$4,000,000 from March 02	Conditional assignment of export contract, surety of Samotlorneftegaz, guarantee of TNK International
OAo TNK	Natexis	40,000,000	3.75%+ Libor	40,000,000	17.04.2004	quarterly U.S.\$3,333,333.33 from October 02 to April 03 and U.S.\$2,500,000 from May 03	Assignment of export and sales contracts by TNK and TNK Trade, pledge of collection account by TNK Trade, guarantee of TNK International, letter of request and guarantee of TNK Trade
OAo TNK	RZB	50,000,000	3.75%+ Libor	40,476,000	14.02.2004	monthly U.S.\$2,381,000 from June 02 to January 04 and U.S.\$2,380,000 in February 04	Assignment of export and sales contracts by TNK and TNK Trade, commercial suretyship of OAo TNK, pledge of collection account by TNK Trade, security assignment by TNK Trade, guarantee of TNK International
OAo TNK	RZB	50,000,000	5%+ Libor	31,111,112	23.11.2003	quarterly U.S.\$3,333,333.33 from October 01 to April 02 and monthly U.S.\$2,222,222.22 from June 02	Crude oil export deliveries
OAo TNK	Societe General	30,000,000	5.5%+ Libor	30,000,000	15.11.2003	quarterly U.S.\$6,000,000 from November 02	Pledge of rouble and dollar accounts; conditional assignment of crude oil export contracts; financial and commercial suretyships of Samotlorneftegaz
OAo TNK	International Moscow Bank	15,000,000	3.5%+ Libor	15,000,000	30.01.2003	—	Suretyship of Tyumenneftegaz and Trade House TNK; pledge of Trade House TNK refined products
OAo TNK	Commerzbank (guaranteed by Ex-Im Bank of the USA)	292,035,569	0.95%+ Libor	80,041,397	15.12.2010	14 semi-annual instalments starting from June 04	OGFA security structure: Full-recourse guarantee of Samotlorneftegaz, pledge of offtake contracts, pledge of collateral account with Commerzbank AG, pledge of movable property acquired for the loan proceeds, guarantee of TNK International

Borrower	Lender	Principal amount (U.S.\$)	Interest rate	Outstanding debt ⁽¹⁾ (U.S.\$)	Final maturity date	Repayment schedule ⁽³⁾	Security
OAo TNK	Commerzbank	41,850,000	4%+ Libor	10,312,734	15.12.2008	10 semi-annual instalments starting from June 04	OGFA security structure: Full-recourse guarantee of Samotloneftegas, pledge of offtake contracts, pledge of collateral account with Commerzbank AG, pledge of movable property acquired for the loan proceeds, guarantee of TNK International
OAo TNK	JP Morgan Chase (guaranteed by Ex-Im Bank of the USA)	231,550,294	0.125%+ Libor	138,365,689	15.06.2011	16 semi-annual instalments starting from December 03	OGFA security structure: Full-recourse guarantee of Samotloneftegas, pledge of offtake contracts, pledge of collateral account with Chase Manhattan Bank, pledge of movable property acquired for the loan proceeds, pledge of 100% share in TNK-Ryazan, guarantee of TNK International
OAo TNK	Sberbank	78,000,000	10%	56,622,222	18.04.2006	quarterly U.S.\$8,666,666.67 from March 02 to June 02; quarterly U.S.\$4,044,444.44 from Sept 02	Pledge of promissory notes; pledge of shares of TNK-Nyagan ⁽⁴⁾ ; equipment of NNP, Nizhnevartovskneftegas, Tyumenneftegas, Samotloneftegas, Nizhnevartovsk Refinery, TNK-Nyagan
OAo TNK	Sberbank (RUR)	84,000,000	20-23%	46,819,060	27.06.2007	quarterly RUR 221,829,868 from Sept 04	Pledge of promissory notes; pledge of shares of NNP ⁽⁵⁾ , pledge of equipment of RNPk
OAo TNK	Sberbank (RUR)	97,990,252	17%	97,990,252	27.05.2004	—	Pledge of promissory notes, pledge of shares of NNP ⁽⁵⁾
OAo TNK	Sberbank (RUR)	107,473,179	17%	107,473,179	06.07.2004	—	Pledge of promissory notes, pledge of shares of NNP ⁽⁵⁾
OAo TNK	Vneshtorgbank	10,000,000	10.5%	10,000,000	25.12.2002	—	-
OAo TNK	Vneshtorgbank	10,000,000	10.5%	10,000,000	25.11.2002	—	-
OAo TNK	Alfa Bank (RUR)	50,575,614	6.5%	41,092,686	25.12.2002	—	-
OAo Trade House TNK	Sberbank (RUR)	50,575,614	19-20%	50,575,614	24.05.2004	—	Pledge of equipment of Ryazan Oil Products Company, Surety of OAo TNK
TNK-Ukraine	West LB	75,000,000	5.5%+Libor	12,501,635	14.02.2003	—	Surety of OAo TNK (limited recourse), guarantee of TNK International
TNK-Ukraine	Alfa Bank	10,000,000	15.5%	10,000,000	20.01.2003	—	Pledge of refined products
TNK-Ukraine	Ukrsotsbank	5,000,000	15%	5,000,000	20.06.2003	—	Pledge of refined products
TNK-Ukraine	Ukrsotsbank	5,000,000	15%	5,000,000	22.09.2003	—	Pledge of refined products
TNK-Ukraine	RZB Ukraine	6,600,000	—	5,113,868	12.12.2002	—	-
LINOS	TNK Ukraine Invest	12,128,718	0%	9,429,011	18.07.2005	—	-
Tyumenneftegas	Ministry of Energy	27,000,000	N/A	27,000,000	16.05.2006	—	Guarantee of OAo TNK
Nizhnevartovskneftegas	Accounts payable under moratorium conditions	41,058,052	N/A	12,339,049	06.07.2010	—	-
OAo TNK	Promissory notes	120,598,904	-	120,598,904	-	—	-
OAo TNK	Corporate bonds (issue 1)	99,966,500	7%	99,966,500	tranche 1 - 23.07.2004 tranche 2 - 05.09.2004	—	Guarantee of ICONIP
OAo TNK	Corporate bonds (issue 2)	90,484,366	10%	90,484,366	tranche 1 - 08.12.2004 tranche 2 - 18.01.2005	—	Guarantee of Ryazan Oil Products Company
OAo TNK	Corporate bonds (issue 3)	141,995,030	10%	141,995,030	26.06.2003	—	Guarantee of TNK-Nyagan
OAo TNK	Corporate bonds (issue 4)	94,829,276	12%	94,829,276	27.03.2005	—	Guarantee of TNK-Nyagan
OAo TNK	Corporate bonds (issue 5)	94,829,276	15%	94,829,276	28.11.2006	—	Guarantee of Samotloneftegas
Other Loans of TNK ⁽²⁾		18,152,056	-	17,048,551	-	—	-
Total		<u>3,071,093,793</u>		<u>2,442,992,125</u>			

(1) Outstanding debt does not include interest.

(2) The aggregate principal amount and aggregate outstanding debt for loans where the non-aggregated outstanding debt does not exceed US\$5,000,000.

(3) Loans with amortising repayment schedule.

(4) 75% of the shares of TNK-Nyagan are pledged under this facility.

(5) 62.5% of the ordinary shares of NNP are pledged in aggregate under these facilities.

The following table shows the maturity profile of the outstanding loans of TNK and its significant subsidiaries as at 30 September 2002:

12 months ending 30 September	Principal Amount falling due during such period Millions of U.S. dollars
2003	811.1
2004	862.7
2005	358.2
2006	128.6
2007 and further	282.3
Total indebtedness	<u>2,442.9</u>

RUSSIAN FEDERATION — GENERAL OVERVIEW

The following information has been extracted from publicly available sources. It has not been independently verified by OAO TNK. Neither OAO TNK nor the Managers accept any responsibility for the accuracy or completeness of this information.

General

The Russian Federation, or Russia, is a sovereign and democratic federal republic, consisting of 89 sub-federal political units (the “Federation Subjects”), and is constituted as a federation of republics, territories, regions, cities of federal importance and autonomous regions. It is the largest state to emerge from the former Soviet Union, covering an area of approximately 17.1 million square kilometres. Russia covers one-tenth of the world’s land surface, making it the largest country in the world, almost twice the size of the United States of America.

Of the population of approximately 145 million, approximately 82 per cent. is ethnic Russian and a high percentage (approximately 73 per cent.) live in cities and towns. The two largest cities are Moscow, with approximately 8.55 million inhabitants, and St. Petersburg, with approximately 4.7 million inhabitants.

Russia is a leading world producer of natural resources. The oil and gas industry plays an important role in the domestic economy. There are also substantial mineral deposits including iron, nickel, copper, diamonds and gold, as well as timber.

International Relations

Russia is a member of the United Nations (and a permanent member of the Security Council), the IMF, the World Bank, the International Finance Corporation and the European Bank for Reconstruction and Development. Russia succeeded to the former Soviet Union’s “observer status” to the General Agreement on Tariffs and Trade (currently, the World Trade Organisation) which was granted in May 1990 and in June 1993 made an official announcement of its intention to join the General Agreement on Tariffs and Trade. Discussions regarding Russia’s admission to the World Trade Organisation started in 1995 and are still ongoing. Russia has also been awarded Most Favoured Nation status by several members of the Organisation for Economic Co-operation and Development (“OECD”). Russia has been granted observer status in a number of OECD committees and formally applied for membership in May 1996.

Political Structure and Recent Political Developments

Federal Structure

In 1990, Russia declared its sovereignty (though not its independence from the Soviet Union). In December 1991 Russia, Belarus and Ukraine joined together to dissolve the Soviet Union and form the Commonwealth of Independent States (the “CIS”). The CIS was subsequently joined by another 9 former Soviet republics. Members of the CIS have entered into a series of political and economic agreements among themselves.

The Federation Treaty of 31 March 1992, signed by the majority of the Federation Subjects, initially gave to each a measure of control over budgetary and external policy as well as over the natural resources of their territories, and the Constitution of Russia (the “Constitution”) and individual treaties between the Federation and some of the Federation Subjects subsequently confirmed and refined the terms of the division of authority between the Federation and its subjects.

In general, disputes between the Federal authorities and Federation Subjects have been resolved peacefully through a political process. The military confrontation in the Chechen Republic has been the exception. There was military confrontation in the Chechen Republic between December 1994 and

August 1996 (followed by a peace treaty in May 1997) and then again from August 1999 to date, with the fighting now reduced to sporadic outbreaks. In January 2001 President Putin announced plans for a significant reduction in troop numbers and an eventual end to anti-terrorist operations. A local police force is being formed to gradually take over the maintenance of order from the Russian military, and almost 15 billion Roubles (over U.S.\$500 million) has been promised in aid for reconstruction of Chechnya. However, the situation is not stable and there have been no official talks between the Federal authorities and rebel leaders. It is expected that the future of the Chechen Republic will only be decided after the completion of operations by the Russian interior and military troops.

Constitution

The Constitution provides for a tripartite governmental structure in which the power of the State is divided between the executive, legislative and judicial branches, each independent of the others. The Constitution also establishes a federal system, allocating responsibilities between federal and sub-federal authorities and setting out the principles of local government.

Executive, Legislative and Judicial Branches

The Executive branch consists of the President and the Government of Russia.

The President of Russia has broad powers. The President is Head of State and Supreme Commander of the Armed Forces, with authority to declare states of military emergency and other states of emergency, subject to approval by the Federation Council and has responsibility for foreign policy and national defence. The President has the power to issue decrees and orders having the force of law (although these may not contradict the Constitution or federal legislation), to suspend acts of sub-federal executive authorities and to call a national referendum on matters of special importance. The President also has the power to veto bills passed by the Federal Assembly and, under certain circumstances, to dissolve the State Duma. The President also enjoys significant powers of appointment, including the power to appoint the Prime Minister (with the consent of the Duma) and other members of the Government (who are nominated by the Prime Minister). The President may also dismiss deputy prime ministers and federal ministers at any time. In addition, the President nominates candidates for Governor of the Central Bank (for appointment by the Duma) and the Prosecutor General (for appointment by the Federation Council) and also nominates judges for the Constitutional Court, the Supreme Court and the Supreme Arbitration Court (for appointment by the Federation Council).

The President is elected in a national election for a term of four years. The Constitution provides for the early termination of the President's term of office in the event of his death, resignation or impeachment, or if he is persistently unable to exercise his powers for reasons of health, in which case the Prime Minister fulfils the responsibilities of the President until a new President is elected. New presidential elections must be held within three months of any such early termination.

The Government of Russia comprises the Prime Minister, deputy prime ministers and federal ministers, all of whom are appointed by the President as described above. The Government is automatically dissolved after each presidential election, in order to permit the President to form a new Government. The Government is responsible for implementing federal laws, presidential decrees and international agreements. In particular, the Government is responsible for preparing and implementing the federal budget, establishing a unified financial, credit and monetary policy, carrying out social policy, preserving public order and defending the rights and freedoms of citizens.

The Legislative branch is the Federal Assembly, which consists of a lower chamber, the State Duma, and an upper chamber, the Federation Council.

The State Duma consists of 450 deputies, elected by a mixed system of majority vote and proportional representation. Half of the deputies are elected by majority vote in individual electoral districts. The other half are chosen from “party lists” on the basis of a nationwide election, with seats being allocated in proportion to the number of votes received by the party. Generally, only parties receiving more than 5 per cent. of the votes qualify for these “party list” seats. “Party list” deputies are free to change their party affiliations during their terms in office without the need for a new election. The State Duma sits for four years and no person may simultaneously serve as a State Duma deputy and hold a position in the Government.

The Federation Council represents Russia’s 89 Federation Subjects. Each Federation Subject has two representatives on the Federation Council, one representing its legislative body and the other representing its executive branch.

The Judicial branch is represented by the Constitutional Court, the Supreme Court and the Supreme Arbitration Court as well as lower courts of general jurisdiction and arbitration courts.

Political Parties and Elections

Presidential elections were most recently held on 26 March 2000. The elections were scheduled to take place in the summer of 2000 but the premature resignation of President Yeltsin on 31 December 1999 brought these elections forward to March. At the time of Yeltsin’s resignation, Vladimir Putin was the Prime Minister and, therefore, was elevated to the post of acting President.

Putin was successful in the first round of voting for the Presidential elections and secured over 52 per cent. of the votes cast with a turnout of 68.74 per cent. (more than 50 per cent. of the votes cast is required in order to be elected). His nearest challenger was the Communist candidate Gennady Zyuganov, who received almost 30 per cent. of votes.

The Government was appointed between May and July 2000. It has embarked on a course of significant reforms comparable to those in early 1992 aimed at strengthening the unity of the State and tightening federal control over the Federation Subjects.

In May 2000 President Putin reformed the structure of Presidential representatives in the regions. The Federation Subjects were divided into seven “federal areas” and authorised representatives with broad powers were appointed by the President to each federal area. The rights of the authorised representatives of the President include the right to participate in all activities of representative bodies of the Federation Subjects, to control the implementation of Presidential decrees and orders and federal economic programmes, and to control the use of federal property and federal funds by the Federation Subjects. The authorised representatives of the President in the Federation Subjects are financed by the Administration of the President.

The Duma elections were held on 19 December 1999 with the following results: — the Communist party led by Gennady Zyuganov won 24.3 per cent. of the votes cast; the Unity party led by Sergei Shoigou, the Minister of Emergency Situations 23.2 per cent.; the Fatherland-All Russia party led by former prime minister Yevgeny Primakov, Moscow Mayor Yuri Luzhkov and St Petersburg Mayor Vladimir Yakovlev 13.1 per cent.; the Union of Right Forces led by former prime minister Sergei Kiriyenko 8.6 per cent.; the Yabloko party led by Grigory Yavlinsky 5.9 per cent. and the “Zhirinovskiy bloc” led by Vladimir Zhirinovskiy 6.4 per cent. Other parties received the remaining 18.5 per cent.

As a result of the distribution of seats among political parties and winners in majority vote constituencies, the communists and their allies lost control over the Duma, which now has a broadly pro-Presidential majority.

Economic Conditions and Recent Economic Developments

Following the dissolution of the Soviet Union, particularly during 1991 and 1992, Russia experienced an economic crisis, evidenced by a decline in industrial production and GDP, significant price increases, a decline in the average standard of living and an increase in foreign debt. In response, the Government instituted a series of measures designed to achieve financial stabilisation and price liberalisation and to create an impetus for a transition to a market economy. The Government has freed most wholesale and retail prices, reduced defence allocations, cut state subsidies, introduced a substantial value-added tax, removed most non-tariff restrictions on foreign trade and launched a broad privatisation effort.

Russia's financial stabilisation programme came under severe pressure in the second half of 1997 and the first half of 1998, when the repercussions of the Asian currency and financial crises and sharp falls in world prices for oil and other commodities adversely affected the Government's ability to continue to finance its budget deficits and to maintain the value of the Rouble against the U.S. dollar. On 17 August 1998, the Government and the Central Bank announced a three-part programme intended to address these pressures. First, the Rouble trading corridor was revised from 5.25-7.15 Roubles for one U.S. dollar to 6.00-9.5 Roubles for one U.S. dollar. This corridor was subsequently abandoned. Second, domestic GKO/OFZ bonds issued prior to 17 August 1998 and maturing before 31 December 1999 were to be restructured into new longer-term instruments and trading of these instruments was suspended pending the restructuring. Finally, for a period of 90 days Russian private sector residents were restricted from conducting certain foreign exchange operations of a capital nature, including payments of foreign currency under forward contracts and repurchase agreements and principal payments on long-term credits.

The events of 17 August led to:

- a severe devaluation of the Rouble;
- a sharp increase in the rate of inflation;
- the near collapse of the country's banking system;
- significant defaults by Russian public and private borrowers on their foreign currency obligations;
- dramatic declines in the prices of Russian debt and equity securities (including Russia eurobonds); and
- an inability of Russian borrowers to raise funds internationally.

The situation stabilised rapidly, however, and 1999-2001 witnessed several positive developments. These included:

- a slow-down in the decline, and then a stabilisation, in the value of the Rouble against the U.S. dollar (and appreciation of the value of the Rouble against the U.S. dollar in real terms);
- a decline in consumer price inflation;
- an increase in real industrial output, resulting in part from the devaluation of the Rouble;
- an improved balance of trade, resulting in part from the devaluation of the Rouble and a significant increase in oil prices;
- improved tax collection, resulting in a significant primary fiscal surplus;

- increasing prices for Russian debt and equity securities;
- a decrease in the share of barter transactions, both in inter-enterprise transactions and in the execution of regional budgets; and
- the restructuring of a significant portion of Russia's Rouble-denominated domestic indebtedness and the reduction and restructuring of its London Club indebtedness.

President Putin's government has announced plans for substantial economic reforms (including the tax reform, the pension reform, the housing and utilities reform) and has begun the process of implementing some of those reforms.

Privatisation

Russia commenced its privatisation programme in early 1992. About 15,000 medium- and large-scale enterprises employing more than 70 per cent. of the industrial workforce had been privatised through the mass voucher privatisation programme by mid-1994. In a relatively short period of time, the companies in which the Government had had less than a majority equity interest came to represent over 50 per cent. of both GDP and employment.

The first stage of the Russian privatisation process, the so-called voucher privatisation, was completed in the summer of 1994. The second (post-voucher) phase of the privatisation process started in late July 1994, consisting of cash sales to domestic and foreign strategic investors with the primary objective of transferring control over the privatised companies to private management and ownership. The transfer of assets from state to private control continued in 1995 through a loans for shares programme, cash auctions and investment tenders. As at 31 December 2000, there were more than 900 joint stock companies which were 25 to 50 per cent. state owned and 371 joint stock companies which were more than 50 per cent. state owned.

In late 2000, the State Duma halted privatisation of the largest Russian companies until a new privatisation law was passed. In December 2001, the new Federal Law "On Privatisation of State and Municipal Property" was passed and entered into force in April 2002. This law introduces, *inter alia*, methods of state property privatisation.

The August 1998 financial crisis resulted in the suspension of several planned privatisation tenders. The Government has announced its intention to return to some of its privatisation plans.

Gross Domestic Product

The following table sets forth certain information regarding Russia's nominal GDP for the years 1996 to 2002:

	1996	1997	1998	1999	2000	2001	2002 ⁽²⁾
Nominal GDP (RUR billions)	2,145.7	2,478.6	2,741.1	4,757.2	7,063.4	9,040.8	4,842.1
Nominal GDP per capita (RUR)	14,523.2	16,826.4	18,659.0	32,515.0	48,527.0	62,783.3	33,720
Consumer Price Index ⁽¹⁾ (%)	147.8	114.7	127.8	185.7	120.8	121.5	116.6
Total population, millions (end of period)	147.1	146.7	146.3	145.6	144.0	144.0	143.6

Notes:

(1) Average on the annual basis (Source: Central Bank website, 21 October 2002).

(2) The figures for 2002 are given for the first six months of the year.

Source: Goskomstat's Russian Annual Statistics (2001 Edition), Goskomstat's website, 22 January 2002 and, for the figures for 2002, 21 October 2002.

Employment

Employment has declined in Russia since reforms were initiated. The level of unemployment increased in 1998 due to the Russian financial crisis, and the labour market still remains relatively depressed. According to the Central Bank of Russia figures (based on the methodology of the International Labour Organisation), the total number of unemployed in August 2002 was 5.4 million (7.5 per cent. of the labour force) as compared to 6.2 million (8.7 per cent. of the labour force) at the end of 2001, 7.0 million (9.9 per cent. of the labour force) at the end of 2000 and 8.9 million (12.4 per cent. of the labour force) at the end of 1999.

Source: Central Bank website, 23 October 2002.

Balance of Payments

The following table sets forth Russia's consolidated balance of payments for the years 1996 to 2001 and for the six months ended 2002:

Consolidated Balance of Payments							6 months ended 30 June 2002
	1996	1997	1998	1999	2000	2001	
	<i>(U.S.\$ millions)</i>						
Current account	11,725	2,032	659	24,731	47,294	34,620	14,879
Goods and non-factor services	17,087	11,080	12,786	31,845	53,961	39,338	16,618
Trade balance	22,471	17,025	16,869	36,129	60,703	47,839	20,855
Non-factor services	(5,383)	(5,945)	(4,083)	(4,284)	(6,743)	(8,501)	(4,238)
Income	(5,434)	(8,692)	(11,790)	(7,716)	(6,736)	(3,959)	(1,445)
Current transfers	72	(356)	(337)	601	69	(759)	(294)
Capital and financial account	(6,833)	2,818	8,425	(17,695)	(37,545)	(25,390)	(13,545)
Capital account	(463)	(797)	(382)	(328)	10,955	(9,356)	(1,249)
Financial account	(6,368)	3,615	8,807	(17,367)	(48,500)	(16,034)	(12,296)
Direct investments	1,656	1,681	1,492	1,102	(463)	(64)	208
Portfolio investments, net	4,410	45,775	8,618	(946)	(10,334)	(653)	(738)
Other investments	(15,277)	(41,904)	(6,608)	(15,745)	(21,693)	(7,105)	(5,173)
Reserve assets	2,841	(1,936)	5,305	(1,778)	(16,010)	(8,212)	(6,594)
Errors and omissions, net	(4,892)	(4,851)	(9,084)	(7,036)	(9,749)	(9,231)	(1,333)

Note:

Certain data presented in this table differs from the previously published data due to revisions made by the Central Bank of Russia.

Source: Central Bank website, 21 October 2002.

Official International Reserves

The following table sets forth information with respect to official international reserves as at 1 January for the years 1997 to 2002 and as at 1 October 2002:

	Official International Reserves						
	1 January 1997	1 January 1998 ⁽¹⁾	1 January 1999 ⁽²⁾	1 January 2000	1 January 2001	1 January 2002	1 October 2002 ⁽⁴⁾
	(U.S.\$ millions)						
Total Gold and currency reserves	15,324	17,784	12,223	12,456	27,972	36,622	45,619
Currency reserves.....	11,276	12,895	7,801	8,457	24,264	32,542	41,887
Foreign currency	11,271	12,771	7,800	8,455	24,263	32,538	41,878
SDRs.....	5	122	0	1	1	3	8
Reserve position on IMF.....	1	1	1	1	1	1	2
Gold ⁽³⁾	4,047	4,889	4,422	3,998	3,708	4,080	3,732

Notes:

- (1) From 1 August 1998 deposited gold is included in the international reserves figures.
- (2) From 1 September 1999 the amount of reserves excludes foreign currency balances in correspondent accounts of resident banks with the Central Bank of Russia, except for the funds transferred to Vnesheconombank for the purposes of servicing state external debt.
- (3) Valued at U.S.\$300 per fine troy ounce.
- (4) From 1 August 2002 the amount of reserves excludes the amount of short-term obligations of the Central Bank of Russia which are nominated in foreign currency.

Source: Central Bank website, 22 January 2002; and, for the figures as at 1 October 2002, 8 October 2002).

Monetary policy

The decrease of the budget deficit between 1992 and 1997 with its elimination in 2001, and the increased access of the Government to financing from sources other than the Central Bank, have reduced the pace of monetary expansion. Prior to the 1998 financial crisis, slower monetary growth and increased exchange rate stability have helped the Central Bank to reduce inflation from over 2000 per cent. in 1992 to 11 per cent. in December 1997. In 1998, however, inflation rose sharply again. After the crisis, the Government changed its policy towards the Rouble and proclaimed a debt moratorium and a mandatory restructuring of a significant share of domestic Rouble debt. Consumer price inflation was reduced to 10.3 per cent. in September 2002 (as compared to 18.6 per cent. for the year 2001, 20.2 per cent. for the year 2000 and 36.5 per cent. for the year 1999).

The Central Bank introduced a currency intervention band in July 1995. Another two "half-year" currency bands followed at the end of 1995 and in mid-1996. As confidence in the continuity of the exchange rate policy grew, the Central Bank introduced a full-year band for 1997. In November 1997, exchange rate policy was adjusted further, to allow the authorities more flexibility in accommodating shifts in short-term capital flows. The new (flat) trading band was announced for the three years from 1998 to 2000. This was supposed to help sustain the decline in inflation and domestic interest rates. However, in 1998 the Government dropped the currency trading band and allowed the Rouble to float freely. By the end of 1999, the Rouble had stabilised at around 25 Roubles to the U.S. dollar. Since then, the Central Bank has conducted a tight monetary policy through a system of barriers to limit the flow of currency out of Russia and direct currency interventions helping to reduce inflation and keep the Rouble under control.

The Rouble was redenominated, 1,000-fold, effective as of 1 January 1998. The old bills were in circulation until 1999 and will continue to be accepted by the Central Bank until 2002.

The Rouble is fully convertible for current account transactions. In June 1996, the Russian Government committed itself to compliance with the obligations of Article VIII of the IMF Charter.

External Debt

As at 1 January 2002 the state external debt of Russia amounted to U.S.\$130.1 billion (including indebtedness of the former USSR accepted by Russia). A significant proportion of that debt (U.S.\$42.3 billion) is owed to the Paris Club of sovereign creditors. The Government has been making efforts to restructure this Paris Club debt and reschedule payments. However, these efforts have not so far been successful. If the Paris Club debt is not restructured, Russia will face substantial foreign debt payments in 2003.

Source: Ministry of Finance website, 8 October 2002.

Social Conditions

The Russian standard of living declined with the beginning of economic reforms amid the country's severe economic problems. This decline has primarily affected the elderly and other segments of the population that are dependent on Government benefits. While reported real wages dropped sharply as a result of price liberalisation, Russian consumers have benefited from the wider range and improved quality of products available to them. Today, imported and domestic consumer products are available, although many goods are often beyond the means of most Russians and the market share of imported goods has been decreasing.

Legal Environment

Russian law has undergone radical changes in recent years. Whole bodies of law unknown in the Soviet era have been adopted, covering a wide range of areas including corporate, securities, anti-trust, privatisation, property, banking and bankruptcy law. The adoption of the first, second and third parts of the new Civil Code, the Securities Market Law and the Joint Stock Companies Law are further important steps in establishing a comprehensive legal framework. At the same time, confusion and uncertainty continue to exist with respect to the state of law in Russia, not least because the pace of its development often results in ambiguities and inconsistencies.

Much business-related legislation remains to be put in place. The absence of comprehensive business laws and regulations presents particularly difficult problems for businesses operating in Russia. Business-related legislation is also susceptible to revision in reaction to political influences and the pressure on the Government to generate revenue or to conserve foreign currency. In addition, a significant amount of Russian legislation has been adopted based on a more or less explicit understanding that it would serve as a general framework, with more detailed issues to be subsequently clarified by amendment or administrative regulation. In many cases, this clarification is yet to occur.

Regulations are interpreted and applied with little consistency and the decisions of one Government official may be overruled or contested by another. Moreover, many of the new Russian laws have never been interpreted by courts or administrative bodies. Both the Soviet experience and recent Russian practice suggest that the enforcement of legal rights in Russia will continue to be subject to greater discretion and political influence than is usual for most Western jurisdictions.

Exchange Controls and Repatriation

Russian currency exchange legislation limits the exchangeability of Roubles for foreign currency and the use of foreign currency in Russia. Russian currency legislation currently permits, and Russian foreign investment legislation currently guarantees, the right of foreign investors to convert Rouble income received on investments in Russia (including dividends, profits and interest) and to transfer it abroad. However, the actual repatriation of proceeds from the sale of certain investments may be postponed for as long as 365 days.

Foreign currency may be freely exchanged for Roubles in Russia, but the exchange of Roubles for foreign currency in Russia is restricted and Roubles may not be exported or exchanged outside Russia. Non-residents may freely convert foreign currency into Roubles, but may only do so through Rouble accounts which are subject to strict regulations.

The currency exchange rules govern transactions in foreign currencies and currency valuables (including foreign currency-denominated securities) between Russian residents (including citizens, permanent residents and legal entities established under Russian law) and foreign currency and Rouble transactions between residents and non-residents. Russian currency legislation distinguishes between “current” foreign currency transactions and foreign currency transactions involving a “movement of capital”.

“Current” foreign currency transactions generally may be freely carried out between residents and between residents and non-residents. “Movement of capital” transactions in foreign currency, generally require a licence from the Central Bank subject to exemptions enacted by the Central Bank. The prevailing view is that the licence is only required for Russian residents involved in such “movement of capital” transactions. Cash transactions in foreign currency are generally prohibited within Russia.

Following the financial crisis of 1998, additional regulations on foreign currency exchange were enacted. For example, the mandatory exchange of 75 per cent. of export revenues of Russian companies was required to be effected through the domestic foreign currency market. This requirement has been assisting the Central Bank in increasing its foreign currency reserves. The mandatory exchange requirement has been recently reduced to 50 per cent. of export revenues.

In 2001, certain steps were taken to remove some of the more onerous currency control requirements. In particular, Russian companies can now receive long-term loans from foreign lenders without a Central Bank licence provided that certain conditions are met.

OVERVIEW OF THE RUSSIAN OIL AND GAS INDUSTRY

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

Privatisation of Russian Oil Industry

The privatisation of the Russian oil industry was launched by 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 in 1993-1997. During these years, Russia’s major private oil companies (LUKoil, Surgutneftegas, YUKOS, Sibneft, TNK and SIDANCO) emerged.

The process of vertical integration of privatised companies was facilitated by a Presidential decree issued on 1 April 1995, allowing the integration of subsidiaries into vertically-integrated companies through share exchanges.

Russian vertically-integrated oil companies (both private and State-owned) differ as to their size of operations, geographic focus and management philosophy. Moreover, the Russian Government has applied different policies with respect to such companies at various times since the commencement of oil industry privatisation. Some companies concentrate primarily on opportunities in their historical regions of operations within Russia or within the former Soviet Union.

Oil Production

Oil production in Russia has been declining since the late 1980s. The decrease in production is 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.

In general, commercial incentives are now prompting the Russian Government and the Russian oil industry to adopt alternative production practices. However, domestic pricing remains significantly below world levels, hampering the ability of companies to reinvest or modernise production practices, equipment and facilities.

In 2001, Russia produced 348.07 million tonnes of crude oil and condensate (2,540.9 MMBbls), which represented a 7.6% increase over 2000. The following table shows approximate crude oil production levels of Russian oil companies in 2001.

Company	2001 (MMBbls)
LUKoil.....	459.3
YUKOS	424.2
Surgutneftegas	321.4
TNK.....	255.7 ⁽¹⁾
Tatneft.....	179.7
Sibneft.....	150.3
SIDANCO	114.1
Rosneft.....	109.1
Slavneft.....	109.0
Bashneft.....	86.6
Gazprom	74.4
Others	257.2
Total.....	2,540.9

Note:

(1) The figure excludes TNK-N. Its crude oil production in the amount of 47.5 MMBbls is included in SIDANCO crude oil production.

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

Domestic Crude Oil Supply

While crude oil production in Russia has fallen in the last decade, demand has fallen further, leading to excess domestic supplies of crude oil. This decline in demand and constraints on exports are factors that have kept domestic prices low and hindered a significant real increase in the domestic price of crude oil. Although the devaluation of the Rouble in the course of the August 1998 Russian financial crisis gave impetus to domestic oil production, the additional production was mainly export-orientated, as world oil prices rose dramatically in 1999-2000. Russian vertically-integrated oil companies are now seeking to increase the utilisation of their refining capacities but, given the increased profitability of export sales, many of them still find it more profitable to export crude oil at high world prices than to expend resources on refining.

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, and will continue to be, restricted in the medium term by limited domestic and international pipeline transportation and port capacity. In 2001, Russia exported approximately 129 million tonnes of crude oil (940.2 MMBbbl), a 3% increase over 2000.

Crude Oil and Refined Product Transportation Network

The trunk pipelines for the transport of crude oil and refined products in Russia are controlled by Transneft and Transneftproduct, both State-controlled monopoly companies. The Russian Government is expected to retain control over these entities for the foreseeable future.

The Transneft network consists of approximately 47,000 kilometres of pipeline, 870 storage tanks, 390 oil pump stations and 2,000 pumping units.

The limited 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. 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, there appears little likelihood that the situation will improve significantly in the medium term.

Refining

Although refinery utilisation increased in 2001 due to some increase in domestic demand and, more importantly, to increased export of light petroleum products, the refinery utilisation rates remain low by international measures. Their level reflects demand for refined products, the inability of a substantial number of customers to pay for them and, in some instances, the reluctance of vertically integrated companies to expend resources on refining.

In 2001, the refined volume reached approximately 175 million tonnes (1,277.5 MMBbls), representing a 7% increase over 2000. The following table shows approximate refining volumes for Russian oil companies in 2001.

Company	2001 (MMBbls)
YUKOS	209.4
LUKoil.....	164.5
Bashneft.....	148.1
Surgutneftegas	115.3
TNK.....	106.2 ⁽¹⁾
Sibneft.....	96.8
Slavneft.....	83.5
CTK-Moskovsky Refinery	71.7
Rosneft.....	53.3
Salavatnefteorgsintez.....	43.5
Tatneft.....	40.9
Gazprom	36.3
SIDANCO	27
Others	76.7
Total.....	1,277.5

Note:

- (1) This refining volume covers only the crude oil input for the Ryazan Refinery and Orsk Refinery. TNK's internal refining volume for 2001 totalled approximately 156.6 MMBbls, which also included refining volumes for the LiNOS and Nizhnevartovsk refineries, as well as other input for all four refineries. See "Business – Refining and Marketing – Refining".

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

Regulation of the Russian Oil and Gas Industry

General

Regulation of the oil industry in Russia is still evolving with federal, regional and local authorities each promulgating rules.

At the federal level, mainly the Ministry of Energy, the Federal Energy Commission and the Government Commission on the Use of Trunk Oil and Gas Pipelines set governmental policy for the industry and regulate the activities of oil companies, pipeline access and tariffs. Generally, the Ministry of Natural Resources (or its regional department) licenses the use of subsoil resources together with the relevant regional authority as described below. In certain circumstances (for example, in relation to subsoil resources on the continental shelf), licences are granted by the Russian Government.

Federal legislation also affords a measure of autonomy to regional and local authorities to exercise rights to the use of natural resources and provides that the use of subsoil is under the joint jurisdiction of the federal and regional authorities. While, in principle, Russian federal law prevails over contradictory regional or local laws, authorities at the regional or local level may have substantial practical authority over the operations of an oil company in a particular location. Regional authorities generally share jurisdiction over the grant of subsoil licences with the Ministry of Natural Resources. Regional and local authorities enforce their taxation regimes, administer land-use regulations and oversee compliance with environmental and worker-safety codes. Local and regional authorities also exercise some control over the use of the national and local pipeline grid through their jurisdiction to regulate land-use and environmental matters.

Operations in offshore areas beyond the 12-mile territorial sea limit are separately governed by Federal Law “On the Continental Shelf of the Russian Federation” of 30 November 1995.

Petroleum operations carried out under a production sharing agreement (“PSA”) are governed by the Federal Law “On Production Sharing Agreements” of 30 December 1995, as amended (the “PSA Law”). This provides that operations conducted under a production sharing agreement pursuant to the PSA Law would be governed by the PSA itself and not be affected by contrary provisions of any other legislation, including the Federal Law “On Subsoil”, dated 21 February 1992 (the “Subsoil Law”). Furthermore, production sharing agreements entered into by the Russian Government prior to the enactment of the PSA Law are recognised (the so-called “grand-fathered PSAs”).

The regime governing PSAs is still developing. Legislation enacted in 2001 has introduced greater consistency in the tax regime for PSAs and the general tax system. However, much of the subordinate legislation necessary for full implementation of the PSA Law remains to be enacted, including, in particular, issues of cost recovery, abandonment (decommissioning), procurement and accounting.

The Ministry of Economic Development and Trade has recently been given the responsibility of overseeing PSAs. It has been charged with directing the activity of State representatives in managing committees established under PSAs, and monitoring the production of mineral raw materials and their allocation between PSA investors and the State. The Ministry of Economic Development and Trade was also given the power to examine feasibility studies and to propose new fields eligible for development on a PSA basis, to initiate exemptions from tender procedures generally required for conclusion of PSAs and to propose tariff concessions.

Licensing

The licensing regime for exploration and production is established primarily by the Subsoil Law and the regulations issued pursuant to it (the “Subsoil Regulations”). Until 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 exploration term is still five years, and a production term is as long as required (as shown in the feasibility study) for rational full exploitation of the deposit. The Subsoil Law does not expressly provide for a combined exploration/production term, but the Ministry of Natural Resources issues combined licences for the term contemplated for production licences.

Generally, production licences and combined licences are awarded by tender or auction held jointly by the Ministry of Natural Resources (or its regional department) and the relevant regional authority. The winner is the participant which submits the most technically competent, financially attractive and environmentally sound proposal that meets published tender terms and conditions. Exploration licences are generally awarded without a tender upon a decision of the Ministry of Natural Resources (or its regional department) that has been approved by the relevant regional authority. Upon discovery of oil, a production licence is issued without a tender to a holder of an exploration licence. Licences may be transferred only under certain limited circumstances. A licensee is also generally granted rights to use land covering the licensed area.

The licensee 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 licensee may also be obliged to fulfil certain social obligations in the area to which the licence relates, 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 revocation of the licence. The Ministry of Natural Resources oversees compliance with the terms of the licence.

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. These procedures may result in significant unforeseen costs.

In accordance with a general regime, a holder of an oil production licence is subject to the unified natural resources production tax. See “General Tax Regime Related to Russian Oil Companies – Unified Natural Resources Production Tax”. In addition, the Subsoil Law and Subsoil Regulations provide for a licence fee and a fee for participation in a tender (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 unified natural resources production tax amount calculated based on planned average annual oil production of a licence holder).

Federal Law “On Licensing of Certain Types of Activities”, dated 8 August 2001, lists activities relating to the oil and gas industry which require separate licensing. These include, among others, the operation of oil and gas mains and other equipment, the storage of oil and gas and their respective products, the processing and transportation of hydrocarbons and hydrocarbon products, and the sale of oil, gas and their products. The Ministry of Energy and the governmental agency Gosgortekhnadzor were authorised to issue these separate licences.

Crude Oil and Refined Product Transportation Regime

From 1995, as part of a scheme to deregulate prices and liberalise export controls, the Russian Government established equal pipeline and sea terminal access procedures for all oil companies in proportion to the actual production volume of each company. This system allowed Russian oil companies to export, on average, 30-35% of the produced oil.

Currently the allocation of pipeline and sea terminal access rights is overseen by the Government Commission on the Use of Trunk Oil and Gas Pipelines. This Commission approves quarterly schedules which, *inter alia*, detail the precise volumes of oil that each oil producer can pump through the Transneft system. Such quarterly schedules provide certain stability in the export regime for Russian oil companies. Once the access rights are allocated, oil producers generally cannot increase their allotted capacity in the export pipeline system, although they do have limited flexibility in altering delivery routes. Oil producers are generally allowed to assign their access rights to a third party.

In August 2001, the Russian Government started implementing the reform of allocation of pipeline and sea terminal access rights. From September 2001, pipeline and sea terminal access rights are now distributed 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 to oil production volumes). Previously, the plan of reform envisaged that pipeline and sea terminal access rights would be sold at a tender (starting with 25% of pipeline capacity at the first stage).

Transneft has a very limited ability to transport individual batches of crude oil with the result that crude oil of differing qualities, delivered in the pipeline system, is blended. Transneft does not currently operate a system whereby companies shipping heavy and sour crude would compensate the shippers of higher-quality crude oil for the deterioration in the crude quality arising from blending. Although the introduction of such a compensatory system is currently under discussion between Transneft and the Russian Government, these prospects cause aggressive resistance from regions whose reserves are low-grade.

The tariffs for using Transneft's pipelines are set by Transneft, subject to the oversight of the Federal Energy Commission. The Federal Energy Commission was established in 1995 to regulate monopolies in the petroleum and energy-transmission network, including their tariff structure.

Volume and Price Controls on Natural Gas

Pursuant to the Federal Law "On Gas Supply in the Russian Federation", dated 31 March 1999, and the Main Provisions on Formation and State Regulation of Gas Prices and Tariffs for the Services of Gas Transportation (approved by Decision of the Russian Government), dated 29 December 2000, the wholesale prices of gas are established by the Federal Energy Commission and its regional departments. The gas prices for sale to refineries are regulated by the Ministry of Economic Development and Trade together with the Ministry of Finance and the Ministry of Energy. Gas prices are not subject to indexation with crude oil prices. The prices differ for different constituent entities 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. However, the Ministry of Energy suggests flexible seasonal regulation of the export duties on refined products and imposition of the State non-tariff measures on the domestic refined products market.

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.

State customs authorities of the Russian Federation (the Energy Customs and regional customs authorities) perform statistical monitoring of the price level with respect to oil and oil products. When oil and refined products are shipped for export, a provisional customs freight declaration is executed indicating the value of the oil and oil products calculated as at the date of the customs freight declaration. Following shipment under the customs freight declaration, the customs freight declaration is closed at the price stated in the invoice related to the shipment under the customs freight declaration. The price calculation in the closing of the customs freight declaration is checked by the currency department of the regional customs authorities and the oil department of the Energy Customs. The value of the quotations on the date of the price calculation, conformity of the price calculation procedure and the amount of the deductible discount to the conditions of the foreign trade contracts and the price level of other exporters are checked. In some cases, the Russian customs authorities may request documents confirming the value of the deductible discount.

Environmental

Russian industry has tended to cause excessive levels of pollution compared to western standards. As a result of the damage inflicted on the environment under the Soviet regime, environmental issues and pollution control have won widespread support.

Two main sets of regulations govern environmental protection. The first set includes the Federal Law "On Environmental Protection" of 10 January 2002 and the Federal Law "On Ecological Expert Review" of 23 November 1995. These laws require that an environmental impact assessment be made

prior to implementation of a project related to the use of natural resources. 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. If discharge exceeds permissible levels, a company is subject to fines calculated as a multiple of the original “fee” set for discharge of pollutants. The second set of regulations on environmental protection comprises a series of laws and regulations that relate to the use of natural resources, including the Subsoil Law.

While protection of the environment is apparently not an issue of immediate priority to the current Russian Government, it is widely expected that, as the economic situation improves, enforcement of existing legislation and environmental standards and rules will become more stringent, and that more comprehensive legislation will be adopted. For example, in May 1999, new rules on obligatory certification of oil and gas field specialised equipment came into effect.

GENERAL TAX REGIME RELATED TO RUSSIAN OIL COMPANIES

Russian tax systems include federal (established by the federal authorities and applied for all entities doing business in Russia), regional (established by the Russian Tax Code and regional authorities and applied for entities doing business in particular region) and local (established by the Russian Tax Code and local authorities and applied to entities registered or doing business in particular towns) taxes.

Below are brief descriptions of the major federal and regional taxes applicable to TNK's Russian subsidiaries.

Profits Tax

Provisions of the Profits Tax chapter of the Russian Tax Code became effective starting 1 January 2002 and replaced the provisions of the Profits Tax Law existing since the early 1990's. There is a single profit tax system, but payments are split between federal, regional and local budgets. The statutory profit tax rate is currently 24%, of which 7.5% will be subject to payment to the federal budget and 14.5% and 2% shall be payable to the regional and local budgets respectively. From 1 January 2003 the tax payment is split in the following proportion: 6% will be subject to payment to the federal budget and 16% and 2% shall be payable to the regional and local budgets, respectively. The profit tax chapter of Part Two of the Tax Code introduced the following important elements into the profit tax regime:

- Profit was defined more closely to real economic profit, and many expenses that were previously non-deductible became deductible for tax purposes, however certain limitations still exist;
- Depreciation rates increased and moved closely tied to the economic life of the assets; taxpayers are now given a choice between straight-line and declining balance methods of depreciation for tax purposes for most groups of assets, thus the amount of depreciation in the early years may be significantly increased, if a taxpayer chooses the latter method;
- The loss carry-forward rules have been amended to allow taxpayers to offset tax losses against profits in future tax periods over the next ten years (instead of the previously applicable five year period), provided however, that the amount of such carry-forwards may not exceed 30% of the tax base in any tax period (instead of the previously existing 50% limitation);
- Methods of profit tax calculation were modified with the accrual method becoming the only method available for major companies.

The new profit tax chapter of the Tax Code also eliminated numerous tax exemptions which were available under prior law, including the deduction of capital investments in the year when the costs are incurred. The profit tax chapter also limited the ability of the regional legislative bodies to decrease the rate of profit tax payable to the regional budget. Such rate is currently set at 14.5% and cannot be reduced below 10.5%. Thus the lowest overall profit tax rate is 20%. For certain types of enterprises, which were granted certain concessions prior to the introduction of the Tax Code, the overall profits tax rate is 7.5% (previously the lowest possible rate was 11%). These concessions can be granted for no longer than three years from the date of their enactment.

Value Added Tax and Import Customs Duties

A value-added tax ("VAT") of 20% (10% in the case of certain foods and children's goods) is imposed on domestic sales of goods, works and services and on the customs value of goods imported into Russia inclusive of customs duties. Exports of goods are not subject to VAT (technically, in accordance with the Tax Code subject to 0% VAT) except for exports of oil, oil condensate and natural gas to other CIS countries, in which case a general 20% VAT rate applies. The normal domestic VAT rates apply for sales of goods to the Republic of Belarus.

VAT paid to suppliers of goods, works and services can be offset by the taxpayer against VAT received. With the introduction of Chapter 21 of the Tax Code, VAT on constructed fixed assets also became recoverable in full. This amendment significantly lowered the cost of TNK's capital investments.

A number of goods, works and services are exempt from VAT. An exemption from VAT applies to certain goods imported into Russia, e.g., technological equipment, its components and spare parts contributed to the charter capital of Russian companies. Import customs duties are generally imposed at rates ranging from 5% to 25% on a wide range of imports. Whereas certain conditions established by Russian legislation are met, there might be reduction or exemption from customs duties, i.e., imported goods, which qualify as fixed assets used for production activities contributed by foreign investors to the charter capital of Russian companies are exempt from import customs duty.

Turnover Taxes

As of 1 January 2001, the road user tax at a rate of 1% of the company's sales revenue applies. As of 1 January 2003, the road user tax will be repealed.

Social Security Contributions for Employees

Historically, social security contributions were payable by employers to four different non-budgetary funds (the Pension Fund, Social Insurance Fund, Medical Insurance Fund and Employment Fund) at the aggregate rate of 38.5% of gross payroll. In addition, employees were subject to a Pension Fund contribution equal to 1% of their wages.

Currently, a unified social tax is assessed on a gross payroll according to a regressive rate schedule ranging from 35.6% to 2%, depending on the level of employees' wages in a particular company.

In addition to the unified social tax, employers are liable for obligatory contributions to the Social Insurance Fund for insurance for job 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. There is an intention of the governors to introduce additional payment to Pension Fund with respect to difficult working conditions in certain industries, locations.

Local and Regional Taxes

In addition to the taxes described above, each Russian region and locality may impose certain regional and local taxes, respectively, in accordance with procedures established by federal law.

Property Tax – regional tax

Property tax is currently levied at the rate up to 2% of average annual book value of fixed assets, intangibles and inventory per annum.

Unified Natural Resources Production Tax

Federal Law No. 126-FZ of 8 August 2001, which became effective on 1 January 2002, amended the previously existing regime of mineral resource restoration payments, royalties and excise taxes on the production of oil and gas condensate and replaced all such taxes with unified natural resources production tax.

From 1 January 2002 until 31 December 2004, the natural resources production tax with respect to crude oil will be based on the amount of oil produced. The tax rate applicable from 1 January 2002 until 31 December 2004 will be RR340 per tonne of crude oil, subject to an adjustment using a special coefficient reflecting the dynamics of world oil prices and the Rouble/U.S. dollar exchange rate. This coefficient will be applicable on a quarterly basis and will represent a ratio in which (i) the numerator is the product of (x) the Rouble/U.S. dollar average quarterly exchange rate and (y) the difference between quarterly average oil prices per barrel for "Urals" blend and U.S.\$8 and (ii) the denominator equals 252.

Starting 1 January 2005, the tax base for the natural resources production tax will be determined as the value of extracted natural resources which may be calculated by reference to actual sale prices of natural resources or the deemed value of natural resources. With respect to the production of oil and oil condensate, the natural resources production tax will be levied at the rate of 16.5% of the value of extracted natural resources.

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, the Law on Customs Tariff (the “Law on Customs Tariff”) was amended to establish procedures of calculation of maximum rates of export customs duties for crude oil based on the average price of “Urals” blend for the two preceding months.

The rates of customs duties established by the Russian government in accordance with the framework set in the amended Law on Customs Tariff are as follows:

Average Price for “Urals” Crude Oil Blend⁽¹⁾	Maximum export customs duties
Up to U.S.\$109.5 per tonne (U.S.\$15 per barrel)	0%
U.S.\$109.5 to U.S.\$182.5 per tonne (U.S.\$15 to U.S.\$25 per barrel)	35% of the difference between the actual price (per tonne) and U.S.\$109.5
Greater than U.S.\$182.5 per tonne (U.S.\$25 per barrel)	U.S.\$25.53 per tonne (U.S.\$3.5 per barrel) plus 40% of the difference between the actual price (per tonne) and U.S.\$182.5

Notes:

- (1) 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.

Oil-related Payments for the Right to Explore and Appraise Oil Fields and Prospect for Natural Resources

Historically Russian oil companies made payments for the right to explore and appraise oil fields, as well as payments for the right to prospect for natural resources as a percentage of the value of exploration and appraisal works (1-2%) and value of prospecting works (3-5%).

Starting from 2002 Federal Law No. 126-FZ of 8 August 2001, introduced a new approach to the calculation of both the base and rate for these payments. This Law linked the payments to the size of the license area provided to the user of the subsoil. The minimum and the maximum annual rates payments are set by Resolution of the Government of the RF No. 926 of 29 December 2001: (i) rate for the right to explore and appraise oil fields – from 120 (50 – for offshore areas) Rouble/sq.km to 360 (150 – for offshore areas) Rouble/sq.km; (ii) rate for the right to prospect for natural resources from 5,000 (4,000 – for offshore areas) Rouble/sq.km to 20,000 (16,000 – for offshore areas) Rouble/sq.km. Exact rates for specific areas are to be set by regional authorities for the onshore areas and the Ministry of Natural Resources for offshore areas. Where these specific rates have not been set the above maximum rates shall apply.

Current Excise Tax on Oil Products

Historically gasoline, diesel fuel and motor oils were subject to a Fuel Sales Tax at 25% of their value. Excise tax was payable only with respect to gasoline.

As of 1 January 2001 the Fuel Sales Tax has been abolished, whereas Excise Tax became applicable to all of the above products. The rates are as follows:

Oil Product	Rate per tonne	
	Current rate per tonne, Rouble	from 1 January 2003, Rouble
Gasoline with octane numbers not exceeding "80"	1,512	2,190
Gasoline with octane numbers exceeding "80"	2,072	3,000
Diesel fuel	616	890
Motor oil	1,680	2,440

THE BANK

Salomon Brothers AG (the “Bank”) is licensed under the laws of the Federal Republic of Germany and is supervised and regulated by the German Banking Supervisory Authority and the German Bundesbank. The Bank was licensed as a bank with effect from 22 October 1986 in Frankfurt am Main and is engaged in various banking and investment banking activities.

Neither the Bank, nor Salomon Smith Barney Holdings Inc., nor any of their respective affiliates, is an affiliate of the Borrower.

The fully paid up share capital of the Bank is EUR230,081,346.54 (DM450,000,000), and the amount of its capital reserves as at 31 December 2001 was EUR1,440,281.11 (DM2,816,945).

The Members of the Management Board of the Bank are Dr Frank Müller, Dieter Visser, Christoph Lampert and Dr Christian Ganssmüller.

Since the Bank’s sole obligation in respect of the Notes is to make certain payments as and when payments on the Loan are received by the Bank pursuant to the Loan Agreement or the Guarantee Agreement, financial information relating to the Bank is not included in this Offering Circular.

LOAN AGREEMENT

LOAN AGREEMENT, dated 4 November 2002 **BETWEEN**

(1) **JOINT STOCK COMPANY TYUMEN OIL COMPANY (“TNK”)**; and

(2) **SALOMON BROTHERS AG** (the **“Bank”**).

WHEREAS, the Bank has at the request of TNK agreed to make available to TNK a loan facility in the amount of U.S.\$400,000,000 on the terms and subject to the conditions of this Agreement; and

WHEREAS, it is intended that the Bank will issue certain loan participation notes with payment obligations based on amounts payable by TNK under the loan facility.

NOW IT IS HEREBY AGREED as follows:

1. Definitions and Interpretation

1.1 Definitions

In this Agreement (including the recitals), unless otherwise defined herein, the following terms shall have the meanings indicated.

“Advance” means the advance to be made under sub-Clause 3.1 of the sum equal to the amount of the Facility.

“Affiliate” of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (ii) any other Person who is a director or officer (A) of such specified Person, (B) of any Subsidiary of such specified Person or (C) of any Person described in clause (i) above. For the purpose of this definition, “control” when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Affiliate Transaction” means any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate.

“Agreed Form” means that the form of the document in question has been agreed between the proposed parties thereto and that either a copy thereof has been signed for the purpose of identification on behalf of each of Linklaters and White & Case or such document has been signed on behalf of the parties thereto and delivered to Linklaters to be held in escrow pending release on the Closing Date.

“Agreement” means this Agreement as originally executed or as it may be amended from time to time.

“Business Day” means a day on which (a) the London Interbank Market is open for dealings between banks generally, and (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Frankfurt am Main, New York City and in the city where the specified office of the Principal Paying Agent is located.

“Capital Stock” means, with respect to any Person, any and all shares or other equivalents (however designated) of corporate stock, partnership interests or any other participation, right, warrant, option or other interest in the nature of an equity interest in such Person, but excluding any debt security convertible or exchangeable into such equity interest.

“Closing Date” means 6 November 2002.

“Consolidated Indebtedness” means, as at any date of determination, (and without duplication) all Indebtedness of the International Group outstanding on such date, determined on a consolidated basis in accordance with U.S. GAAP.

“Consolidated Net Worth” means, as at any date of determination, the total share holder’s equity of the International Group as at such time in accordance with U.S. GAAP.

“Default” means any event which is, or after notice or passage of time or both would be, an Event of Default.

“Dollars”, “\$” and “U.S.\$” means the lawful currency of the United States of America.

“Encumbrance” means (a) any mortgage, charge, pledge, lien or other encumbrance securing any obligation of any Person, (b) any sale, transfer or other disposal of receivables on recourse terms or (c) any other type of preferential arrangement (including any conditional sale or title retention arrangement) having a similar effect.

“Environmental Laws” means all laws, rules, regulations, ordinances, judgments, orders, decrees and agreements with, and licences, permits or franchises from, governmental entities, and all other regulatory restrictions (whether or not having the force of law) that (i) have been, or are applicable to TNK or any Subsidiary or any properties or business now or in the past owned, leased, occupied or operated by TNK or any Subsidiary and (ii) relate to the environment, health and safety, use, possession, collection, storage, processing, treatment, emission, release, discharge, disposal, transfer or transport of Materials of Environmental Concern or the remediation of any of the foregoing.

“Event of Default” has the meaning assigned to such term in sub-Clause 11.1.

“Facility” means the facility specified in Clause 2.

“Group” means TNK and its Subsidiaries taken as a whole.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise) or (ii) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term “Guarantee” will not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Guarantee Agreement” means the guarantee agreement dated 4 November 2002 between the Bank and TIL.

“Hedging Agreement” means in respect of any Person, any interest rate swap agreement, interest rate option agreement, interest rate cap agreement, interest rate collar agreement, interest rate floor agreement, currency exchange agreement, currency exchange option agreement, currency exchange cap agreement, currency exchange collar agreement, currency exchange floor agreement, forward sale, commodity swap or other similar agreement or arrangement designed to protect such Person against fluctuations in interest rates, currency exchange rates or commodity prices.

“incur” means issue, assume, Guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary will be deemed to be incurred or issued by such Subsidiary at the time it becomes or is so merged into a Subsidiary.

“Indebtedness” means any indebtedness, in respect of any Person for, or in respect of, moneys or (only in respect of transactions with Persons outside of the International Group) the financial equivalent of oil borrowed; any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any amount raised pursuant to any issue of shares which are expressed to be redeemable; any amount of money or oil raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing; and the amount of any liability in respect of any Guarantee or indemnity for any of the items referred to above provided, however that the term “Indebtedness” shall exclude indebtedness consisting of Rouble-denominated bonds or notes issued by TNK for the period that any such bonds or notes are held by any member of the International Group; provided further that there shall be no double counting when calculating Indebtedness for the purposes of the definition of Consolidated Indebtedness or in respect of Clauses 10.1 or 11.1.5.

“Interest Payment Date” means 6 May and 6 November of each year.

“Interest Period” has the meaning assigned to such term in sub-Clause 4.2.

“International Group” means TIL and its Subsidiaries (including TNK and its Subsidiaries) taken as a whole.

“LiNOS” means Open Joint Stock Company Lisichansknefteorgsintez.

“Loan”, at any time, means an amount equal to the outstanding aggregate principal amount of the Facility granted by the Bank pursuant to this Agreement.

“Material Adverse Effect” means a material adverse effect on (a) the business, operations, property, condition (financial or otherwise) or prospects of the Group taken as a whole; (b) TNK’s ability to perform its obligations under this Agreement or (c) the validity or enforceability of this Agreement or the rights or remedies of the Bank under this Agreement.

“Materials of Environmental Concern” means any toxic, ignitable, corrosive, reactive, radioactive or caustic substance, and any other substance considered a pollutant, contaminant or hazardous or potentially hazardous substance or waste.

“NNG” means Joint Stock Company Nizhnevartovskneftegas.

“Noteholder” means the person in whose name the Note is registered in the register of the noteholders (or in the case of joint holders, the first named holder thereof).

“Notes” means the U.S.\$400,000,000 11 per cent. loan participation notes due 2007 proposed to be issued by the Bank pursuant to the Trust Deed for the purpose of financing the Loan.

“Officers’ Certificate” means a certificate signed by two officers of TNK at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of TNK or any other person duly authorised by such officer.

“Paying Agency Agreement” means the paying agency agreement to be dated on or about 6 November 2002 between the Bank, TNK, Citibank, N.A., The Law Debenture Trust Corporation p.l.c. and Dexia Banque Internationale à Luxembourg S.A. relating to the Notes.

“Permitted Encumbrance” means

- (a) any Encumbrance existing as at the date of this Agreement (provided that the principal, capital or other amount of the obligation secured by such Encumbrance is not increased beyond the amount secured by such Encumbrance as at the date hereof);
- (b) any title transfer or retention of title arrangement entered into by any member of the International Group in the normal course of its trading activities on the counterpart’s standard or usual terms;
- (c) any Encumbrance arising solely by operation of law, including, without limitation, on pipeline or pipeline facilities, mechanics’, carriers’, warehousemen’s, materialmen’s, suppliers’ and vendors’ Encumbrances in the ordinary course of business;
- (d) any Encumbrance over or affecting any asset acquired by a member of the International Group after the date hereof and subject to which such asset is acquired, if:
 - (i) such Encumbrance was not created in contemplation of the acquisition of such asset by a member of the International Group;
 - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by a member of the International Group; and
 - (iii) such Encumbrance does not extend to any other assets or property (other than proceeds of such acquired assets or property),
- (e) any Encumbrance over or affecting any asset of any company which becomes a member of the International Group after the date hereof, where such Encumbrance is created prior to the date on which such company becomes a member of the International Group, if:
 - (i) such Encumbrance was not created in contemplation of the acquisition of such company;
 - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such company; and
 - (iii) if such Encumbrance does not extend to any assets or property of TNK or any Subsidiary other than the acquired company and its Subsidiaries;
- (f) any Encumbrance:
 - (i) securing reimbursement obligations of TIL or any of its Subsidiaries with respect to letters of credit encumbering only documents and other property relating to such letters of credit and the products and proceeds thereof;
 - (ii) on deposits made to secure obligations arising from statutory, regulatory, contractual or warranty requirements of TIL and its Subsidiaries;
 - (iii) in favour of TNK; or
 - (iv) on any property or asset acquired, constructed or improved by TIL or any of its Subsidiaries, which (A) is in favour of the seller of such property or assets, in favour of the Person constructing or improving such asset or property, or in favour of the Person that provided the funding for the acquisition, construction or improvement of such asset or property, (B) is created within 360 days after the date of acquisition, construction or improvement, (C) secures the purchase price or construction or improvement cost, as the case may be, of such asset or property in an amount up to 100% of the fair market value (as determined by the Board of Directors of TNK) of such acquisition, construction or improvement of such asset or property, and (D) is limited to the asset or property so acquired, constructed or improved (including proceeds thereof, accessions thereto and upgrades thereof);

- (g) any Encumbrance securing or providing for the payment of, or any renewal, extension or refinancing of, Indebtedness incurred in connection with any Project Financing;
- (h) any Encumbrance upon any crude oil or refined product export contract (including contract for sale, transportation or exchange, utilisation and pooling declaration and agreements) entered into from time to time between TIL or any of its Subsidiaries and a purchaser in the ordinary course of TIL's or such Subsidiaries business that is customary in the oil and gas business;
- (i) any Encumbrance in respect of obligations arising under Hedging Agreements;
- (j) any Encumbrance incurred, or pledges and deposits in connection with workers' compensation, unemployment insurance and other social security benefits, and other obligations of like nature in the ordinary course of business;
- (k) any Encumbrance for ad valorem, income or property taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which TIL has set aside in its consolidated accounts reserves to the extent required by U.S. GAAP;
- (l) any easement, right of way, restriction (including zoning restriction), reservation, permit, servitude, minor defect or irregularity in title and other similar charge or encumbrance, and any Encumbrance arising under a lease or sublease granted to others, in each case not interfering in any material respect with the business of TIL or any of its Subsidiaries and existing, arising or incurred in the ordinary course of business;
- (m) (i) any bankers' Encumbrance in respect of accounts, (ii) statutory landlords' Encumbrance, (iii) deposit to secure the performance of bids, trade contracts, government contracts, leases, statutory obligations, surety and appeal bonds, performance and return-of-money bonds or liabilities to insurance carriers under insurance or self-insurance arrangements and other obligations of like nature (so long as, in each case with respect to items described in sub-clauses (i), (ii) and (iii) above of this clause (m), such Encumbrance (X) except in the case of a bankers' Encumbrance in respect of accounts do not secure obligations constituting Indebtedness for borrowed money and (Y) are incurred in the ordinary course of business), and (iv) any Encumbrance arising from any judgement, decree or other order which does not constitute an Event of Default;
- (n) any Encumbrance upon, or with respect to, any of its present or future assets or revenues or any part thereof which is created pursuant to (a) any securitisation, asset backed financing or like arrangement and whereby all payment obligations secured by such Encumbrance or having the benefit of such Encumbrance, are to be discharged solely from such assets or revenues or (b) any issue of secured bonds, secured debentures, secured notes or other secured securities; and
- (o) any renewal of or substitution for any Encumbrance permitted by any of the preceding clauses (a) through (n) (whether in the context of refinancing or rolling over Indebtedness or otherwise and whether granted to the same or another Person or Persons); provided, however, that, with respect to any Encumbrance incurred pursuant to this clause (o) the principal amount secured has not increased and the Encumbrance has not been extended to any additional property (other than proceeds of the property in question or any account that is established and operated solely for the purposes of and secured for the benefit of the Person(s) providing the Indebtedness or any of its or their Affiliates);

provided that the aggregate amount of Consolidated Indebtedness secured by such Permitted Encumbrances at any time shall not exceed 85 per cent. of the Consolidated Indebtedness of the International Group.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity.

“Project Financing” means (a) any financing of all or part of the costs of the acquisition, construction or development of a project if the Person or Persons providing such financing expressly agree to look to the project financed and the revenues derived from such project (together with credit support provided by third parties without recourse to TNK or any Subsidiary of TNK) as the principal source of repayment for the monies advanced or (b) any financing under Export Import Bank of the United States, transaction number AP067280XX (relating to the Samotlor Oil Field Rehabilitation Project) and transaction number AP070202XX (relating to the Ryazan Oil Refinery Modernisation Project).

“Rate of Interest” has the meaning assigned to such term in sub-Clause 4.1.

“Ratings Downgrade” means the downgrade or withdrawal of, or the placing on “creditwatch” (or other similar publication) or formal review by the relevant rating organisation, of the rating of TIL or its debt securities by any statistical rating organisation generally recognised by banks, securities houses and investors in the international capital markets.

“Repayment Date” means 6 November 2007.

“Rouble” means the lawful currency from time to time of the Russian Federation.

“Same-Day Funds” means Dollar funds settled through the New York Clearing House Interbank Payments System or such other funds for payment in Dollars as the Bank may at any time determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby.

“Subscription Agreement” means the agreement dated 4 November 2002 between, *inter alia*, the Bank, TNK, Credit Suisse First Boston (Europe) Limited, Merrill Lynch International and Salomon Brothers International Limited providing for the issue of the Notes.

“Subscription Support Agreement” means the subscription support agreement dated 4 November 2002 between, *inter alia*, the Bank, TIL, Credit Suisse First Boston (Europe) Limited, Merrill Lynch International and Salomon Brothers International Limited in connection with the issue of the Notes.

“Subsidiary” of any specified Person means any corporation, partnership, joint venture, association or other business entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which at least 50 per cent. of the total voting power of the Capital Stock is held by such first-named Person and/or any of its Subsidiaries and such first-named Person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business/entity, with respect to which such first-named Person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise if in accordance with U.S. GAAP such entity would be consolidated with the first-named Person for financial statements purposes.

“Taxes” means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, the Federal Republic of Germany or any taxing authority thereof or therein or any organisation of which the Russian Federation or the Federal Republic of Germany may be a member or with which the Russian Federation or the Federal Republic of Germany may be associated or any country or state from or through which TNK makes payments hereunder, provided, however, that for the purposes of this definition the references to the Federal Republic of Germany shall, upon the occurrence of the Relevant Event (as this term is defined in the Trust Deed), be deemed to be references to the jurisdiction in which the Trustee is domiciled for tax purposes; and the term **“Taxation”** shall be construed accordingly.

“TIL” means TNK International Limited.

“Trust Deed” means the trust deed to constitute the Notes for the equal and rateable benefit of the Noteholders to be dated the Closing Date between the Bank and the Trustee as amended from time to time.

“Trustee” means The Law Debenture Trust Corporation p.l.c., as trustee under the Trust Deed, and any successor thereto as provided thereunder.

“U.S. GAAP” means generally accepted accounting principles in the United States.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Agreement which are not defined in this Agreement but which are defined in the Trust Deed, the Notes, the Paying Agency Agreement or the Subscription Agreement shall have the meanings assigned to such terms therein.

1.3 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

- 1.3.1 All references to “Clause” or “sub-Clause” are references to a Clause or sub-Clause of this Agreement.
- 1.3.2 The terms “hereof”, “herein” and “hereunder” and other words of similar import shall mean this Agreement as a whole and not any particular part hereof.
- 1.3.3 All references to a “person” mean any individual, firm, company, corporation, government, state or agency thereof and/or any association and/or partnership of two or more of the foregoing.
- 1.3.4 Words importing the singular number include the plural and vice versa.
- 1.3.5 All references to “taxes” include all present or future taxes, levies, imposts and duties of any nature and the terms “tax” and “taxation” shall be construed accordingly.
- 1.3.6 The table of contents and the headings are for convenience only and shall not affect the construction hereof.

2. Facility

2.1 Facility

On the terms and subject to the conditions set forth herein, the Bank hereby agrees to lend TNK and TNK hereby agrees to borrow from the Bank U.S.\$400,000,000.

2.2 Purpose

The proceeds of the Advance (less an amount to be deducted (if any) in accordance with sub-Clause 3.2) will be used to re-pay certain existing short-term Indebtedness and for general corporate purposes (including potential strategic acquisitions) and the Bank shall not be concerned with the application thereof.

3. Drawdown

3.1 Drawdown

On the terms and subject to the conditions set forth herein, on the Closing Date the Bank shall make the Advance to TNK and TNK shall make a single drawing in the full amount of the Facility (less an amount to be deducted (if any) in accordance with sub-Clause 3.2).

3.2 Fees and Expenses

The fees, costs and expenses payable in connection with the Bank making the Advance to TNK together with other commissions, fees, costs and expenses in relation to the Loan and the issue of the Notes (the **"Fees"**) are as set out in a side letter between the Bank, Credit Suisse First Boston (Europe) Limited, Merrill Lynch International, Salomon Brothers International Limited, The Law Debenture Trust Corporation p.l.c., Citibank, N.A. and TIL dated on or about the date hereof (the **"Side Letter"**). Under the Side Letter, TIL has agreed to pay an amount (the **"Initial Fees"**) equal to the Fees other than any ongoing fees, cash or expenses of the Trustee or the Agents which may be payable in the future to Salomon Brothers International Limited by 2 pm (London time) on the Business Day prior to the Closing Day for the account of the parties entitled thereto. In the event that SBIL has not received from TIL by 2 pm (London time) on the Business Day prior to the Closing Date an amount in respect of, the Initial Fees, TNK agrees that an amount equal to the Initial Fees shall be deducted from the amount of the Advance.

3.3 Disbursement

Subject to the conditions set forth herein, on the Closing Date the Bank shall transfer the full amount of the Advance (less an amount to be deducted (if any) in accordance with sub-Clause 3.2) above to TNK's account no. 40702840700020000236 with ZAO WestLB Vostok in Same-Day Funds.

4. Interest

4.1 Rate of Interest

TNK will pay interest in Dollars to the Bank on the outstanding principal amount of the Loan from time to time hereunder at the rate of 11 per cent. per annum (the **"Rate of Interest"**).

4.2 Payment of Interest

TNK shall in respect of each Interest Period, pay interest in arrear at the Rate of Interest calculated in accordance with this Clause 4.2 not later than 10.00 a.m. (New York City time) one Business Day prior to the relevant Interest Payment Date. Interest on the Loan will cease to accrue from the due date for repayment thereof unless payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to but excluding the date on which payment in full of the principal thereof is made. The amount of interest payable in respect of the Loan for any Interest Period shall be calculated by applying the Rate of Interest to the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and will amount to a payment of U.S.\$22,000,000 in respect of each Interest Period. If interest is required to be calculated for any other period, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month the number of days elapsed.

"Interest Period" means each period from (and including) an Interest Payment Date (or in respect of the first such period, the Closing Date) to (but excluding) the next (or first) Interest Payment Date.

5. Repayment and Prepayment

5.1 Repayment

Except as otherwise provided herein, TNK shall repay the Loan not later than 10.00 a.m. (New York City time) one Business Day prior to the Repayment Date.

5.2 Prepayment in the Event of Taxes or Increased Costs

If, as a result of the application of any amendments to, or change in, the double tax treaty between the Russian Federation and the Federal Republic of Germany or the laws or regulations of the Russian Federation or the Federal Republic of Germany or of any political sub-division thereof or any authority therein or the enforcement of the security provided for in the Trust Deed, TNK would thereby be required to increase the payment of principal or interest or any other payment due hereunder as provided in sub-Clause 6.2 or 6.3, or if (for whatever reason) TNK would have to or has been required to pay additional amounts pursuant to Clause 8, then TNK may (without premium or penalty), upon not less than 10 days' notice to the Bank (which notice shall be irrevocable) and upon delivery to the Bank, only in respect of the requirement to increase the payment of principal or interest due or any other payment due hereunder as a result of the application of any amendments to, or change in, the laws or regulations of the Russian Federation, of an Officer's Certificate stating that TNK would be required to pay such additional amounts, prepay the Loan in whole (but not in part) at any time.

5.3 Prepayment in the Event of Illegality

If, at any time, the Bank reasonably determines that it is or would be unlawful or contrary to any applicable law or regulation or regulatory requirement or directive of any agency of any state or otherwise for the Bank to allow all or part of the Loan or the Notes to remain outstanding or for the Bank to maintain or give effect to any of its obligations in connection with this Agreement and/or to charge or receive or to be paid interest at the rate then applicable to the Loan, then upon notice by the Bank to TNK in writing, TNK and the Bank shall consult in good faith as to a basis which eliminates the application of such circumstances; provided, however, that the Bank shall be under no obligation to continue such consultation if a basis has not been determined within 30 days of the date on which it so notified TNK. If such a basis has not been determined within the 30 days, then upon notice by the Bank to TNK in writing, TNK shall prepay the Loan in whole (but not in part) on the next Interest Payment Date or on such earlier date as the Bank shall certify to be necessary to comply with such requirements.

5.4 Reduction of Loan Upon Redemption and Cancellation of Notes

TIL or any Subsidiary of TIL may from time to time, in accordance with the Conditions of the Notes, purchase Notes having an aggregate principal value of at least U.S.\$1,000,000 in open market or by tender or by a private agreement at any price and deliver such Notes to the Bank together with a request for the Bank to present such Notes to the Registrar for redemption and cancellation, and may from time to time procure the delivery to the Registrar of the Global Note with instructions to redeem and cancel a specified aggregate principal amount of Notes (being at least U.S.\$1,000,000) represented thereby (which instructions shall be accompanied by evidence satisfactory to the Registrar that such Person is entitled to give such instructions), whereupon the Bank shall pursuant to Clause 9.1 of the Paying Agency Agreement deliver to the Registrar (with a copy to the Borrower) a request (a "Cancellation Request") to redeem and cancel such Notes (or a specified aggregate principal amount of Notes evidenced by the Global Note). On the second Business Day following delivery of a Cancellation Request, the Borrower shall prepay such part of the Loan as corresponds to the aggregate principal amount of the Notes (together with interest accrued thereon) specified in the Cancellation Request and, upon receipt of such prepayment in full, the Bank shall procure that the Registrar redeems and cancels such Notes (or marks down the Global Note) accordingly.

5.5 Payment of Other Amounts

If the Loan is to be prepaid by TNK pursuant to any of the provisions of sub-Clauses 5.2, 5.3 or 5.4, TNK shall, simultaneously with such prepayment, pay to the Bank accrued interest thereon from (and including) the immediately preceding Interest Payment Date (or, as the case may be, the Closing Date) to (but excluding) the date of actual payment and all other sums payable by TNK pursuant to this Agreement.

5.6 Provisions Exclusive

TNK may not voluntarily prepay the Loan except in accordance with the express terms of this Agreement. Any amount prepaid may not be reborrowed.

6. Payments

6.1 Making of Payments

All payments of principal and interest to be made by TNK under this Agreement shall be made to the Bank not later than 10.00 a.m. (New York City time) one Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be) in Same-Day Funds to the Bank's account No. 10124362 with the Principal Paying Agent. The Bank agrees with TNK that it will not deposit any other monies into such account and that no withdrawals shall be made from such account other than as provided for and in accordance with the Trust Deed and the Paying Agency Agreement.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by TNK under this Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Russian Federation taxes. If TNK shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of any such Russian Federation taxes, it shall increase the payment of principal or interest or any other payment due hereunder to such amount as may be necessary to ensure that the Bank receives a net amount in Dollars equal to the full amount which it would have received had payment not been made subject to such Russian Federation taxes, shall promptly account to the relevant authorities for the relevant amount of such Russian Federation taxes so withheld or deducted and shall deliver to the Bank without undue delay evidence satisfactory to the Bank of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Bank pays any amount in respect of such Russian Federation taxes, penalties or interest, TNK shall reimburse the Bank in Dollars for such payment on demand.

6.3 Withholding on Notes

Upon becoming so aware the Bank shall, as soon as reasonably practical, notify TNK that it has become obliged to make any withholding or deduction for or on account of any Taxes from any payment which it is obliged to make under or in respect of the Notes, and TNK agrees to pay to the Bank, on the date on which payment is due to the Noteholders, such additional amounts as are equal to the additional amounts which the Bank would have to pay in order that the net amounts received by the Noteholders, after such withholding or deduction, will equal the respective amounts which would have been received by the Noteholders in the absence of such withholding or deduction; provided, however, that the Bank shall immediately upon receipt from any Paying Agent of any sums paid pursuant to this provision, to the extent that the Noteholders, as the case may be, are not entitled to such additional amounts pursuant to the terms and conditions of the Notes, pay such additional amounts to TNK (it being understood that neither the Bank, the Principal Paying Agent or any Paying Agent shall have any obligations to determine whether any Noteholder is entitled to any such additional amount).

6.4 Tax Credits and Tax Refunds

If as a result of a failure to obtain relief from deduction or withholding of any Tax imposed by Russia (a) such Tax is deducted or withheld by TNK and pursuant to Clause 6.2 an increased amount is paid by TNK to the Bank in respect of such deduction or withholding, and (b) following the deduction or withholding of Tax as referred to above, TNK applies on behalf of the Bank to the relevant Russian taxing authorities for a tax refund and such tax refund is credited by the Russian taxing authorities to a bank account of the Bank, the Bank shall as soon as reasonably possible notify TNK of the receipt of such tax refund and promptly transfer the entire amount of the tax refund to a bank account of TNK specified for that purpose by TNK.

6.5 Tax Treaty Relief

The Bank shall make reasonable and timely efforts to assist TNK to obtain relief from withholding of Russian income tax pursuant to the double taxation treaty between Russia and the jurisdiction in which the Bank is incorporated, including its obligations under Clause 6.7.

6.6 Notification

The Bank agrees promptly, upon becoming aware of such, to notify TNK if it ceases to be a resident of Germany or if any of the statements made in the Bank's side letter to TNK dated 4 November 2002 regarding tax issues are no longer true and correct.

6.7 Delivery of Forms

The Bank shall within 15 days of the written request of TNK, to the extent it is able to do so under applicable law including Russian laws, deliver to TNK a certificate issued by the competent taxing authority in Germany confirming that the Bank is a tax resident in Germany and such other information or forms as may need to be duly completed and delivered by the Bank to enable TNK to apply to obtain relief from deduction or withholding of Russian Tax after the date of this Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian Tax has not been obtained. The Bank shall, within 15 days of the written request of TNK, to the extent it is able to do so under applicable law including Russian laws, from time to time deliver to TNK any additional duly completed application forms as need to be duly completed and delivered by the Bank to enable TNK to apply to obtain relief from deduction or withholding of Russian Tax or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian Tax has not been obtained. The certificate and, if required, other forms referred to in this Clause 6.7 shall be duly signed by the Bank, if applicable, and stamped or otherwise approved by the competent taxing authority in Germany and apostilled or otherwise legalised. If a relief from deduction or withholding of Russian Tax under this Clause 6.7 has not been obtained and further to an application of TNK to the relevant Russian taxing authorities the latter requests the Bank's Rouble bank account details, the Bank shall at the request of TNK (i) use reasonable efforts to procure that such Rouble bank account of the Bank is duly opened and maintained, and (ii) thereafter furnish TNK with the details of such Rouble bank account. TNK shall pay for all costs associated, if any, with opening and maintaining such Rouble bank account.

6.8 Mitigation

If circumstances arise which would result in any payment to be made by TNK pursuant to Clauses 6.2 or 6.3 or Clause 8, the Bank shall notify TNK after becoming aware of such circumstances and shall, if reasonably requested by TNK, and at the cost of TNK, make reasonable efforts to communicate with the relevant tax, regulatory or prudential authority and to file any document reasonably requested of it, to mitigate the effects of such circumstances; provided, however, that the Bank shall, in no circumstances, be required to take any action which, in the sole opinion of the Bank may be prejudicial to its business, operations, prospects or reputation or undertake any expense prior to being ensured to its satisfaction that it will be reimbursed therefor.

7. Conditions Precedent

7.1 Documents to be Delivered

The obligation of the Bank to make the Advance shall be subject to the receipt by the Bank on or prior to the Closing Date of an executed copy of each of the following documents, each (other than sub-Clauses 7.1.5, 7.1.6, 7.1.8, 7.1.9 and 7.1.10 below) dated the Closing Date, in the Agreed Form.

- 7.1.1 Opinions of White & Case, counsel to TNK, regarding issues of Russian law and U.S. securities law.
- 7.1.2 Opinions of Linklaters regarding issues of English law, Russian law and U.S. securities law.
- 7.1.3 An opinion of Cleary, Gottlieb, Steen and Hamilton regarding issues of German law and the U.S. Investment Company Act of 1940.
- 7.1.4 An opinion of Harney, Westwood & Riegels regarding issues of British Virgin Islands law.
- 7.1.5 A disclosure letter of Linklaters.
- 7.1.6 A disclosure letter of White & Case.
- 7.1.7 A letter from PricewaterhouseCoopers regarding certain Russian tax matters.
- 7.1.8 The Guarantee Agreement in respect of the Loan and the Subscription Support Agreement by TIL.
- 7.1.9 Evidence that the process agents mentioned in sub-Clause 14.9.5 hereof have agreed to receive process in the manner specified herein.
- 7.1.10 The Side Letter.

7.2 Further Conditions

The obligation of the Bank to make the Advance shall be subject to the further conditions precedent that as at the Closing Date (a) the representations and warranties made and given by TNK in Clause 9 of this Agreement and by TIL in Clause 4 of the Guarantee Agreement shall be true and accurate as if made and given on the Closing Date with respect to the facts and circumstances then existing, (b) no event shall have occurred that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default, (c) neither TNK nor TIL shall be in breach of any of the terms, conditions and provisions of this Agreement or the Subscription Support Agreement, respectively, and (d) the Subscription Agreement, the Subscription Support Agreement and the Trust Deed shall have been executed and delivered (where applicable), and the Bank shall have received the amount of the subscription moneys for the Notes required to be paid pursuant to the Subscription Agreement.

8. Change in Law or Banking Practices; Increase in Cost

8.1 Compensation

In the event that after the date of this Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof and/or any compliance by the Bank in respect of the Loan or the Facility with any request, policy or guideline (whether or not

having the force of law but, if not having the force of law, the observances of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) from or of any central or other fiscal, monetary or other authority, agency or any official of any such authority (including for the avoidance of doubt, any recommendations regarding capital adequacy standards published by the Basle Committee on Banking Regulations and Supervisory Practices at the Bank for International Settlements), which:

- 8.1.1 subjects or will subject the Bank to any Taxes with respect to payments of principal of or interest on the Loan or any other amount payable under this Agreement (other than any Taxes payable by the Bank on its overall net income or any Taxes referred to in sub-Clauses 6.2 or 6.3); or
- 8.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Bank of principal of or interest on the Loan or any other amount payable under this Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Bank on its overall net income or as a result of any Taxes referred to in sub-Clauses 6.2 or 6.3); or
- 8.1.3 imposes, modifies, or deems applicable any capital adequacy, reserve or deposit requirements attributable to this Agreement or to a class of business or transaction which, in the reasonable opinion of the Bank, includes this Agreement, against assets held by, or deposits in or for the amount of, or credit extended by an office of the Bank; provided, however, that the foregoing shall not include any increase in the rate of tax payable on the overall net income of the Bank as a result of any change in the manner in which the Bank is required to allocate resources to this Agreement; or
- 8.1.4 imposes or will impose on the Bank any other condition affecting this Agreement, the Facility or the Loan,

and if as a result of any of the foregoing:

- (i) the cost to the Bank of making, funding or maintaining the Loan or the Facility is increased; or
- (ii) the amount of principal, interest or other amount payable to or received by the Bank hereunder is reduced; or
- (iii) the Bank makes any payment or forgoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from TNK hereunder or makes any payment or forgoes any interest or other return on or calculated by reference to the gross amount of the Loan,

then subject to the following, and in each such case:

- (A) the Bank shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to TNK together with a certificate describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and all relevant supporting documents evidencing the matters set out in such certificates;

- (B) upon demand by the Bank to TNK, TNK, in the case of (i) and (iii) above, shall on demand, pay to the Bank such additional amount as shall be necessary to compensate the Bank for such increased cost, and, in the case of clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Bank such additional amount as shall be necessary to compensate the Bank for such reduction, payment or forgone interest or other return, provided, however, that in the case of sub-Clause 8.1.3, the amount of such increased cost shall be deemed not to exceed an amount equal to the proportion thereof which is directly attributable to this Agreement.

9. Representations and Warranties

9.1 TNK's Representations and Warranties

TNK makes the representations and warranties to the Bank set out in this Clause 9.1, to the intent that such shall form the basis of this Agreement and shall remain in full force and effect at the date hereof and shall be deemed to be repeated by TNK on the Closing Date. Such representations and warranties are subject to the qualifications as to legal enforceability described in the legal opinions of White & Case and Linklaters referred to in Clause 7.1.

- 9.1.1 It is duly organised and incorporated and validly existing under the laws of the Russian Federation, is not in liquidation or receivership and has the power and legal right to own its property, to conduct its business as currently conducted and to enter into and to perform its obligations under this Agreement and to borrow the Advance; that it has taken all necessary corporate, legal and other action required to authorise the borrowing of the Advance on the terms and subject to the conditions of this Agreement and to authorise the execution and delivery of this Agreement and all other documents to be executed and delivered by it in connection with this Agreement, and the performance of this Agreement in accordance with its terms, except for the notification requirements under the Ordinance of the Central Bank of Russia of 10 September 2001 No. 1030-U and the Instruction of the Central Bank of Russia of 10 September 2001 No. 101-I, necessary for the payments to be made under the Loan Agreement without a licence of the Central Bank of Russia (together, the “**Ordinance of the CBR**”).
- 9.1.2 This Agreement has been duly executed by TNK and constitutes a legal, valid and binding obligation of TNK enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity.
- 9.1.3 The execution and performance of this Agreement by TNK will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial or public body or authority in the Russian Federation, (ii) the constitutive documents, rules and regulations of TNK or (iii) any material agreement or other undertaking or instrument to which TNK is a party or which is binding upon TNK or any of its assets, nor result in the creation or imposition of any Encumbrances on any of its assets pursuant to the provisions of any such agreement or other undertaking or instrument.
- 9.1.4 All consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial and public bodies and authorities of the Russian Federation required by TNK in connection with the execution, delivery, performance, legality, validity, enforceability, and admissibility in evidence of this Agreement have been obtained or effected and are and shall remain in full force and effect, except for the Ordinance of the CBR.
- 9.1.5 No event has occurred and is continuing that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default or a default under any agreement or instrument evidencing any Indebtedness of TNK, and no such event will occur upon the making of the Advance.

- 9.1.6 There are no judicial, arbitral or administrative actions, proceedings or claims pending or, to the knowledge of TNK, threatened, against TNK or any of its Subsidiaries, the adverse determination of which might have a Material Adverse Effect.
- 9.1.7 TNK and (to the extent that not to have such title might have a Material Adverse Effect) each of its Subsidiaries has good title to its property free and clear of all Encumbrances, except for Permitted Encumbrances, and TNK's obligations under the Loan rank at least pari passu in right of payment with all its other unsecured and unsubordinated Indebtedness save for those which may be preferred by any bankruptcy, insolvency, liquidation or other similar laws of a general application.
- 9.1.8 There has been no material adverse change since 31 December 2001 in the condition (financial or otherwise), results of business, operations or prospects of TNK or the Group or on TNK's ability to perform its obligations under this Agreement.
- 9.1.9 The execution and enforceability of this Agreement is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any political subdivision or taxing authority thereof or therein.
- 9.1.10 Neither TNK nor its property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to this Agreement.
- 9.1.11 TNK is in compliance in all material respects with all applicable provisions of law.
- 9.1.12 There are no strikes in the context of the business of the Group or other such employment disputes against TNK or any of its Subsidiaries which are pending or, to TNK's knowledge, threatened which might have a Material Adverse Effect.
- 9.1.13 In any proceedings taken in the Russian Federation in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England in relation thereto will be recognised and enforced.
- 9.1.14 Subject to the performance by the relevant parties of the relevant established procedures, no withholding in respect of any Russian taxes is required to be made from any payment by TNK under this Agreement.
- 9.1.15 All licences, consents, examinations, clearances, filings, registrations and authorisations which are necessary to enable TNK or any of its Subsidiaries to own its assets and carry on its business are in full force and effect except where the failure so to obtain could not have a Material Adverse Effect.
- 9.1.16 TNK (i) has duly complied with, and has operated, used and only permitted the use of all properties and businesses owned, leased, occupied or operated by it in compliance with, all Environmental Laws except where the failure to so comply might not have a Material Adverse Effect, (ii) after reasonable inquiry, is not aware and has no reason to suspect that any property or business now owned, leased, occupied or operated by it is or may be contaminated by, or is adjacent to any property that may be contaminated by, or used in connection with, any Material of Environmental Concern or that any such property or business was used or operated by any prior owner, lessee, occupant or operator or other third party (with or without permission) in any way that constituted or now may constitute a violation of any provision of an Environmental Law which might have a Material Adverse Effect, (iii) has not received any notice of any violation or alleged violation of any provision of any Environmental Law for which TNK may be held responsible and (iv) to the best of its knowledge, has no obligations or liabilities, contingent or absolute, relating to the use, possession, collection, storage, processing, treatment, emission, release, discharge, disposal, transfer or transport of Materials of Environmental Concern, or the remediation of any of the foregoing that might have a Material Adverse Effect.

9.2 Bank's Representations and Warranties

The Bank makes the representation and warranties to TNK set out in this Clause 9.2 to the intent that such shall form the basis of this Agreement and shall remain in full force and effect at the date hereof and shall be deemed to be repeated by the Bank on the Closing Date.

- 9.2.1 The Bank is duly incorporated under the laws of and is resident for German taxation purposes in the Federal Republic of Germany and has full power and capacity to execute this Agreement, the Guarantee Agreement, the Trust Deed, the Paying Agency Agreement, the Subscription Agreement and the Subscription Support Agreement and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Bank has taken all necessary corporate, legal and other action to approve and authorise the same.
- 9.2.2 The execution of this Agreement, the Guarantee Agreement, the Trust Deed, the Paying Agency Agreement, the Subscription Agreement and the Subscription Support Agreement and the undertaking and performance by the Bank of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of the Federal Republic of Germany or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety.
- 9.2.3 This Agreement, the Guarantee Agreement, the Trust Deed, the Paying Agency Agreement, the Subscription Agreement and the Subscription Support Agreement constitute legal, valid and binding obligations of the Bank enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity.
- 9.2.4 All authorisations, consents and approvals required by the Bank for or in connection with the execution of this Agreement, the Guarantee Agreement, the Trust Deed, the Paying Agency Agreement, the Subscription Agreement and the Subscription Support Agreement, the performance by the Bank of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

10. Covenants

10.1 Negative Pledge

So long as any amount remains outstanding hereunder, TNK shall not, and shall not permit any of its Subsidiaries to, and shall procure that none of TIL nor any of its subsidiaries shall, directly or indirectly, create, incur or suffer to exist any Encumbrances, other than Permitted Encumbrances, on any of its assets, now owned or hereafter acquired, securing any Consolidated Indebtedness, unless each of the Loan and the Guarantee Agreement is secured equally and rateably with such other Consolidated Indebtedness.

10.2 Maintenance of Authorisations

So long as any amount remains outstanding hereunder, TNK shall take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations required in or by the laws of the Russian Federation, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of this Agreement or for the validity or enforceability thereof.

10.3 Mergers

So long as any amount remains outstanding hereunder (i) TNK shall not, without the prior written consent of the Bank, (A) enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms are construed by applicable legislation or otherwise (“reorganisation”)), or (B) participate in any other type of corporate reconstruction and (ii) TNK shall ensure that no other member of the International Group (A) enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation), or (B) participates in any other type of corporate reconstruction where any such reorganisation or other type of corporate reconstruction referred to in (ii), after such reorganisation or corporate reconstruction, would result in a Material Adverse Effect and provided further that nothing in this Clause 10.3 shall prevent TNK or TIL from entering into any merger with Open Joint Stock Company SIDANCO or its parent company or its ultimate parent company and any such merger shall not require the prior written consent of the Bank unless such merger would result in a Material Adverse Effect or a Ratings Downgrade.

10.4 Disposals

So long as any amount remains outstanding hereunder, TNK shall not and shall ensure that no member of the International Group shall (in each case disregarding sales of stock in trade on an arm’s-length basis in the ordinary course of business and assignments of or other arrangements over the rights or revenues arising from contracts for the sale of gas, crude oil or oil products) sell, lease, transfer or otherwise dispose of to a person that is not a member of the International Group, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets if such sale, lease, transfer or disposal has a Material Adverse Effect.

10.5 Transactions with Affiliates

TNK shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, conduct any business, enter into or permit to exist any Affiliate Transaction or series of related Affiliate Transactions including intercompany loans unless (a) the terms of such Affiliate Transaction are no less favourable to TNK or such Subsidiary, as the case may be, than those that could be obtained in a comparable arm’s-length transaction with a Person that is not an Affiliate of TNK or such Subsidiary; or (b) such Affiliate Transaction is made pursuant to a contract existing on the Closing Date (excluding any amendments or modifications thereof after the Closing Date).

This sub-Clause 10.5 shall not apply to (i) compensation or employee benefit arrangements with any officer or director of TNK or such Subsidiary arising as a result of their employment contract (ii) any transaction between TNK and TIL or any of their respective Subsidiaries or between any such parties or (iii) any one or more transactions or series of transactions (whether related or not) by any Subsidiary of TNK which in aggregate could not have a Material Adverse Effect.

10.6 TIL Covenants

So long as any amount remains outstanding hereunder TNK will procure that TIL will not breach any of the covenants contained in Clause 5.10 of the Guarantee Agreement.

10.7 Maintenance of Property

So long as any amount remains outstanding hereunder, TNK and its Subsidiaries will cause all of the property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all

necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgement of TNK or any of its Subsidiaries, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times provided, however, that nothing in this sub-Clause 10.7 shall prevent TNK from discontinuing the operation or maintenance of any of such properties if such discontinuance is desirable in the conduct of its business or the business of any Subsidiary and could not have a Material Adverse Effect.

10.8 Payment of Taxes and Other Claims

So long as any amount remains outstanding hereunder, TNK and its Subsidiaries shall pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or assets of TNK or any Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become an Encumbrance (other than a Permitted Encumbrance) upon the property of TNK or any of its Subsidiaries; provided, however, that none of TNK nor any of its Subsidiaries shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with U.S. GAAP or other appropriate provision has been made or (b) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed U.S.\$10 million.

10.9 Maintenance of Insurance

So long as any amount remains outstanding hereunder, TNK and any Subsidiary shall (except to the extent that Subsidiaries are covered by insurance arranged by TNK) keep those of their material properties which are of an insurable nature insured with insurers believed by TNK or such Subsidiary to be of good standing and believed by TNK or such Subsidiary, as the case may be, to be responsible against loss or damage and to the extent that property of similar character is usually so insured by companies in the same jurisdictions similarly situated and owning like properties in the same jurisdictions.

10.10 Notification of Events of Default

TNK shall promptly inform the Bank and the Trustee of the occurrence of any Event of Default and, upon receipt of a written request to that effect from the Bank, confirm to the Bank that, save as previously notified to the Bank or as notified in such confirmation, no Event of Default has occurred.

10.11 Claims Pari Passu

TNK shall ensure that at all times the claims of the Bank against it under this Agreement rank in right of payment at least pari passu with the claims of all its other unsecured and unsubordinated creditors save those whose claims are preferred by any bankruptcy, insolvency, liquidation or other similar laws of general application.

10.12 Central Bank Notification

Within 3 Business Days from the Signing Date TNK will have supplied all necessary documentation to ZAO WestLB Vostok and will have complied with the notification requirements under the Ordinance of the CBR, necessary for the payments to be made under the Loan Agreement without a licence from the Central Bank of Russia.

11. Events of Default

11.1 Events of Default

If one or more of the following events of default (each, an **“Event of Default”**) shall occur and be continuing, the Bank shall be entitled to the remedies set forth in sub-Clause 11.3.

- 11.1.1 TNK fails to pay any amount payable hereunder as and when such amount becomes payable in the currency and in the manner specified herein.
- 11.1.2 TNK fails to perform or observe any covenant or agreement contained herein to be performed or observed by it.
- 11.1.3 TIL fails to perform or observe any covenant or agreement contained in the Guarantee Agreement.
- 11.1.4 Any representation or warranty of TNK in this Agreement or of TIL in the Guarantee Agreement or any statement deemed to be made by TNK in this Agreement, or by TIL in the Guarantee Agreement or any other document, certificate or notice delivered by TNK or TIL in connection with this Agreement, the Guarantee Agreement, the Subscription Agreement, the Subscription Support Agreement, the Trust Deed or the Paying Agency Agreement proves to have been inaccurate, incomplete or misleading in any material respect at the time it was made or repeated or deemed to have been made or repeated.
- 11.1.5 Any Indebtedness of either TIL or any of its Subsidiaries is not paid when due, or any Indebtedness of either TIL or any of its Subsidiaries is either declared to be or otherwise becomes due and payable prior to its specified maturity otherwise than at the option of TIL or any of its Subsidiaries (as the case may be) or (provided that no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; provided, however, that the total amount of such Indebtedness which is not paid when due or becomes due and payable prior to its specified maturity is equal to or greater than U.S.\$10,000,000 (or its equivalent in another currency) disregarding any Guarantee of TIL or its Subsidiaries of such Indebtedness.
- 11.1.6 Any of TIL or its Subsidiaries (other than LiNOS or NNG) is unable to pay its debts as they fall due, commences negotiations with any one or more of its creditors with a view to the general readjustment or rescheduling of its indebtedness (other than in relation to negotiations solely relating to extending the terms of existing indebtedness in the ordinary course of business) or makes a general assignment for the benefit of or a composition with its creditors which, with respect to Subsidiaries (other than TNK) only, might have a Material Adverse Effect.
- 11.1.7 The occurrence of any of the following events: (a) any of TNK or its Subsidiaries (other than LiNOS or NNG) seeking, consenting or acquiescing in the introduction of proceedings for its liquidation or bankruptcy or the appointment of a liquidation commission (likvidatsionnaya komissiya) or a similar officer of any of TNK or its Subsidiaries as the case may be; (b) the presentation or filing of a petition in respect of any of TNK or its Subsidiaries (other than LiNOS or NNG) in any court, arbitration court or before any agency alleging or for the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceeding) of any of TNK or its Subsidiaries (other than LiNOS or NNG); (c) the institution of the supervision (nablyudeniye), external management (vneshneye upravleniye), bankruptcy management (konkursnoye upravleniye) of any of TNK or its Subsidiaries (other than LiNOS or NNG); (d) the convening or announcement of an intention to convene a meeting of creditors of any of

TNK or its Subsidiaries (other than LiNOS or NNG) for the purposes of considering an amicable settlement (mirovoye soglasenie), as the above terms are defined in the Federal Law of the Russian Federation No. 6-FZ "On Insolvency (Bankruptcy)" of 8 January 1998 (as amended or replaced from time to time); and/or (e) any extra-judicial liquidation or analogous act in respect of any of TNK or its Subsidiaries (other than LiNOS or NNG) by any governmental, regulatory or supervisory body in or of the Russian Federation and provided that with respect to Subsidiaries (other than TNK, LiNOS or NNG) only, any of the events referred to in (a) to (e) above might have a Material Adverse Effect.

- 11.1.8 Any of TIL or its Subsidiaries (other than LiNOS or NNG) consents by answer or takes any corporate action or other steps are taken or legal proceedings are started for its bankruptcy, liquidation, winding-up, dissolution, administration or reorganisation or for the appointment of a liquidator, receiver, administrator, administrative receiver or similar officer of it or of any or all of its revenues and assets; or a court of competent jurisdiction enters an order for relief or a decree in an involuntary case in bankruptcy or any other such action or proceeding or for the appointment of a custodian in respect of TIL or any of its Subsidiaries (other than LiNOS or NNG) or any of its property and such order or decree remains unstayed and in effect for 60 days, which, with respect to Subsidiaries (other than TNK, LiNOS or NNG) only, might have a Material Adverse Effect.
- 11.1.9 Any execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any part of, the property, undertaking, revenues or assets of any of TIL or its Subsidiaries in respect of property, undertaking, revenues or assets that have an aggregate value of more than U.S.\$10,000,000 (or its equivalent in another currency).
- 11.1.10 Any governmental authorisation necessary for the performance of any obligation of TNK under this Agreement or TIL under the Guarantee Agreement fails to be in full force and effect.
- 11.1.11 Any governmental authority or court takes any action that, in the opinion of the Bank, adversely affects the condition of TNK or TIL.
- 11.1.12 The Shareholders of TIL, as the case may be, shall have approved any plan of liquidation or dissolution of TNK or TIL, as the case may be.
- 11.1.13 The aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law-enforcement bodies for the payment of money against TNK and TIL and Subsidiaries in the aggregate exceeds U.S.\$5,000,000, or the equivalent thereof in any other currency or currencies, unless such judgment, decree or order is being contested in good faith by TNK or TIL or any Subsidiary, as the case may be, and there is a period of 60 days following the entry thereof during which such judgment, decree or order is not discharged, waived or the execution thereof stayed and such default continues for ten days after the notice specified in sub-Clause 11.2.
- 11.1.14 At any time it is or becomes unlawful for TNK or TIL to perform or comply with any or all of their respective obligations under this Agreement or, as the case may be, the Guarantee Agreement (as applicable) or any of such obligations are not, or cease to be, legal, valid, binding and enforceable, except where, without prejudice to Clauses 11.1. 1 and 11.1.2, TNK or TIL (as applicable) is using best endeavours to obtain a licence or consent to make such performance or compliance lawful.

11.1.15 Either TNK or TIL ceases to carry on the principal business it carries on at the date hereof.

11.1.16 Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

11.2 Notice of Default

TNK or TIL shall deliver to the Bank and the Trustee, within 30 days after the occurrence thereof, written notice in the form of an Officers' Certificate of any event which is, or with the giving of notice or the lapse of time, or both, would become, an Event of Default, its status and what action TNK or TIL is taking or proposes to take with respect thereto.

11.3 Default Remedies

If any Event of Default shall occur and be continuing, the Bank may, by notice to TNK, (a) declare the obligations of the Bank hereunder to be terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable hereunder by TNK that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by TNK; provided, however, that if any event of any kind referred to in sub-Clauses 11.1.6 to 11.1.9 (inclusive) occurs, the obligations of the Bank hereunder shall immediately terminate, and all amounts payable hereunder by TNK that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by TNK.

11.4 Right of Set off

If any amount payable hereunder is not paid as and when due, TNK authorises the Bank to proceed, to the fullest extent permitted by applicable law, without prior notice, by right of set off, banker's lien, counterclaim or otherwise, against any assets of TNK in any currency that may at any time be in the possession of the Bank, at any branch or office, to the full extent of all amounts payable to the Bank hereunder.

11.5 Rights Not Exclusive

The rights provided for herein are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

12. Indemnity

12.1 Indemnification

TNK undertakes to the Bank, that if the Bank or any of its Affiliates, each director, officer, employee or agent of the Bank and each person controlling the Bank within the meaning of the United States securities laws (each a **"Relevant Party"**) properly incurs any loss, liability, cost, claim, charge, expense (including, without limitation, legal fees, costs and expenses), demand and damage (a **"Loss"**) as a result of or in connection with the Loan, this Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Notes and/or the Notes being outstanding (excluding any Loss that is the subject of indemnities contained in Clauses 8, 13, 14.2 and 14.6 (it being understood that the Bank may not recover twice in respect of the same loss)) TNK shall pay to the Bank on demand an amount equal to such Loss and all costs, charges and expenses which it or any Relevant Party may pay or incur in connection with investigating, disputing or

defending any such action or claim as such costs, charges and expenses are incurred unless such Loss was either caused by such Relevant Party's negligence or wilful misconduct proved or determined by a court of law or arises out of a breach of the representations and warranties of the Bank contained in the First Schedule to the Subscription Agreement. The Bank shall not have any duty or obligation whether as fiduciary or trustee for any Relevant Party or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause.

12.2 In case any proceeding shall be instituted involving any Relevant Party in respect of which indemnity may be sought pursuant to Clause 12.1, such Relevant Party shall promptly notify TNK in writing and TNK, upon request of the Relevant Party, shall retain counsel reasonably satisfactory to the Relevant Party to represent the Relevant Party in such proceedings and shall pay the reasonable fees and disbursements of such counsel related to such proceeding. In any such proceeding, any Relevant Party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such Relevant Party unless (i) TNK and the Relevant Party shall have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) include both TNK and the Relevant Party shall have been advised by counsel that there may be one or more legal defences available to it which are different from or in addition to those available to TNK and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. It is understood that TNK shall not, in respect of the legal expenses of any Relevant Party in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the fees and expenses of more than one separate firm (in addition to any local counsel) for all such Relevant Parties and that all such fees and expenses shall be reimbursed as they are incurred.

12.3 TNK shall not be liable for any settlement of any proceedings effected without its written consent (such consent not to be unreasonably withheld), but if settled with such consent or if there be a final judgment for the plaintiff, TNK agrees to indemnify the Relevant Party from and against any Loss by reason of such settlement or judgment. Notwithstanding the foregoing, if at any time a Relevant Party shall have requested TNK to reimburse the Relevant Party for fees and expenses of counsel as contemplated by the foregoing, TNK agrees that it shall be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than 30 days after receipt by TNK of the aforesaid request and (ii) TNK shall not have reimbursed the Relevant Party in accordance with such request prior to the date of such settlement.

12.4 Independent Obligation

Sub-Clause 12.1 constitutes a separate and independent obligation of TNK from its other obligations under or in connection with this Agreement or any other obligations of TNK in connection with the issue of the Notes by the Bank and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations.

12.5 Evidence of Loss

A certificate of the Bank setting forth the amount of Loss or Losses, expenses and liabilities described in sub-Clause 12.1 and specifying in full detail the basis therefor shall be conclusive evidence of the amount of such Loss or Losses, expenses and liabilities.

12.6 Survival

The obligations of TNK pursuant to sub-Clauses 6.2, 6.3 and 12.1 shall survive the execution and delivery of this Agreement, the drawdown of the Facility and the repayment of the Loan, in each case by TNK.

13. Reimbursement of Expenses

TNK shall, subject to the terms contained in a side letter of even date herewith, reimburse the Bank in Dollars on demand for the reasonable and properly documented costs and expenses incurred by the Bank in connection with the negotiation, preparation and execution of this Agreement and all related documents, the Notes and all related documents.

14. General

14.1 Evidence of Debt

The entries made in the account referred to in sub-Clause 6.1 shall, in the absence of manifest error, constitute conclusive evidence of the existence and amounts of TNK's obligations recorded therein.

14.2 Stamp Duties

TNK shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed by any person in the Russian Federation or the Federal Republic of Germany which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and shall indemnify the Bank against any and all costs and expenses which may be incurred or suffered by the Bank with respect to, or resulting from, delay or failure to pay such taxes or similar charges.

14.3 Waivers

No failure to exercise and no delay in exercising, on the part of the Bank or TNK, any right, power to privilege hereunder and no course of dealing between TNK and the Bank shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights, or remedies provided by applicable law.

14.4 Notices

All notices, requests, demands or other communications to or upon the respective parties hereto shall be given or made by telex or otherwise in writing and shall be deemed to have been duly given or made (a) at the time of delivery, if delivered by hand or courier or if sent by facsimile transmission or by airmail, or (b) upon dispatch, if given or made by telex (with confirmed answerback received) to the party to which such notice, request, demand or other communication is required or permitted to be given or made under this Agreement addressed as follows:

- (a) if to TNK:
Joint Stock Company Tyumen Oil Company
18/2 Schipok Str.
115093 Moscow
Russian Federation
Fax: (+7-095) 787 9675
Attention: Director of Corporate Finance
- (b) if to the Bank:
Salomon Brothers AG
Frankfurter Welle
Reuterweg 16
60323 Frankfurt am Main
Federal Republic of Germany
Fax: (4969) 232570
Attention: Operations Department

or to such other address, telex number or telecopier number as any party may hereafter specify in writing to the other.

14.5 Assignment

14.5.1 This Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Bank, following the enforcement of the security referred to in sub-Clause 14.5.3 below, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any discussions between the Bank and TNK or any agreements of the Bank or TNK pursuant to Clause 8.

14.5.2 TNK shall not assign or transfer all or any part of its rights or obligations hereunder to any other party except as otherwise expressly permitted herein.

14.5.3 The Bank may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except (i) the charge by way of first fixed charge granted by the Bank in favour of the Trustee (as Trustee) of the Bank's rights and benefits under this Agreement and (ii) the absolute assignment by the Bank to the Trustee of certain rights, interests and benefits under this Agreement, in each case, pursuant to Clause 4 of the Trust Deed.

14.6 Currency Indemnity

Each reference in this Agreement to Dollars is of the essence. To the fullest extent permitted by law, the obligation of TNK in respect of any amount due in Dollars under this Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in Dollars that the party entitled to receive such payment may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which such party receives such payment. If the amount in Dollars that may be so purchased for any reason falls short of the amount originally due, TNK hereby agrees to indemnify and hold harmless the Bank against any deficiency in Dollars. Any obligation of TNK not discharged by payment in Dollars shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided herein, shall continue in full force and effect.

14.7 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

14.8 Choice of Law

This Agreement shall be governed by, and construed in accordance with, the laws of England.

14.9 Jurisdiction

14.9.1 For the exclusive benefit of the other party, each of TNK and the Bank hereby irrevocably agrees that the courts of England shall have jurisdiction to settle any disputes which may arise out of or in connection with this Agreement and that accordingly any suit, action or proceeding (collectively, "**Proceedings**") arising out of or in connection with this Agreement may be brought in such courts.

14.9.2 Each of the parties irrevocably waives any objection which it may now or hereafter have to the laying of the venue of any Proceedings in any such court referred to in this Clause 14 and any claim that any such Proceedings have been brought in an inconvenient forum and further irrevocably agrees that a final and conclusive judgment in any Proceedings brought in the English courts with competent jurisdiction shall be conclusive and binding and may be enforced in the courts of any other jurisdiction.

14.9.3 Nothing contained in this Agreement shall limit the right of any party to take Proceedings against another party in any other court of competent jurisdiction to the extent permitted by any applicable law, nor shall the taking of Proceedings in connection with this Agreement in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction or in any other court of competent jurisdiction in connection with this Agreement to the extent permitted by any applicable law.

14.9.4 TNK hereby agrees that, at the option of the Bank, any controversy, claim or cause of action brought by any party against another party or arising out of or relating to this Loan Agreement may be settled by arbitration in accordance with the Rules of the London Court of International Arbitration, which rules are deemed to be incorporated by reference into this clause. The place of arbitration shall be London, England and the language of the arbitration shall be English. The number of arbitrators shall be three, each of whom shall be disinterested in the dispute or controversy, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions. Each party shall nominate an arbitrator, who, in turn, shall nominate the Chairman of the Tribunal. If a dispute, controversy or cause of action shall involve more than two parties, the parties thereto shall attempt to align themselves in two sides (i.e. claimant and respondent) each of which shall appoint an arbitrator as if there were only two sides to such dispute, controversy or cause of action. If such alignment and appointment shall not have occurred within twenty (20) calendar days after the initiating party serves the arbitration demand or if a Chairman has not been selected within thirty (30) calendar days of the selection of the second arbitrator, the Arbitration Court of the London Court of International Arbitration shall appoint the three arbitrators or the Chairman, as the case may be. The parties and the Arbitration Court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The arbitrators shall have no authority to award punitive or other damages and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of this Agreement. In no circumstances shall the Bank, TNK or TIL be liable for any consequential, special or punitive damages in connection with its obligations hereunder.

Fees of the arbitration (excluding each party's preparation, travel, attorneys' fees and similar costs) shall be borne in accordance with the decision of the arbitrators. The decision of the arbitrators shall be final, binding and enforceable upon the parties and judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that the failure of a party to comply with the decision of the arbitrators requires any other party to apply to any court for enforcement of such award, the non-complying party shall be liable to the other for all costs of such litigation, including reasonable attorneys' fees.

14.9.5 TNK's Process agent: TNK agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to White & Case (London) Limited at 7-11 Moorgate, London EC2R 6HH, England. If such person is not or ceases to be effectively appointed to accept service of process on TNK's behalf, TNK shall, on the written demand of the Bank, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Bank shall be entitled to appoint such a person by written notice to TNK. Nothing in this sub-Clause shall affect the right of the Bank to serve process in any other manner permitted by law.

14.9.6 Bank's Process agent: The Bank agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Citibank, N.A., General Counsel, Citigroup Centre, 33 Canada Square, Canary Wharf, London E14 5LB, England or its other principal place of business in England for the time being or at any other address for the time being at which process may be served on such person in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If such person is not or ceases to be effectively appointed to accept service of process on the Bank's behalf, the Bank shall, on the written demand of TNK appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, TNK shall be entitled to appoint such a person by written notice to the Bank. Nothing in this Clause shall affect the right of TNK to serve process in any other manner permitted by law.

14.10 Prescription

Subject to the Bank having received the principal amount of the Notes or interest thereon from TNK or TIL, as the case may be, the Bank shall forthwith repay to TNK or TIL, as the case may be, the principal amount or the interest amount(s) thereon, upon the corresponding claim for payment under the Notes becoming void pursuant to Condition 15 of the Notes.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the date first written above.

THE GUARANTEE AGREEMENT

GUARANTEE AGREEMENT, dated 4 November 2002 BETWEEN

- (1) **TNK INTERNATIONAL LIMITED** (the “**Guarantor**”); and
- (2) **SALOMON BROTHERS AG** (the “**Bank**”).

WHEREAS, the Bank has agreed to make available the Loan to TNK, a Subsidiary of the Guarantor;

WHEREAS, in consideration of the agreement of the Bank to make the Loan to TNK the Guarantor has agreed hereunder to guarantee to the Bank the performance of all payment and other obligations of TNK under the Loan; and

WHEREAS, it is intended that the Bank will issue certain loan participation notes with payment obligations based on amounts payable by TNK under the Loan.

NOW IT IS HEREBY AGREED as follows:

1. Definitions and Interpretation

1.1 Definitions

In this Agreement (including the recitals), unless otherwise defined herein the following terms shall have the meanings indicated.

“**Affiliate**” of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (ii) any other Person who is a director or officer (A) of such specified Person, (B) of any Subsidiary of such specified Person or (C) of any Person described in clause (i) above. For the purpose of this definition, “control” when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“**Affiliate Transaction**” means any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate.

“**Agreement**” means this Guarantee Agreement as originally executed or as it may be amended from time to time.

“**Business Day**” means a day on which (a) the London Interbank Market is open for dealings between banks generally, and (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Frankfurt am Main, New York City and in the city where the specified office of the Principal Paying Agent is located.

“**Capital Stock**” means, with respect to any Person, any and all shares or other equivalents (however designated) of corporate stock, partnership interests or any other participation, right, warrant, option or other interest in the nature of an equity interest in such Person, but excluding any debt security convertible or exchangeable into such equity interest.

“**Closing Date**” means 6 November 2002.

“Consolidated Indebtedness” means, as at any date of determination, (and without duplication), all Indebtedness of the International Group outstanding on such date, determined on a consolidated basis in accordance with U.S. GAAP.

“Consolidated Net Indebtedness” means, as at any date of determination, the sum of (i) Consolidated Indebtedness as at such date minus (ii) all cash and cash equivalents (as would be shown on a consolidated balance sheet of the Guarantor as at such date in accordance with U.S. GAAP) held by the International Group as at such date.

“Consolidated Net Interest” means, in relation to any Relevant Period, (i) the aggregate amount of interest (including the interest elements of hire purchase payments), commitment fees, commissions, arrangement fees, guarantee fees and any other finance charges of a similar nature accrued by the International Group in such period (including, without limitation, amounts in the nature of interest payable in respect of any preference share) and the net amount payable in respect of any interest hedging arrangements (or, as the case may be, deducting the net amount receivable in respect of any interest hedging arrangement) in each case in respect of such Relevant Period and in accordance with U.S. GAAP, less (ii) in respect of such Relevant Period, all interest receivable by the International Group in accordance with U.S. GAAP.

“Consolidated Net Worth” means, as at any date of determination, the total share holder’s equity of the International Group as at such time in accordance with U.S. GAAP.

“Dollars”, “\$” and “U.S.\$” means the lawful currency of the United States of America.

“EBITDA” means, in respect of any Relevant Period, the consolidated net profit of the International Group for continuing operations, acquisitions (as a component of continuing operations) and discontinued operations before making any adjustment in respect of:

- (a) Consolidated Net Interest;
- (b) any extraordinary and exceptional items;
- (c) all amounts provided for depletion, depreciation, amortisation and write downs of goodwill;
- (d) all profits taxes; and
- (e) any share of the profit of any associated company or undertaking, except for dividends actually received by any member of the International Group,

all as calculated on a consolidated basis disregarding any portion of any item taken into account in that calculation which is attributable to any minority interest in Subsidiaries determined in accordance with U.S. GAAP.

“Encumbrance” means (a) a mortgage, charge, pledge, lien or other encumbrance securing any obligation of any Person, (b) any sale, transfer or other disposal of receivables on recourse terms or (c) any other type of preferential arrangement (including any title, conditional sale or retention arrangement) having a similar effect.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets,

goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise) or (ii) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term “Guarantee” will not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Hedging Agreement” means in respect of any Person, any interest rate swap agreement, interest rate option agreement, interest rate cap agreement, interest rate collar agreement, interest rate floor agreement, currency exchange agreement, currency exchange option agreement, currency exchange cap agreement, currency exchange collar agreement, currency exchange floor agreement, forward sale, commodity swap or other similar agreement or arrangement designed to protect such Person against fluctuations in interest rates, currency exchange rates or commodity prices.

“incur” means issue, assume, Guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary will be deemed to be incurred or issued by such Subsidiary at the time it becomes or is so merged into a Subsidiary.

“Indebtedness” means any indebtedness, in respect of any Person for, or in respect of, moneys or (only in respect of transactions with Persons outside of the International Group) the financial equivalent of oil borrowed; any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any amount of money or oil raised pursuant to any issue of shares which are expressed to be redeemable; any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing; and the amount of any liability in respect of any Guarantee or indemnity for any of the items referred to above; provided that the term “indebtedness” shall exclude indebtedness consisting of Rouble-denominated bonds or notes issued by TNK for the period that such bonds or notes are held by any member of the International Group; provided further that there shall be no double counting when calculating Indebtedness for the purposes of the definition of Consolidated Indebtedness or Clause 5.1.

“International Group” means the Guarantor and its Subsidiaries (including TNK) taken as a whole.

“Loan”, at any time, means an amount equal to the outstanding aggregate principal amount of the U.S.\$400,000,000 facility granted by the Bank to TNK pursuant to a loan agreement dated 4 November 2002.

“Loan Guarantee” shall have the meaning given to it in Clause 2.1.1.

“Material Adverse Effect” means a material adverse effect on (a) the business, operations, property, condition (financial or otherwise) or prospects of the International Group taken as a whole; (b) the Guarantor’s ability to perform its obligations under this Agreement or (c) the validity or enforceability of this Agreement or the rights or remedies of the Bank under this Agreement.

“Noteholder” means the person in whose name the Note is registered in the register of the noteholders (or in the case of joint holders, the first named holder thereof).

“Notes” means the U.S.\$400,000,000 11 per cent. loan participation notes due 2007 proposed to be issued by the Bank pursuant to the Trust Deed for the purpose of financing the Loan.

“Officers’ Certificate” means a certificate signed by two officers of the Guarantor at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Guarantor or any other person duly authorised by such officer.

“Paying Agency Agreement” means the paying agency agreement to be dated on or about 6 November 2002 between the Bank, TNK, Citibank N.A., The Law Debenture Trust Corporation p.l.c. and Dexia Banque Internationale à Luxembourg S.A. relating to the Notes.

“Permitted Encumbrance” means

- (a) any Encumbrance existing as at the date of this Agreement (*provided that* the principal, capital or other amount of the obligation secured by such Encumbrance is not increased beyond the amount secured by such Encumbrance as at the date hereof);
- (b) any title transfer or retention of title arrangement entered into by any member of the International Group in the normal course of its trading activities on the counterpart’s standard or usual terms;
- (c) any Encumbrance arising solely by operation of law, including, without limitation, on pipelines or pipeline facilities, mechanics’, carriers’, warehousemen’s, materialmen’s, suppliers’ and vendors’ Encumbrances in the ordinary course of business;
- (d) any Encumbrance over or affecting any asset acquired by a member of the International Group after the date hereof and subject to which such asset is acquired, if:
 - (i) such Encumbrance was not created in contemplation of the acquisition of such asset by a member of the International Group;
 - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by a member of the International Group; and
 - (iii) such Encumbrance does not extend to any other assets or property (other than proceeds of such acquired assets or property);
- (e) any Encumbrance over or affecting any asset of any company which becomes a member of the International Group after the date hereof, where such Encumbrance is created prior to the date on which such company becomes a member of the International Group, if:
 - (i) such Encumbrance was not created in contemplation of the acquisition of such company;
 - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such company; and
 - (iii) such Encumbrance does not extend to any assets or property of the Guarantor or any of its Subsidiaries other than the acquired company and its Subsidiaries;
- (f) any Encumbrance:
 - (i) securing reimbursement obligations of the Guarantor or any of its Subsidiaries with respect to letters of credit encumbering only documents and other property relating to letters of credit and the products and proceeds thereof;
 - (ii) on deposits made to secure obligations arising from statutory, regulatory, contractual or warranty requirements of the Guarantor and its Subsidiaries;
 - (iii) in favour of the Guarantor; or
 - (iv) on any property or asset acquired, constructed or improved by the Guarantor or any of its Subsidiaries, which (A) is in favour of the seller of such property or assets, in favour of the Person constructing or improving such asset or property, or in favour of the Person that provided the funding for the acquisition, construction or improvement of such asset or property, (B) is created within 360 days after the date of acquisition,

construction or improvement, (C) secures the purchase price or construction or improvement cost, as the case may be, of such asset or property in an amount up to 100% of the fair market value (as determined by the Board of Directors of the Guarantor) of such acquisition, construction or improvement of such asset or property, and (D) is limited to the asset or property so acquired, constructed or improved (including proceeds thereof, accessions thereto and upgrades thereof);

- (g) any Encumbrance securing or providing for the payment of, or any renewal, extension or refinancing of, Indebtedness incurred in connection with any Project Financing;
- (h) any Encumbrance upon any crude oil or refined product export contract (including contracts for sale, transportation or exchange, utilisation and pooling declarations and agreements) entered into from time to time between the Guarantor or any of its Subsidiaries and a purchaser in the ordinary course of the Guarantor's or such Subsidiaries' business that is customary in the oil and gas business;
- (i) any Encumbrance in respect of obligations arising under Hedging Agreements;
- (j) any Encumbrance incurred, or pledges and deposits in connection with workers' compensation, unemployment insurance and other social security benefits, and other obligations of like nature in the ordinary course of business;
- (k) any Encumbrance for ad valorem, income or property taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Guarantor has set aside in its consolidated accounts books reserves to the extent required by U.S. GAAP;
- (l) any easement, right of way, restriction (including zoning restriction), reservation, permit, servitude, minor defect or irregularity in title and other similar charge or encumbrance, and any Encumbrance arising under a lease or sublease granted to others, in each case not interfering in any material respect with the business of the Guarantor or any of the Subsidiaries and existing, arising or incurred in the ordinary course of business;
- (m) any (i) bankers' Encumbrance in respect of accounts, (ii) statutory landlords' Encumbrance, (iii) deposit to secure the performance of bids, trade contracts, government contracts, leases, statutory obligations, surety and appeal bonds, performance and return-of-money bonds or liabilities to insurance carriers under insurance or self-insurance arrangements and other obligations of like nature (so long as, in each case with respect to items described in subclauses (i), (ii) and (iii) above of this clause (m), such Encumbrances (X) except in the case of a banker's Encumbrance in respect of accounts, do not secure obligations constituting Indebtedness for borrowed money and (Y) are incurred in the ordinary course of business), and (iv) any Encumbrance arising from any judgment, decree or other order which does not constitute an Event of Default;
- (n) any Encumbrance upon, or with respect to, any of its present or future assets or revenues or any part thereof which is created pursuant to (a) any securitisation, asset backed financing or like arrangement and whereby all payment obligations secured by such Encumbrance or having the benefit of such Encumbrance, are to be discharged solely from such assets or revenues or (b) any issue of secured bonds, secured debentures, secured notes or other secured securities; and
- (o) any renewal of or substitution for any Encumbrance permitted by any of the preceding clauses (a) through (n) (whether in the context of refinancing or rolling over Indebtedness or otherwise and whether granted to the same or another Person or Persons); provided, however, that, with respect to any Encumbrance incurred pursuant to this clause (o) the principal amount secured has not increased and the Encumbrance has not been extended to any additional property (other than proceeds of the property in question or any account that is established and operated solely for the purposes of and secured for the benefit of the Person(s) providing the Indebtedness or any of its or their Affiliates);

provided that the aggregate amount of Consolidated Indebtedness secured by such Permitted Encumbrances shall not exceed 85 per cent. of Consolidated Indebtedness of the International Group.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity.

“Project Financing” means (a) any financing of all or part of the costs of the acquisition, construction or development of a project if the Person or Persons providing such financing expressly agree to look to the project financed and the revenues derived from, such project (together with credit support provided by third parties without recourse to TNK or any Subsidiaries of TNK) as the principal source or repayment for the monies advanced or (b) any financing under Export Import Bank of the United States transaction number AP067280XX (relating to the Samotlor Oil Field Rehabilitation Project) and transaction number AP070202XX (relating to the Ryazan Oil Refinery Modernisation Project).

“Ratings Downgrade” means the downgrade or withdrawal of, or the placing on “creditwatch” (or other publication) or formal review by the relevant ratings organisation, of the rating of the Guarantor or its debt securities by any statistical ratings organisation generally recognised by banks, securities houses and investors in international capital markets.

“Relevant Period” means any period with a duration of 12 months ending on the last day of each calendar quarter.

“Repayment Date” means 6 November 2007.

“Subscription Agreement” means the agreement dated 4 November 2002 between, *inter alia*, the Bank, TNK, Credit Suisse First Boston (Europe) Limited, Merrill Lynch International and Salomon Brothers International Limited providing for the issue of the Notes.

“Subscription Support Agreement” means the subscription support agreement dated 4 November 2002 between, *inter alia*, the Bank, the Guarantor, Credit Suisse First Boston (Europe) Limited, Merrill Lynch International and Salomon Brothers International Limited in connection with the issue of the Notes.

“Subsidiary” of any specified Person means any corporation, partnership, joint venture, association or other business entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which at least 50 per cent. of the total voting power of the Capital Stock is held by such first-named Person and/or any of its Subsidiaries and such first-named Person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business/entity, with respect to which such first-named Person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise if in accordance with U.S. GAAP such entity would be consolidated with the first-named Person for financial statement purposes.

“Taxes” means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the British Virgin Islands, the Federal Republic of Germany or any taxing authority thereof or therein or any organisation of which the British Virgin Islands or the Federal Republic of Germany may be a member or with which the British Virgin Islands or the Federal Republic of Germany may be associated or any country or state from or through which the Guarantor makes payments hereunder, provided, however, that for the purposes of this definition the references to the Federal Republic of Germany shall, upon the occurrence of the Relevant Event (as this term is defined in the Trust Deed), be deemed to be references to the jurisdiction in which the Trustee is domiciled for tax purposes; and the term **“Taxation”** shall be construed accordingly.

“TNK” means Joint Stock Company Tyumen Oil Company.

“Trust Deed” means the trust deed to constitute the Notes for the equal and rateable benefit of the Noteholders to be dated the Closing Date between the Bank and the Trustee as amended from time to time.

“Trustee” means The Law Debenture Trust Corporation p.l.c., as trustee under the Trust Deed and any successor thereto as provided thereunder.

“U.S. GAAP” means generally accepted accounting principles in the United States.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Agreement which are not defined in this Agreement but which are defined in the Trust Deed, the Notes, the Paying Agency Agreement or the Subscription Agreement shall have the meanings assigned to such terms therein.

1.3 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement.

- 1.3.1 All references to “Clause” or “sub-Clause” are references to a Clause or sub-Clause of this Agreement.
- 1.3.2 The terms “hereof”, “herein” and “hereunder” and other words of similar import shall mean this Agreement as a whole and not any particular part hereof.
- 1.3.3 All references to a “person” mean any individual, firm, company, corporation, government, state or agency thereof and/or any association and/or partnership of two or more of the foregoing.
- 1.3.4 Words importing the singular number include the plural and vice versa.
- 1.3.5 All references to “taxes” include all present or future taxes, levies, imposts and duties of any nature and the terms “tax” and “taxation” shall be construed accordingly.
- 1.3.6 The table of contents and the headings are for convenience only and shall not affect the construction hereof.

2. Loan Guarantee

2.1 Loan Guarantee

- 2.1.1 In consideration of the Bank agreeing to make available the Loan to its Subsidiary, TNK, and subject to the provisions of this Clause 2, the Guarantor hereby irrevocably and unconditionally Guarantees to the Bank (i) the due and punctual payment by TNK of principal and/or interest on the Loan in full when and as the same shall become due and payable whether on the Repayment Date, by declaration of acceleration, in connection with prepayment, or otherwise, (ii) the due and punctual payment of interest on the overdue principal of and interest on the Loan, to the extent permitted by law, and (iii) the due and punctual performance of all other obligations of TNK to the Bank, including without limitation, the payment of fees, expenses, indemnities or other amounts, all in accordance with the terms of the Loan, the Subscription Agreement and the side letter between the Bank, Credit Suisse First Boston (Europe) Limited, Merrill Lynch International, Salomon Brothers International Limited, The Law Debenture Trust Corporation p.l.c., Citibank, N.A. and the Guarantor dated on or about the date hereof. In case of the failure of TNK punctually to make

any such principal and/or interest payment or the failure of TNK to perform any such other obligation, the Guarantor hereby agrees to cause any such payment to be made punctually when and as the same shall become due and payable, whether on the Repayment Date, by declaration of acceleration, in connection with a prepayment or otherwise, and as if such payment were made by TNK, or to perform any such other obligation of TNK immediately. The Guarantor hereby further agrees to pay any and all expenses (including reasonable counsel fees and expenses) incurred by the Bank in enforcing any rights it has under the Guarantee given in this Clause 2.1.1 (the “**Loan Guarantee**”).

- 2.1.2 As between the Guarantor and the Bank, but without affecting TNK’s obligations, the Guarantor shall be liable under this Clause as if it were the sole principal debtor and not merely a surety. Accordingly, the Guarantor shall not be discharged, nor shall its liability be affected, by anything that would not discharge it or affect its liability if it were the sole principal debtor (including (1) any time, indulgence, waiver or consent at any time given to TNK or any other person, (2) any amendment to any other provisions of the Loan Agreement or to any security or other guarantee or indemnity, (3) the making or absence of any demand on TNK or any other person for payment, (4) the enforcement or absence of enforcement of the Loan Agreement or of any security or other guarantee or indemnity, (5) the taking, existence or release of any security, guarantee or indemnity, (6) the dissolution, amalgamation, reconstruction or reorganisation of TNK or any other person or (7) the illegality, invalidity or unenforceability of or any defect in any provision of the Loan Agreement or any of TNK’s obligations under it).
- 2.1.3 The Guarantor’s obligations under this Agreement are and shall remain in full force and effect by way of continuing security until no sum remains payable under the Loan Agreement. Furthermore, those obligations of the Guarantor are additional to, and not instead of, any security or other guarantee or indemnity at any time existing in favour of any person, whether from the Guarantor or otherwise and may be enforced without first having recourse to TNK, any other person, any security or any other guarantee or indemnity. The Guarantor irrevocably waives all notices and demands of any kind.
- 2.1.4 So long as any sum remains payable under the Loan Agreement:
- (i) any right of the Guarantor, by reason of the performance of any of its obligations under this Clause 2, to be indemnified by TNK or to take the benefit of or to enforce any security or other guarantee or indemnity shall be exercised and enforced by the Guarantor only in such manner and on such terms as the Bank may require or approve (such approval not to be unreasonably withheld or refused); and
 - (ii) any amount received or recovered by the Guarantor (a) as a result of any exercise of any such right or (b) in the dissolution, amalgamation, reconstruction or reorganisation of TNK shall be held in trust for the Bank and immediately paid to the Bank.
- 2.1.5 The Guarantor shall be subrogated to all rights of the Bank against TNK in respect of any amounts paid by the Guarantor pursuant hereto; *provided that* the Guarantor shall not without the consent (such consent not to be unreasonably withheld or refused) of the Bank be entitled to enforce, or to receive any payments arising out of or based upon or prove in any insolvency or winding up of TNK in respect of, such right of subrogation until such time as the principal or interest outstanding on the Loan Agreement and all other amounts due under this Agreement and the Loan Agreement have been paid in full. Furthermore, until such time as aforesaid the Guarantor shall not take any security or counter-indemnity from TNK in respect of the Guarantor’s obligations under this Clause 2.
- 2.1.6 If any payment received by the Bank pursuant to the provisions of this Agreement shall, on the subsequent bankruptcy, insolvency, corporate reorganisation or other similar event affecting TNK, be avoided, reduced, invalidated or set aside under any laws relating to

bankruptcy, insolvency, corporate reorganisation or other similar events, such payment shall not be considered as discharging or diminishing the liability of the Guarantor whether as guarantor, principal debtor or indemnifier and the guarantee and indemnity contained in this Clause 2 shall continue to apply as if such payment had at all times remained owing by TNK and the Guarantor shall indemnify and keep indemnified the Bank on the terms of the Guarantee and indemnity contained in this Clause 2.

- 2.1.7 Any amount received or recovered by the Bank (otherwise than as a result of a payment by TNK to the Bank in accordance with the Loan Agreement or the Guarantor according with this Clause 2) in respect of any sum payable by TNK under the Loan Agreement may be placed in a suspense account and kept there for so long as the Bank thinks fit.
- 2.1.8 The Guarantor shall on demand indemnify the Bank against any cost, loss, expense or liability sustained or incurred by it as a result of it being required for any reason (including any bankruptcy, insolvency, winding-up, dissolution, or similar law of any jurisdiction) to refund all or part of any amount received or recovered by it in respect of any sum payable by TNK under the Loan Agreement and shall in any event pay to it on demand the amount as refunded by it.
- 2.1.9 If any moneys become payable by the Guarantor under this Loan Guarantee, TNK shall not (except in the event of the liquidation of TNK) so long as any such moneys remain unpaid, pay any moneys for the time being due from TNK to the Guarantor.
- 2.1.10 As separate, independent and alternative stipulations, the Guarantor unconditionally and irrevocably agrees (1) that any sum that, although expressed to be payable by TNK under the Loan Agreement, is for any reason (whether or not now existing and whether or not now known or becoming known to TNK, the Guarantor or the Bank) not recoverable from the Guarantor on the basis of a Guarantee shall nevertheless be recoverable from it as if it were the sole principal debtor and shall be paid by it to the Bank on demand and (2) as a primary obligation to indemnify the Bank against any loss suffered by it as a result of any sum expressed to be payable by TNK under the Loan Agreement not being paid on the date and otherwise in the manner specified in the Loan Agreement or any payment obligation of TNK under the Loan Agreement being or becoming void, voidable or unenforceable for any reason (whether or not now existing and whether or not now known or becoming known to the Bank), the amount of that loss being the amount expressed to be payable by the Issuer in respect of the relevant sum.
- 2.1.11 The Guarantor further agrees that, as between it, on the one hand, and the Bank, on the other hand, (i) for the purposes of the Loan Guarantee, the maturity of the obligations Guaranteed by such Loan Guarantee may be accelerated as provided in Clause 11 of the Loan, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the obligations Guaranteed thereby; *provided, however*, that if a court of competent jurisdiction determines that the Loan was improperly accelerated pursuant to the terms hereof, then the maturity of such obligations may not be accelerated for purposes of such Loan Guarantee, and (ii) in the event of any acceleration of such obligations (whether or not due and payable) such obligations shall forthwith become due and payable by the Guarantor for purposes of such Loan Guarantee.

2.2 Further Assurances

In the event that the Guarantor is required to make any payment or to satisfy any other obligation under or in respect of the Loan Guarantee, the Guarantor shall, at the time of making such payment or satisfying such obligation, obtain any consents, approvals, authorisations or licences issued by the government of the British Virgin Islands or any political subdivision thereof or therein or any bank in the British Virgin Islands necessary to make any such payment or to satisfy any such obligation.

3. No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by the Guarantor under this Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any British Virgin Islands taxes. If the Guarantor shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of any such British Virgin Islands taxes, it shall increase the payment due hereunder to such amount as may be necessary to ensure that the Bank receives a net amount in Dollars equal to the full amount which it would have received had payment not been made subject to such British Virgin Islands taxes, shall promptly account to the relevant authorities for the relevant amount of such British Virgin Islands taxes so withheld or deducted and shall deliver to the Bank without undue delay evidence satisfactory to the Bank of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Bank pays any amount in respect of such British Virgin Islands taxes, penalties or interest, the Guarantor shall reimburse the Bank in Dollars for such payment on demand.

4. Representations and Warranties

4.1 Guarantor's Representations and Warranties

The Guarantor makes the representations and warranties to the Bank set out in Clause 4.1, to the intent that such shall form the basis of this Agreement and shall remain in full force and effect at the date hereof and shall be deemed to be repeated by the Guarantor on the Closing Date. Such representations and warranties are subject to the qualifications as to legal enforceability described in the legal opinions of White & Case and Linklaters referred to in Clause 7.1 of the Loan Agreement:

- 4.1.1 It is duly organised and incorporated and validly existing under the laws of the British Virgin Islands, is not in liquidation or receivership and has the power and legal right to own its property, to conduct its business as currently conducted and to enter into and to perform its obligations under this Agreement and to Guarantee the Loan; that it has taken all necessary corporate, legal and other action required to authorise the Guarantee of the Loan on the terms and subject to the conditions of this Agreement and to authorise the execution and delivery of this Agreement and all other documents to be executed and delivered by it in connection with this Agreement, and the performance of this Agreement in accordance with its terms.
- 4.1.2 This Agreement has been duly executed and delivered and constitutes a legal, valid and binding obligation of the Guarantor enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity.
- 4.1.3 The execution and performance of this Agreement by the Guarantor will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial or public body or authority in the British Virgin Islands, (ii) the constitutive documents, rules and regulations of the Guarantor or (iii) any material agreement or other undertaking or instrument to which the Guarantor is a party or which is binding upon the Guarantor or any of its assets, nor result in the creation or imposition of any Encumbrances on any of its assets pursuant to the provisions of any such agreement or other undertaking or instrument.
- 4.1.4 All consents, licences, notifications authorisations or approvals of, or filings with, any governmental, judicial and public bodies and authorities of the British Virgin Islands required by the Guarantor in connection with the execution, delivery, performance, legality, validity, enforceability, and admissibility in evidence of this Agreement have been obtained or effected and are and shall remain in full force and effect.

- 4.1.5 No event has occurred and is continuing that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, a default under any agreement or instrument evidencing any Indebtedness of the Guarantor, and no such event will occur upon the entering into of this Agreement.
- 4.1.6 There are no judicial, arbitral or administrative actions, proceedings or claims pending or, to the knowledge of the Guarantor, threatened, against the Guarantor or any of its Subsidiaries, the adverse determination of which might have a Material Adverse Effect on the financial condition of the Guarantor.
- 4.1.7 The Guarantor and (to the extent that not to have such title might have a Material Adverse Effect) each of its Subsidiaries has good title to its property free and clear of all Encumbrances, except for Permitted Encumbrances, and the Guarantor's obligations under this Agreement rank at least *pari passu* in right of payment with all its other unsecured and unsubordinated Indebtedness save for those which may be preferred by any bankruptcy insolvency liquidation or other similar laws of general application.
- 4.1.8 The audited consolidated financial statements of the Guarantor as at and for the years ended 31 December 1999, 2000 and 2001 and the unaudited, interim consolidated financial statements as of 30 June 2002 and for the six months then ended (including the consolidated statement of operations and consolidated statement of cash flows for the six months ended 30 June 2001):
- (i) were prepared in accordance with U.S. GAAP;
 - (ii) unless not required by U.S. GAAP, disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the Guarantor as at the dates and for the periods in respect of which they have been prepared; and
 - (iii) save as disclosed therein, present fairly in all material respects the assets and liabilities as at that dates in respect of which they have been prepared and the results of operations of the Guarantor and the International Group during the periods in which they have been prepared.
- 4.1.9 There has been no material adverse change since 31 December 2001 in the condition (financial or otherwise), results of business, operations or prospects of the Guarantor or the International Group or on the Guarantor's ability to perform its obligations under this Agreement.
- 4.1.10 The execution and enforceability of this Agreement is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp duty or similar levy, imposed by or within the British Virgin Islands or any political subdivision or taxing authority thereof or therein.
- 4.1.11 Neither the Guarantor nor its property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to this Agreement.
- 4.1.12 The Guarantor is in compliance in all material respects with all applicable provisions of law.
- 4.1.13 Subject to the performance by the relevant parties of the relevant established procedures, no withholding in respect of any British Virgin Islands taxes is required to be made from any payment by the Guarantor under this Agreement.
- 4.1.14 In any proceedings taken in the British Virgin Islands in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England in relation thereto will be recognised and enforced.
- 4.1.15 All licences, consents, examinations, clearances, filings, registrations and authorisations which are necessary to enable the Guarantor or any of its Subsidiaries to own its assets and carry on its business are in full force and effect except where the failure so to obtain could not have a Material Adverse Effect.

4.2 Bank's Representations and Warranties

The Bank makes the representations and warranties to the Guarantor set out in this Clause 4.2 to the intent that such shall form the basis of this Agreement and shall remain in full force and effect as at the date hereof and shall be deemed to be repeated by the Bank on the Closing Date:

- 4.2.1 The Bank is duly incorporated under the laws of and is resident for German taxation purposes in the Federal Republic of Germany and has full power and capacity to execute this Agreement, the Loan, the Trust Deed, the Paying Agency Agreement, the Subscription Agreement and the Subscription Support Agreement, and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Bank has taken all necessary corporate, legal and other action to approve and authorise the same.
- 4.2.2 The execution of this Agreement, the Loan, the Trust Deed, the Paying Agency Agreement, the Subscription Agreement and the Subscription Support Agreement, and the undertaking and performance by the Bank of the obligations expressed to be assumed by it herein will not conflict with, or result in a breach of or default under, the laws of the Federal Republic of Germany or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety.
- 4.2.3 This Agreement, the Loan, the Trust Deed, the Paying Agency Agreement, the Subscription Agreement and the Subscription Support Agreement, constitute legal, valid and binding obligations of the Bank enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject as to enforceability, to general principles of equity.
- 4.2.4 All authorisations, consents and approvals required by the Bank for or in connection with the execution of this Agreement, the Loan Agreement, the Trust Deed, the Paying Agency Agreement, the Subscription Agreement and the Subscription Support Agreement, the performance by the Bank of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

5. Covenants

5.1 Negative Pledge

So long as any amount remains outstanding hereunder, the Guarantor shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, create, incur or suffer to exist any Encumbrances, other than Permitted Encumbrances, on any of its assets, now owned or hereafter acquired, securing any Consolidated Indebtedness, unless the Loan in the case of TNK, or the Loan Guarantee contained in this Agreement in the case of the Guarantor, is secured equally and rateably with such other Consolidated Indebtedness.

5.2 Maintenance of Authorisations

So long as any amount remains outstanding hereunder, the Guarantor shall take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations required in or by the laws of the British Virgin Islands, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the British Virgin Islands for the execution, delivery or performance of this Agreement or for the validity or enforceability thereof.

5.3 Mergers

So long as any amount remains outstanding hereunder, (i) the Guarantor shall not, without the prior written consent of the Bank, (A) enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms are construed by applicable legislation or otherwise (“**reorganisation**”)), or (B) participate in any other type of corporate reconstruction and (ii) the Guarantor shall ensure that no other member of the International Group (A) enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable legislation in the jurisdiction of incorporation of the relevant member of the International Group), or (B) participates in any other type of corporate reconstruction where any such reorganisation or other type of corporate reconstruction referred to in (ii), after such reorganisation or corporate reorganisation, would result in a Material Adverse Effect and provided further that nothing in this Clause 5.3 shall prevent TNK or the Guarantor from entering into any merger with Open Joint Stock Company SIDANCO or its parent company or its ultimate holding company and such merger shall not require the prior written consent of the Bank unless such merger might have a Material Adverse Effect or Ratings Downgrade.

5.4 Disposals

So long as any amount remains outstanding hereunder, the Guarantor shall not and shall ensure that no member of the International Group shall (in each case disregarding sales of stock in trade on an arm’s-length basis in the ordinary course of business and assignments of or other arrangements over the rights or revenues arising from contracts for the sale of gas, crude oil or oil products) sell, lease, transfer or otherwise dispose of to a person that is not a member of the International Group, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets if such sale, lease, transfer or disposal has a Material Adverse Effect.

5.5 Transactions with Affiliates

The Guarantor shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, conduct any business, enter into or permit to exist any Affiliate Transaction or series of related Affiliate Transactions including intercompany loans unless (a) the terms of such Affiliate Transaction are no less favourable to the Guarantor or such Subsidiary, as the case may be, than those that could be obtained in a comparable arm’s-length transaction with a Person that is not an Affiliate of the Guarantor or such Subsidiary; or (b) such Affiliate Transaction is made pursuant to a contract existing on the Closing Date (excluding any amendments or modifications thereof after the Closing Date).

This sub-Clause 5.5 shall not apply to (i) compensation or employee benefit arrangements with any officer or director of the Guarantor or such Subsidiary arising as a result of their employment contract, (ii) transactions between the Guarantor and any of its Subsidiaries or between any such Subsidiaries or (iii) any one or more transactions or series of transactions (whether related or not) by any Subsidiary of the Guarantor which could in aggregate not have a Material Adverse Effect.

5.6 Maintenance of Property

So long as any amount remains outstanding hereunder, the Guarantor and its Subsidiaries will cause all of the property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgement of the Guarantor or any Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times provided, however, that nothing in this sub-Clause 5.6 shall prevent the Guarantor from discontinuing the operation or maintenance of any of such properties if such discontinuance is desirable in the conduct of its business or the business of any Subsidiary and could not reasonably be expected to have a Material Adverse Effect.

5.7 Payment of Taxes and Other Claims

So long as any amount remains outstanding hereunder, the Guarantor and its Subsidiaries shall pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or assets of the Guarantor or any Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become an Encumbrance (other than a Permitted Encumbrance) upon the property of the Guarantor or any of its Subsidiaries; provided, however that none of the Guarantor nor any of its Subsidiaries shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with U.S. GAAP or other appropriate provision has been made or (b) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed U.S.\$10 million.

5.8 Maintenance of Insurance

So long as any amount remains outstanding hereunder, the Guarantor and any Subsidiary shall (except to the extent any Subsidiary is covered by insurance arranged by the Guarantor) keep those of their material properties which are of an insurable nature insured with insurers believed by the Guarantor or such Subsidiary to be of good standing and believed by TNK or such Subsidiary, as the case may be, to be responsible against loss and to the extent that property of similar character is usually so insured by companies in the same jurisdictions similarly situated and owning like properties in the same jurisdictions.

5.9 Financial Information

- 5.9.1 The Guarantor hereby undertakes that so long as the Loan or any other sum owing hereunder remains outstanding it shall deliver to the Bank, within six months after the end of each of its financial years, copies of its audited consolidated financial statements for such financial year, prepared in accordance with U.S. GAAP consistently applied with the corresponding financial statements for the preceding period together each time with an Officers' Certificate that such financial statements give a true and fair view of the International Group's consolidated financial condition as at the end of the period to which those financial statements relate and of the results of the International Group's consolidated operations during such period.
- 5.9.2 The Guarantor hereby undertakes that so long as the Loan or any other sum owing hereunder remains outstanding it shall deliver to the Bank, as soon as they become available and in any event within four months after the end of the first half-year of each of its financial years, copies of its unaudited consolidated financial statements for that half-year, prepared in accordance with U.S. GAAP consistently applied with the corresponding financial statements for the preceding period.
- 5.9.3 The Guarantor hereby undertakes that so long as the Loan or any other sum owing hereunder remains outstanding it shall deliver to the Bank, without undue delay, such additional information regarding the financial position or the business of the Guarantor and its respective Subsidiaries as the Bank may reasonably request including providing certification to the Trustee pursuant to Clauses 14.5 and 14.12 of the Trust Deed.

5.10 Financial Covenants

- 5.10.1 The Guarantor shall ensure that the amount of Consolidated Net Indebtedness shall not, at any time exceed the greater of 75% of the Consolidated Net Worth or U.S.\$3,000,000,000; and

5.10.2 The Guarantor shall ensure that the ratio of EBITDA to Consolidated Net Interest in respect of any Relevant Period shall be or shall exceed 3:1.

5.11 Claims Pari Passu

The Guarantor shall ensure that at all times the claims of the Bank against it under this Agreement rank at least *pari passu* in right of payment with the claims of all its other unsecured and unsubordinated creditors save those whose claims are preferred by any bankruptcy, insolvency, liquidation or other similar laws of general application.

6. Indemnity

6.1 Indemnification

The Guarantor undertakes to the Bank, that if the Bank or any of its Affiliates, each director, officer, employee or agent of the Bank and each person controlling the Bank within the meaning of the United States securities laws (each a “**Relevant Party**”) properly incurs any loss, liability, cost, claim, charge, expense (including, without limitation, legal fees, costs and expenses), demand and damage (a “**Loss**”) as a result of or in connection with the Loan, this Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Notes and/or the Notes being outstanding (excluding any Loss that is the subject of the indemnities contained in Clauses 7.1 and 7.5) and (it being understood that the Bank may not recover twice in respect of the same Loss) the Guarantor shall pay to the Bank on demand an amount equal to such Loss and all costs, charges and expenses which it or any Relevant Party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred unless such Loss was either caused by such Relevant Party’s negligence or wilful misconduct proved or determined by a court of law or arises out of a breach of the representations and warranties of the Bank contained in the Schedule to the Subscription Agreement. The Bank shall not have any duty or obligation whether as fiduciary or trustee for any Relevant Party or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause.

6.2 In case any proceeding shall be instituted involving any Relevant Party in respect of which indemnity may be sought pursuant to Clause 6.1, such Relevant Party shall promptly notify the Guarantor in writing and the Guarantor, upon request of the Relevant Party, shall retain counsel reasonably satisfactory to the Relevant Party to represent the Relevant Party in such proceedings and shall pay the reasonable fees and disbursements of such counsel related to such proceeding. In any such proceeding, any Relevant Party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such Relevant Party unless (i) the Guarantor and the Relevant Party shall have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) include both the Guarantor and the Relevant Party and the Relevant Party shall have been advised by counsel that there may be one or more legal defences available to it which are different from or in addition to those available to the Guarantor and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. It is understood that the Guarantor shall not, in respect of the legal expenses of any Relevant Party in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the fees and expenses of more than one separate firm (in addition to any local counsel) for all such Relevant Parties and that all such fees and expenses shall be reimbursed as they are incurred.

6.3 The Guarantor shall not be liable for any settlement of any proceedings effected without its written consent (such consent not to be unreasonably withheld), but if settled with such consent or if there be a final judgment for the plaintiff, the Guarantor agrees to indemnify the Relevant Party from and against any Loss by reason of such settlement or judgment. Notwithstanding the foregoing, if at any

time a Relevant Party shall have requested the Guarantor to reimburse the Relevant Party for fees and expenses of counsel as contemplated by the foregoing, the Guarantor agrees that it shall be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than 30 days after receipt by the Guarantor of the aforesaid request and (ii) the Guarantor shall not have reimbursed the Relevant Party in accordance with such request prior to the date of such settlement.

6.4 Independent Obligation

Sub-Clause 6.1 constitutes a separate and independent obligation of the Guarantor from its other obligations under or in connection with this Agreement or any other obligations of the Guarantor in connection with the issue of the Notes by the Bank and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations.

6.5 Evidence of Loss

A certificate of the Bank setting forth the amount of losses, expenses and liabilities described in sub-Clause 6.1 and specifying in full detail the basis therefor shall be conclusive evidence of the amount of such losses, expenses and liabilities.

6.6 Survival

The obligations of the Guarantor pursuant to sub-Clause 6.1 shall survive the execution and delivery of this Agreement, the drawdown of the Facility and the repayment of the Loan, in each case by the Guarantor.

7. General

7.1 Stamp Duties

The Guarantor shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed by any person in the British Virgin Islands or the Federal Republic of Germany which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and shall indemnify the Bank against any and all costs and expenses which may be incurred or suffered by the Bank with respect to, or resulting from, delay or failure to pay such taxes or similar charges.

7.2 Waivers

No failure to exercise and no delay in exercising, on the part of the Bank or the Guarantor, any right, power or privilege hereunder and no course of dealing between the Guarantor and the Bank shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights, or remedies provided by applicable law.

7.3 Notices

All notices, requests, demands or other communications to or upon the respective parties hereto shall be given or made by telex or otherwise in writing and shall be deemed to have been duly given or made (a) at the time of delivery, if delivered by hand or courier or if sent by facsimile transmission or by airmail, or (b) upon dispatch, if given or made by telex (with confirmed answerback received) to the party to which such notice, request, demand or other communication is required or permitted to be given or made under this Agreement addressed as follows:

- (a) if to the Guarantor:

TNK International Limited
c/o 3 Them. Dervis Street
Julia House, 1st Floor
1066 Nicosia, Cyprus
Tel: +357 22 555 800
Fax: +357 22 555 803
Attention: Michael Georghiou, Director

- (b) if to the Bank:

Salomon Brothers AG
Frankfurter Welle
Reuterweg 16
60323 Frankfurt am Main
Federal Republic of Germany
Fax: (49 69) 232 570
Attention: Operations Department

or to such other address, telex number or fax number as any party may hereafter specify in writing to the other.

7.4 Assignment

- 7.4.1 This Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Bank, following the enforcement of the security referred to in sub-Clause 7.4.3 below, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee).
- 7.4.2 The Guarantor shall not assign or transfer all or any part of its rights or obligations hereunder to any other party except as otherwise expressly permitted herein.
- 7.4.3 The Bank may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except (i) the charge by way of first fixed charge granted by the Bank in favour of the Trustee (as Trustee) of the Bank's rights and benefits under this Agreement and (ii) the absolute assignment by the Bank to the Trustee of certain rights, interests and benefits under this Agreement, in each case, pursuant to Clause 4 of the Trust Deed.

7.5 Currency Indemnity

Each reference in this Agreement to Dollars is of the essence. To the fullest extent permitted by law, the obligation of the Guarantor in respect of any amount due in Dollars under this Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in Dollars that the party entitled to receive such payment may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which such party receives such payment. If the amount in Dollars that may be so purchased for any reason falls short of the amount originally due, the Guarantor hereby agrees to indemnify and hold harmless the Bank against any deficiency in Dollars. Any obligation of the Guarantor not discharged by payment in Dollars shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided herein, shall continue in full force and effect.

7.6 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

7.7 Choice of Law

This Agreement shall be governed by, and construed in accordance with, the laws of England.

7.8 Jurisdiction

- 7.8.1 For the exclusive benefit of the other party, each of the Guarantor and the Bank hereby irrevocably agrees that the courts of England shall have jurisdiction to settle any disputes which may arise out of or in connection with this Agreement and that accordingly any suit, action or proceeding (collectively, “**Proceedings**”) arising out of or in connection with this Agreement may be brought in such courts.
- 7.8.2 Each of the parties irrevocably waives any objection which it may now or hereafter have to the laying of the venue of any Proceedings in any such court referred to in this Clause 7.8 and any claim that any such Proceedings have been brought in an inconvenient forum and further irrevocably agrees that a final and conclusive judgment in any Proceedings brought in the English courts with competent jurisdiction shall be conclusive and binding and may be enforced in the courts of any other jurisdiction.
- 7.8.3 Nothing contained in this Agreement shall limit the right of any party to take Proceedings against another party in any other court of competent jurisdiction to the extent permitted by any applicable law, nor shall the taking of Proceedings in connection with this Agreement in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction or in any other court of competent jurisdiction in connection with this Agreement to the extent permitted by any applicable law.
- 7.8.4 The Guarantor hereby agrees that, at the option of the Bank, any controversy, claim or cause of action brought by any party against another party or arising out of or relating to this Agreement may be settled by arbitration in accordance with the Rules of the London Court of International Arbitration, which rules are deemed to be incorporated by reference into this clause. The place of arbitration shall be London, England and the language of the arbitration shall be English. The number of arbitrators shall be three, each of whom shall be disinterested in the dispute or controversy, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions. Each party shall nominate an arbitrator, who, in turn, shall nominate the Chairman of the Tribunal. If a dispute, controversy or cause of action shall involve more than two parties, the parties thereto shall attempt to align themselves in two sides (i.e. claimant and respondent) each of which shall appoint an arbitrator as if there were only two sides to such dispute, controversy or cause of action. If such alignment and appointment shall not have occurred within twenty (20) calendar days after the initiating party serves the arbitration demand or if a Chairman has not been selected within thirty (30) calendar days of the selection of the second arbitrator, the Arbitration Court of the London Court of International Arbitration shall appoint the three arbitrators or the Chairman, as the case may be. The parties and the Arbitration Court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The arbitrators shall have no authority to award punitive or other damages and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of this Agreement. In no circumstances shall the Bank be liable for any consequential, special or punitive damages in connection with its obligations hereunder.

Fees of the arbitration (excluding each party's preparation, travel, attorneys' fees and similar costs) shall be borne in accordance with the decision of the arbitrators. The decision of the arbitrators shall be final, binding and enforceable upon the parties and judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that the failure of a party to comply with the decision of the arbitrators requires any other party to apply to any court for enforcement of such award, the non-complying party shall be liable to the other for all costs of such litigation, including reasonable attorneys' fees.

7.8.5 **The Guarantor's Process agent:** The Guarantor agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to White & Case (London) Limited at 7-11 Moorgate, London, EC2R 6HH, England. If such person is not or ceases to be effectively appointed to accept service of process on the Guarantor's behalf, the Guarantor shall, on the written demand of the Bank, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Bank shall be entitled to appoint such a person by written notice to the Guarantor. Nothing in this sub-Clause shall affect the right of the Bank to serve process in any other manner permitted by law.

7.8.6 **Bank's Process agent:** The Bank agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Citibank, N.A., General Counsel, Citigroup Centre, 33 Canada Square, Canary Wharf, London E14 5LB, England or its other principal place of business in England for the time being or at any other address for the time being at which process may be served on such person in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If such person is not or ceases to be effectively appointed to accept service of process on the Bank's behalf, the Bank shall, on the written demand of the Guarantor, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Guarantor, shall be entitled to appoint such a person by written notice to the Bank. Nothing in this Clause shall affect the right of the Guarantor, as the case may be, to serve process in any other manner permitted by law.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed on the date first written above

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which contain summaries of certain provisions of the Trust Deed, and which will be attached to the Notes in definitive form, if any, and (subject to the provisions thereof) apply to the Global Notes.

The U.S.\$400,000,000 of 11 per cent. Loan Participation Notes due 2007 (the “Notes” which expression includes any further Notes issued pursuant to Condition 14 and forming a single series herewith), without coupons, of Salomon Brothers AG (the “Bank”) are constituted by a trust deed (the “Trust Deed”, which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) dated 6 November 2002 and made between the Bank and The Law Debenture Trust Corporation p.l.c. (the “Trustee”, which expression shall include any successors) as trustee for the holders of the Notes (the “Noteholders”).

The Bank has authorised the creation, issue and sale of the Notes for the sole purpose of financing a U.S.\$400,000,000 5-year loan (the “Loan”) to Joint Stock Company Tyumen Oil Company (the “Borrower”) guaranteed by TNK International Limited (the “Loan Guarantor”). The terms of the Loan are recorded in a loan agreement (the “Loan Agreement”) dated 4 November 2002 between the Bank and the Borrower and the guarantee of the Loan Guarantor is recorded in a guarantee agreement (the “Guarantee Agreement”) dated 4 November 2002 between the Bank and the Loan Guarantor.

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Bank to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Bank pursuant to the Loan Agreement and/or the Guarantee Agreement.

The Bank has charged by way of first fixed charge in favour of the Trustee certain of its rights and interests (i) as lender under the Loan Agreement (other than any rights and benefits constituting Reserved Rights as defined in the Trust Deed) and (ii) as a party to the Guarantee Agreement (other than any rights and benefits constituting Reserved Rights) as security for its payment obligations in respect of the Notes and under the Trust Deed and has assigned absolutely certain other rights under the Loan Agreement and the Guarantee Agreement to the Trustee (the “Loan and Guarantee Administration Assignment” and, together with the charge by way of first fixed charge security, the “Security Interests”). In certain circumstances, the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by the Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Loan and Guarantee Administration Assignment).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Borrower) pursuant to a paying agency agreement (the “Agency Agreement”) dated 6 November 2002 and made between the Bank, Citibank, N.A., acting through its London branch, as the principal paying agent and the registrar (the “Principal Paying Agent” and the “Registrar”, which expressions shall include any successors), Dexia Banque Internationale à Luxembourg S.A., acting through its Luxembourg branch, as transfer agent and paying agent in Luxembourg (the “Transfer Agent” and the “Paying Agent”, which expressions shall include any successors), the Borrower and the Trustee. References herein to the “Agents” are to the Registrar, the Principal Paying Agent, the Transfer Agent and the Paying Agent and any reference to an “Agent” is to any one of them.

Copies of the Trust Deed, the Loan Agreement, the Guarantee and the Agency Agreement are available for inspection at the principal office of the Trustee being, at the date hereof, at Fifth Floor, 100 Wood Street, London EC2V 7EX, England and at the specified office of the Principal Paying Agent and at the specified office of the Paying Agent in Luxembourg.

The statements contained in these Terms and Conditions include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed), the Guarantee Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

1. Status

The sole purpose of the issue of the Notes is to provide the funds for the Bank to finance the Loan. The Notes constitute the obligation of the Bank to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Bank pursuant to the Loan Agreement and/or the Guarantee Agreement.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Bank by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement and/or the Guarantee Agreement will be made *pro rata* among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement and/or the Guarantee Agreement, as the case may be. The Bank shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, the Bank shall be under no obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Bank and the Borrower.

Noteholders have notice of, and have accepted, these Terms and Conditions and the contents of the Trust Deed, the Loan Agreement and the Guarantee Agreement, and have hereby accepted that:

- (a) neither the Bank nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph (f) below, liability or obligation in respect of the performance and observance by the Borrower and the Loan Guarantor of their respective obligations under the Loan Agreement and the Guarantee Agreement or the recoverability of any sum of principal or interest (or any additional amounts) due or to become due from the Borrower or the Loan Guarantor under the Loan Agreement and/or the Guarantee Agreement, as the case may be;
- (b) neither the Bank nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of the Borrower or the Loan Guarantor;
- (c) neither the Bank nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement or of the Loan Guarantor under or in respect of the Guarantee Agreement;
- (d) neither the Bank nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, the Paying Agent, the Registrar or the Transfer Agent of their respective obligations under the Agency Agreement;
- (e) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by the Borrower of its obligations under the Loan Agreement or, as the case may be, by the Loan Guarantor of its obligations under the Guarantee Agreement and their covenants, credit and financial standing. The Borrower has represented and warranted to the Bank in the Loan Agreement that the Loan Agreement constitutes a legal, valid and binding obligation of the Borrower and the Loan Guarantor has represented and warranted to the Bank in the Guarantee Agreement that the Guarantee Agreement constitutes a legal, valid and binding obligation of the Loan Guarantor; and

- (f) the Bank and the Trustee shall be entitled to rely on a certificate from a duly authorised officer of the Borrower or, as the case may be, the Loan Guarantor or certification by an independent third party approved by the Bank or the Trustee, as the case may be, that the Borrower and the Loan Guarantor are complying with their respective obligations under the Loan Agreement and the Guarantee Agreement, whether or not addressed to the Bank or the Trustee, as the case may be, and whether their liability in relation thereto is limited (by its terms or by an engagement letter relating thereto entered into by the Bank or the Trustee, as the case may be, or in any other manner) by reference to a monetary cap, methodology or otherwise. The Bank and the Trustee shall not otherwise be responsible for investigating any aspect of the Borrower's or the Loan Guarantor's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Loan and Guarantee Administration Assignment and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Bank to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security; the Trustee has no responsibility for the value of such security.

Under the Trust Deed, the obligations of the Bank in respect of the Notes rank *pari passu* and rateably without any preference or priority among themselves.

In the event that the payments of principal or interest or any other amount under the Loan Agreement are made by the Borrower or under the Guarantee Agreement by the Loan Guarantor, as the case may be, to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, such amounts will *pro tanto* satisfy such payment obligations of the Bank in respect of the Notes.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Bank's right under or in respect of the Loan Agreement, the Loan or the Guarantee Agreement exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any provision of the Loan Agreement or the Guarantee Agreement or have direct recourse to the Borrower or the Loan Guarantor except through action by the Trustee pursuant to the Loan and Guarantee Administration Assignment granted to the Trustee in the Trust Deed. Neither the Bank nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall be required to take proceedings to enforce payment under the Loan Agreement and/or the Guarantee Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction.

2. Form and Denomination

Notes are issued in fully registered form, in the denominations of U.S.\$1,000, U.S.\$10,000 and U.S.\$100,000 or integral multiples thereof, without coupons, except that no Note sold in reliance on Regulation S under the U.S. Securities Act of 1933 (the "Securities Act") and no Note sold to United States persons who are qualified institutional buyers (as defined in Rule 144A under the Securities Act) that are also qualified purchasers as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940 will be issued in an amount less than U.S.\$10,000.

3. Register and Transfers

The Registrar will maintain a register (the "Register") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions the "holder" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "Noteholder" shall be construed accordingly. A Note will be issued to each Noteholder in respect of its registered holding.

The holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note) and no person shall be liable for so treating such holder.

Subject to the last paragraph of this Condition, a Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer duly completed, at the specified office of the Registrar or at the specified office of the Transfer Agent, together with such evidence as the Registrar or the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. Where not all the Notes evidenced by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Note will be issued to the transferor.

Subject to the last paragraph of this Condition, within five business days of the surrender of a Note in accordance with the immediately preceding paragraph, the Registrar will register the transfer in question and deliver a new Note to each relevant holder at its specified office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, "business day" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its specified office. In the case of the transfer of only a part of the Notes, a new Note in respect of the balance of the Notes not transferred will be so delivered or (at the risk and, if mailed at the request of the transferor otherwise than by ordinary uninsured mail, at the expense of the transferor) sent by mail to the transferor.

The transfer of a Note will be effected without charge but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

4. Restrictive Covenant

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Bank will not, without the prior written consent of the Trustee, agree to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement or the Guarantee Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement or the Guarantee Agreement, except as otherwise expressly provided in the Loan Agreement or the Guarantee Agreement, as the case may be. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Bank to the Noteholders in accordance with Condition 13.

5. Interest

On each Interest Payment Date the Bank shall account to the Noteholders for an amount equivalent to the amount of interest actually received by or for the account of the Bank pursuant to the Loan Agreement, which interest under the Loan is equal to 11 per cent. per annum as set out in Clause 4 of the Loan Agreement. Each Note will start to bear interest from and including 6 November 2002 and cease to bear interest from but excluding its due date for redemption unless, upon due presentation, payment of the principal in respect of the Notes is improperly withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the same rate per annum to but excluding the date on which payment in full of the principal thereof is made, up to the maximum extent permitted by applicable law.

If interest is required to be calculated for any period of less than a year, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

In Conditions 5 and 6, "Interest Payment Date" means 6 May and 6 November of each year.

6. Redemption

6.1 Unless previously prepaid or repaid, the Borrower will be required to repay the Loan on 6 November 2007 and, subject to such repayment, as set forth in the Loan Agreement, all the Notes then remaining outstanding will on that date be redeemed or repaid by the Bank to the Noteholders at 100 per cent. of the principal amount thereof.

6.2 Under the Loan Agreement:

- (a) the Borrower may, in the circumstances set out in Clause 5.2 of the Loan Agreement prepay the Loan in whole but not in part; and
- (b) the Bank may require the Borrower to prepay the Loan in whole but not in part in the circumstances set out in Clause 5.3 of the Loan Agreement; or
- (c) the Loan (or part thereof) may be prepaid in the circumstances set out in Clause 5.4 of the Loan Agreement.

In the event that the Bank receives a notice from the Borrower pursuant to Clause 5.2 or the Loan is to be prepaid pursuant to Clause 5.3, then the Bank shall within 10 Business Days of receiving such notice under Clause 5.2 or of the Loan becoming repayable under Clause 5.3 deliver notice thereof to the Noteholders in accordance with Condition 13. A copy of the Borrower's notice of prepayment under Clause 5.2 or the Bank's notice contemplated by Clause 5.3 of the Loan Agreement and the date fixed for prepayment of the Loan shall be set forth in the notice given to Noteholders hereunder.

If the Loan is to be prepaid pursuant to Clause 5.2, Clause 5.3 or Clause 5.4, then the Loan shall be prepaid by the Borrower on (as the case may be) (i) the date specified by the Borrower pursuant to Clause 5.2; (ii) the date specified by the Bank pursuant to Clause 5.3 or (iii) the second Business Day following delivery of a cancellation request in the case of Clause 5.4 to the extent set out in the cancellation request, together in any such case with (A) accrued interest calculated in respect of the whole of the interest period starting on (and including) the preceding Interest Payment Date and ending on (but excluding) the date of actual prepayment of the Loan and (B) all other amounts payable by the Borrower pursuant to the Loan Agreement.

The Trustee shall be entitled to accept any notice delivered by the Bank in accordance with this Condition 6.2 or the Loan Agreement or by the Borrower in accordance with the Loan Agreement as sufficient evidence of the satisfaction of the applicable circumstances in which event they shall be conclusive and binding on the Noteholders.

On the Business Day following the date on which the Loan is prepaid in accordance with Clause 5.2, Clause 5.3 or 5.4 (as the case may be), the Bank shall be bound to redeem the Notes in accordance with this Condition 6 and Condition 7.

6.3 To the extent that the Bank receives amounts of principal, interest or other amounts (other than amounts in respect of the Reserved Rights) under the Loan following the occurrence of an Event of Default pursuant to Clause 11.3 of the Loan Agreement, the Bank shall pay an amount equal to and in the same currency as such amounts on the Business Day following receipt of such amounts, subject as provided in Condition 7.

6.4 The Loan Agreement provides that the Loan Guarantor or any of its Subsidiaries (as defined therein) may at any time and from time to time purchase Notes, having an aggregate principal value of at least U.S.\$1,000,000, in the open market or by tender or by private agreement at any price. Such Notes may be held, reissued, resold or, at the option of the Loan Guarantor or any such Subsidiary, surrendered to any Paying Agent and/or the Registrar for payment and cancellation. Upon such surrender of Notes to any Paying Agent and/or the Registrar, the Loan shall be prepaid by the

Borrower in an amount corresponding to the aggregate principal amount of the Notes surrendered for cancellation, together with accrued interest (if any) thereon and, upon the receipt of such amount from the Borrower and payment to the Loan Guarantor or any such Subsidiary, as the case may be, the Notes surrendered will be cancelled as at such date.

- 6.5** The Bank may compel any beneficial owner of Notes initially sold pursuant to Rule 144A under the Securities Act to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is a U.S. person that is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and a qualified purchaser (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940).

7. Payments

Payments of principal shall be made by U.S. dollar cheque drawn on, or by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of the Transfer Agent.

Payments of interest shall be made by U.S. dollar cheque drawn on, or by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of the Transfer Agent.

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

If the due date for payments of interest or redemption is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, “business day” means any day on which (a) the London Interbank Market is open for dealings between banks generally, and (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Frankfurt am Main, New York City and in the city where the specified office of the Principal Paying Agent is located.

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar’s specified office) on the fifteenth day before the due date for such payment (the “Record Date”). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Noteholder in the Register at the opening of business on the relevant Record Date.

The Agency Agreement provides that the Bank may at any time, with the prior written approval of the Trustee appoint a successor Registrar or Principal Paying Agent and/or additional or successor transfer agents or paying agents provided that (i) for so long as the Notes are listed on the Luxembourg Stock Exchange (the “Stock Exchange”), there shall at all times be a paying agent with a specified office in Luxembourg or such other place in accordance with the rules of the Stock Exchange; and (ii) if any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council Meeting of 26-27 November, 2000 or any law implementing or complying with, or conforming to such Directive is introduced, the Bank will ensure that it maintains a paying agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any such Directive or law. Any such appointment of successor or other Agents shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days’ and not less than 30 days’ notice thereof shall have been given to the continuing Agents, the Borrower, the Trustee and to the Noteholders in accordance with Condition 13.

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Closing Date, shall be payable only as and when actually received by or for the account of the Bank pursuant to the Loan Agreement or the Guarantee Agreement.

Save as directed by the Trustee at any time after the security created in the Trust Deed becomes enforceable, the Bank will require the Borrower or, failing which, the Loan Guarantor, as the case may be, to make all payments of principal and interest to be made pursuant to the Loan Agreement or the Guarantee Agreement, as the case may be, to the Principal Paying Agent for the account of the Bank. Under the Security Interests the Bank will charge by way of first fixed charge to the Trustee for the benefit of the Noteholders, all the rights, title and interest in and to all such sums of money then or in the future so deposited for the account of the Bank.

8. Taxation

All payments in respect of the Notes by or on behalf of the Bank will be made without deduction or withholding for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the Federal Republic of Germany or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law. In such event, the Bank shall make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required. However, the Bank shall only make such additional payments to the extent and at such time as it shall receive equivalent sums from the Borrower or the Loan Guarantor, as the case may be, under the Loan Agreement or the Guarantee Agreement, as the case may be. To the extent that the Bank does not receive any such equivalent sum, the Bank shall account to the relevant Noteholder an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received by, or for the account of, the Bank pursuant to the provisions of the Loan Agreement or the Guarantee Agreement, as the case may be, on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Bank provided that no such additional amount will be payable:

- (i) to a Noteholder who (a) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is liable for such taxes or duties by reason of his having some connection with the Federal Republic of Germany other than the mere holding of such Notes or the receipt of payments in respect thereof;
- (ii) in respect of a Note presented for payment of principal more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Note had been presented for payment on such thirtieth day;
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (iv) in respect of a Note presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union.

As used herein, "Relevant Date" means (i) the date on which the equivalent payment under the Loan Agreement first becomes due but (ii) if the full amount payable by the Borrower has not been received by, or for the account of, the Bank pursuant to the Loan Agreement or the Guarantee Agreement, as the case may be, on or prior to such date, means the date on which such full amount shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Bank.

Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

9. Enforcement

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to proceed in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing.

The Trust Deed also provides that, in the case of an Event of Default (as defined in the Loan Agreement), or of a Relevant Event (as defined in the Trust Deed), the Trustee may, and shall, if requested to do so by Noteholders whose Notes constitute at least 25 per cent. in aggregate principal amount of the Notes outstanding, or if so directed by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction, institute such proceedings as it may think fit to enforce the rights of the Noteholders and the provisions of the Trust Deed (which shall for the avoidance of doubt, in the case of the Bank shall mean to enforce the security created hereunder by the Bank). Upon repayment of the Loan following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid and thereupon shall cease to be outstanding.

10. Meetings of Noteholders; Modification of Notes, Trust Deed, Loan Agreement and Guarantee Agreement; Waiver; Substitution of the Bank

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes or the Trust Deed. Noteholders will vote *pro rata* according to the principal amount of their Notes. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amount payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes and the Trust Deed or, following the creation of the Security Interests, the Loan Agreement or the Guarantee Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Bank of the Terms and Conditions of the Notes or the Trust Deed or, following the creation of the Security Interests, by the Borrower of the terms of the Loan Agreement or by the Loan Guarantor of the terms of the Guarantee Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such, if in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders (as a class). Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be promptly notified to the Noteholders.

The Trust Deed contains provisions to the effect that the Bank may, having obtained the prior written consent of the Borrower, the Loan Guarantor and the Trustee (which latter consent may be given without the consent of the Noteholders) and having complied with such reasonable requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity in place of the Bank as creditor under the Loan Agreement and as a party to the Guarantee Agreement, as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed being satisfied and the substitute obligor's rights under the Loan Agreement and the Guarantee Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes.

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose

domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Bank or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

11. Indemnification of Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified to its satisfaction.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement, the Guarantee Agreement or the security created in respect thereof or for the performance by the Bank of its obligations under or in respect of the Notes and the Trust Deed or by the Borrower in respect of the Loan Agreement or by the Loan Guarantor in respect of the Guarantee Agreement.

12. Replacement of Notes

If a Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of the Stock Exchange, be replaced at the specified office of the Registrar in London or at the specified office of the Transfer Agent in Luxembourg on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Bank and/or the Transfer Agent. Mutilated or defaced Notes must be surrendered before replacements will be issued.

13. Notices

All notices shall be deemed to have been duly given if (i) posted to such holders at their respective addresses as shown on the register of Noteholders maintained by the Registrar and (ii) so long as the Notes are listed on the Stock Exchange, published in a daily newspaper of general circulation in Luxembourg approved by the Trustee, currently expected to be the *Luxemburger Wort*. Any such notice shall be deemed to have been given on the first date on which both conditions shall have been met.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee shall constitute sufficient notice to such holders for every purpose hereunder.

14. Further Issues

The Bank may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on the further notes) so as to form a single series with the Notes. Such further notes shall be issued under a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of Noteholders and the holders of Notes of other series in certain circumstances where the Trustee so decides. In relation to any further issue which is to form a single series with the Notes, the Bank will enter into a loan agreement with the Borrower on substantially the same terms as the Loan Agreement (or in all respects except for the first payment of interest on the further notes) and a guarantee agreement with the Loan Guarantor on substantially the same terms as the Guarantee Agreement.

15. Prescription

Claims for payment under the Notes will become void unless presented for payment within ten years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

16. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. Governing Law

The Notes and the Trust Deed are governed by and shall be construed in accordance with, English law.

The Bank has in the Trust Deed (a) submitted irrevocably to the jurisdiction of the courts of England for the purposes of hearing and determining any suit, action or proceedings or settling any disputes arising out of or in connection with the Trust Deed or the Notes; (b) waived any objection which it might have to such courts being nominated as the forum to hear and determine any such suit, action or proceedings or to settle any such disputes and agreed not to claim that any such court is not a convenient or appropriate forum; and (c) designated a person in England to accept service of any process on its behalf.

TRANSFER RESTRICTIONS

Rule 144A Notes

Each purchaser of Rule 144A Notes within the United States, by accepting delivery of this Offering Circular and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is (a) a qualified institutional buyer within the meaning of Rule 144A (a “QIB”) that is also a qualified purchaser as defined in Section 2(a)(51) of the Investment Company Act (“QP”), (b) not a broker-dealer which owns and invests on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) not formed for the purpose of investing in the Bank, (e) acquiring such notes for its own account or for the account of a QIB that is also a QP and (f) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.
- (2) It will (a) along with each account for which it is purchasing, hold and transfer beneficial interest in the Rule 144A Notes in a principal amount that is not less than U.S.\$10,000 and (b) provide notice of these transfer restrictions to any subsequent transferees.
- (3) It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act (“Regulation S”), in each case in accordance with any applicable securities laws of any State of the United States.
- (4) It understands that the Bank has the power under the Trust Deed to compel any beneficial owner of Rule 144A Notes that is a U.S. person and is not a QIB and a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner. The Bank has the right to refuse to honour the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB and a QP.
- (5) It understands that the Rule 144A Notes, unless otherwise agreed between the Bank and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE LOAN AND GUARANTEE IN RESPECT HEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A “QIB”) THAT IS ALSO A QUALIFIED PURCHASER AS DEFINED IN THE INVESTMENT COMPANY ACT OF 1940 (A “QP”) THAT (A) IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN \$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS, (B) IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(K) PLAN, (C) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OF THIS NOTE, (D) IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB THAT IS ALSO A QP, IN A PRINCIPAL AMOUNT THAT IS NOT LESS THAN U.S.\$10,000 AND (E) WILL PROVIDE NOTICE OF THESE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREE, OR (2) IN AN OFFSHORE TRANSACTION IN

ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. THE ISSUER HAS THE RIGHT UNDER THE TRUST DEED TO COMPEL ANY BENEFICIAL OWNER THAT IS A U.S. PERSON AND IS NOT A QIB AND A QP TO SELL ITS INTEREST IN THIS NOTE, OR MAY SELL SUCH INTEREST ON BEHALF OF SUCH BENEFICIAL OWNER. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO A U.S. PERSON WHO IS NOT A QIB AND A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940.

- (6) It understands and acknowledges that its purchase and holding of such Notes constitutes a representation and agreement by it that (1) either (a) it is not an employee benefit plan subject to the United States Employee Retirement Income Security Act of 1974, as amended, nor a plan, subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended, nor an entity whose underlying assets include “plan assets” by reason of any such employee benefit plan’s or plan’s investment in that entity or a person otherwise investing “plan assets” of any such employee benefit plan or plan (each of the foregoing, a “Plan”), and it is not purchasing such Notes or any interest therein on behalf of, or with the assets of, a Plan, or (b) all or part of the assets to be used by it to purchase and hold such Notes constitute assets of one or more Plans, or such purchase and holding is on behalf of a Plan, and, in each such case, its purchase, holding and disposition of such Notes is covered by the exemptive relief provided by Prohibited Transaction Class Exemption 96-23, 95-60, 91-38, 90-1 or 84-14, and (2) it will not sell or otherwise transfer such Notes other than to a purchaser or transferee that is deemed to represent and agree with respect to its purchase and holding of such Notes to the same effect as the purchaser’s representation and agreement set forth in this sentence.
- (7) It acknowledges that the Bank, TNK, OAO TNK, the Registrar, the Managers and their affiliates, and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Bank, TNK or OAO TNK and the Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.
- (8) It understands that the Rule 144A Notes will be evidenced by the Rule 144A Global Note. Before any interest in the Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of Regulation S Notes outside the United States pursuant to Regulation S and each subsequent purchaser of Regulation S Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Offering Circular and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Bank, TNK, OAO TNK or a person acting on behalf of such an affiliate.

- (2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or the account of a QIB that is also a QP or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (3) It understands that the Regulation S Notes will be evidenced by the Regulation S Global Note. Before any interest in the Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
- (4) It understands and acknowledges that its purchase and holding of such Notes constitutes a representation and agreement by it that (1) either (a) it is not an employee benefit plan subject to the United States Employee Retirement Income Security Act of 1974, as amended, nor a plan, subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended, nor an entity whose underlying assets include “plan assets” by reason of any such employee benefit plan’s or plan’s investment in that entity or a person otherwise investing “plan assets” of any such employee benefit plan or plan (each of the foregoing, a “Plan”), and it is not purchasing such Notes or any interest therein on behalf of, or with the assets of, a Plan, or (b) all or part of the assets to be used by it to purchase and hold such Notes constitute assets of one or more Plans, or such purchase and holding is on behalf of a Plan, and, in each such case, its purchase, holding and disposition of such Notes is covered by the exemptive relief provided by Prohibited Transaction Class Exemption 96-23, 95-60, 91-38, 90-1 or 84-14, and (2) it will not sell or otherwise transfer such Notes other than to a purchaser or transferee that is deemed to represent and agree with respect to its purchase and holding of such Notes to the same effect as the purchaser’s representation and agreement set forth in this sentence.
- (5) It acknowledges that TNK, OAO TNK, the Bank, the Registrar, the Managers, their affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify TNK, the Bank and the Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

BOOK-ENTRY, DELIVERY AND FORM

The Global Notes

The Regulation S Notes will be evidenced on issue by one or more Regulation S Global Notes deposited with, and registered in the name of a nominee for, Citibank, N.A. as common depositary for Euroclear and Clearstream, Luxembourg. Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See “Book-Entry Procedures for the Global Notes”. By acquisition of a beneficial interest in a Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person, and that, if it determines to transfer such beneficial interest prior to the expiration of the 40 day distribution compliance period, it will transfer such interest only to a person whom the seller reasonably believes (a) to be a non-U.S. Person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, or (b) to be a person who takes delivery in the form of an interest in the Rule 144A Global Note. See “Transfer Restrictions”.

The Rule 144A Notes will be evidenced on issue by one of more Rule 144A Global Notes deposited with Citibank, N.A. as custodian for, and registered in the name of Cede & Co. as nominee of, DTC. Beneficial interests in a Rule 144A Global Note may only be held through DTC at any time. See “Book-Entry Procedures for the Global Notes”. By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, amongst other things, that it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Trust Deed. See “Transfer Restrictions”.

Beneficial interests in Global Notes will be subject to certain restrictions on transfer set forth therein and in the Trust Deed, as set forth in Rule 144A, and the Notes will bear the applicable legends regarding the restrictions set forth under “Transfer Restrictions”. A beneficial interest in a Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note in denominations greater than or equal to the minimum denominations applicable to interests in such Rule 144A Global Note and only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Notes may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that the transfer is being made to a non-U.S. Person and in accordance with Regulation S under the Securities Act.

Any beneficial interest in a Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note will, upon transfer, cease to be an interest in such Regulation S Global Note and become an interest in the Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note will, upon transfer, cease to be an interest in a Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Definitive Notes. The Notes are not issuable in bearer form.

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

- *Payments.* Payments of principal and interest in respect of Notes evidenced by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes.
- *Notices.* So long as any Notes are evidenced by a Global Note and such Global Note is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes provided that for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).
- *Meetings.* The holder of each Global Note will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and, in any such meeting as having one vote in respect of Notes for which the relevant Global Note may be exchanged.
- *Trustee's Powers.* In considering the interests of Noteholders while the Global Notes are held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its account holders with entitlements to each Global Note and may consider such interests as if such account holders were the holders of any Global Note.
- *Cancellation.* Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date (as defined below), in whole but not in part, for Notes in definitive form if: (i) a Global Note is held by or on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent, or (ii) if the Bank would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 which would not be suffered were the Notes in definitive form and a note to such effect signed by two Members of the Management Board of the Bank is delivered to the Trustee, by the Bank giving notice to the Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the relevant Global Note for Definitive Notes on or after the Exchange Date (as defined below) specified in the notice.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Notes.

If only one of the Global Notes (the “Exchanged Global Note”) becomes exchangeable for Definitive Notes in accordance with the above paragraphs, transfers of Notes may not take place between, on the one hand, persons holding Definitive Notes issued in exchange for beneficial interests in the Exchanged Global Note and, on the other hand, persons wishing to purchase beneficial interests in the other Global Note.

“Exchange Date” means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar and any Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Bank will, at the cost of the Bank (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Bank and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of the Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Definitive Notes issued in exchange for a beneficial interest in the Rule 144A Global Note shall bear the legends applicable to transfer pursuant to Rule 144A, as set out under “Transfer Restrictions”.

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under “Transfer Restrictions”, or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Bank will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Bank and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Bank that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Book-Entry Procedures for the Global Notes

Euroclear, Clearstream, Luxembourg and DTC

Custodial and depository links have been established between Euroclear and Clearstream, Luxembourg and DTC to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See “Settlement and Transfer of Notes” below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either

system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (“Direct Participants”) or indirectly (“Indirect Participants” and together with Direct Participants, “Participants”) through organisations which are accountholders therein.

DTC

DTC has advised the Bank as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organisation” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Rule 144A Global Note directly through DTC if they are participants (“Direct Participants”) in the DTC system, or indirectly through organisations which are Direct Participants in such system (“Indirect Participants” and together with Direct Participants, “Participants”).

DTC has advised the Bank that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Notes as to which such participant or participants has or have given such direction. However, in the circumstances described under “Exchange for Definitive Notes” above, DTC will surrender the relevant Rule 144A Global Notes for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

Each Regulation S Global Note will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with Citibank, N.A. as common depository on behalf of, Euroclear and Clearstream, Luxembourg.

DTC

Each Rule 144A Global Note will have a CUSIP number and will be deposited with Citibank, N.A., as custodian (the “Custodian”) for and registered in the name of Cede and Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Bank to the holder of such Global

Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Bank expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant global Note as shown on the records of the relevant clearing system or its nominee. The Bank also expects that payments by Direct Participants in any Clearing System to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Bank in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Bank will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Bank, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable Clearing System, purchases of Notes held within a Clearing System must be made by or through Direct Participants, which will receive a credit for such Notes on the Clearing System's records. The ownership interest of each actual purchaser of each such Note (the "Beneficial Owner") will in turn be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from any Clearing System of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction. Transfers of ownership interests in Notes held within the Clearing System will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless, and, until interests in any Global Note held within a Clearing System is exchanged for Definitive Notes.

No Clearing System has knowledge of the actual Beneficial Owners of the Notes held within such Clearing Systems and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the Clearing Systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement ("SDFS") system in same-day funds, if payment is effected in U.S. Dollars, or free of payment, if payment is not effected in U.S. Dollars. Where payment is not effected in U.S. Dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in a Regulation S Global Note (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co., and evidenced by the Rule 144A Global Note of the relevant Class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in the Rule 144A Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 pm, Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Bank, the Trustee or any Agent will have the responsibility for the performance by DTC, Clearstream, Luxembourg or Euroclear or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefore on the Closing Date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-1 of the SEC under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and purchasers of Notes between the date of pricing and the relevant Closing Date should consult their own adviser.

SUBSCRIPTION AND SALE

Credit Suisse First Boston (Europe) Limited, Merrill Lynch International, Salomon Brothers International Limited, and Commerzbank Aktiengesellschaft, Deutsche Bank AG London, MDM Bank OAO, OAO Bank Menatep Saint Petersburg, Moscow Narodny Bank Limited, Joint-Stock Commercial Bank Trust and Investment Bank and WestLB AG, London Branch (together the “Managers”) have, pursuant to the terms and conditions set forth in a subscription agreement, dated 4 November 2002 (the “Subscription Agreement”), jointly and severally agreed with the Bank, subject to the satisfaction of certain conditions set forth therein, to subscribe and pay for the Notes at the issue price of 100% of the principal amount of the Notes. The Guarantor, failing whom the Borrower, has agreed to pay to the Managers commissions of 1.25% of the aggregate principal amount of the Notes. The Guarantor, failing whom the Borrower, has agreed to pay certain commissions, fees, costs and expenses in connection with the Loan and the offering of the Notes and to reimburse the Managers, the Bank and the Trustee for certain of their expenses in connection with the offering of the Notes. The Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment being made to the Bank.

The Securities have not been and will not be registered under the Securities Act or the securities laws of any other place. In the Subscription Agreement, each Manager has agreed that:

- the Securities may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from the registration requirements of the Securities Act or in transactions not subject to those registration requirements; and
- except as permitted by the Subscription Agreement it will not offer or sell the Securities (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

Terms used in this paragraph have the meanings given to them by Regulation S.

The Securities are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S. The Subscription Agreement provides that the Managers may through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Securities within the United States only to QIBs that are also QPs in reliance on Rule 144A.

In addition, until 2 July 2002 (40 days after commencement of the offering), an offer or sale of Securities within the United States by a dealer not participating in the offering may violate the registration requirements of the Securities Act, unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act.

Each Manager has represented and agreed that (i) it has not offered or sold and prior to the expiry of the period of six months from the payment date will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Borrower or the Guarantor, and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

No sales prospectus (*Verkaufsprospekt*) under the German Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*) has been, or will be, prepared by the Bank or the Managers in connection with the offering of the Notes. Each Manager has represented, warranted and undertaken that it has offered and sold, and will offer and sell, the Notes only in full accordance with the German Securities Sales Prospectus Act.

Each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, directly or indirectly, the Notes to the public in the British Virgin Islands.

Each Manager has agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in Russia or to any person located within the territory of Russia unless and to the extent otherwise permitted under Russian law.

The Notes may not be offered or sold in the Netherlands to the account of any person or entity other than to persons or entities that trade or invest in securities in the conduct of a profession or business (which includes banks, brokers, pension funds, insurance companies, securities firms, investment institutions, other institutional investors, and other parties, including, among others, treasuries and finance companies of large enterprises, that as an ancillary activity regularly trade or invest in securities) within the meaning of the Securities Transaction Supervision Act 1995 (*Wet Toezicht Effectenverkeer 1995*) and its implementing regulations.

Each Manager has agreed that it has, to the best of its knowledge and belief, complied and will comply with applicable laws and regulations in each jurisdiction which it offers, sells or delivers Notes or distributes this Offering Circular (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Bank, the Borrower or the Guarantor.

TAXATION

The following is a general description of certain Russian, German, U.S. and European Union tax consideration relating to the Notes. It does not purport to be a complete analysis of all tax consideration relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Russian Taxation

Taxation of the Notes

General

The following is a summary of certain Russian tax considerations relevant to purchase, ownership and disposition of the Notes as well as concerning taxation of payments of interest on the Loan. The summary is based on the laws of Russia in effect on the date of this Offering Circular. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of Russia. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there may be practical difficulties involved in claiming double tax treaty relief. Prospective investors should consult their own advisers regarding the tax consequences of investing in the Notes. No representation with respect to the Russian tax consequences to any particular holder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty. Further, the substantive provisions of Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates.

For the purposes of this summary, a “non-resident holder” means a physical person actually present in Russia for an aggregate period of less than 183 days in a given calendar year or a legal person or organisation in each case not organised under Russian law which holds and disposes of the Notes, otherwise than through a permanent establishment in Russia.

The Russian tax treatment of interest payments made by TNK to the Bank under the Loan Agreement may affect the holders of the Notes. See “Taxation of Interest on the Loan” below.

Non-Resident Holders

A non-resident holder of a Note will not be subject to any Russian taxes on receipt from the Bank of amounts payable in respect of principal, of, or interest on, the Note subject to what is said in “Taxation of Interest on the Loan”.

A non-resident holder generally should not be subject to any Russian taxes in respect of gains or other income realised on the sale or other disposition of the Notes outside Russia provided there is no income from a source within Russia.

A non-resident holder which is a legal person or organisation should not be subject to withholding tax on any gain on the disposal of the Notes even if payment is received from within Russia, although there is some residual uncertainty regarding the treatment of any part of such gain which is attributable to accrued interest on the Notes. Accrued interest may be distinguished from the total gain and taxed at a rate of 20 per cent. The separate taxation of the interest accrued may create a tax liability in relation to interest even in a situation of a capital loss on the disposal of the Notes.

A non-resident holder who is a physical person will generally be subject to tax at the rate of 30 per cent. on the gross proceeds from the disposal of the Notes less any available cost deductions (taxable base) where the proceeds of such disposal are received from a source within Russia, subject to any available double tax treaty relief. If the Notes are disposed of in Russia, the proceeds of such disposal are likely to be regarded for personal income tax purposes as income from a source within Russia. In certain circumstances, if the disposal proceeds are payable by a Russian organisation, an individual entrepreneur or a Russian permanent establishment of a foreign organisation, the payer may be required to withhold this tax. There is a risk that the taxable base may be affected by changes in the exchange rates between the currency of acquisition of the Notes and the currency of sale and Roubles.

Resident Holders

A holder of a Note who is a physical or legal person resident in Russia for tax purposes is subject to all applicable Russian taxes.

Taxation of Interest on the Loan

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal person are subject to Russian withholding tax at the rate of 20 per cent., absent reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on professional advice it has received, TNK believes that payments of interest on the Loan should not be subject to withholding under the terms of the double taxation treaty between Russia and the Federal Republic of Germany. However, there can be no assurance that such relief will be obtained. If, as a result of the enforcement by the Trustee of the security granted to it by the Bank by way of the security interests created in the Trust Deed, interest under the Loan becomes payable to the Trustee, the benefit of the double tax treaty between Russia and the Federal Republic of Germany would cease and payments of interest may be subject to Russian withholding tax.

VAT is not applied to the rendering of financial services involving the provision of a loan in monetary form. Therefore no VAT is payable in Russia on interest payments.

If the payments under the Loan Agreement are subject to any withholding (as a result of which the Bank would reduce payments under the Notes in the amount of such withholding), TNK is obliged to increase payments as may be necessary so that the net payments received by the Bank will not be less than the amount it would have received in the absence of such withholding. It should be noted, however, that gross-up provisions in contracts may not be enforceable under Russian law. In the event that TNK fails to increase payments, such failure would constitute an Event of Default under the Loan Agreement. If TNK is obliged to increase payments, it may prepay the Loan in full. In such case, all outstanding Notes would be redeemable at par with accrued interest.

Federal Republic of Germany

The following is a general discussion of certain German income tax consequences of the acquisition, ownership and disposition of Notes to original purchasers of the Notes. This summary is based on the laws currently in force and as applied in practice on the date of this Offering Circular, which are subject to change, possibly with retroactive effect.

Tax Residents

Under German law, as currently in effect, payments of interest on the Notes to persons who are residents of Germany (that is, persons whose residence, customary place of abode, head office or central management is located in Germany) are subject to German personal or corporate income tax. If the Notes are kept or administered in a domestic securities deposit account by a German financial institution, which term includes a German branch of a foreign financial institution but excludes a foreign branch of a German financial institution, interest payments in respect of such Notes will be subject to a 30% capital yield tax (*Zinsabschlagsteuer*) and a 5.5% solidarity surcharge on such tax. As a result, such payments will be subject to a total withholding tax charge of 31.65%. The *Zinsabschlagsteuer* and solidarity surcharge withheld from such payments are later credited as prepayments against the German personal or corporate income tax and the respective solidarity surcharge of the recipient.

If a holder sells a Note during a current interest period, the accrued interest received in connection therewith (*Stückzinsen*) will also be subject to personal or corporate income tax and the 30% *Zinsabschlagsteuer* and solidarity surcharge. *Stückzinsen* paid by a holder upon the purchase of a Note reduces the personal or corporate income tax base and, under certain circumstances, the taxable base for the *Zinsabschlagsteuer* and solidarity surcharge.

Non-Tax Residents

Payments of interest to persons who are not tax residents of Germany and have no connection with Germany other than the receipt of payments in respect of the Notes are exempt from the German withholding tax and solidarity surcharge.

If the interest from a Note that is kept or administered in a German securities deposit account is received by persons who are not residents of Germany and for whom interest paid in respect of the Notes constitutes income from German sources (e.g. income effectively connected with a German trade or business), the 30% *Zinsabschlagsteuer* and the 5.5% solidarity surcharge are applicable but can be credited toward the German personal or corporate income tax liability of such non-residents.

Other Taxes

Gains realised by persons who are not tax residents of Germany from the sale or other disposition of Notes that are not held as part of a permanent establishment or fixed base in Germany will not be subject to tax in Germany. No stamp, issue, registration, or similar taxes or duties will be payable in Germany in connection with the issuance, delivery or execution of the Notes.

United States Federal Income Taxation

The following is a summary of the principal U.S. federal income tax consequences of the acquisition, ownership and retirement of Notes by a Noteholder. This summary only applies to Notes held as capital assets and does not address aspects of U.S. federal income taxation that may be applicable to Noteholders that are subject to special tax rules, such as investors who own (directly or indirectly) 10% or more of the voting stock of the Borrower, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, tax-exempt organisations, individual retirement accounts or other tax-deferred accounts or dealers or traders in securities or currencies, or to Noteholders 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 Noteholders that do not acquire Notes as part of the initial distribution at their initial issue price. Each prospective purchaser should consult its tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding and disposing of Notes.

This summary is based on the Internal Revenue Code of 1986, as amended, its legislative history, 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.

For purposes of this summary, a “U.S. Noteholder” is a beneficial owner of 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. A “Non-U.S. Noteholder” is a beneficial owner of Notes other than a U.S. Noteholder.

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 will generally depend on the status of the partner and the activities of the partnership. Such partnership or partner should consult its own tax advisor as to its consequences.

Interest. Interest paid on a Note (including any additional amounts paid by the Bank to the Noteholders pursuant to Condition 8 (*Taxation*) of the Terms and Conditions of the Notes) will be included in a U.S. Noteholder’s gross income as ordinary interest income in accordance with the U.S. Noteholder’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. Noteholders, “financial services income” unless such interest is subject to withholding tax at a rate of 5% or more, in which case such interest will constitute “high withholding tax interest.”

Subject to the discussion below under “U.S. Backup Withholding Tax and Information Reporting”, payments of interest on a Note to a Non-U.S. Noteholder generally will not be subject to U.S. federal income tax unless such income is effectively connected with the conduct by such Non-U.S. Noteholder of a trade or business in the United States.

Sale, Exchange or Retirement. Upon the sale, exchange or retirement of a Note, a U.S. Noteholder will recognise taxable gain or loss equal to the difference, if any, between the amount realised on the sale, exchange or retirement (other than accrued but unpaid interest which will be taxable as such) and the U.S. Noteholder’s adjusted tax basis in such Note. A U.S. Noteholder’s adjusted tax basis in a Note generally will equal the cost of such Note to such U.S. Noteholder. Any such gain or loss will be capital gain or loss.

In the case of a non-corporate U.S. Noteholder, the maximum marginal U.S. federal income tax rate applicable to such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. Noteholder’s holding period for such Note exceeds one year and will be further reduced if such Note is held for more than five years. Any gain or loss realised on the sale, exchange or retirement of a Note generally will be treated as U.S. source gain or loss, as the case may be. The deductibility of capital losses is subject to limitations.

Subject to the discussion below under “U.S. Backup Withholding Tax and Information Reporting”, any gain realised by a Non-U.S. Noteholder upon the sale, exchange or retirement of a Note generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Noteholder of a trade or business in the United States or (ii) in the case of any gain realised by an individual Non-U.S. Noteholder, such Non-U.S. Noteholder is present in the United States for 183 days or more in the taxable year of such sale, exchange or retirement and certain other conditions are met.

U.S. Backup Withholding Tax and Information Reporting. U.S. 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 by a U.S. paying agent or other U.S. intermediary to certain non-corporate U.S. Noteholders. The payer currently will be required to withhold

backup withholding tax from any such payment made within the United States on a Note to a U.S. Noteholder (other than an “exempt recipient”, such as a corporation) if such U.S. Noteholder fails to furnish its correct taxpayer identification number, or otherwise fails to comply with, or establish an exemption from, such backup withholding requirements. U.S. Noteholders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Payments within the United States of principal and interest to a non-U.S. Noteholder will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the Noteholder to the payer and the payer does not have actual knowledge or reason to know that the certificate is incorrect. The backup withholding tax rate is 30% for years 2002 and 2003, 29% for years 2004 and 2005, and 28% for years 2006 through 2010.

In the case of payments to a foreign partnership, a foreign simple trust, or a foreign grantor trust, other than payments to a foreign partnership, a foreign simple trust, or a foreign grantor trust that qualifies as a withholding foreign partnership or a withholding foreign trust within the meaning of the applicable U.S. Treasury Regulations and payments to a foreign partnership, a foreign simple trust, or a foreign grantor trust that are effectively connected with the conduct of a trade or business in the United States, the partners of these partnerships, the beneficiaries of the foreign simple trust, or the persons treated as the owners of the foreign grantor trust, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from withholding and backup withholding tax requirements. Moreover, a payer may rely on a certification provided by a payee that is not a United States person only if the payer does not have actual knowledge or a reason to know that any information or certification stated in the certificate is incorrect.

British Virgin Islands

The following is a general description of certain British Virgin Islands tax considerations relating to the Notes, the Loan Agreement and the Guarantee Agreement. It does not purport to be a complete analysis of all tax considerations relating to the Notes, the Loan Agreement and the Guarantee Agreement. Prospective purchasers of the Notes 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 the Notes and/or receiving payments under the Guarantee Agreement. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Pursuant to the British Virgin Islands law (i) payments under the Guarantee Agreement will not be subject to taxation in the British Virgin Islands; (ii) no withholding tax will be required to be deducted by the Guarantor on such payments to the Bank, the Trustee or any holder of a Note; and (iii) the Loan Agreement, the Guarantee Agreement and the Notes will not be subject to stamp duty in the British Virgin Islands. Gains derived from the sale or exchange of Notes or from payments received under the Guarantee Agreement 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 capital gains tax, estate duty, inheritance tax or gift tax.

European Union

The European Union is currently considering proposals for a new directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required to provide the tax authorities of another Member State with details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, subject to the right of certain Member States to opt instead for a withholding system for a transitional period in relation to such payments.

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.

CERTAIN ERISA CONSIDERATIONS

Each fiduciary of a pension, profit-sharing or other employee benefit plan subject to the United States Employment Retirement Income Security Act of 1974, as amended (“ERISA”), including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, “Plans”), should consider the fiduciary standards of ERISA in the context of the Plan’s particular circumstances before authorising an investment in the Notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan.

Under a regulation (the “Plan Assets Regulation”) issued by the U.S. Department of Labor (the “DOL”), the Loan may be deemed to be a “plan asset” of an investing Plan for purposes of ERISA and Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), if “plan assets” of the Plan were used to purchase the Notes and no exception was applicable under the Plan Assets Regulation. If the Loan were deemed to be a “plan asset” of investing Plans, it would be subject to the requirements of ERISA, including the requirement under ERISA, and a regulation promulgated thereunder (the “Indicia of Ownership Rules”), that no fiduciary under ERISA may maintain the indicia of ownership of assets of a Plan outside the jurisdiction of the Federal district courts of the United States except in certain qualifying locations and subject to certain specified conditions. Following the Loan and Guarantee Administration Assignment, a signed copy of the Loan Agreement will be held by Citibank, N.A. at its specified office in London. Any fiduciary or other person making the decision to purchase the Notes on behalf of or with “plan assets” of any Plan should consult with their counsel regarding the potential application of the Indicia of Ownership Rules to such purchase of the Notes and to the Loan.

Section 406 of ERISA and Section 4975 of the Code prohibit Plans, as well as individual retirement accounts and Keogh plans subject to Section 4975 of the Code (also “Plans”), from engaging in certain transactions involving “plan assets” with persons who are “parties in interest” under ERISA or “disqualified persons” under Section 4975 of the Code (“Parties in Interest”) with respect to such Plans. A violation of these “prohibited transaction” rules may result in an excise tax, penalty or other liabilities under ERISA and/or Section 4975 of the Code for such persons, unless exemptive relief is available under an applicable statutory or administrative prohibited transaction exemption. Employee benefit plans that are governmental plans (as defined in Section 3(32) of ERISA) or certain church plans (as defined in Section 3(33) of ERISA) are not subject to the requirements of ERISA or Section 4975 of the Code. However, a governmental plan may be subject to federal, state or local laws which are similar to the provisions of ERISA or Section 4975 of the Code.

Certain transactions contemplated in connection with the offering of the Notes could be deemed to constitute direct or indirect prohibited transactions under ERISA and Section 4975 of the Code with respect to a Plan if the Notes were acquired or accepted with “plan assets” of such Plan. For example, if either the Bank or the Borrower is a Party in Interest with respect to an investing Plan (either directly or indirectly by reason of its ownership of or its being owned by a Party in Interest to such Plan), extensions of credit either between the investing Plan and the Bank (as evidenced by the Notes) or between the Bank and the Borrower (as evidenced by the Loan Agreement) may be deemed to constitute prohibited transactions under Section 406(a)(1)(B) of ERISA and Section 4975(c)(1)(B) of the Code, unless exemptive relief were available under an applicable prohibited transaction exemption.

The DOL has issued five prohibited transaction class exemptions (“PTCEs”) that may provide exemptive relief for direct or indirect prohibited transactions resulting from the purchase, holding or disposition of the Notes by an investing Plan. Those class exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts), and PTCE 84-14 (for certain transactions determined by qualified professional asset managers).

Any insurance company proposing to invest assets of its general account in the Notes should consider the implications of the United States Supreme Court's decision in *John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993), which, in certain circumstances, treats the assets of an insurance company's general account as assets of Plans that own policies or other contracts with the insurance company, as well as the effect of Section 401(c) of ERISA as interpreted by regulations issued by the DOL in January 2000 and the extent to which exemptive relief under PTCE 95-60 will apply to such investment.

Because of the considerations discussed above, Notes may not be purchased or held by any Plan, any entity whose underlying assets include "plan assets" by reason of any Plan's investment in the entity (a "Plan Asset Entity") or any person investing "plan assets" of any Plan, unless such purchaser or holder is eligible for the exemptive relief available under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14. Any purchaser or holder of the Notes and any subsequent transferee of a Note will be deemed to have represented that it either (a) is not a Plan or a Plan Asset Entity and is not purchasing such Notes on behalf of or with "plan assets" of any Plan or (b) is eligible for the exemptive relief under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14 with respect to such purchase, holding, disposition or transfer.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing Notes on behalf of, or with "plan assets" of, any Plan consult with their counsel regarding the potential consequences if the Notes were deemed to be "plan assets" and the availability of exemptive relief under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14, and determine on its own whether all of the conditions of the applicable prohibited transaction exemption have been satisfied and that its purchase and holding of the Notes will be entitled to full exemptive relief under that prohibited transaction exemption. The fiduciary of an employee benefit plan that is not subject to ERISA or Section 4975 of the Code which is proposing to invest in the Notes must make its own determination that such investment is permitted under applicable law.

GENERAL INFORMATION

1. The Loan has been authorised by the decision of the Management Board of the Borrower dated 22 October 2002 and the Guarantee has been authorised by the resolutions of the directors of the Guarantor, dated 25 April 2002 and resolutions of the sole shareholder of the Guarantor dated 24 April 2002. The creation and issue of the Notes for the sole purpose of funding the Loan has been duly authorised by a resolution of the Board of Directors of the Bank dated 4 November 2002.
2. Save as disclosed in this Offering Circular, the Borrower and the Guarantor have obtained or will have obtained on or before the Closing Date all necessary consents, approvals and authorisations in connection with the Loan and the Guarantee, respectively.
3. No consents, approvals, authorisations or orders of any regulatory authorities are required by the Bank under the laws of Germany for the maintaining of the Loan or for the issue and performance of the Notes.
4. Save as disclosed in this Offering Circular, there are no litigation or arbitration proceedings against or affecting the Borrower or the Guarantor, any of their subsidiaries or any of their respective assets, nor is the Borrower or the Guarantor aware of any pending or threatened proceedings, which are or might be material in the context of the Loan, the Guarantee or issue of the Notes.
5. Save as disclosed in this Offering Circular, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of the Borrower or the Guarantor since 31 December 2001 that is material in the context of the issue of the Notes.
6. For so long as any of the Notes are outstanding, copies of the following documents may be inspected during normal business hours at the Specified Office of each Paying Agent:
 - (a) the Loan Agreement;
 - (b) the Guarantee Agreement;
 - (c) the Trust Deed; and
 - (d) the Paying Agency Agreement.
7. For so long as any of the Notes are outstanding, copies of the following documents in English may be obtained, free of charge, during normal business hours at the Specified Office of each Paying Agent:
 - (a) the audited consolidated financial statements of the Guarantor prepared in accordance with U.S. GAAP for the years ended and as at 31 December 1999, 2000 and 2001;
 - (b) the latest audited consolidated financial statements of the Guarantor prepared in accordance with U.S. GAAP;
 - (c) the latest unaudited six month interim consolidated financial statements of the Guarantor prepared in accordance with U.S. GAAP;
 - (d) the latest audited consolidated financial statements of the Borrower prepared in accordance with Russian accounting standards ("RAS");
 - (e) the latest reports of Miller and Lents as at 1 January 2002 and each further report of Miller and Lents.

The Guarantor does not publish audited or unaudited non-consolidated financial statements. The Borrower does not publish audited or unaudited interim or year end consolidated or non-consolidated financial statements prepared in accordance with U.S. GAAP nor does it publish audited or unaudited interim financial statements or year end non-consolidated financial statements prepared in accordance with RAS.

8. Each time the Bank sends an annual or other periodic report to the holders of Rule 144A Notes, the Bank will include a reminder that: (a) each holder of Rule 144A Notes that is a U.S. person is required to be a QIB and a QP that can make the representations set forth in “Transfer Restrictions – Rule 144A Notes”, (b) the Rule 144A Notes can only be transferred to a U.S. person if such person is a QIB that is also a QP which is capable of making the same representations, and (c) the Bank has the right to force any holder of Rule 144A Notes that is a U.S. person and is not a QIB and a QP to sell or redeem its Rule 144A Notes.
9. Information with respect to TNK’s oil and gas reserves associated with TNK’s oil and gas properties is derived from the report of Miller and Lents, Ltd., independent consulting petroleum engineers, and has been included herein upon the authority of said firm as experts with respect to the matters covered by such report and in giving such report. The Miller and Lents evaluation covered by the report is as at 1 January each year and their report is published every April.
10. In connection with the application for the Notes to be listed on the Luxembourg Stock Exchange, copies of the Statutes of the Borrower and the Guarantor (together with English translations thereof) and a legal notice relating to the issue of the Notes will be deposited prior to listing with the *Greffier en Chef du Tribunal d’Arrondissement de et à Luxembourg*, where they may be inspected and copies obtained upon request.
11. The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The common code of the Regulation S Notes is 014840427 and the ISIN is XS0148404279. The CUSIP number of the Rule 144A Notes is 79548XAC4 and the ISIN is US79548XAC48. In addition, application has been made for the Rule 144A Notes be designated as eligible for trading on the Portal Market of the NASDAQ Stock Market, Inc.
12. Subject as provided herein under “Terms and Conditions of the Notes” and “Form of Notes and Transfer Restrictions”, there are no restrictions on the transfer of the Notes. In accordance with the Rules and Regulations of the Luxembourg Stock Exchange, no transaction, once effected on the Exchange, may be cancelled.

GLOSSARY OF OIL AND GAS TERMS

Terms used to describe quantities of oil and gas

- *Bbl* – One stock tank barrel, or 42 U.S. gallons liquid volume, of crude oil or other liquid hydrocarbon.
- *Bcf* – One billion cubic feet of natural gas.
- *Bcfe* – One billion cubic feet of natural gas equivalent.
- *BOE* – One barrel of oil equivalent, converting gas to oil at the ratio of 6 Mcf of gas to 1 Bbl of oil.
- *MBbls* – One thousand Bbls of oil or other liquid hydrocarbons.
- *Mcf* – One thousand cubic feet of natural gas.
- *MMBbls* – One million Bbls of oil or other liquid hydrocarbons.
- *MMcf* – One million cubic feet of natural gas.
- *MBOE* – One thousand BOE.
- *MMBOE* – One million BOE.
- *MMBTU* – One million British thermal units.
- *mcpd* – One thousand Bbls of oil per day.

Terms used to classify TNK's reserve quantities under SPE/WPC Standards

For a description of the classification standards applied to identify Proved Reserves and Unproved Reserves and Reserves Stating Categories under SPE/WPC standards see Addendum I to each of the 2002 Reserves Reports contained in Annex A.

Russian Classification of Reserves

Russian methodologies for calculating reserves and Russian classifications of reserves differ materially from accepted practices in the United States and other parts of the world. Reserves calculations performed using different methodologies cannot be accurately reconciled.

Under the Russian classification system, reserves are subdivided depending on their degree of substantiation into the following categories: explored reserves represented by categories A, B and C1; preliminary estimated reserves represented by categories C2 and C3; and forecast resources represented by categories D1 and D2. Russian reserves calculations have historically not used economic assumptions in calculating reserves estimates. Generally, Russian methodologies classify oil and gas deposits as reserves if such deposits are technically recoverable, even if the recovery of a portion of such reserves using currently available technology is uneconomic. In contrast, U.S. methodology classifies oil and gas deposits as reserves only if such deposits are economically extractable on the basis of existing technologies, prices and costs.

Russian Reserves Classification System

Classification	Scope of Classification	Characteristic Event
A	Producing Reserves	Development wells have been completed and the reserves are being produced
B.....	Certified Reserves	Development wells are being drilled, but reserves are not yet being produced (transition category)
C1.....	Delivered Reserves	“Delineation” wells have been drilled and an exploration plan has been prepared
C2.....	Discovery	A discovery well has been drilled and hydrocarbons discovered but no further drilling has occurred
C3.....	Prospective	Exploratory activities sufficient to delineate oil and gas bearing areas have occurred, and the deep drilling of traps is prepared
D1	Basin	Some exploratory activities have occurred and data has been obtained, such as seismic, gravimetric or magnetic data from an appraisal well indicating the possible presence of hydrocarbons
D2	Basin	A geologist has formed an opinion that a basin exists that shares characteristics of other basins known to contain hydrocarbons

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TNK INTERNATIONAL LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2001

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholder of
TNK International Limited

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of cash flows and of changes in shareholder's equity, present fairly, in all material respects, the financial position of TNK International Limited and its subsidiaries at 31 December 2001, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended 31 December 2001, 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 which 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 1 to the consolidated financial statements, the accompanying consolidated balance sheets and the related consolidated statements of operations, cash flows and shareholder's equity have been restated.

PricewaterhouseCoopers

29th April 2002, except for the restatement as described
in Note 1 as to which the date is 29th May 2002

TNK INTERNATIONAL LIMITED
Consolidated Balance Sheets (restated)
(expressed in millions of US dollars, except par value)

	Notes	31 December 2001	31 December 2000	31 December 1999
Assets				
Cash and cash equivalents	6	178.6	535.6	143.0
Restricted cash	6	60.6	438.8	125.2
Accounts and notes receivable	8	1,431.6	1,164.8	567.6
Inventories	9	402.8	407.0	87.3
Other current assets		105.0	48.4	192.7
Total current assets		2,178.6	2,594.6	1,115.8
Long-term investments	10	596.5	708.0	205.7
Property, plant and equipment	11	6,045.9	5,814.2	4,756.8
Other assets	15	377.1	535.0	34.3
Total assets		9,198.1	9,651.8	6,112.6
Liabilities and Shareholder's Equity				
Short-term debt and current portion of long-term debt	12	1,668.9	1,783.4	379.7
Trade accounts and notes payable		580.2	564.2	428.2
Other accounts payable and accrued expenses	13	239.7	228.6	288.4
Current taxes payable	16	609.7	542.5	360.3
Deferred income tax liability	15	67.6	103.7	14.7
Total current liabilities		3,166.1	3,222.4	1,471.3
Long-term debt	12	1,110.8	750.7	172.5
Long-term taxes payable	16	49.9	42.5	61.3
Deferred income tax liability	15	565.0	931.8	243.3
Total liabilities		4,891.8	4,947.4	1,948.4
Minority interest		1,274.1	1,959.1	2,761.7
Ordinary share capital (authorised and issued – 50,000 shares, USD 1.0 par value)	14	-	-	-
Additional paid in capital	14	1,294.8	1,294.8	1,109.5
Retained earnings		1,737.4	1,450.5	293.0
Total shareholder's equity		3,032.2	2,745.3	1,402.5
Commitments and contingent liabilities	19			
Total liabilities and shareholder's equity		9,198.1	9,651.8	6,112.6

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

TNK INTERNATIONAL LIMITED
Consolidated Statements of Operations (restated)
(expressed in millions of US dollars, except per share amounts)

	Notes	Year ended 31 December 2001	Year ended 31 December 2000	Year ended 31 December 1999
Revenues				
Sales and other operating revenues	17	6,173.1	4,711.0	1,858.2
Less: excise, fuel sales taxes and export duties		999.1	458.9	107.5
Total revenues		5,174.0	4,252.1	1,750.7
Costs and other deductions				
Operating expenses		1,005.0	659.4	328.6
Cost of purchased products		606.4	329.7	88.7
Taxes other than income tax	16	554.4	232.8	186.4
Selling, general and administrative expenses		997.2	622.5	335.9
Depreciation, depletion and amortisation		340.5	244.9	260.8
Maintenance of social infrastructure		25.3	25.5	25.6
Exploration expenses		53.6	48.5	20.4
Loss on asset disposals		34.1	104.7	71.5
Total costs and other deductions		3,616.5	2,268.0	1,317.9
Other income and expense				
Exchange (gains)	2	(29.6)	(28.0)	(129.8)
Interest expense		304.6	164.2	47.3
Interest and other non-operating income		(184.8)	(133.9)	(11.4)
Equity in net loss of affiliates		1.3	1.3	0.8
Total other expense (income)		91.5	3.6	(93.1)
Income before income taxes and minority interest		1,466.0	1,980.5	525.9
Income taxes				
Current tax expense		301.6	193.5	70.1
Deferred tax (benefit) expense		(241.5)	78.4	(39.0)
Total income taxes	15	60.1	271.9	31.1
Income before minority interest		1,405.9	1,708.6	494.8
Minority interest		(288.5)	(1.1)	(227.7)
Net income		1,117.4	1,707.5	267.1
Weighted average number of ordinary shares outstanding				
		50,000	50,000	50,000
Basic and diluted net income per ordinary share – US dollars				
		22,348	34,150	5,342

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

TNK INTERNATIONAL LIMITED
Consolidated Statements of Cash Flows (restated)
(expressed in millions of US dollars)

	Year ended 31 December 2001	Year ended 31 December 2000	Year ended 31 December 1999
Operating activities			
Net income	1,117.4	1,707.5	267.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortisation	340.5	244.9	260.8
Exchange (gain)	(27.8)	(4.2)	(127.9)
Deferred income tax (benefit) expense	(241.5)	78.4	(39.0)
Minority interest	288.5	1.1	227.7
Provision for tax penalties (tax forgiveness)	-	7.9	(55.6)
Accretion of bond discount	(42.4)	(19.5)	-
Non-cash additions to property plant and equipment	-	-	(94.7)
Loss from investments in equity affiliates	1.3	1.3	0.8
Loss on asset disposals	34.1	104.7	71.5
Gain on sale of investments in OAO Slavneft	(17.4)	-	-
Changes in operational working capital, excluding cash:			
Accounts and notes receivable	(310.2)	(455.7)	(399.1)
Inventories	20.1	(246.1)	(20.3)
Trade accounts and notes payable	2.5	(14.8)	278.1
Taxes payable	110.5	126.6	55.2
Other	(39.8)	(16.5)	(11.1)
Net cash provided by operating activities	1,235.8	1,515.6	413.5
Investing activities			
Additions to property, plant and equipment	(1,062.2)	(772.5)	(102.2)
Purchase of additional interests in subsidiaries	(255.3)	(170.7)	(322.1)
Acquisition of OAO Onako	-	(1,120.3)	-
Acquisition of OAO Orenburggeologiya	(78.8)	-	-
(Decrease) increase in restricted cash	-	125.2	(125.2)
Net proceeds from sale of TNK-Nizhnevartovsk	-	100.0	-
Net proceeds from sale of investments in OAO Slavneft	155.0	-	-
Purchase of long-term investments	(75.9)	(223.8)	(76.5)
Purchase of corporate bonds	(7.6)	(165.7)	(59.6)
Net cash used for investing activities	(1,324.8)	(2,227.8)	(685.6)
Financing activities			
Proceeds from long-term debt	813.1	934.5	143.9
Repayment of long-term debt	(348.9)	(67.1)	(113.6)
Net proceeds from short-term loans	(165.6)	1,046.8	268.8
Change in restricted cash to secure short-term borrowing	370.9	(438.8)	-
Additional capital contributions	-	185.3	100.0
Loans to companies affiliated with shareholders	(781.9)	(529.6)	-
Dividends paid from consolidated subsidiaries	(142.1)	-	-
Dividends paid	-	(20.4)	-
Net cash (used for) provided by financing activities	(254.5)	1,110.7	399.1
Effect of exchange rate changes on cash and cash equivalents	(13.5)	(5.9)	(3.0)
Net change in cash and cash equivalents	(357.0)	392.6	124.0
Cash and cash equivalents at beginning of year	535.6	143.0	19.0
Cash and cash equivalents at end of year	178.6	535.6	143.0

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

TNK INTERNATIONAL LIMITED**Consolidated Statements of Changes in Shareholder's Equity (restated)**

(expressed in millions of US dollars, except per share amounts)

	Number of ordinary shares (thousand)	Ordinary share capital	Additional Paid in capital	Retained earnings	Total shareholder's equity
Balance at 1 January 1999	50	-	1,009.5	46.5	1,056.0
Net income		-	-	267.1	267.1
Capital contributions pursuant to the second privatisation investment tender (Note 1)		-	100.0	-	100.0
Reorganisation of subsidiaries (Note 5)		-	-	(20.6)	(20.6)
Balance at 31 December 1999	50	-	1,109.5	293.0	1,402.5
Net income		-	-	1,707.5	1,707.5
Capital contributions pursuant to the second privatisation investment tender (Note 1)		-	185.3	-	185.3
Loans to companies affiliated with shareholders (Note 14)		-	-	(529.6)	(529.6)
Dividends paid		-	-	(20.4)	(20.4)
Balance at 31 December 2000	50	-	1,294.8	1,450.5	2,745.3
Net income		-	-	1,117.4	1,117.4
Advance to TNK-Nizhnevartovsk distributed to shareholders (Note 10 and 14)		-	-	(76.0)	(76.0)
Loans to companies affiliated with shareholders (Note 14)		-	-	(781.9)	(781.9)
Reorganisation of subsidiaries (Note 5)		-	-	27.4	27.4
Balance at 31 December 2001	50	-	1,294.8	1,737.4	3,032.2

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

Note 1: Organisation

TNK International Limited (“the Company”) and its subsidiaries (jointly referred to as “the Group”) conduct exploration activities and produce oil and gas in the Russian Federation and operate petroleum refineries and market petroleum products under the “TNK” brand name and to unbranded wholesale customers primarily in the Russian Federation and the Ukraine.

The Company is a British Virgin Islands company formed in September 2001 as the successor to a group of holding companies (“the Predecessor”). The Company is a wholly-owned subsidiary of TNK Industrial Holdings Limited. Both the Predecessor and the Company are ultimately owned by the Alfa Group and Access-Renova Group. Accordingly, the formation of the Company was accounted for as a reorganisation of entities under common control.

The Company holds a 97.1 percent interest in OAO Tyumen Oil Company (“TNK”). TNK was incorporated in the Russian Federation in 1995 in accordance with the Russian Presidential Decree No. 1403 on *Privatisation and Restructuring of Enterprises and Corporations into Joint Stock Companies*.

In July 1997, in accordance with the State privatisation program, an open auction (the “privatisation auction”) was held in which 40.0 percent of TNK’s ordinary voting shares were acquired by the Predecessor. The conditions of the privatisation auction stipulated that the winner of the auction was required to make payments to the State Property Committee totalling the Russian Rouble equivalent of USD 835.0 million. In turn, the State Property Committee was required to make contributions to TNK totalling the Russian Rouble equivalent of USD 806.0 million. The use of such funds by TNK was restricted to items identified in the terms of the privatisation auction. All payments under the privatisation auction were completed in July 1998 and official notification of compliance with the investment tender terms was received in November 1999. In March 1998, the Predecessor through private transactions acquired an additional 10.1 percent interest in TNK, effectively gaining control of TNK.

In December 1999, in accordance with the second State privatisation program, an auction was held in which the State’s remaining 49.8 percent of TNK’s shares were acquired by the Predecessor. Under the terms of the second privatisation auction the Predecessor was required to make payments to the State Property Committee totalling the Russian Rouble equivalent of USD 90.0 million and to make capital contributions to TNK totalling the Russian Rouble equivalent of USD 185.3 million. The use of such funds was restricted to items identified in the terms of the second privatisation auction. In addition, there were USD 10.0 million of acquisition costs associated with this transaction. In February 2001, TNK received official notification from the State Property Committee of compliance with all the second investment tender requirements.

The three acquisitions of TNK have been recorded using the purchase method of accounting, and accordingly, the consolidated financial statements include the results of operations from the date of each acquisition.

Following the acquisition of 99.9 percent of TNK the shareholders commenced a corporate restructuring, reorganisation program. Through a series of transactions the shareholders subsequently transferred their ownership interests in TNK to the Company.

As discussed in Note 5, in December 2001, the Group completed a reorganisation of its partially owned oil producing subsidiaries - OAO Samotlorneftegas (“SNG”), OAO Nizhnevartovsk Neftegasodobyvayushee Predpriyatiye (“NNP”) and OAO Tyumenneftegas (“TNG”). Under the reorganisation, TNK offered its shares, or a cash alternative, to the minority shareholders in SNG, NNP and TNG. Following this transaction, TNK’s interest in these subsidiaries was increased to 100 percent, while the Group’s interest in TNK was reduced to 97.1 percent.

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements (restated)
(expressed in US dollars, except as indicated)

Note 1: The Organisation (Continued)

The accompanying financial statements have been restated to reflect the acquisition cost of the Alfa Group and the Access-Renova Group rather than the historic cost of the Company's subsidiaries. The effect of the restatement is as follows:

Millions of US dollars	As of and for the year ended 31 December 2001		As of and for the year ended 31 December 2000		As of and for the year ended 31 December 1999	
	As previously reported	As adjusted	As previously reported	As adjusted	As previously reported	As adjusted
<i>Balance sheet</i>						
Current assets	2,178.6	2,178.6	2,594.6	2,594.6	1,115.8	1,115.8
Property, plant and equipment	7,185.4	6,045.9	7,138.8	5,814.2	4,405.7	4,756.8
Other assets	103.6	377.1	71.4	535.0	34.3	34.3
Total assets	10,064.1	9,198.1	10,512.8	9,651.8	5,761.5	6,112.6
Current liabilities	3,166.1	3,166.1	3,222.4	3,222.4	1,471.3	1,471.3
Deferred income tax liability	565.0	565.0	931.8	931.8	138.0	243.3
Total liabilities	4,891.8	4,891.8	4,947.4	4,947.4	1,843.1	1,948.4
Minority interest	1,186.9	1,274.1	1,955.6	1,959.1	1,568.4	2,761.7
Shareholder's equity	3,985.4	3,032.2	3,609.8	2,745.3	2,350.0	1,402.5
Total liabilities and shareholder's equity	10,064.1	9,198.1	10,512.8	9,651.8	5,761.5	6,112.6
<i>Statement of operations</i>						
Revenues	5,174.0	5,174.0	4,252.1	4,252.1	1,750.7	1,750.7
Depreciation, depletion and amortisation	417.5	340.5	290.2	244.9	240.9	260.8
Deferred tax (benefit) expense	(405.7)	(241.5)	118.3	78.4	(14.9)	(39.0)
Minority interest	(287.0)	(288.5)	1.1	(1.1)	38.6	(227.7)
Net income	1,206.1	1,117.4	1,624.5	1,707.5	529.1	267.1

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 and Ukraine maintain their accounting records in accordance with the Regulations on Accounting and Reporting in the Russian Federation and Ukraine in the national currency. 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 local currency is the functional currency (primary currency in which business is conducted) for the Group's operations in the Russian Federation and the Ukraine. The US dollar is the functional currency for other foreign operations. The Group has chosen the US dollar as its reporting currency as a significant portion of the Group's business is conducted in US dollars and management uses the US dollar to manage business risks and exposures, and to measure performance of its businesses.

The measurement currency of the subsidiaries may be either the Russian Rouble, Ukrainian Hryvnia or the US dollar depending on location and nature of the activities of the particular business. In the case of subsidiaries located in the Russian Federation or Ukraine where the economies are considered hyperinflationary, the transactions and balances not already measured in US dollars have been remeasured into US dollars in accordance with the relevant provisions of SFAS No. 52 *Foreign Currency Translation* as applied to hyperinflationary economies. 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 impairments. The consolidated statements of operations and cash flows have been translated at the weighted average quarterly exchange rate 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 exchange gains in the accompanying consolidated financial statements.

For purposes of translating the Russian Rouble and Ukrainian Hryvnia activity to US dollars the following rates per US dollar have been used:

	Russian Roubles			Ukrainian Hryvnia	
	2001	2000	1999	2001	2000
Income statement and cash flows					
First quarter	28.54	28.40	22.81	5.23	5.47
Second quarter	28.99	28.38	24.49	5.36	5.42
Third quarter	29.33	27.79	24.82	5.52	5.44
Fourth quarter	29.80	27.89	26.27	5.57	5.44
Balance sheet, year end	30.14	28.16	27.00	5.64	5.44

The rates per US dollar for the purposes of translating Ukrainian Hryvnia activity to US dollars for the 1999 are not presented since the investments in the Ukrainian entities were made in 2000.

Note 2: Basis of Presentation (Continued)

Inflation, exchange restriction and controls. During 2001, the Russian Rouble devalued by 7.2 percent against the US dollar (2000: 4.3 percent, 1999: 30.8 percent) while the official Russian Rouble inflation was 18.8 percent (2000: 20.2 percent, 1999: 36.6 percent). 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 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.

Accordingly, any translation of Russian Rouble or Ukrainian Hryvnia 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.

Non-cash transactions. Certain accounts receivable arising from the domestic sales of crude oil, materials and property, plant and equipment were settled either through a chain of non-cash transactions involving several companies, or by direct settlement of goods or services from the final customer. Such transactions are included in the accompanying financial statements on the same basis as cash transactions. Non-cash settlements for the years ended 31 December 2001, 2000 and 1999 totalled USD 36.5 million, USD 42.1 million and USD 229.6 million, respectively. Management believes that the fair value of non-cash settlements received approximates the fair value of the products exchanged.

Further disclosures of the effect of non-cash transactions on the cash flows of the Group are provided in Note 6.

Note 3: Summary of Significant Accounting Policies

Principles of consolidation. The consolidated financial statements include the operations of all subsidiaries 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 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 highly 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, excise and fuel sales 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 first-in first-out method, or net realisable value. Costs include applicable purchase costs and operating expenses, but not general and administrative expenses. 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 or other exploration activities 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.

Note 3: Summary of Significant Accounting Policies (Continued)

Proved oil and gas properties, are assessed for possible impairment in accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*. SFAS No. 121 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. Estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs, are charged to operations using the unit-of-production method and included as a component of accumulated depreciation, depletion and amortisation.

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 recorded at cost less accumulated depreciation. These assets are also evaluated for impairment in accordance with SFAS No. 121. 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.

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 adopted Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivatives Instruments and Hedging Activities* effective 1 January 2001. In accordance with SFAS No. 133 the Group recognises all derivatives as either assets or liabilities in the balance sheet and measure 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 comprehensive income and subsequently reclassifying into earnings when the gain or loss is realised. The adoption of SFAS 133 did not have a significant impact on the Group's results of operations or financial position.

Pension and post-employment benefits. The Group's mandatory contributions to the Governmental pension scheme are expensed when incurred. Discretionary pension and other post-employment benefits are not material.

Revenue recognition. Revenues from the production and sale of petroleum products are recognised when such products are dispatched to customers and title has transferred. Revenues from non-cash sales are recognised at the fair value of the petroleum products sold, which approximates the fair value of the goods or services received in exchange.

Note 3: Summary of Significant Accounting Policies (Continued)

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. 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. SFAS No. 130, *Reporting Comprehensive Income*, requires disclosure of all changes in equity during a period except those resulting from investments by and distributions to the Company's shareholder. There is no difference between the Company's net income and comprehensive income for all periods presented.

Net income per ordinary share. The Company reports income per ordinary share in accordance with SFAS No. 128, *Earnings Per Share*. Net income per ordinary share is calculated by dividing net income by the weighted average number of ordinary shares outstanding during the year. The Company has no dilutive options, warrants or convertible securities.

Intangible assets. As part of the investment tender TNK received patents for the use of various oil and gas extraction technologies. The patents were recorded at cost of USD 15.0 million and are amortised using the straight-line method over the useful economic life, which is estimated to be 5 years.

Recent accounting standards. In September 2000, the FASB issued SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - A Replacement of FASB SFAS No. 125*. SFAS 140 is effective for transfers occurring after 31 March 2001, and for disclosures relating to securitisation transactions and collateral for fiscal years ending after 15 December 2000. Adoption of SFAS 140 had no significant effect on the Group's accounting or disclosures for the types of transactions in the scope of the new standard.

In June 2001, SFAS No. 141, *Business Combinations*, SFAS No. 142, *Goodwill and Other Intangible Assets* and SFAS No. 143, *Accounting for Asset Retirement Obligations* were issued. SFAS 141 is effective for all business combinations initiated after 30 June 2001. SFAS 142 is effective for fiscal years beginning after 15 December 2001, except for goodwill and intangible assets acquired after 30 June 2001, which were immediately subject to the amortisation and non-amortisation provisions of SFAS 142. The adoption of SFAS 141 and SFAS 142 did not have a significant impact on the Group's financial statements. SFAS 143 is required to be adopted by the Group no later than 1 January 2003 and its primary impact will be to change the method of recognising upstream site restoration costs. These costs are currently accrued ratably over the productive lives of the assets. At 31 December 2001, the cumulative amount accrued under this policy was approximately USD 247.9 million. Under SFAS 143, the fair value of asset retirement obligations will be recorded as liabilities when they are incurred, which are typically at the time the assets are installed. Amounts recorded for the related assets will be increased by the amount of these obligations. Over time the liabilities will be adjusted for the change in their present value and the initial capitalised costs will be depreciated over the useful lives of the related assets. The Group is evaluating the effect of adopting SFAS 143 on its financial position and results of operations.

In August 2001, SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144) was issued. SFAS 144 supersedes SFAS 121 and is effective for fiscal years beginning after 15 December 2001, with initial application effective as of the beginning of the fiscal year adopted. The Company does not believe there will be any significant impact of adopting SFAS 144 to its financial position or results of operations.

Note 4: Acquisitions

In addition to the acquisition of TNK, the Group acquired businesses and additional interests in its consolidated subsidiaries for a combined purchase consideration of USD 504.5 million in 2001, USD 1,388.6 million in 2000 and USD 210.0 million in 1999. All acquisitions were accounted for by the purchase method of accounting, and accordingly, the consolidated statements of operations include the results of the acquired businesses from the dates of acquisition.

Since the privatisation of TNK, the Group has been acquiring additional equity interest in its subsidiaries. As discussed in Note 5, in December 2001, the Group completed the final stage of this acquisition by completing a share consolidation with its oil and gas producing subsidiaries and TNK. Following this transaction TNK's interest in these subsidiaries was increased to 100 percent.

Prior to the share consolidation, the Group acquired additional interest in its oil and gas producing subsidiaries. In 2001, a total USD 68.7 million was paid to acquire 3.3 percent in SNG, 6.7 percent in NNP, 7.5 percent in OAO Nizhnevartovskneftegas ("NNG") and 7.0 percent in TNG. In 2000, USD 157.0 million was incurred to acquire 11.0 percent interests in each of NNG, SNG and NNP while in 1999, USD 123.6 million was incurred to acquire 2.5 percent in NNG.

In September 2001, the Group completed the acquisition of an 84.2 percent equity interest in OAO Orenburggeologiya ("OBGG") for USD 78.8 million in an all cash transaction. Previously the Group acquired 10.0 percent in OBGG through its acquisition of Onako. OBGG is an exploration and production company located in the Orenburg region of the Russian Federation.

In September 2000, the Group acquired an 85.0 percent equity interest in OAO Onako ("Onako") in a privatisation auction for USD 1,080 million. The Group also acquired through private transactions an additional 12.8 percent interest in Onako for USD 92.7 million and 4.3 percent in OAO Orenburgneft ("OBN"), the main oil and gas licence holder within Onako, for USD 12.1 million. In connection with this acquisition the Group assumed USD 208.2 million of Onako liabilities. In 2001, the Group acquired an additional 4.2 percent in OBN and 25.7 percent in Onako's refining subsidiary, OAO Orsknefteorgsyntez ("Orsk") for total consideration of USD 62.2 million.

In August 2000, the Group acquired the remaining 50.0 percent interest in Tura Petroleum ("Tura") for USD 26.8 million from the joint venture partners. Following the acquisition, the assets and oil field licences of Tura were transferred to TNG and the joint venture was liquidated. The purchase consideration, together with the carrying value of the Group's 50.0 percent interest in Tura which was previously accounted for using the equity method and totalled USD 16.2 million have been recorded as an acquisition of oil and gas properties in the accompanying financial statements.

In October 1999, the Group through its wholly owned subsidiary TNK-Nyagan acquired the production assets of OAO Kond Petroleum, an oil and gas extraction company, in a liquidation auction undertaken in accordance with Russian Bankruptcy legislation. The Group paid the Russian Rouble equivalent of USD 43.3 million in cash for this acquisition. This purchase has been recorded in the accompanying financial statements using the purchase method from 1 December 1999, the date when all legal contracts with the external manager were completed.

In June 1999, the Group acquired an additional 39.0 percent interest in TNG from the minority shareholders. The consideration for this acquisition was USD 21.8 million in cash and the Group's equity interests in OAO Obneftegasgeologiya ("ONGG") and OAO Obneftegeologiya ("ONG") which had a combined carrying value of USD 44.6 million. The principal assets held by TNG, ONGG and ONG were oil field licences and oil and gas properties, accordingly no gain or loss was recorded on this transaction.

Note 5: Corporate Restructuring

In May 1998, the Arbitration Court of the Khanty Mansiysk region approved a reorganisation of NNG. The reorganisation transferred a portion of NNG's assets and liabilities into two newly created entities, SNG and NNP. Shareholders of NNG in addition to holding their existing shares, were granted one additional share in each of the newly created entities, SNG and NNP. As part of this reorganisation, NNG transferred the oil field licence for the Samotlor oil field to SNG, while NNG's remaining eight oil field licences were transferred to NNP. In addition, TNK agreed to guarantee the outstanding debts of NNG.

In December 1999, TNK initiated further restructuring, which comprised of combining TNK's partially owned subsidiaries which owned oil and gas extracting assets with the partially owned subsidiaries that hold the oil field licences. Principally all the tangible assets of OAO Nizhnevartovskneft ("NN") (45.3 percent owned), OAO Samotlorneft ("SN") (58.4 percent owned), OAO Belasorneft ("BN") (49.4 percent owned) and OAO Priobneft ("PN") (47.5 percent owned), were contributed to SNG and NNP in exchange for shares in SNG and NNP. In addition, TNK contributed its equity interests in excess of 38.0 percent (50.7 percent voting shares) in NN, SN, BN, and PN to SNG. As part of this restructuring, trade creditors of these companies totalling USD 60.0 million opted to exchange their obligations for equity interests in SNG. Following this reorganisation, TNK continued to control these entities by holding a majority of the voting shares. The result of this transaction was a net loss of USD 20.6 million which has been recorded as a reduction in shareholder's equity.

During 2000, TNK continued the restructuring plan initiated in December 1999. TNK's remaining equity interests in NN, SN, PN and BN were contributed to SNG and NNP in exchange for additional shares issued by SNG and NNP. The assets and liabilities of NN, SN, BN and PN were also transferred to SNG and NNP in exchange for new shares in SNG and NNP. Finally, minority shareholders in NN, SN, PN and BN were granted the option to swap their interests for new shares of SNG and NNP. The net result of these transactions has been the acquisition of additional interests in these subsidiaries from minority shareholders, which has been reported using the purchase method of accounting.

In December 2001, TNK completed the final stage of its upstream reorganisation plan, by offering all remaining minority shareholders in the Group's upstream partially owned subsidiaries (SNG, NNP and TNG) the option to convert their shares for shares in TNK. The prices agreed for the respective businesses were confirmed by independent evaluations and approved in an extraordinary shareholder meeting where TNK as the interested shareholder did not vote. In addition, SNG, NNP and TNG initiated a reverse share split, whereby all fractional shares were acquired by the respective subsidiaries for the same price per share as described above. A total of USD 132.0 million was paid to minority shareholders to acquire all the fractional shares, and 89.9 million shares in TNK (approximately 2.8 percent of TNK's existing shares) were granted to minority shareholders who opted for the share exchange. Following this transaction, TNK's interest in these subsidiaries was increased to 100 percent, while the Group's interest in TNK was reduced to 97.1 percent. These transactions have been accounted for using the purchase method of accounting. Subsequent to 31 December 2001, various minority shareholders have filed actions against the Company alleging the fractional share buy back was not in accordance with the Russian Constitution, see Note 19.

In December 2001, Onako offered its shares in exchange for minority shareholdings in its subsidiaries. A total of 39.4 million new shares (representing 7.4 percent of Onako's share capital) was issued to acquire additional equity interests in OBN, Orsk, OAO Orenburgnefteproduct, and OAO Neftemaslozavod. The price agreed for the respective businesses were confirmed by independent evaluations and approved in an extraordinary shareholder meeting where Onako as the interested shareholder did not vote. This transaction has been recorded in the accompanying financial statements using the purchase method of accounting.

The issue of shares in TNK and Onako to acquire the minority interests in their subsidiaries at fair value resulted in a net gain of USD 27.4 million which has been recorded as an increase in shareholder's equity.

Note 6: Cash and Cash Equivalents and Supplemental Cash Flow Information

The consolidated statement of cash flows provides information about changes in cash and cash equivalents. Included in cash and cash equivalents at 31 December 2001, 2000 and 1999 are Russian Rouble denominated amounts totalling RR 3,261.1 million (USD 108.2 million), RR 5,848.8 million (USD 207.7 million), and RR 747.9 million (USD 27.7 million), respectively.

At 31 December 2001, restricted cash includes USD 60.6 million of cash deposits used to secure bank debt and open letters of credit. At 31 December 2000, restricted cash includes bank deposits totalling USD 438.8 million to secure bank debt obtained by the Group to fund the Onako acquisition. Restricted cash at 31 December 1999, totalling USD 125.2 million represents cash deposits to secure letters of credit provided to the liquidation manager for the acquisition of OAO Chernogorneft.

During the year ended 31 December 2001, 2000 and 1999, cash payments of interest totalled USD 293.7 million, USD 119.7 million and USD 20.9 million, respectively, and payments for income tax totalled USD 298.9 million, USD 187.9 million and USD 10.8 million, respectively.

Net cash provided by operating activities shown in the consolidated statements of cash flows is not affected by non-cash sales related to settlements of non-cash goods and services which are expensed in the same period. Remaining non-cash sales, which represent settlements for property, plant and equipment purchases, have been excluded from net cash provided by operating activities and from net cash used for investing activities. An analysis of the effect of excluding such sales related to settlements of property, plant and equipment purchases from net cash provided by operating activities and net cash used for investing activities is provided as supplemental information to the statement of cash flows. The following table shows the distribution of non-cash transactions included in the consolidated statements of operations and as additions to property, plant and equipment:

Millions of US dollars	Year ended 31 December 2001	Year ended 31 December 2000	Year ended 31 December 1999
Operating expenses and other cash equivalent transactions	36.5	40.7	50.4
Taxes other than income tax	-	1.4	84.5
Additions to property, plant and equipment	-	-	94.7
Total non-cash transactions	36.5	42.1	229.6

Cash equivalent transactions represent those transactions which have been settled by third parties on behalf of the Group and do not reflect transactions pursuant to standing non-cash arrangements or transactions originally intended to be settled through a contractual barter agreement.

Note 7: Financial and Derivative Instruments

Fair values. The estimated fair values of financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate, however 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 in a current 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 constantly 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 amount of these items are a reasonable approximation of their fair value.

Investments in securities – the future cash flows from the corporate bond securities have been discounted at the Group's incremental borrowing rate to determine fair value and are disclosed in Note 10.

Short-term debt – loan arrangements have both fixed and variable interest rates that reflect the currently available terms and conditions for similar debt. The carrying value of this debt is a reasonable approximation of its fair value.

Long-term debt – loans under the 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 for its fair value. For corporate bonds issued, the future cash flows from the bonds have been discounted at the Group's incremental borrowing rate to determine fair value and approximate USD 359.7 million, USD 315.5 million and USD 128.1 million, at 31 December 2001, 2000 and 1999, respectively. Long-term promissory notes with a carrying value of USD 53.4 million, USD 25.3 million and USD 11.2 million at 31 December 2001, 2000 and 1999, have an approximate market value of USD 31.6 million, USD 8.0 million and USD 5.0 million, respectively.

Credit risks. A significant portion of the Group's accounts receivable is from domestic and export trading companies and Governmental entities. Although collection of these receivables could be influenced by economic factors affecting these entities, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

Crude oil options. From time to time the Group uses derivative instruments to reduce risk associated with the volatility of the price of oil that it sells. The Group does not enter into derivative transactions for trading purposes. During 2001, the Group purchased put options for approximately 30.0 million barrels of crude oil with a weighted average strike price of USD 21.88/bbl. At 31 December 2001, the Group had open put options for 14.4 million barrels of oil. The fair value of these open options was USD 24.9 million and has been recorded as other current assets. The Group has elected not to account for these put options as hedges and, accordingly, all gains and losses associated with these instruments have been recognised in the consolidated statement of operations as other non-operating income and expense. The net result of the Group's derivative instrument activity in 2001 was a gain of USD 1.3 million.

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Note 8: Accounts and Notes Receivable

Millions of US dollars	31 December 2001	31 December 2000	31 December 1999
Trade accounts and notes receivable (net of allowance for doubtful accounts of USD 16.0 million, USD 20.4 million and USD 16.7 million at 31 December 2001, 2000 and 1999, respectively)	335.6	177.8	127.9
Related parties receivables and advances (Note 18)	137.5	271.6	146.7
Recoverable value-added tax	618.7	397.8	82.5
Advances to suppliers	140.4	144.0	74.0
Other receivables	199.4	173.6	136.5
Total accounts and notes receivable	1,431.6	1,164.8	567.6

Note 9: Inventories

Millions of US dollars	31 December 2001	31 December 2000	31 December 1999
Crude oil and petroleum products	101.0	181.2	14.3
Materials and supplies	301.8	225.8	73.0
Total inventories	402.8	407.0	87.3

Note 10: Long-Term Investments

Millions of US dollars	31 December 2001	31 December 2000	31 December 1999
Securities held to maturity	274.9	247.6	59.6
Long-term investments, at cost	234.5	454.0	118.4
Investments in affiliates and joint ventures	87.1	6.4	27.7
Total long-term investments	596.5	708.0	205.7

Securities held to maturity represent corporate bonds issued by various financial institutions and are recorded in the accompanying financial statements at amortised cost. The bonds terms are identical to TNK's first three US dollar linked corporate bond issues on the Moscow Interbank Currency Exchange ("MICEX") in the amount of RR 9,000 million and are in principal amounts equal to virtually all of the issuance by TNK at such bonds, (see Note 12). These bonds are classified as held to maturity, as management has the ability and intent to hold these bonds to maturity.

TNK corporate bonds are not frequently traded on MICEX or any other market. Most acquisitions are performed at negotiated prices which may or may not approximate prices quoted on MICEX. Presented below is management's estimate of the fair value of the corporate bonds including accrued interest using the Group's incremental borrowing rate at 31 December 2001, 2000 and 1999.

Millions of US dollars	Maturity value	Amortised cost	Fair value
TNK corporate bonds at 31 December 2001	339.6	274.9	350.5
TNK corporate bonds at 31 December 2000	324.7	247.6	307.2
TNK corporate bonds at 31 December 1999	110.8	59.6	95.1

Note 10: Long-Term Investments (continued)

Significant investments at cost are presented below.

Millions of US dollars	31 December 2001	31 December 2000	31 December 1999
OAo Slavneft and subsidiaries	76.3	208.5	69.4
Advance to TNK-Nizhnevartovsk (Note 18)	-	76.0	-
LiNOS	32.6	32.6	-
OAo Udmurtneft	28.7	28.7	-
OAo Sidanco	15.9	6.9	-
Rusia Petroleum	-	23.1	6.2
Other	81.0	78.2	42.8
Total long-term investments, at cost	234.5	454.0	118.4

During 2000, the Group acquired interests in OAo Slavneft and its subsidiaries and accumulated interests exceeding 20.0 percent in certain Slavneft subsidiaries. At 31 December 2000, the Group management were not able to gain any representation on the board, or exert any influence over these subsidiaries due to Slavneft's controlling interests. Accordingly, management determined the most appropriate accounting treatment for these investments should be at cost. In November 2001, the Group entered an agreement with three unrelated parties to form a trust with each party contributing USD 76.3 million and taking a 25.0 percent ownership interest. The Group sold its interests in Slavneft and its subsidiaries to the trust and received USD 258.0 million in cash, realising a pre-tax gain of approximately USD 17.4 million, which has been recorded as other income in the accompanying financial statements. The trust accounts for the investments in OAo Slavneft and its subsidiaries at cost. The Group accounts for its 25 percent investment in the trust using the equity method.

In September 2001, the Group's ultimate shareholders reorganised their investment in OAo Sidanco and its subsidiaries. The shareholders formed a new holding company to consolidate all their interests in such companies. Accordingly the investments in TNK-Nizhnevartovsk has been reclassified as distributions to shareholders in the statement of shareholder's equity. Subsequent to 31 December 2001, the Group's investments in Sidanco and OAo Udmurtneft were sold at carrying value to the new holding company.

During 2001 the Group acquired an additional 20.7 percent in Rusia Petroleum bringing its total ownership to 29.0 percent at 31 December 2001. Total consideration for the purchase of the additional interest was USD 64.0 million, comprising cash and the Group's interest in OOO Kovyktaneftgas, which owns oil and gas producing licences adjacent to Rusia Petroleum's licences. Rusia Petroleum is a development stage enterprise holding licence for the Kovykta gas field and is currently developing its exploration program for this field. At present Rusia Petroleum is evaluating the cost of additional wells, facility costs and researching potential markets for its gas. Effective September 2001, the Group changed its accounting for this investment to the equity method, however, Rusia Petroleum's operating activities to date are not material.

In July 2000, the Group through its wholly owned subsidiary TNK-Ukraine Invest ("TNK-UI") acquired a 67.4 percent interest in Lishichansknefteorgsintez ("LiNOS"), a refining company, located in eastern Ukraine, in a privatisation auction managed by the Ukrainian State Property Fund. Total consideration was USD 25.8 million, in addition, TNK-UI is required to supply annually 4.0 million tons of crude oil to LiNOS. The Group also acquired a further 11.1 percent interest in LiNOS from Alfa Capital Investments Ltd., an affiliate of a major shareholder, for USD 6.8 million.

At the date of privatisation, LiNOS was under external management. The external manager appointed by the Supreme Arbitration Court of Ukraine on 6 June 2000 is 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 are suspended. The external manager had not completed his analysis of the LiNOS's liabilities. Under Ukrainian bankruptcy legislation, the external management may be extended for a period up to 10 years. The Group management do not actively participate in the management of the refinery and, accordingly, this investment is recorded in the accompanying consolidated financial statements at cost.

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Note 11: Property, Plant and Equipment

Millions of US dollars	Cost	Accumulated DD&A	Net book value
Oil and gas properties and equipment	4,995.4	995.0	4,000.4
Refining and related equipment	278.2	74.7	203.5
Other assets	951.7	115.0	836.7
Assets under construction	1,005.3	-	1,005.3
Balance at 31 December 2001	7,230.6	1,184.7	6,045.9

Millions of US dollars	Cost	Accumulated DD&A	Net book value
Oil and gas properties and equipment	4,822.7	724.5	4,098.2
Refining and related equipment	294.6	51.2	243.4
Other assets	865.2	80.0	785.2
Assets under construction	687.4	-	687.4
Balance at 31 December 2000	6,669.9	855.7	5,814.2

Millions of US dollars	Cost	Accumulated DD&A	Net book value
Oil and gas properties and equipment	3,994.5	531.8	3,462.7
Refining and related equipment	201.5	27.2	174.3
Other assets	908.1	46.9	861.2
Assets under construction	258.6	-	258.6
Balance at 31 December 1999	5,362.7	605.9	4,756.8

Estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs, amounted to USD 428.7 million, USD 470.4 million and USD 318.4 million at 31 December 2001, 2000 and 1999, respectively. Of these amounts, USD 247.9 million, USD 241.7 million and USD 236.8 million, respectively, has been accrued in the financial statements, and is reflected as a component of accumulated depreciation, depletion and amortisation. The Group has estimated its liability based on current environmental legislation using estimated costs at the balance sheet date. As further described in Note 19, Governmental authorities are continually considering environmental regulations and their enforcement. In addition cost and technological factors will likely be different than those estimated at 31 December 2001. Consequently, the ultimate liabilities may differ from the recorded amounts.

The Group's oil and gas fields are situated on land belonging to Governmental authorities. The Group obtains licences from such Governmental authorities and pays royalties to explore and produce oil and gas from these fields. These licences expire between 2004 and 2023, however, they may be extended at the initiative of the Group. Management intends to extend such licences for properties expected to produce subsequent to their licence expiry dates.

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Note 12: Debt

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

Millions of US dollars	31 December 2001	31 December 2000	31 December 1999
Obligations to banks:			
Russian Rouble denominated (composite fixed interest 18%; 2000: 16.8%; 1999: 15.0%)	496.8	831.4	15.7
US dollar denominated (composite fixed interest 11.7%; 2000: 13.3%; 1999: 13.7%)	357.3	413.8	138.3
US dollar denominated (composite variable interest (2001: Libor plus 4.2% 2000: Libor plus 5.4 % 1999: Libor plus 6.2%	190.0	162.6	158.8
Euro denominated (interest Euribor plus 3.3%)	11.0	-	-
Short-term promissory notes and other	123.5	27.0	27.0
Current portion of long-term debt	490.3	348.6	39.9
Total short-term debt and current portion of long-term debt	1,668.9	1,783.4	379.7

At 31 December 2001, the majority of Russian Rouble and US dollar fixed interest debt is provided by Russian banks for funding working capital and certain capital projects and is secured by liens on various movable assets and shares in the Group's subsidiaries. The US dollar and Euro variable interest debt is provided by various non Russian banks and is secured by assignment of crude oil and petroleum product export contracts.

Long-term debt is as follows:

Millions of US dollars	31 December 2001	31 December 2000	31 December 1999
Obligations to banks US dollar denominated:			
Project finance - fixed interest debt	78.0	78.0	-
Trade finance - variable interest debt	777.6	643.5	52.5
US Ex-Im bank guaranteed, variable interest debt	134.5	-	-
US Ex-Im bank non guaranteed, variable interest debt	4.0	-	-
Corporate bonds			
US dollar linked, fixed interest bonds (Note 10)	332.2	332.2	148.7
Russian Rouble denominated, fixed interest bonds,	199.1	-	-
Other	75.7	45.6	11.2
Less: current portion of long-term debt	(490.3)	(348.6)	(39.9)
Total long-term debt	1,110.8	750.7	172.5

Excluding the undrawn facilities under the US Ex-Im Bank arrangements, at 31 December 2001, the Group had available credit and overdraft facilities totalling approximately USD 54.0 million, (2000 and 1999: zero).

Note 12: Debt (continued)

Project finance. In April 2000, the Group entered a US dollar denominated loan agreement with Sberbank to finance certain capital projects associated with SNG. The loan bears interest at between 13 and 15 percent and is repayable in nine equal quarterly instalments commencing March 2002. The loan is collateralised by 75.0 percent of TNK-Nyagan and promissory notes with a face value of RR 1,140 million issued by TNK and certain moveable property of SNG, NNP and NNG.

Trade finance. The Group has entered various US dollar denominated credit facilities with non-Russian banks to provide trade finance. These variable interest debt facilities bear composite interest at Libor plus 5.28 percent and are repayable through August 2004. They are secured by assignment of crude oil and petroleum product export contracts that exceed 100 percent of the outstanding debt. These agreements require the Group to maintain 10.0 percent of the Groups future export contracts free of any liens. Further the facilities contain cross default provisions. The facilities are repayable with the proceeds of the committed export contracts.

US Ex-Im Bank. During 2001, the Group through TNK entered into agreements with Commerzbank and Chase Manhattan Bank to obtain US dollar denominated credit facilities for USD 333.9 million and USD 231.6 million, respectively. The loans are guaranteed by the US Ex-Im Bank, with TNK further guaranteeing to US Ex-Im Bank certain crude export contracts and providing a lien on all movable property acquired with the loan proceeds. The guaranteed portions of each facility totals USD 292.0 million and USD 231.6 million, bear interest at Libor plus 0.95 percent and Libor plus 0.13 percent, and are repayable in 14 equal semi-annual instalments commencing June 2004 and 16 equal semi-annual instalments commencing December 2003, respectively. The use of these facilities is restricted to financing the Samotlor oilfield project and the reconstruction of Ryazan Refinery. At 31 December 2001, USD 27.7 million and USD 106.8 million have been drawn under these facilities.

The Commerzbank agreement also makes available an additional facility for USD 41.9 million, bears interest at Libor plus 4.0 percent and is repayable in 10 equal semi-annual instalments commencing June 2004. This facility is not guaranteed by US Ex-Im Bank.

Corporate bonds linked to US dollar exchange rates. During 1999 and 2000, the Group through TNK issued Russian Rouble denominated bonds with a face value of RR 9,000 million (USD 332.2 million). The bond interest payments and principal repayment are linked to the US dollar exchange rate. The bonds were issued at a discount of USD 26.6 million, bear interest at 7.0 percent payable semi-annually or 10.0 percent per annum payable on maturity. The bonds mature in three to five years from issue, however, at the bondholders' option, can be called at each annual anniversary of the bond issue. The Group has purchased corporate bonds issued by various financial institutions that have bond terms identical to TNK's issue of 9,000 million US Dollar linked bonds and have principal amounts equal to virtually all of the issuance by TNK of such bonds. Such corporate bonds are recorded as investments held to maturity (Note 10).

Corporate bonds denominated in Russian Roubles. In 2001, Group through TNK placed two corporate bonds with a coupon value of RR 3,000 million each, (total at 31 December 2001 USD 199.1 million). The bonds bear interest at 12.0 percent and 15.0 percent payable semi-annually and were placed at a USD 16.9 million discount. The bonds are repayable in 2005 and 2006, respectively, however TNK may redeem these bonds without penalty.

Note 12: Debt (continued)

Aggregate maturities of long-term debt outstanding at 31 December 2001 are as follows:

Millions of US dollars due	
2003	424.9
2004	275.4
2005	176.4
2006	146.7
2007 and further	87.4
Total long-term debt	1,110.8

In order to maintain or increase proved oil and gas reserves, the Group is required to make substantial capital expenditures for the exploration and development of oil reserves in the normal course of business.

The Group remains significantly leveraged, with a negative working capital position, which requires a substantial portion of its cash flow for debt service. In addition, cash flow from operations is dependent on the level of oil prices, which are historically volatile and significantly impacted by the proportion of production that can be sold on the export market. Management's plans are to fund its 2002 debt service and planned capital expenditures with cash flows from existing producing properties and its development drilling program. Management also plans to refinance a significant portion of its short-term with long-term debt. Should oil prices decline for a prolonged period, absent other sources of capital, the Group would substantially reduce its capital expenditures, which would limit its ability to maintain or increase production and in turn meet its future debt service requirements. Asset sales and financing are restricted under the terms of some of its debt agreements.

Note 13: Other Accounts Payable and Accrued Liabilities

Millions of US dollars	31 December 2001	31 December 2000	31 December 1999
Advances from customers	84.1	93.8	52.1
Salaries payable	21.0	16.1	10.6
Accrued payable for acquisition of OAO Chernogorneft	-	-	156.7
Interest accrued	82.3	71.4	26.8
Other	52.3	47.3	42.2
Total other accounts payable and accrued liabilities	239.7	228.6	288.4

Note 14: Shareholder's Equity

The share capital of TNK International Limited comprise 50 thousand authorised, issued and fully paid ordinary shares of USD 1.00 par value. The shares are divided into class A and B, both carrying equal rights and obligations.

In accordance with the first and second privatisation auctions of TNK, the new shareholders were required to make capital contributions into TNK totalling the Russian Rouble equivalent of USD 806.0 million and USD 185.3 million, respectively. These amounts are considered to be part of the founding capital of TNK and are non-distributable.

During 2001 and 2000, the Group issued loans to companies affiliated with the shareholder. All loans are unsecured and have varying interest and repayment terms that can be amended without penalty. The loans have been treated as a deduction from shareholder's equity in the years disbursed in the accompanying financial statements. Loans issued and deducted from equity in 2000 totalled USD 529.6 million, while in 2001 loans issued and deducted from equity were USD 781.9 million. Further as discussed in Note 10, the Group's USD 76.0 million investment in TNK-Nizhnevartovsk has been reclassified as a distribution to shareholders. The cumulative amount for the two years ended 31 December 2001 was USD 1,387.5 million.

On 11 April 2002, at the Company's annual general meeting, the shareholders approved a dividend-in-kind of USD 1,377.2 million for the year ended 31 December 2001. This dividend-in-kind has not been accrued in the accompanying financial statements and was payable in the form of loans provided to companies affiliated with the shareholder, as discussed above, in the amount of USD 1,377.2 million. The Company also waived all rights to interest on the loans so offset. The declaration of this dividend-in-kind will have no effect on the financial position of the Group or its cash flows as the loans were recorded as a deduction from shareholder's equity in all years presented and the declaration of the dividend-in-kind will not result in the movement of cash.

Note 15: Income Taxes

TNK International Limited is not subject to corporate income tax on a consolidated basis. The origination of income before income tax and minority interest comprise the following:

Millions of US dollars	Year ended 31 December 2001	Year ended 31 December 2000	Year ended 31 December 1999
Russian Federation	448.9	299.1	75.7
Russian Federation economic development zones	1,041.2	1,637.0	448.3
International	(24.1)	44.4	1.9
Income before income tax expense and minority interest	1,466.0	1,980.5	525.9

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements (restated)
(expressed in US dollars, except as indicated)

Note 15: Income Taxes (continued)

As the majority of income earned by the Group is generated in the Russian Federation, a reconciliation between the income tax expense recognised in the accompanying consolidated financial statements and the amount of taxes determined by applying the statutory tax rate as applied in the Russian Federation to income before income tax and minority interest is presented below.

Millions of US dollars	Year ended 31 December 2001	Year ended 31 December 2000	Year ended 31 December 1999
Income before income tax and minority interest	1,466.0	1,980.5	525.9
Statutory tax rate	35%	30%	30%
Theoretical income tax expense	513.1	594.2	157.8
Increase (decrease) due to:			
Effect of lower tax rate in Russian economic development zone	(249.9)	(377.8)	(85.5)
Effect of lower international tax rate	8.5	(11.6)	-
Non-taxable income	(43.0)	(56.0)	-
Non-deductible expenses	248.3	178.7	147.8
Non-taxable exchange (gains)	(10.3)	(8.3)	(72.8)
Effect of increase (reduction) in future tax rate	(237.1)	24.5	(49.3)
Investment tax credits	(167.0)	(77.9)	(42.1)
Taxation on undistributed earnings of subsidiaries	51.4	52.6	-
Other	(53.9)	(46.5)	(24.8)
Income tax expense	60.1	271.9	31.1

Effective 1 April 1999, the Russian statutory tax rate was reduced from 35 percent to 30 percent. In August 2000, the Federal Law was again amended, restoring, effective 1 January 2001, the statutory rate of 35 percent in most jurisdictions. The reconciliation of income tax provided above is calculated for 2000 using the rate in effect for the year - 30 percent. However, all deferred tax assets and liabilities at 31 December 2000, which are expected to reverse subsequent to 1 January 2001, are calculated using the enacted rate of 35 percent. In August 2001, the Federal Law was again amended, effective 1 January 2002, a statutory rate of 24 percent was applied.

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 reporting currency. SFAS No. 109 requires deferred income taxes to be computed on non-current assets in Russian Roubles by comparing the historical book and tax basis in Russian Roubles after the respective depreciation but before any indexing for either book or tax purposes. The Russian Rouble deferred income tax is then remeasured into US dollars using the prevailing year-end exchange rate.

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements (restated)
(expressed in US dollars, except as indicated)

Note 15: Income Taxes (continued)

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 (liabilities) are comprised of the following at 31 December 2001, 2000 and 1999:

Millions of US dollars	31 December 2001	31 December 2000	31 December 1999
Property, plant and equipment	280.8	470.0	1.1
Other current assets	15.4	12.1	5.8
Deferred income tax assets	296.2	482.1	6.9
Property, plant and equipment	(403.5)	(655.6)	(138.1)
Accounts receivable	(67.6)	(106.8)	(14.7)
Undistributed earnings of subsidiaries	(161.5)	(273.1)	(105.2)
Deferred income tax liabilities	(632.6)	(1,035.5)	(258.0)
Net deferred income tax liability	(336.4)	(553.4)	(251.1)

At 31 December 2001, 2000 and 1999, deferred income taxes were classified as follows:

Millions of US dollars	31 December 2001	31 December 2000	31 December 1999
Other current assets	15.4	12.1	5.8
Other long-term assets	280.8	470.0	1.1
Current deferred income tax liability	(67.6)	(103.7)	(14.7)
Long-term deferred income tax liability	(565.0)	(931.8)	(243.3)
Net deferred income tax liability	(336.4)	(553.4)	(251.1)

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements (restated)
(expressed in US dollars, except as indicated)

Note 16: Taxes Payable

The Group is subject to a number of taxes other than on income, which are detailed as follows:

Millions of US dollars	Year ended 31 December 2001	Year ended 31 December 2000	Year ended 31 December 1999
Royalty tax	127.2	86.3	38.2
Pension fund and other social taxes	63.5	39.2	35.5
Property tax	37.5	17.7	12.0
Mineral restoration tax	71.3	54.7	24.7
Tax penalties and interest	9.5	(79.7)	(1.4)
Non-reclaimable VAT expense	101.8	9.0	-
Other taxes	143.6	105.6	77.4
Total taxes other than income tax	554.4	232.8	186.4

Non-reclaimable VAT expense. Following the acquisition of LiNOS, the Group is required to ship 4.0 million tons of crude oil to the refinery. The double tax treaty between the Russian Federation and Ukraine does not permit TNK's Ukrainian subsidiaries to reclaim the VAT charged by the Group, accordingly such VAT is expensed.

Current and long-term taxes payable at 31 December 2001, 2000 and 1999 are as follows:

Millions of US dollars	31 December 2001	31 December 2000	31 December 1999
Tax penalties and interest	37.8	74.0	202.9
Pension fund and other social taxes	6.2	6.7	26.0
Value-added tax	473.7	353.6	43.3
Road users' tax	11.0	24.7	17.2
Other taxes	130.9	126.0	132.2
Total taxes payable	659.6	585.0	421.6
Less: Long-term taxes payable	(49.9)	(42.5)	(61.3)
Current taxes payable	609.7	542.5	360.3

As discussed in Note 20, in May 2000, the Arbitration Court approved the settlement plan proposed by the External Manager and NNG emerged from external management. Under the settlement plan, the taxes under moratorium totalling RR 760 million (USD 28.1 million) became due immediately, however management through separate negotiations with the tax authorities have restructured RR 510 million (USD 18.9 million) of these obligations over a ten year period, accordingly these obligations are classified as long-term.

The settlement plan also envisaged that creditors would waive all rights to interest and penalties on such balances under moratorium. In September 2000, the Commission of the Ministry of Taxes and Levies of the Russian Federation issued a resolution confirming waiver from all penalties due to the pension and social funds owed by NNG, NN, SN, BN and PN totalling USD 84.7 million.

Note 16: Taxes Payable (continued)

On 9 July 1999, the Government of the Russian Federation issued Resolution № 155-FZ, which required recalculation of interest on certain federal and local taxes as of 1 January 1999 and set a cap for such interest at 100 percent of the principal amount of the tax. The effect of this resolution was a forgiveness of interest in the amount of USD 55.6 million. This amount has been credited to taxes other than on income in the accompanying statements of operations for the year ended 31 December 1999.

The Group has negotiated a deferred payment schedule for part of its outstanding tax liabilities with the federal and local tax authorities as noted below. These agreements require that NNG settles its ongoing current tax liability as it comes due and that scheduled payments on the restructured tax liability are adhered to. If NNG fails to fulfil these obligations the restructured tax liability would become current and subject to interest on the outstanding principal at the rate of 1/300 of the Russian Central Bank interest rate per day. NNG has complied, and expects to continue to comply, with the terms of these agreements.

Aggregate maturities of the restructured tax liabilities and investment tax credits at 31 December 2001, 2000 and 1999 are presented below.

Millions of US dollars	31 December 2001	31 December 2000	31 December 1999
Under moratorium	-	-	18.9
Restructured tax liability and investment tax credits:			
Due between one and three years	28.2	14.0	17.7
Due between three and five years	10.8	8.0	24.7
Due after five years	10.9	20.5	-
Total long-term tax payable	49.9	42.5	61.3

Note 17: Revenues

Revenues for the year ended 31 December 2001, 2000 and 1999, comprise the following:

Millions of US dollars	Year ended 31 December 2001	Year ended 31 December 2000	Year ended 31 December 1999
Crude oil – export (Europe and CIS)	2,604.7	2,411.5	939.4
Crude oil – domestic	262.0	206.3	19.5
Refined products – export (Europe and CIS)	1,602.7	823.3	366.2
Refined products – domestic	1,475.0	1,112.5	489.6
Other	228.7	157.4	43.5
Total sales and other operating revenues	6,173.1	4,711.0	1,858.2

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements (restated)
(expressed in US dollars, except as indicated)

Note 18: Related Party Transactions

The Group has transactions in the ordinary course of business with Alfa Bank, an affiliate of a major shareholder, who acts as one of the Group's bankers.

Millions of US dollars	31 December 2001	31 December 2000	As of and for the year ended 31 December 1999
Deposits with Alfa Bank	22.5	174.2	30.1
USD denominated short-term loans from Alfa Bank	102.7	159.8	35.7
Interest charged on loans from Alfa Bank	10.6	16.5	1.8
Interest rate range (percent, per annum)	5.0-15.0	5.0-27.5	12.0-20.0

At 31 December 2001, the Group has additional loans from Alfa Bank secured by deposits with companies affiliated to the Bank. The loan and deposits totalled RR 4,988 million (USD 169.9 million). These amounts have been recorded net in the accompanying consolidated financial statements.

The Group has transactions in the ordinary course of business with Crown Trade and Finance Ltd., Crown Resources, OOO Alfa Eko, NTK Alfa Cracking, and Prodintorg, all are affiliates of a major shareholder. These transactions include export sales of crude oil and petroleum products. Below are the annual sales and receivable balances for each year presented:

Millions of US dollars	31 December 2001	31 December 2000	As of and for the year ended 31 December 1999
Sales of crude oil for export	1,067.3	1,983.5	470.0
Volumes (millions of tons)	6.4	11.3	4.5
Sales of petroleum products for export	564.4	630.7	321.9
Volumes (millions of tons)	4.2	4.7	4.3
Accounts and notes receivable from export sales	35.7	265.7	71.9

In February 2000, the Group sold its interest in TNK-Nizhnevartovsk, ("TNK-N") to Novy Petroleum Finance Ltd., an affiliate of the shareholder of the Group for cost of USD 176.0 million. During 2001 and 2000, the Group purchased crude oil from TNK-N for refining or resale. Presented below are the amounts purchased and the outstanding balances with TNK-N:

Millions of US dollars	31 December 2001	31 December 2000	As of and for the year ended 31 December 1999
Purchases of crude oil from TNK-N	264.8	172.9	-
Volumes (millions of tons)	5.8	4.0	-
Accounts payable to TNK-N	190.0	65.7	-
Notes receivables from TNK-N	39.7	-	-
Advance to TNK-N (Note 10)	-	76.0	-

During 2001 and 2000, the Group supplied crude oil to LiNOS for refining on a tolling basis. Presented below are the amount accrued for such services and the outstanding balances with LiNOS:

Millions of US dollars	31 December 2001	31 December 2000	As of and for the year ended 31 December 1999
Processing fees paid to LiNOS	51.3	6.8	-
Volumes (millions of tons)	5.0	0.6	-
Net advances and receivables from LiNOS	22.5	4.1	-

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements (restated)
(expressed in US dollars, except as indicated)

Note 18: Related Party Transactions (continued)

Other transactions and balances with companies affiliated with shareholders are as follows:

Millions of US dollars	31 December 2001	31 December 2000	As of and for the year ended 31 December 1999
Loans to affiliates of shareholders (Note 14)	781.9	529.6	-
Advances to TNK-N (Note 14)	76.0	-	-
Advances to and receivables from related parties	36.5	-	-
Purchase of interest in NNG, SNG, NNP (Note 4)	42.9	157.0	-
Purchase of interest in LiNOS (Note 10)	-	6.8	-
Fees associated with Slavneft transaction (Note 10)	26.9	-	-
Commissions and management fees paid included in selling general and administrative expense	60.8	62.0	-

In May and August 2001, the Alfa Group and Access-Renova Group acquired a controlling interest in OAO Sidanco from entities affiliated with Interos and Kantupan. Certain entities controlled by the shareholders, including the Company, have jointly and severally guaranteed the payment obligations of the shareholders. At 31 December 2001, the outstanding payments to affiliates of Interos and Kantupan totalled USD 817.8 million. Subsequent to 31 December 2001, the guarantees provided by the Company were reassigned to other Alfa-Access-Renova Group companies.

In June 2001, the Group issued a USD 39.0 million guarantee to secure borrowings of OAO Kamensk-Uralsky metallurgical plant, a company controlled by the Renova Group. At 31 December 2001, the outstanding amount of loan guaranteed by the Group totalled USD 35.5 million.

Note 19: Commitments and Contingent Liabilities

Economic and operating environment in the Russian Federation. The economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country, extensive currency controls, a low level of liquidity in the public and private debt and equity markets and high inflation.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the Government, together with legal, regulatory, and political development.

Taxation. Russian tax legislation is subject to varying interpretations and constant changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Group may not coincide with that of management. As a result, tax authorities may challenge transactions, and the Group may be assessed additional taxes, penalties and interest. Tax periods remain open to review by the tax authorities for three years.

Environmental liabilities. The Group and its predecessor entities have operated in the Russian Federation for many years and certain environmental problems have developed. 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 provided for over the estimated remaining lives of the related oil and gas reserves, or recognised immediately, depending on their nature. The impact of environmental liabilities under proposed or any future legislation cannot reasonably be estimated. Under current levels of enforcement of existing legislation, management believes there are no probable liabilities that are in excess of amounts accrued under the unit-of-production method in the consolidated financial statements, which will have a materially adverse effect on the financial position or the operating results of the Group.

Note 19: Commitments and Contingent Liabilities (Continued)

Legal contingencies. The Group is the 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 SNG and NNP have initiated proceedings to challenge the consolidation and exchange in relation to their former shares in these subsidiaries. While proceedings are ongoing, the Company does not believe that any outcome of such proceedings could have a material adverse effect on its business, financial condition or results of operations or a material adverse effect on its shareholding in its production subsidiaries.

In February 2002, a Cyprus company - 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 is currently owned by an affiliate of the Group's shareholders. TNK believes that it has substantial defences to jurisdiction and venue in the United States, and it intends to file a comprehensive motion to dismiss the complaint. In the event that the motion to dismiss is denied, TNK intends to vigorously defend this action and management believes the resolution of this complaint will not have a materially adverse effect on the financial position or the operating results of the Group.

Insurance. At 31 December 2001, 2000 and 1999, the Group held limited insurance policies in relation to its assets and operations, or in respect of public liability or other insurable risks. Since the absence of insurance alone does not indicate that an asset has been impaired or a liability incurred, no provision has been made in the consolidated financial statements for unspecified losses.

Note 20: Emergence of NNG from External Management

Following the privatisation auction in July 1997, NNG management resisted the exercise of control over its activities by TNK and attempted to illegally appropriate certain NNG assets. TNK, as part of its strategy to gain control over NNG, supported an action taken by a group of creditors of NNG that requested the Arbitration Court of the Khanty Mansiysk region (the "Arbitration Court") to appoint external management of NNG in order to restore NNG's solvency through re-organisation and economic reform. On 11 December 1997, the Arbitration Court appointed external management of NNG for a period of 12 months. Subsequently, the period of external management was extended through 15 June 2000. External management was charged with the responsibility to act on behalf of the creditors of NNG. The person appointed by the Arbitration Court to lead the external management team (the "External Manager") was a former vice president of TNK.

All NNG bankruptcy proceedings and creditor claims had been suspended through the duration of external management. Throughout the term of external management, the Group has been able to effectively retain the support of NNG's creditors and external management and therefore minimise the uncertainty surrounding the external management of NNG. The External Manager developed a plan approved by the Arbitration Court for restructuring NNG's operations including full integration into the Group's operations by granting exclusive sales contracts to the Group, reducing personnel and other operating expenses, restructuring accounts receivable and payable, and bringing idle wells into operation.

Note 20: Emergence of NNG from External Management *(Continued)*

On 18 April 2000, at a meeting of creditors, 90 percent of registered creditors agreed to the External Manager's settlement proposal ("settlement plan"). Under the settlement plan, the tax liabilities under moratorium totalling RR 760 million (USD 28.1 million) become immediately payable. Russian Rouble denominated liabilities totalling RR 1,178 million (USD 43.6 million) become payable over 120 equal monthly instalments commencing May 2000. Finally, currency related liabilities totalling USD 20.2 million would be exchanged to Russian Roubles at the historic rate of RR 5.85 to USD 1.00 and would be payable over 120 equal monthly instalments commencing May 2000. All creditors would also waive their rights to interest and penalties. Since 100 percent agreement was not reached, the settlement plan was sent to the Arbitration Court. On 15 May 2000, the Arbitration Court approved the settlement plan and NNG emerged from external management.

TNK INTERNATIONAL LIMITED
INTERIM U.S. GAAP CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2002 AND FOR THE SIX MONTHS THEN ENDED

TNK INTERNATIONAL LIMITED
Consolidated Balance Sheets (unaudited)
(expressed in millions of U.S. Dollars, except as indicated)

	Notes	At 30 June 2002	At 31 December 2001
Assets			
Cash and cash equivalents		294.7	178.6
Restricted cash		50.8	60.6
Accounts and notes receivable	5	1,473.5	1,431.6
Inventories	6	548.2	402.8
Other current assets		42.8	105.0
Total current assets		2,410.0	2,178.6
Long-term investments	7	612.3	596.5
Property, plant and equipment		5,882.3	6,045.9
Deferred income taxes and other long-term assets		423.1	377.1
Total assets		9,327.7	9,198.1
Liabilities and Shareholders' Equity			
Short-term debt and current portion of long-term debt	8	1,221.3	1,668.9
Trade accounts and notes payable		438.9	580.2
Other accounts payable and accrued liabilities		286.5	239.7
Current taxes payable	10	663.1	609.7
Current deferred income tax liability		-	67.6
Total current liabilities		2,609.8	3,166.1
Long-term debt	8	1,502.2	1,110.8
Long-term taxes payable	10	50.6	49.9
Long-term deferred income tax liability		590.7	565.0
Total liabilities		4,753.3	4,891.8
Minority interest		1,135.6	1,274.1
Ordinary share capital (authorised and issued – 50,000 shares, USD 1.0 par value)		-	-
Additional paid in capital		1,388.9	1,294.8
Retained earnings		2,049.9	1,737.4
Total shareholders' equity		3,438.8	3,032.2
Commitments and contingent liabilities	13		
Total liabilities and shareholders' equity		9,327.7	9,198.1

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

TNK INTERNATIONAL LIMITED
Consolidated Statements of Operations (Unaudited)
(expressed in millions of U.S. Dollars, except as indicated)

	Notes	Six Months Ended 30 June 2002	Six Months Ended 30 June 2001
Revenues			
Sales and other operating revenues	11	2,725.2	3,149.0
Less: excise taxes and export duties		351.3	509.5
Total revenues		2,373.9	2,639.5
Costs and other deductions			
Operating expenses		384.3	456.0
Cost of purchased products		120.6	344.2
Taxes other than income tax	10	502.3	268.0
Selling, general and administrative expenses		584.0	496.8
Depreciation, depletion and amortisation		195.4	193.1
Maintenance of social infrastructure		7.8	9.4
Exploration expenses		23.9	22.6
Loss on asset disposals		20.4	4.7
Total costs and other deductions		1,838.7	1,794.8
Other (income) and expense			
Exchange gains		(11.9)	(2.7)
Interest expense		180.3	139.6
Other non-operating income		(48.9)	(50.6)
Total other expense		119.5	86.3
Income before income tax expense and minority interest		415.7	758.4
Income taxes expense			
Current tax expense		111.6	183.3
Deferred tax (benefit) expense		(33.0)	72.3
Total income tax expense		78.6	255.6
Income before minority interest		337.1	502.8
Minority interest		34.9	96.5
Net income		302.2	406.3
Weighted average number of ordinary shares outstanding		50,000	50,000
Basic and diluted net income per ordinary share		6,044	8,126

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

TNK INTERNATIONAL LIMITED
Consolidated Statements of Cash Flows (Unaudited)
(expressed in millions of U.S. Dollars)

	Six months ended 30 June 2002	Six months ended 30 June 2001
Operating activities		
Net income	302.2	406.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortisation	195.4	193.1
Exchange loss	7.8	6.2
Deferred income tax (benefit) expense	(33.0)	72.3
Minority interest	34.9	96.5
Accretion of bond discount	(19.4)	(24.2)
Loss on asset disposals	20.4	4.7
Changes in operational working capital, excluding cash:		
Accounts and notes receivable	(112.8)	(470.6)
Inventories	(143.4)	(11.2)
Trade accounts and notes payable	(41.7)	194.9
Taxes payable	79.5	219.0
Other	52.5	(41.9)
Net cash provided by operating activities	342.4	645.1
Investing activities		
Additions to property, plant and equipment	(197.2)	(466.4)
Purchase of additional interests in subsidiaries	-	(20.0)
Acquisitions and purchases of long-term investments, net of acquired cash	0.2	(22.3)
Purchase of corporate bonds	-	(14.5)
Net cash used for investing activities	(197.0)	(523.2)
Financing activities		
Proceeds from long-term debt	835.6	266.1
Repayment of long-term debt	(302.8)	(147.2)
Net repayment of short-term loans	(574.9)	(412.2)
Change in restricted cash to secure short-term borrowing	7.3	438.8
Dividends paid from consolidated subsidiaries	(51.0)	(68.7)
Loans to companies affiliated with shareholders	(290.0)	(377.1)
Repayment of loans from companies affiliated with shareholders	354.1	-
Net cash used for financing activities	(21.7)	(300.3)
Effect of exchange rate changes on cash and cash equivalents	(7.6)	(16.8)
Net change in cash and cash equivalents	116.1	(195.2)
Cash and cash equivalents at beginning of the period	178.6	535.6
Cash and cash equivalents at end of the period	294.7	340.4

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

TNK INTERNATIONAL LIMITED**Consolidated Statement of Changes in Shareholders' Equity (Unaudited)**

(expressed in millions of U.S. Dollars)

	Number of ordinary shares (thousand)	Ordinary share capital	Additional paid in capital	Retained earnings	Total shareholders' equity
Balance at 31 December 2001	50	-	1,294.8	1,737.4	3,032.2
Net income				302.2	302.2
Forgiveness of net liabilities (Note 12)			94.1		94.1
Repayment of shareholder loans (Note 9)				10.3	10.3
Balance at 30 June 2002	50	-	1,388.9	2,049.9	3,438.8

-

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

Note 1: Organisation

TNK International Limited (“the Company”) is an oil and gas holding company, registered in the British Virgin Islands, which conducts its business through various operating subsidiaries. The Company and its subsidiaries (jointly referred to as “the Group”) conduct exploration activities and produce oil and gas in the Russian Federation, operate petroleum refineries and market petroleum products under the “TNK” brand name and to unbranded wholesale customers primarily in the Russian Federation and Ukraine.

The Company is wholly-owned by TNK Industrial Holdings Limited and ultimately controlled by the Alfa Group and the Access-Renova Group.

Note 2: Interim Financial Statements

The interim consolidated financial statements of the Group presented herein are unaudited and should be read in conjunction with the Group’s consolidated financial statements as of and for the year ended 31 December 2001, as certain notes and other pertinent information have been abbreviated or omitted in these interim financial statements. In the opinion of the Group’s management, the accompanying unaudited consolidated financial statements include all adjustments necessary to present fairly the Group’s financial position at 30 June 2002 and the results of its operations and cash flows for the six months ended 30 June 2002 and 2001, in conformity with accounting principles generally accepted in the United States of America. All such adjustments are of a normal recurring nature.

The financial results of the six months ended 30 June 2002, are not necessarily indicative of future financial results.

Note 3: 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 (“U.S. GAAP”). In preparing the consolidated financial statements in conformity with U.S. GAAP management makes estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from such estimates.

Comprehensive income. SFAS No. 130, *Reporting Comprehensive Income*, requires disclosure of 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.

Reporting and functional currency. The local currency is the functional currency (primary currency in which business is conducted) for the Group’s operations in the Russian Federation and the Ukraine. The U.S. Dollar is the functional currency for other foreign operations. The Group considers the U.S. Dollar as its reporting currency as a significant portion of the Group’s business is conducted in U.S. Dollars and management uses the U.S. Dollar to manage business risks and exposures, and to measure performance of its businesses.

For the six months ended 30 June 2002 and 2001, the average conversion factor used to translate the Russian Rouble activity to U.S. Dollars, was RR 31.02 to USD 1.00 and RR 28.76 to USD 1.00, respectively. The Russian Rouble to U.S. Dollars conversion factor at 30 June 2002 and 31 December 2001 was RR 31.45 to USD 1.00 and RR 30.14 to USD 1.00, respectively.

Note 3: Basis of Presentation (Continued)

Inflation, exchange restriction and controls. During the six months ended 30 June 2002, the Russian Rouble devalued by 4.3 percent against the U.S. Dollar (full year 2001: 7.2 percent) while the official Russian Rouble inflation was 9.1 percent (full year 2001:18.8 percent). 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 U.S. Dollar will affect the carrying value of the Group's Russian Rouble denominated assets and liabilities. Such movements may also affect the Group's ability to realise non-monetary assets represented in U.S. Dollars in these consolidated financial statements.

Accordingly, any translation of Russian Rouble amounts to U.S. Dollars should not be construed as a representation that such Russian Rouble amounts have been, could be, or will in the future be converted into U.S. Dollars at the exchange rate shown or at any other exchange rate.

Note 4: New Accounting Standards

In June 2001, the FASB issued SFAS No. 141 (FAS 141), *Business Combinations* and SFAS No. 142 (FAS 142), *Goodwill and Other Intangible Assets*. FAS 141 is effective for all business combinations initiated after 30 June 2001, and for all business combinations accounted for using the purchase method for which the date of acquisition is 1 July 2001, or later. FAS 142 is effective for fiscal years beginning after 15 December 2001, except for goodwill and intangible assets acquired after 30 June 2001, which were immediately subject to the amortisation and non-amortisation provisions of the FAS 142. The adoption of FAS 141 and FAS 142 had no significant effect on the Group's interim consolidated financial statements.

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations* (FAS 143). FAS 143 is effective for fiscal years beginning after 15 June 2002. FAS 143 differs in several significant respects from current accounting for asset retirement obligations under SFAS No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*. Adoption of FAS 143 will affect future accounting and reporting of the assets, liabilities and expenses related to these obligations. The magnitude of the effect has not yet been determined.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FAS 144). FAS 144 is effective for fiscal years beginning after 15 December 2001, with initial application effective as of the beginning of the fiscal year adopted. The Group adopted the standard from 1 January 2002. Adoption of FAS 144 had no significant effect on the Group's interim consolidated financial statements.

Note 5: Accounts and Notes Receivable

Millions of U.S. Dollars	30 June 2002	31 December 2001
Trade accounts and notes receivable (net of allowances for doubtful accounts of USD 37.6 million and USD 16.0 million at 30 June 2002 and 31 December 2001, respectively)	321.7	335.6
Receivables from and advances to related parties (Note 12)	171.8	137.5
Recoverable value added tax	653.9	618.7
Advances to suppliers	135.8	140.4
Other receivables	190.3	199.4
Total accounts and notes receivable	1,473.5	1,431.6

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements (Unaudited)
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Note 6: Inventories

Millions of U.S. Dollars	30 June 2002	31 December 2001
Crude oil and petroleum products	195.3	101.0
Materials and supplies	352.9	301.8
Total inventories	548.2	402.8

Note 7: Long-Term Investments

Millions of U.S. Dollars	30 June 2002	31 December 2001
Securities held to maturity	286.3	274.9
Long-term investments, at cost	230.4	234.5
Investments in affiliates and joint ventures	95.6	87.1
Total long-term investments	612.3	596.5

In May 2002, the Group acquired a 44 percent interest in OAO Rospan International for USD 44.0 million. In addition, the Group has receivables from Rospan totalling USD 30.0 million which have been classified as other long term assets. Since Rospan is currently under management appointed by the bankruptcy court, the Group's investment has been recorded at cost.

Note 8: Debt

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

Millions of U.S. Dollars	30 June 2002	31 December 2001
Obligations to banks:		
Russian Rouble denominated (composite fixed interest 14.1%; 2001: 18.0%)	143.2	496.8
U.S. Dollar denominated (composite fixed interest 12.7%; 2001: 11.7%)	221.0	357.3
U.S. Dollar denominated (composite variable interest (Libor plus 4.9% 2001: Libor plus 4.2%))	52.5	190.0
Euro denominated (interest 2001: Euribor plus 3.3%)	-	11.0
Short-term promissory notes and other	181.0	123.5
Current portion of long-term debt	623.6	490.3
Total short-term debt and current portion of long-term debt	1,221.3	1,668.9

At 30 June 2002, a majority of the Russian Rouble and U.S. Dollar fixed interest debt was provided by Russian Federation banks and is collateralised by various movable assets and shares in the Group's subsidiaries. The U.S. Dollar variable interest debt was provided by various non-Russian banks and is collateralised by crude oil and petroleum product export contracts.

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements (Unaudited)
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Note 8: Debt (Continued)

Long-term debt is as follows:

Millions of U.S. Dollars	30 June 2002	31 December 2001
Obligations to banks U.S. Dollar denominated:		
Project finance – fixed interest debt	60.7	78.0
Trade finance - variable interest debt	994.5	777.6
Working capital - fixed interest debt	135.4	-
US Ex-Im bank guaranteed, variable interest debt	187.7	134.5
US Ex-Im bank non guaranteed, variable interest debt	9.4	4.0
Obligations to banks RR denominated:		
Working capital - fixed interest debt	149.4	-
Corporate bonds		
U.S. Dollar linked, fixed interest bonds	332.2	332.2
Russian Rouble denominated, fixed interest bonds,	190.8	199.1
Other	65.7	75.7
Less: current portion of long-term debt	(623.6)	(490.3)
Total long-term debt	1,502.2	1,110.8

Excluding the undrawn facilities under the US Ex-Im Bank arrangements, at 30 June 2002, the Group had available credit and overdraft facilities totalling approximately USD 58.0 million.

Project finance. In April 2000, the Group entered a US dollar denominated loan agreement with Sberbank, a Russian Federation bank, to finance certain capital projects associated with SNG. The loan bears interest at between 13 and 15 percent and is repayable in nine equal quarterly instalments commencing March 2002. The loan is collateralised by 75.0 percent of the shares of TNK-Nyagan and promissory notes with a face value of RR 1,140 million issued by TNK and certain moveable property of OAO Samotlorneftegaz (“SNG”), OAO Nizhnevartovskoye Neftegazodobyvayuscheye Predpriyatie (“NNP”) and OAO Nizhnevartovskneftegas (“NNG”).

Working capital. In May 2002, the Group entered into two RR denominated credit facilities with Sberbank to finance operating activities. These fixed interest debt facilities bear composite fixed interest at 17.7 percent and are repayable in May 2004. The loans are collateralised by promissory notes issued by TNK, shares of NNP, equipment of RNPK.

Working capital. In March and April 2002 the Group entered into two US dollar denominated credit facilities with Sberbank. These fixed interest debt facilities bear interest at 11.5 percent and are repayable in September and October 2003. The loans are collateralised by shares of TNK-Nyagan, promissory notes and oil products contracts.

Trade finance. The Group has various US dollar denominated credit facilities with non-Russian banks to provide trade finance. These variable interest debt facilities bear composite interest at Libor plus 4.9 percent and are repayable through February 2006. They are collateralised by assignment of crude oil and petroleum product export contracts. These agreements require the Group to maintain 10.0 percent of the Groups future export contracts free of any liens. Further the facilities contain cross default provisions. The facilities are repayable with the proceeds of the committed export contracts.

Note 8: Debt (Continued)

US Ex-Im Bank. During 2001, the Group through OAO TNK entered into agreements with Commerzbank and Chase Manhattan Bank to obtain US dollar denominated credit facilities for USD 333.9 million and USD 231.6 million, respectively. The loans are guaranteed by the US Ex-Im Bank, with TNK further guaranteeing to US Ex-Im Bank certain crude export contracts and providing a lien on all movable property acquired with the loan proceeds. The guaranteed portions of each facility totals USD 292.0 million and USD 231.6 million, bear interest at Libor plus 0.95 percent and Libor plus 0.13 percent, and are repayable in 14 equal semi-annual instalments commencing June 2004 and 16 equal semi-annual instalments commencing December 2003, respectively.

The use of these facilities is restricted to financing the Samotlor oilfield project and the reconstruction of the Ryazan Refinery. At 30 June 2002, USD 63.1 million and USD 124.6 million have been drawn under these facilities.

The Commerzbank agreement also makes available an additional facility for USD 41.9 million, which bears interest at Libor plus 4.0 percent and is repayable in 10 equal semi-annual instalments commencing June 2004. This facility is not guaranteed by US Ex-Im Bank.

Corporate bonds linked to US dollar exchange rates. During 1999 and 2000, the Group through OAO TNK issued Russian Rouble denominated bonds with a face value of RR 9,000 million (USD 332.2 million). The bond interest payments and principal repayment are linked to the US dollar exchange rate. The bonds were issued at a discount of USD 26.6 million, bear interest at 7.0 percent payable semi-annually or 10.0 percent per annum payable on maturity. The bonds mature in three to five years from issue, however, at the bondholders' option, can be called at each annual anniversary of the bond issue. The Group has purchased corporate bonds issued by various financial institutions that have bond terms identical to TNK's issue of the RR 9,000 million US dollar linked bonds and have principal amounts equal to virtually all of the issuance by TNK of such bonds. Such corporate bonds are recorded as investments held to maturity (Note 7).

Corporate bonds denominated in Russian Roubles. In 2001, Group through TNK placed two corporate bonds with a coupon value of RR 3,000 million each, (total at 30 June 2002 USD 190.8 million). The bonds bear interest at 12.0 percent and 15.0 percent payable semi-annually and were placed at a USD 16.9 million discount. The bonds are repayable in 2005 and 2006, respectively, however TNK may redeem these bonds at any time without penalty.

Note 9: Shareholders' Equity

During 2001 and 2000, the Group issued loans to companies affiliated with the shareholder in the amount of USD 1,387.5 million. The loans were treated as a deduction from shareholders' equity in the years disbursed, similar to a distribution to shareholders. On 11 April 2002, at the Company's Annual General Meeting, the shareholders approved a dividend-in-kind of such loans totalling USD 1,377.2 million for the year ended 31 December 2001. The declaration of this dividend-in-kind had no effect on the financial position of the Group as the loans were previously recorded as a reduction of shareholders' equity. Additionally, in February 2002, companies affiliated with the shareholder repaid USD 10.3 million of loans extended by the Group in previous years.

During 2002 as part of the restructuring of the Shareholders' interest in OAO Sidanco, the Group's net liabilities for oil and oil products purchased from TNK-N were forgiven by TNK-N. As this forgiveness of debt is between companies under common control, the Group has reported it as a contribution of additional paid in capital.

In addition, on 17 July 2002, the Company's Board of Directors declared a dividend in the amount of USD 200 million.

TNK INTERNATIONAL LIMITED
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Note 10: Taxes

The Group is subject to a number of taxes other than on income, as detailed below:

Millions of U.S. Dollars	Six months ended 30 June 2002	Six months ended 30 June 2001
Royalty and mineral restoration tax	-	105.0
Pension fund and other social taxes	33.3	37.7
Property tax	20.6	18.7
Unified production tax	327.3	-
Road users' tax	29.2	20.6
Non-reclaimable VAT expense	45.5	56.9
Other taxes	46.4	29.1
Total taxes other than income tax	502.3	268.0

Taxes payable by the Group were as follows:

Millions of U.S. Dollars	30 June 2002	31 December 2001
Value-added tax	462.2	473.7
Tax penalties and interest	39.9	37.8
Income tax	54.2	30.1
Mineral resource taxes	48.9	5.0
Excise tax	51.2	47.0
Other taxes	57.3	66.0
Total taxes payable	713.7	659.6
Less Long-term taxes payable	(50.6)	(49.9)
Current taxes payable	663.1	609.7

The Group's effective tax rate for the six months ended 30 June 2002 and 2001 was 18.9 percent and 33.7 percent, respectively. The decrease in the effective tax rate is primarily attributable to the reduction in the Russian statutory income tax rate to 24 percent from the previous income tax rate of 35 percent effective 1 January 2002.

Note 11: Sales and other operating revenues

Millions of U.S. Dollars	Six months ended 30 June 2002	Six months ended 30 June 2001
Crude oil – export (Europe and CIS)	1,263.2	1,318.9
Crude oil – domestic	8.5	173.4
Petroleum products – export (Europe and CIS)	810.2	785.1
Petroleum products – domestic	533.9	709.0
Processing fees	1.8	6.1
Other revenues	107.6	156.5
Total sales and other operating revenues	2,725.2	3,149.0

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Note 12: Related Party Transactions

The Group has transactions in the ordinary course of business with Alfa Bank, an affiliate of a major shareholder, who acts as one of the Group's bankers.

Millions of U.S. Dollars	30 June 2002	31 December 2001
Deposits with Alfa Bank	65.4	22.5
USD denominated short-term loans from Alfa Bank	146.5	102.7

Millions of U.S. Dollars	Six months ended 30 June 2002	Six months ended 30 June 2001
Interest charged on loans from Alfa Bank	9.4	1.1
Interest rate range (percent, per annum)	6.5-15.0	5.0-15.0

At 30 June 2002 and 31 December 2001, the Group has additional loans from Alfa Bank collateralised by deposits with companies affiliated with Alfa Bank. The loan and deposits at 30 June 2002 totalled RR 4,988 million (USD 158.6 million as at 30 June 2002). These amounts have been recorded net in the accompanying consolidated financial statements.

The Group also has transactions in the ordinary course of business with Crown Trade and Finance Ltd., Crown Resources, OOO Alfa Eko, NTK Alfa Cracking, Logistic Service and Prodintorg, all of which are affiliates of a major shareholder. These transactions include sales, both export and domestic, of crude oil and export sales of petroleum products. Below are the sales and receivable balances for periods presented:

Millions of U.S. Dollars	Six months ended 30 June 2002	Six months ended 30 June 2001
Sales of crude oil for export and domestic	175.6	615.7
Volumes (millions of tons)	1.3	4.4
Sales of petroleum products for export	189.4	223.7
Volumes (millions of tons)	1.5	2.2

Millions of U.S. Dollars	30 June 2002	31 December 2001
Accounts and notes payable	26.4	23.9
Accounts and notes receivable	48.2	35.7

The Group purchases crude oil from TNK-Nizhnevartovsk, ("TNK-N") and OAO Sidanco, related parties through common ownership. Presented below are the amounts purchased for the six month ended 2002 and 2001 and the outstanding accounts payable and receivable with TNK-N and OAO Sidanco as of June 30, 2002 and December 31, 2001:

Millions of U.S. Dollars	Six months ended 30 June 2002	Six months ended 30 June 2001
Purchases of crude oil	20.6	132.0
Volumes (millions of tons)	0.4	3.0

Millions of U.S. Dollars	30 June 2002	31 December 2001
Accounts payable to	19.3	190.0
Notes receivables from	3.0	39.7

TNK INTERNATIONAL LIMITED
Notes to the Consolidated Financial Statements (Unaudited)
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Note 12: Related Party Transactions (Continued)

As discussed in Note 9, during 2002 as part of the restructuring of the Shareholders' interest in OAO Sidanco, the Group's net liabilities for oil and oil products purchased from TNK-N were forgiven by TNK-N. As this forgiveness of debt is between companies under common control, the Group has reported it as a contribution of additional paid in capital.

During six months of 2002 and 2001, the Group supplied crude oil to LiNOS refining on a tolling basis. Presented below are the amounts accrued for such services and the outstanding balances with LiNOS:

Millions of U.S. Dollars	Six months ended 30 June 2002	Six months ended 30 June 2001
Processing fees paid to LiNOS	26.0	25.6
Volumes (millions of tons)	2.5	2.3

Millions of U.S. Dollars	30 June 2002	31 December 2001
Net advances and receivables from LiNOS	32.0	22.5

Other transactions and balances with companies affiliated with shareholders are as follows:

Millions of U.S. Dollars	30 June 2002	31 December 2001
Loans to affiliates of shareholders	-	781.9
Advances to TNK-N	-	76.0
Advances to, and accounts receivable from related parties	76.2	45.5

Millions of U.S. Dollars	Six months ended 30 June 2002	Six months ended 30 June 2001
Commissions and management fees paid included in selling general and administrative expense	0.8	60.8

In February 2002, a guarantee for the outstanding amount of USD 497.5 million provided by the Company for the Alfa Group and Access/Renova Group acquiring a controlling interest in OAO Sidanco was assumed by companies outside of the Group.

In June 2001, the Group issued a USD 39.0 million guarantee to secure borrowings of OAO Kamensk-Uralsky, a metallurgical plant controlled by the Renova Group. At 30 June 2002, the outstanding amount of loan guaranteed by the Group totaled USD 4.01 million. Subsequently, in August 2002, the guarantee was terminated as OAO Kamensk-Uralsky met all of its obligations.

During the six months ended 30 June 2002, the Group sold its interest in OAO Udmurtneft and OAO Sidanco for USD 28.7 million and USD 15.9 million, respectively, to an entity affiliated with the shareholder. As the sale of these entities occurred between entities under common control, the sales price approximated the Company's cost and no gain or loss was recognized.

Note 13: Commitments and Contingent Liabilities

Economic and operating environment in the Russian Federation. The economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country, extensive currency controls, a low level of liquidity in the public and private debt and equity markets and high inflation.

The prospects for future economic stability in the Russian Federation are dependent upon the effectiveness of economic measures undertaken by the Government, together with legal, regulatory, and political development. Our operations are significantly affected by changes in crude oil and refined product prices, both in international markets and in Russia. These prices are affected by external factors over which we have no control, such as global economic conditions, demand growth, inventory levels, weather, competing fuel prices and the availability of supply. International prices for crude oil and refined products have been highly volatile, depending in the balance between supply and demand and on OPEC production levels.

Taxation. Russian tax legislation is subject to varying interpretations and constant changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Group may not coincide with that of management. As a result, tax authorities may challenge transactions, and the Group may be assessed additional taxes, penalties and interest. Tax periods remain open to review by the tax authorities for three years.

Environmental liabilities. The Group and its predecessor entities have operated in the Russian Federation for many years and certain environmental problems have developed. 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 provided for over the estimated remaining lives of the related oil and gas reserves, or recognised immediately, depending on their nature. The impact of environmental liabilities under proposed or any future legislation cannot reasonably be estimated.

Under current levels of enforcement of existing legislation, management believes there are no probable liabilities that are in excess of amounts provided for or accrued under the unit-of-production method in the consolidated financial statements, which will have a materially adverse effect on the financial position or the operating results of the Group.

Legal contingencies. The Group is the named defendant in a number of lawsuits as well as a named party in numerous other legal proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined with certainty 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 SNG and NNP have initiated proceedings to challenge the consolidation and exchange in relation to their former shares in these subsidiaries. The Company does not believe that any outcome of such proceedings could have a material adverse effect on its business, financial condition or results of operations or a material adverse effect on its shareholding in its production subsidiaries.

In February 2002, a Cyprus company - 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 is currently owned by an affiliate of TNK shareholders. TNK believes that it has substantial defences to jurisdiction and venue in the United States, and it intends to file a comprehensive motion to dismiss the complaint. In the event that the motion to dismiss is denied, TNK intends to vigorously defend this action and management believes the resolution of this complaint will not have a materially adverse effect on the financial position or the operating results of the Group.

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Note 13: Commitments and Contingent Liabilities (Continued)

Insurance. At 30 June 2002 and 31 December 2001, the Group held limited insurance policies in relation to its assets and operations, or in respect of public liability or other insurable risks. As a result, the Company is largely self insured for damage to and losses of assets and liabilities and claims.

ANNEX A

2002 Reserves Reports

ANNEX B

Oil and Gas Information

The following information is presented based on the guidance of, but not in accordance with, Statement of Financial Accounting Standards No. 69, *Disclosures about Oil and Gas Producing Activities* (“SFAS 69”).

TNK’s exploration and development activities are exclusively within the Russian Federation; therefore, all of the information provided in this section pertains entirely to this region.

Oil and Gas Exploration and Development Costs

The following tables set forth information regarding oil and gas exploration and development costs. The amounts reported as costs incurred include both capitalised costs and costs charged to expense during the year.

Millions of US dollars	Year ended 31 December 2001	Year ended 31 December 2000	Year ended 31 December 1999
<i>Costs incurred in oil and gas properties acquisitions, exploration and development activities</i>			
Acquisition of properties	78.8	1,107.2	43.3
Exploration costs	97.0	78.5	34.4
Development costs	628.3	460.7	110.5
Total costs incurred to acquire oil and gas properties, exploration and development activities	804.1	1,646.4	188.2

Millions of US dollars	Year ended 31 December 2001	Year ended 31 December 2000	Year ended 31 December 1999
<i>Capitalised costs of proved oil and gas properties</i>			
Wells and related equipment and facilities	8,251.5	8,452.1	5,379.2
Support equipment and facilities	2,140.9	2,186.8	949.3
Uncompleted wells, equipment and facilities	706.8	473.2	115.3
Total capitalised costs of proved oil and gas properties	11,099.2	11,112.1	6,443.8
Accumulated depreciation, depletion and amortisation	(5,252.5)	(5,216.1)	(3,216.9)
Net capitalised costs of proved oil and gas properties	5,846.7	5,896.0	3,226.9

Capitalised costs of unproved oil and gas properties are not material to TNK’s oil and gas exploration and development activities.

Results of Operations for Oil and Gas Producing Activities

TNK's results of operations from oil and gas producing activities are shown below. Natural gas production does not represent a material portion of TNK's total oil and gas production.

Results of operations for oil and gas producing activities do not include general corporate overhead and monetary effects, or their associated tax effects. Income tax is based on statutory rates for the year, adjusted for tax deductions, tax credits and allowances.

Millions of US dollars	Year ended 31 December 2001	Year ended 31 December 2000	Year ended 31 December 1999
Revenues from net production			
Sales	2,039.5	1,978.3	880.5
Transfers ⁽¹⁾	1,459.7	1,178.9	325.0
	3,499.2	3,157.2	1,205.5
Operating expenses	735.7	582.0	305.0
Transportation expenses	294.9	162.8	94.5
Taxes other than income tax	304.0	250.3	140.1
Depreciation, depletion and amortisation	300.7	158.7	123.1
Exploration expenses	53.6	48.5	20.4
Related income tax expense	701.9	619.0	177.0
Results of operations for oil and gas producing activities	1,108.4	1,335.9	345.4

⁽¹⁾ Transfers represent oil transferred for processing to affiliated enterprises and to third parties under tolling arrangements. Such transfers are valued at average domestic market prices for crude oil.

Proved Oil and Gas Reserve Quantities

As determined by TNK's independent reservoir engineers, Miller and Lents, Ltd., the following information presents the balances of proved oil and gas reserves and changes thereto as at and for the years ended 31 December 2001, 2000 and 1999, in accordance with SPE reserve definitions. This definition of reserves assumes that licences to explore, develop and produce oil and gas will be renewed through the economic life of the related reserves. The US Securities and Exchange Commission ("SEC"), which establishes the definition of proved reserves for U.S. GAAP purposes has stated that renewals should not be assumed unless the registrant has a demonstrated history of obtaining renewals. Management believes that proved reserves should include quantities which are expected to be produced after the expiry dates of TNK's production licences. Accordingly, the following reserves and discounted cash flow information may not comply with current SEC interpretations and SFAS 69.

Production licences are generally valid for 20 years, and require the holder to pay certain taxes, meet certain environmental requirements and generally certain production quotas. Such licences may be extended at the initiative of the licence holder, provided that TNK is in compliance with approved development plans and meets certain other conditions. Recent legislation, passed after the issue of many of TNK's licences provides that licences are granted for a period equal to the economic life of the relevant field. Management believes that each licence issued prior to the new legislation can be extended, upon expiration, for the economic life of the relevant field and it is management's intention to extend such licences for properties expected to produce subsequent to the licence expiry dates. Accordingly, TNK has disclosed reserve information using SPE definitions.

	Net proved reserves of crude oil, condensate and natural gas liquids Consolidated entities	
	Millions of barrels	Millions of tons
Reserves at 1 January 1999	3,873	530
Changes attributable to:		
Production	(151)	(21)
Acquisitions	2,952	404
Disposals	-	-
Revisions	1,462	200
Reserves at 31 December 1999	8,136	1,113
Changes attributable to:		
Production	(199)	(27)
Acquisitions	1,241	170
Disposals	(65)	(9)
Revisions	(679)	(92)
Reserves at 31 December 2000	8,434	1,155
Changes attributable to:		
Production	(284)	(38)
Acquisitions	66	9
Disposals	-	-
Revisions	(318)	(44)
Reserves at 31 December 2001	7,898	1,082
<i>Developed reserves (included above)</i>		
At 1 January 1999	2,401	329
At 31 December 1999	4,673	640
At 31 December 2000	5,598	767
At 31 December 2001	5,492	752

The above reserve quantities at 31 December 2001, 2000 and 1999, and at 1 January 1999 represent 100 per cent of the reserves attributable to consolidated subsidiaries of the TNK in which there are significant minority interests.

Discounted Future Net Cash Flows

The discounted future net cash flows are calculated by applying year-end prices and costs and a discount factor of ten per cent to year-end quantities of estimated net proved reserves. The calculation assumes continuation of year-end economic and political conditions and requires extensive judgement in estimating the timing of future production of reserves. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculation. As a result, future cash flows are not necessarily indicative of TNK's future cash flows or the fair value of its oil and gas reserves; other assumptions of equal validity could give rise to materially different results.

Millions of US dollars	31 December 2001	31 December 2000	31 December 1999
Future cash inflows from production	81,708.5	95,300.5	128,412.3
Future development and production costs	(47,657.4)	(49,399.8)	(37,239.8)
Future income tax expense	(7,699.1)	(15,668.8)	(26,239.2)
Undiscounted future net cash flows	26,352.0	30,231.9	64,933.3
Ten per cent, annual discount	(17,385.8)	(19,336.7)	(40,615.2)
Discounted future net cash flows	8,966.2	10,895.2	24,318.1

Changes in Discounted Future Net Cash Flows

Millions of US dollars	Year ended 31 December 2001	Year ended 31 December 2000	Year ended 31 December 1999
Discounted future net cash flows at beginning of year	10,895.2	24,318.1	1,190.6
Net change in prices and production costs (lifting costs related to future production)	(4,415.6)	(16,722.8)	20,587.6
Changes in estimated future development costs	(213.9)	(426.1)	(2,964.3)
Sales and transfers of oil and gas produced during the period	(1,843.5)	(2,464.4)	(863.2)
Net change due to purchases and sales of minerals in place	135.4	1,556.0	8,407.5
Net change due to revisions in quantities estimates	(719.1)	(3,160.7)	7,490.1
Previously estimated development costs incurred in the period	628.3	460.7	110.5
Accretion of discount	1,700.1	3,431.4	144.0
Net change in income tax expense	2,799.3	3,903.0	(9,784.7)
Net change for the year	(1,929.0)	(13,422.9)	23,127.5
Discounted future net cash flows at end of year	8,966.2	10,895.2	24,318.1

PRINCIPAL OFFICE OF THE BANK

Frankfurter Welle
Reuterweg 16
60323 Frankfurt am Main
Germany

PRINCIPAL OFFICE OF THE BORROWER

18/2 Schipok Street
Moscow 115093
Russia

PRINCIPAL OFFICE OF THE GUARANTOR

Craigmuir Chambers,
P.O. Box 71, Road
Town, Tortola,
British Virgin Islands

TRUSTEE

The Law Debenture Trust Corporation p.l.c.

Fifth Floor
100 Wood Street
London EC2V 7EX
England

**REGISTRAR, PRINCIPAL PAYING
AGENT AND TRANSFER AGENT**

Citibank, N.A.
5 Carmelite Street,
London EC4Y 0PA
England

**PAYING AGENT AND TRANSFER AGENT
Dexia Banque Internationale à Luxembourg**

69 route d'Esch
L-2953 Luxembourg

LEGAL ADVISERS

To the Borrower as to English and U.S. law:

White & Case
7-11 Moorgate
London EC2R 6HH
England

To the Borrower as to Russian law:

White & Case
4 Romanov Pereulok
Moscow 125009
Russia

*To the Managers as to English
and U.S. law:*

Linklaters
One Silk Street
London EC2Y 8HQ
England

*To the Managers as to Russian
law:*

Linklaters CIS
Tsvetnoy Boulevard 25/3
127051 Moscow
Russia

*To the Bank as to German and
U.S. law:*

**Cleary, Gottlieb, Steen &
Hamilton**
Main Tower,
Neue Mainzer Strasse 52
60311 Frankfurt am Main

To the Trustee as to English Law:

Linklaters
One Silk Street
London EC2Y 8HQ
England

To the Guarantor as to BVI Law:

Harney Westwood & Riegels
Craigmuir Chambers, PO Box 71
Road Town, Tortola
British Virgin Islands

AUDITORS TO THE BORROWER

ZAO PricewaterhouseCoopers Audit

Kosmodamianskaya Nab. 52, Bld. 5
Moscow 113054
Russia

LISTING AGENT

Dexia Banque Internationale à Luxembourg

69 route d'Esch
L-2953 Luxembourg