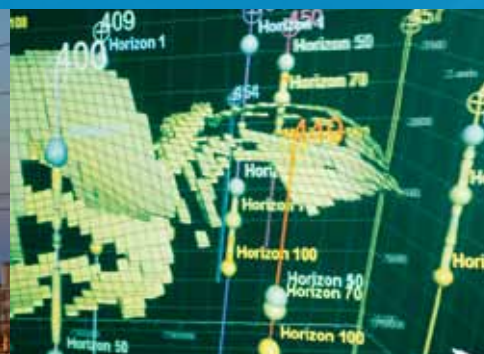


Reaching new frontiers

Annual Review and Summary
Financial Statements 2011



People. Efficiency. Innovation.

People

the driver of our
transformation

Efficiency

the foundation of
our success

Innovation

the essence of
our leadership



On the way to the Suzunskoye field
in the north of the Krasnoyarsk
region of Russia

TNK-BP in 2011



747

mb/d of refining
throughput



60.2

bn USD in revenues

▶ Go to page 118
to find out more

13.8

bn boe total PRMS
proved reserves

▶ Go to page 19
to find out more

21

regions of Russia as well as operational presence in Venezuela, Vietnam, Ukraine and Belarus



Farm-in agreement signed with HRT Oil & Gas – joint activity in the Solimões Basin, a high-potential hydrocarbon opportunity onshore Brazil



1,987

mboe/d oil and gas output, including affiliates

▶ Go to page 25 to find out more

9.0

bn USD of net income attributable to Group shareholders

▶ Go to page 118 to find out more



TNK-BP is a leading Russian oil company and is among the top ten privately-owned oil companies in the world in terms of liquids production. The Company was formed in 2003 as a result of the merger of BP's Russian oil and gas assets and the oil and gas assets of Alfa, Access/Renova group (AAR). BP and AAR each own 50% of TNK-BP. The shareholders of TNK-BP also own close to 50% of Slavneft, a vertically integrated Russian oil company.

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Cautionary statement

This publication contains forward-looking statements regarding TNK-BP's assets and financial and operational performance and strategy. Actual results may differ depending on a variety of factors.

Affiliates

TNK-BP owns close to 50% of Slavneft, which is managed independently and reports as a separate entity. In 2011, TNK-BP acquired minority equity interests in three Upstream producing entities in Venezuela, majority ownership and control in each case is held by Petroleos de Venezuela S.A. ('PDVSA'), a state-owned oil company. TNK-BP's net income and EBITDA numbers include its share of Slavneft's and Venezuela affiliates' results. Any other figures quoted in this publication exclude Slavneft and Venezuela affiliates unless stated otherwise.

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Strategic address from the Board Chairman

Our most successful year yet

2011 was indeed a milestone year for TNK-BP in its strategic development. Our record-breaking financial and operational results, along with the completion of the first steps in our international expansion, have laid a strong foundation for the Company's success going forward.



We can be proud that we are on track in carrying out our strategy and delivering superior value to our stakeholders, both now and in the long term.



In our upstream operations we delivered on our commitment to replace production with new reserves, achieving an industry-leading reserves replacement ratio of 145% by SEC LOF standards. At the same time, we intensified development at our greenfield projects, enabling them to contribute 14% of our total liquids production in 2011. We also made significant headway with our projects in the Yamal region, the country's newest emerging oil and gas province, which has the potential to contribute over 30% of TNK-BP's total production by 2020.

Go to page 87

to find out more about geographical expansion.

We have remained steadfastly committed to enhancing efficiency in order to fully capture our underlying potential. On the Upstream side, the successful implementation of our West Siberia Efficiency Program enabled us to slow base production decline by 4% in 2011. Considering the scale of our West Siberia projects, the effect is significant.

Perhaps the most exciting aspect of our dynamic Upstream growth in 2011 was our international expansion. In addition to having successfully closed acquisition deals in Venezuela and Vietnam, we also announced our entrance to the prospective Brazilian market. We will continue to integrate each of these assets into TNK-BP Group, along the way capturing synergies, sharing expertise and expanding our skill set. We believe that the fast-growing markets of Southeast Asia and Latin America represent a great opportunity to generate increased value in the years ahead.

2011 proved to be a difficult year for the global refining markets, yet we managed to maintain good margins and increase refining throughput at our refineries by 2% to an historic 747mb/d, thanks to comprehensive debottlenecking initiatives. Additionally, we expanded our retail footprint by opening new TNK- and BP-branded filling stations, thereby increasing our marketing cover by 4%.

The development of our gas business is an integral element of the strategic direction we are pursuing at TNK-BP. In 2011, we made great progress in this area, raising production at Rospan by 20% compared to the previous year, expanding our associated gas value chain and signing an important supply contract through 2030.

We were very pleased to welcome several new members to TNK-BP's executive management team over the course of the year. As has been true since the inception of TNK-BP, our unique blend of Russian industry veterans and high-level international talent positions us to continue delivery of robust industry-leading performance.

At TNK-BP, we understand that our activities have an impact on the environment and the communities in which we operate. Their support is vital and enables us to move forward with confidence on new projects that will help us expand our business. To ensure the sustainability of our growth, we continued to work closely with these communities and act in their best interests in 2011.

We are making great efforts to build TNK-BP's corporate culture based on our values of leadership, performance, safety and integrity. The success we achieved in 2011 is very much thanks to our commitment to each of these principles. We had many opportunities to live this out in 2011 through reinforcing our commitment to sound governance and zero tolerance of ethical misconduct, improving our HSE metrics, enhancing our efficiency and raising up a new generation of leaders within the Company.



Mikhail Fridman
Executive Chairman, TNK-BP
Board of Directors

Strategy of efficient growth

Highlights of TNK-BP strategy

Our goal is to become a major international oil and gas company and the leader among private companies in the Russian oil and gas sector.

Our key focus is on efficient growth aimed at increasing shareholder value.

Our corporate strategy is based on the following foundations:

1. Efficient transfer of resources into reserves and reserves into production

- Maintaining oil and gas organic growth at the industry rate of 1% to 2% in the medium term
- Consistent renewal of proved hydrocarbon reserves at no less than 100% a year in the long term
- Stabilization followed by a slowdown of natural decline rates in our mature assets in West Siberia
- Progressing the development of Yamal deposits as our future production growth center
- Increasing the greenfield contribution to 20%-25% by 2015

2. Margin enhancement

- Balanced refining coverage of production volumes
- Increasing the conversion rate and light product yields; improving oil product quality
- Expanding our product range to secure a competitive market position
- Developing the retail network to match the light oil product yields and growing demand, strengthening presence in attractive B2B channels

3. Gas

- Monetization of the gas portfolio
- Gradual increase of the gas business segment in the Company's asset portfolio; gas production up to 35 bcma by 2020
- Full field development of Rospan gas fields as a top priority

4. Development of international assets in Upstream

- Reaching an optimal balance of materiality/risk/profitability in the long term
- Acquisition of targets, new expertise and technologies through participation in international projects (offshore, heavy crude oil, unconventional gas and crude oil)
- Priority focus in the next 2 to 3 years – integration of existing international assets in Vietnam, Venezuela and Brazil and potential expansion in those countries

5. Ensure high standards of corporate governance in compliance with international best practice and continuous improvement

- Health, safety and environment
- Business ethics
- Management processes

6. Technologies

- Introduction of advanced technologies which have won international recognition – to create a competitive edge
- Promoting the culture of innovation in the Company

7. People and organizational capability

- In-house development of a management cadre

Map of operations – Russia, Ukraine and Belarus

- 📍 Early development greenfield projects
- Greenfield projects in commercial production phase
- ◆ Gas projects
- ▲ Brownfield
- Bluefield focus areas
- * Marketing presence
- ⚙️ Heavy oil upgrades
- 🛢️ Refinery assets
- 🏭 Power plant



* Development with Gazprom Neft

** NV GRES – Nizhneartovsk state regional power plant

Map of operations – Venezuela



Map of operations – Vietnam

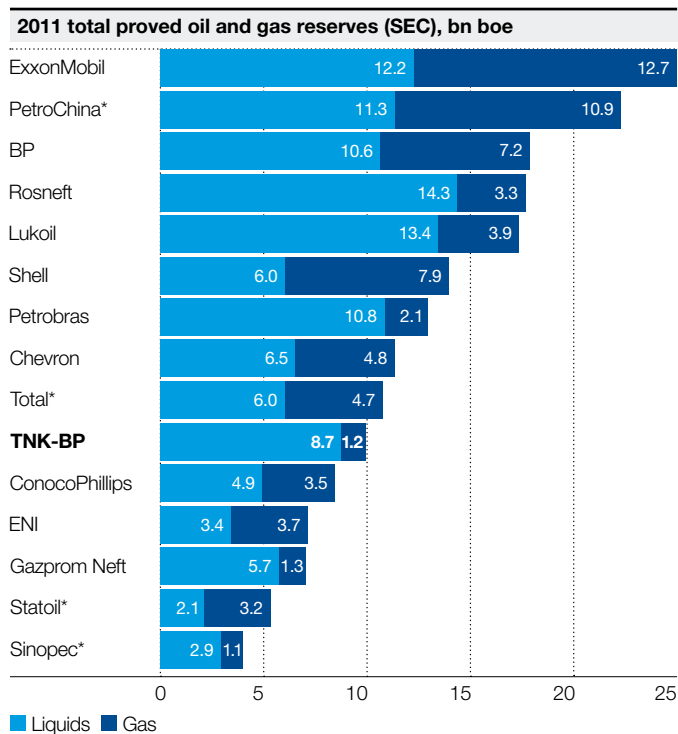


Industry position

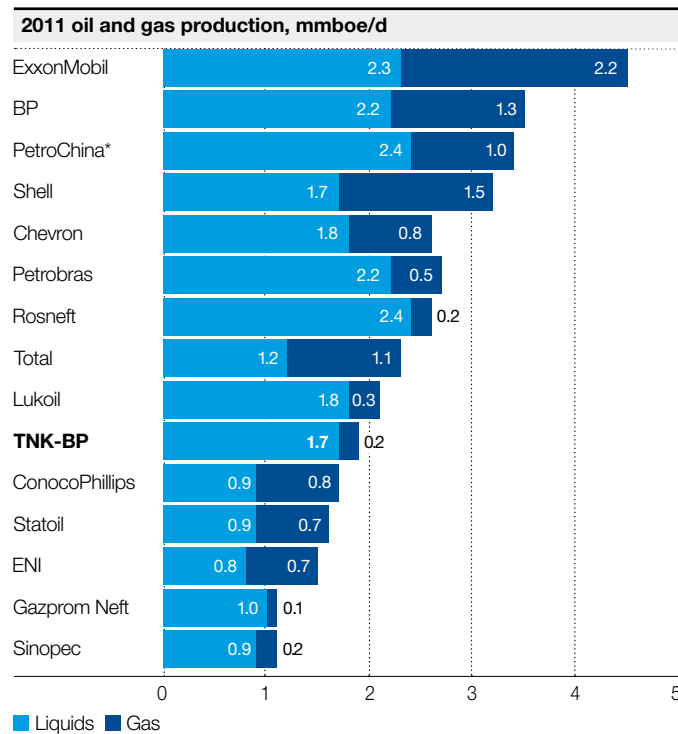
We have built a strong industry position enabling us to continue implementing our goals. TNK-BP is the 10th largest oil company among non-fully state-owned

companies in terms of total proved oil and gas reserves and the 7th largest in terms of solely oil reserves. We hold the 8th highest position in terms of liquids production.

TNK-BP production and reserves vs. Russian and global peers

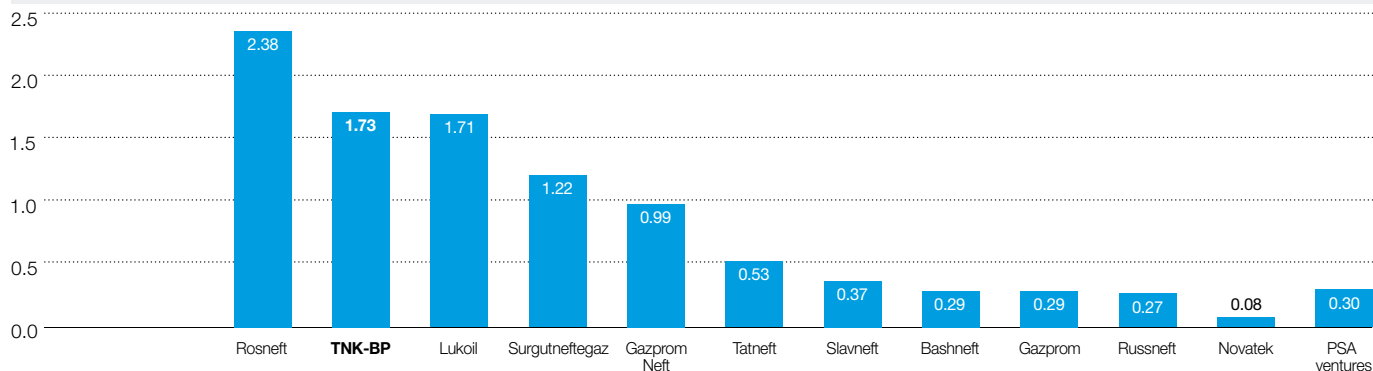


Source: Company data, including affiliates
*PetroChina, Total SA, Statoil, Sinopec reserves as of 2010



Source: Company data, including affiliates
*PetroChina production as of 2010

Liquids production of Russian companies in Russia, mmb/d



Source: Company reports, Central Dispatch Unit of the Fuel and Energy Complex of Russia, including affiliates

In 2011, the Company's investment performance continued to be one of the best in important areas such as capital expenditure and finding and development costs per barrel of oil equivalent (boe).

We also displayed a prudent approach to managing our financial resources, with excellent results achieved in net income per boe and return on capital employed (please see page 9).



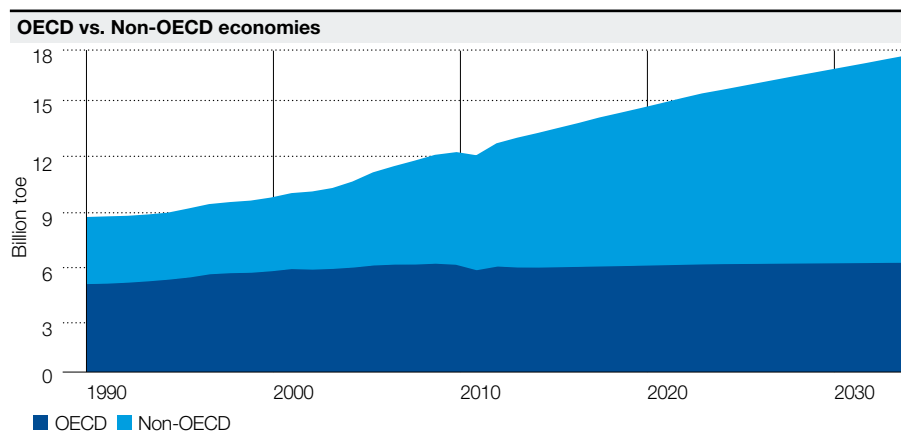
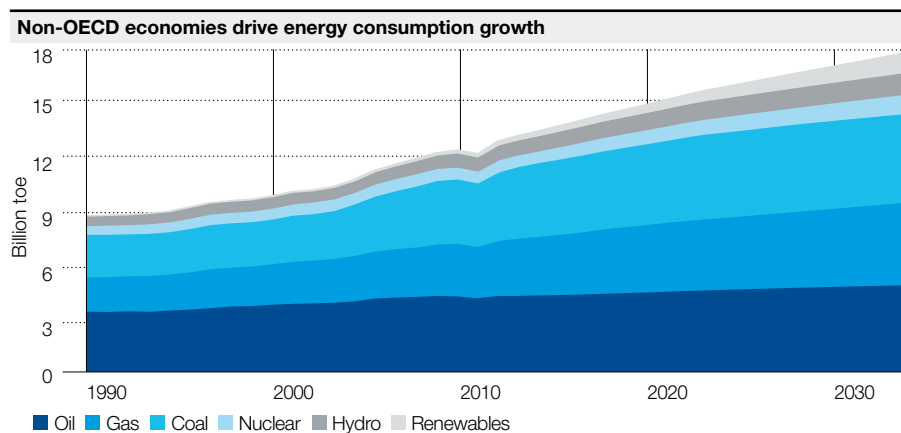
The Uvat project in the south of the Tyumen region of Russia

Macroeconomic background

TNK-BP is focused on developing and expanding its oil and gas portfolio on the basis of two strategic assumptions.

Firstly, world primary energy consumption is projected to grow by 1.6% a year over the period 2010 to 2030, adding 39% to global consumption by 2030, according to BP Energy Outlook 2030.

Secondly, fossil fuels are converging on a market share of 26% to 28% each and non-fossil fuel groups on a market share of 6% to 7% each. Although the growth in demand for oil is expected to be the slowest of the fuels over the next 20 years, global liquids demand (also including biofuels and other liquids) is still likely to rise by 16 mmb/d, exceeding 103 mmb/d by 2030.



Source: BP Energy Outlook 2030

In 2011, Russia's oil output averaged 10.27 mmb/d, a 1.25% increase over the previous year and a new post-Soviet high. We believe the country possesses enormous resource potential, both onshore and offshore, and we are privileged to be developing a number of prospective oil and gas deposits in Yamal, a greenfield province of global significance (please see page 49).

We also feel it important to establish a meaningful presence in the growing economies of Asia and Latin America with promising resource potential – Vietnam, Venezuela and Brazil (please see page 86). A diversified oil and gas portfolio enriches our knowledge base and improves our operational efficiency, strengthening TNK-BP's position as an important supplier of the world's energy.

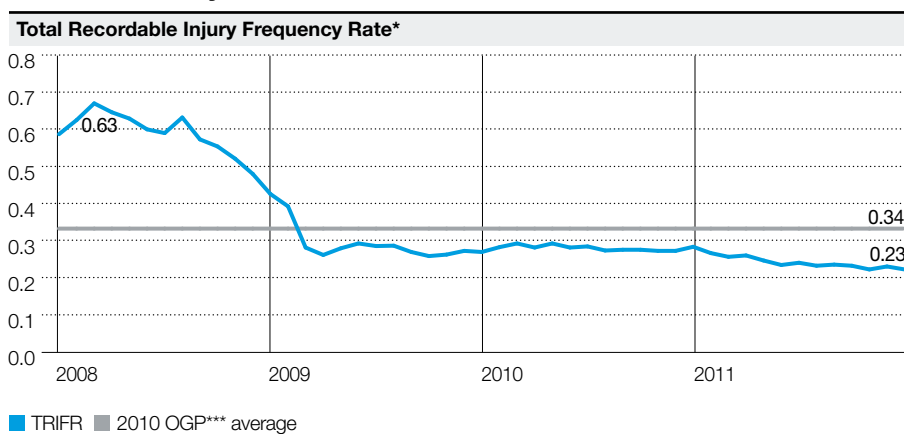
Key financial and operational highlights

Operating data	2011	2010	2009	2008	2007	2006	2005	2004
Total liquids production (mb/d), incl. affiliates	1,742	1,713	1,680	1,651	1,664	1,752	1,822	1,671
Total gas sales (mboe/d), incl. affiliates	245	221	207	195	155	188	168	154
Total liquids production (mb/d), excl. affiliates	1,546	1,527	1,489	1,454	1,451	1,477	1,554	1,416
Total gas sales (mboe/d), excl. affiliates	238	215	201	188	149	131	157	120
Refining throughput (mb/d)	747	732	675	698	701	661	620	569
Selected financial information	2011	2010	2009	2008	2007	2006	2005	2004
Total sales (USD mln)	60,199	44,646	34,753	51,886	38,926	35,725	30,180	17,226
EBITDA (USD mln)	14,601	10,391	9,007	10,093	9,565	11,255	9,143	6,386
EBITDA (USD per barrel of liquids production)	23.0	16.6	14.7	16.7	15.8	17.6	13.7	10.4
Net income* (USD mln)	8,981	5,815	4,973	5,284	5,342	6,678**	4,784	4,017
Net income (USD per barrel of liquids production)	14.1	9.3	8.1	8.7	8.8	10.4	7.2	6.6
Cash flow from operating activities (USD mln)	10,525	9,682	6,581	8,611	7,097	3,078	5,090	4,722
Net debt/net debt plus equity ratio (%) (Gearing)	26%	21%	28%	32%	30%	34%	21%	25%
ROACE (%)	36%	26%	24%	27%	31%	48%**	38%	34%
Market data	2011	2010	2009	2008	2007	2006	2005	2004
Brent (USD/bbl)	111.3	79.5	61.5	97.1	72.5	65.1	54.4	38.2
Rouble/USD	29.39	30.37	31.72	24.86	25.58	27.19	28.29	27.75

* Attributable to Group shareholders

** Adjusted for divestment of Udmurtneft

Health and safety data



12 months' rolling average Total Recordable Injury Frequency Rate reduced by 21% year-on-year due to consistent focus on instilling safe working habits and improved healthcare.

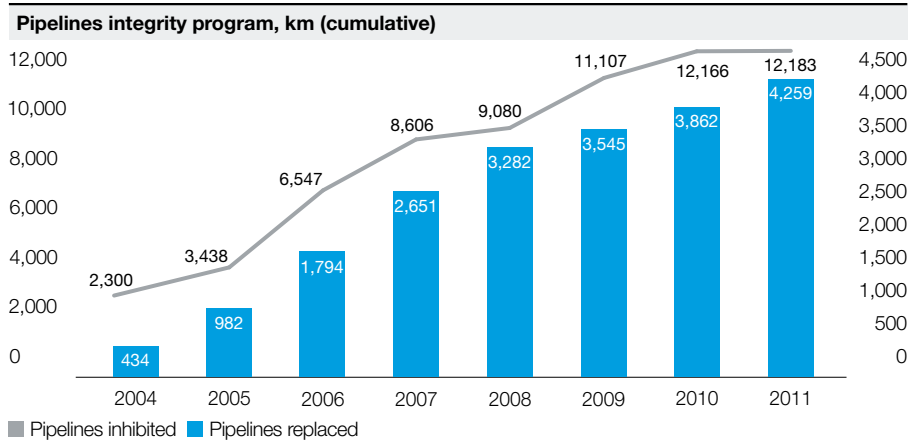
* Total Recordable Injury Frequency Rate (TRIFR) comprises the total number of fatalities, lost time injuries, restricted work cases and medical treatment cases as per OSHA** definitions

** OSHA – Occupational Safety and Health Administration, US Government

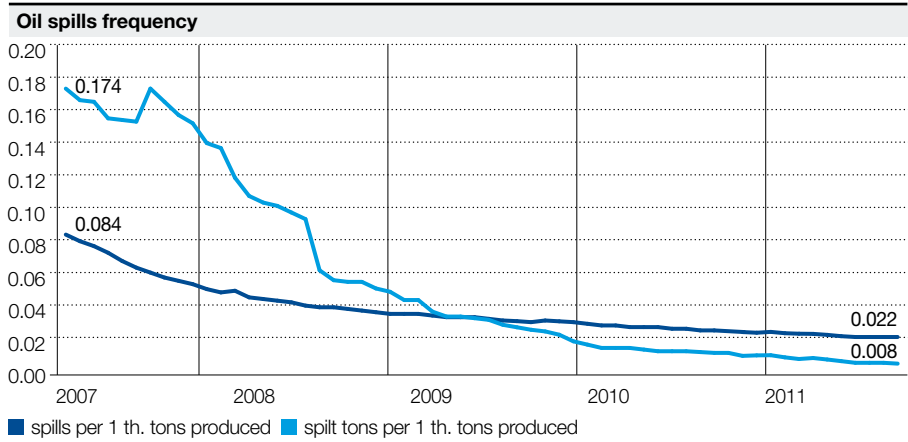
*** OGP – The International Association of Oil and Gas Producers

Key financial and operational highlights

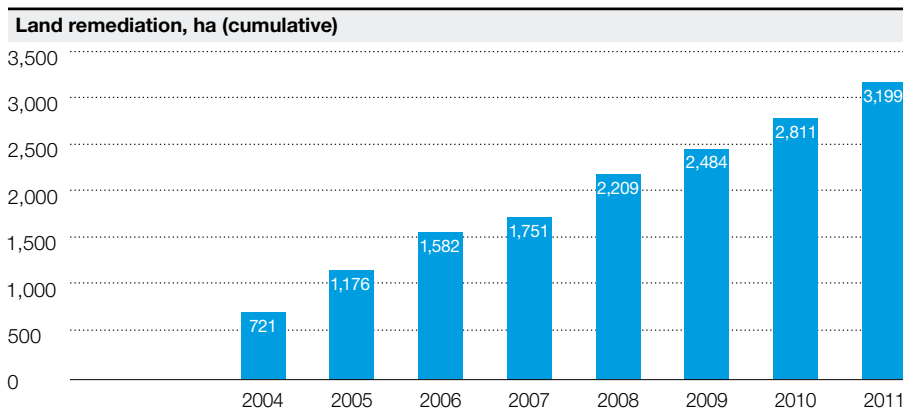
Environmental data



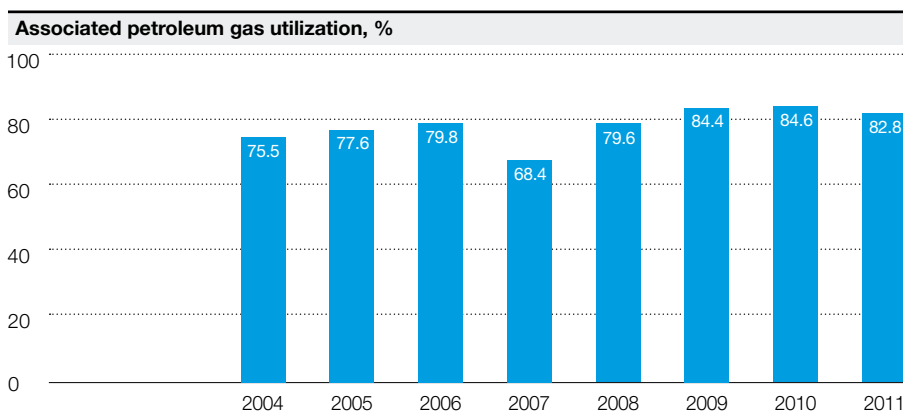
◀ In 2011, we replaced 396.7 km of pipelines. The total length of the pipelines protected by inhibition amounted to 12,183 km, or more than half of our field pipeline network.



◀ In 2011, the number of spills per thousand tons produced reduced by 12% year-on-year. Spilt tons per thousand tons produced was down 43% on 2010.



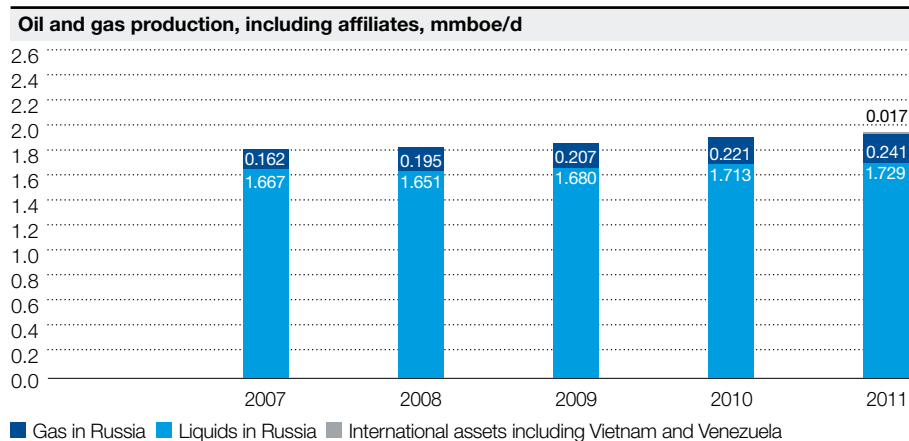
Since 2004, we have remediated and handed over to the State close to 3,200 hectares of polluted land.



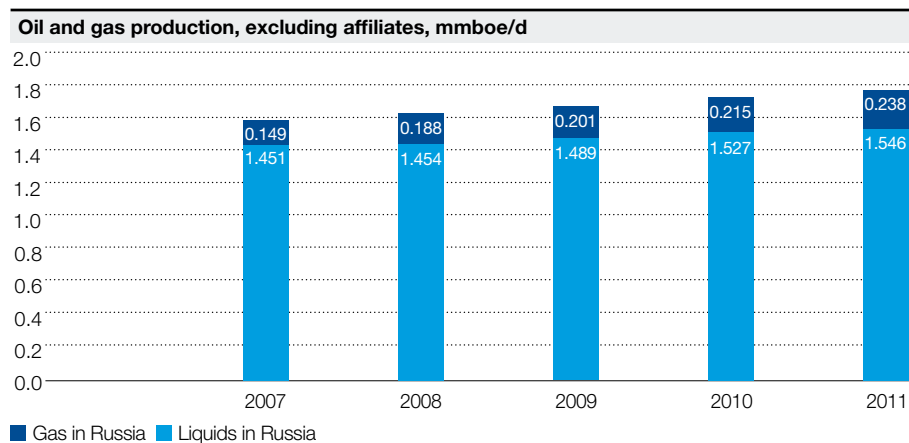
The APG utilization rate amounted to 82.8% vs. 84.6% in 2010 due to increased greenfield production, however in absolute terms, the volume of APG utilized increased by approx. 0.5 bcm.

Key financial and operational highlights

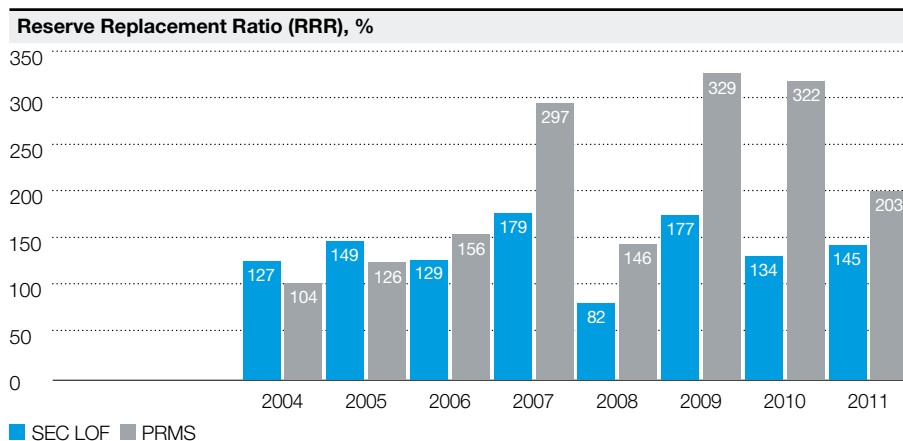
Operational data



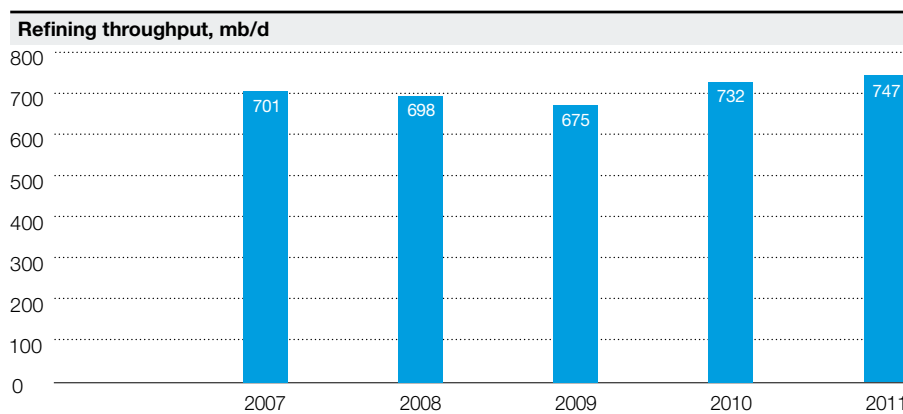
Over the past five years, hydrocarbon production, including our share in affiliates, increased by 9% due to stable production growth in Orenburg and the timely launch of the Uvat and Verkhnechonskoye oil fields.



Over the past five years, own oil and gas production increased by 9%.



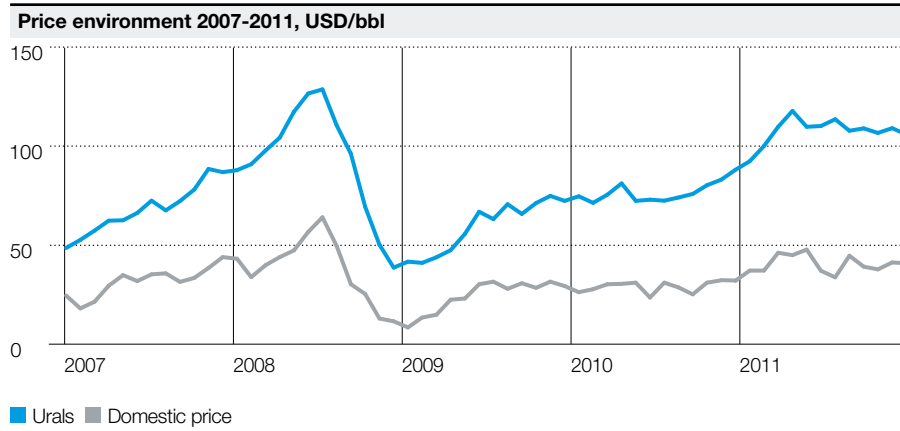
Our average reserve replacement ratio for the past 8 years on the SEC LOF basis amounted to 140% which is a world-class achievement.



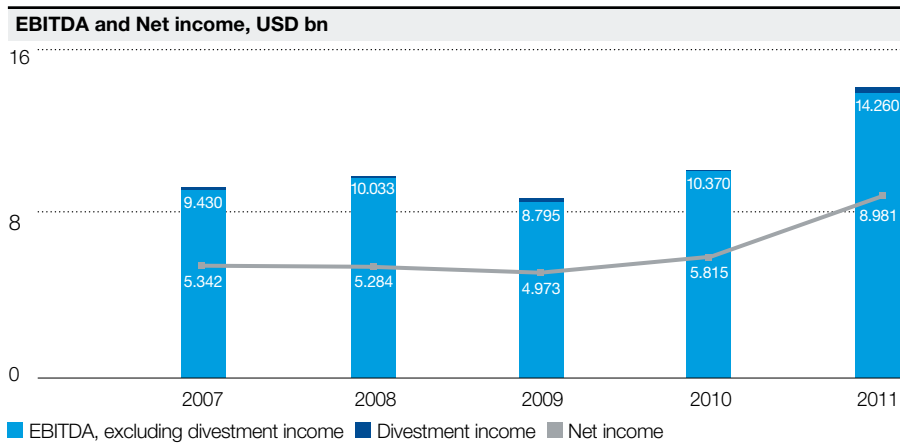
In 2011, refining throughput increased by 2% to reach a historic high of 747 mb/d due to successful debottlenecking and operational improvements.

Key financial and operational highlights

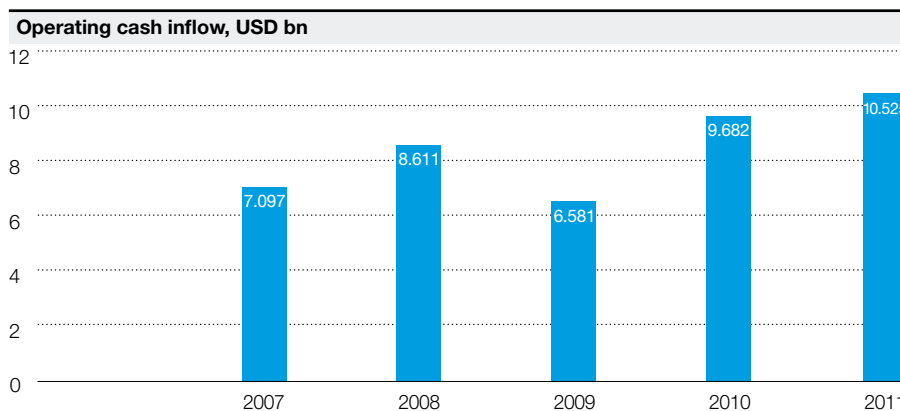
Financial data



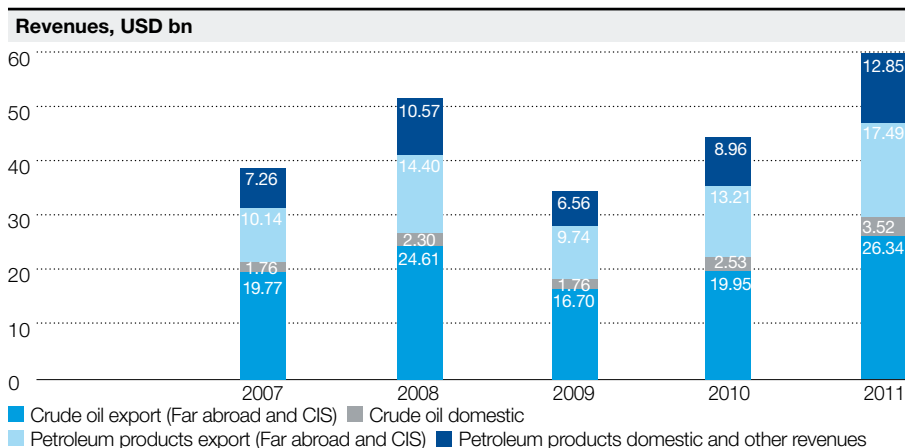
Recently, both international and domestic prices of crude oil have been highly volatile, and sensitive to, among other things, OPEC production levels and the global economic environment. This volatility affects the operations of TNK-BP by impacting those revenues and taxes which are linked to the Urals crude oil price.



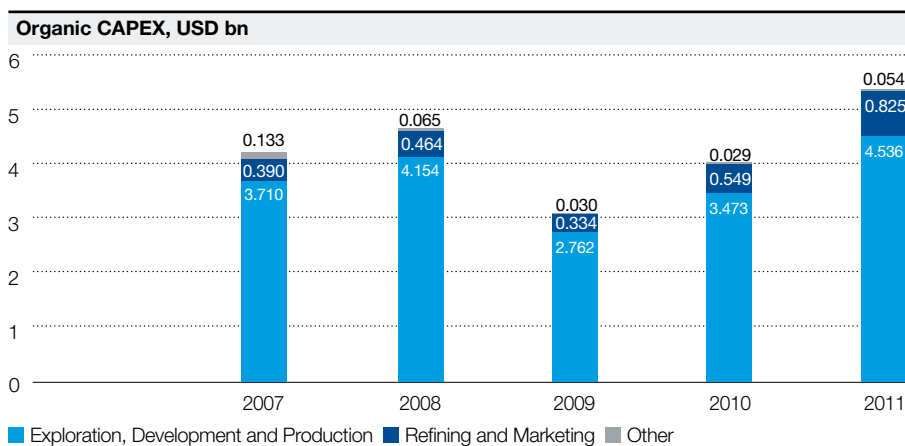
EBITDA and Net income were driven primarily by the Urals price fluctuations, as well as underlying production growth partly offset by continuing tariff and inflation pressure.



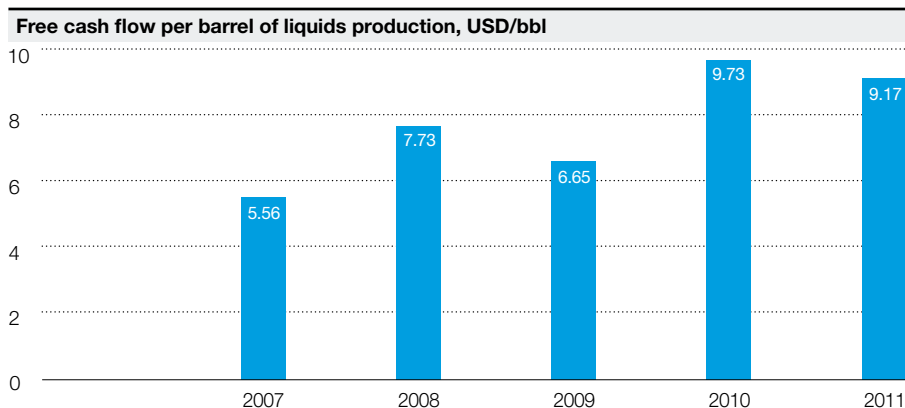
Operating cash inflow largely follows the EBITDA trend, after adjusting for divstment income and working capital movements.



Revenue was impacted by prices and growth in underlying production, with the overall trend of a growing petroleum products share in total sales underpinned by modernization and debottlenecking of TNK-BP refineries.



The Group directs most of its CAPEX to Upstream together with targeted retail and refining spend.



Free cash flow per barrel of liquids production of 9.17 USD/bbl is a result of strong operating cash inflow and balanced capital expenditure.

Gathering momentum

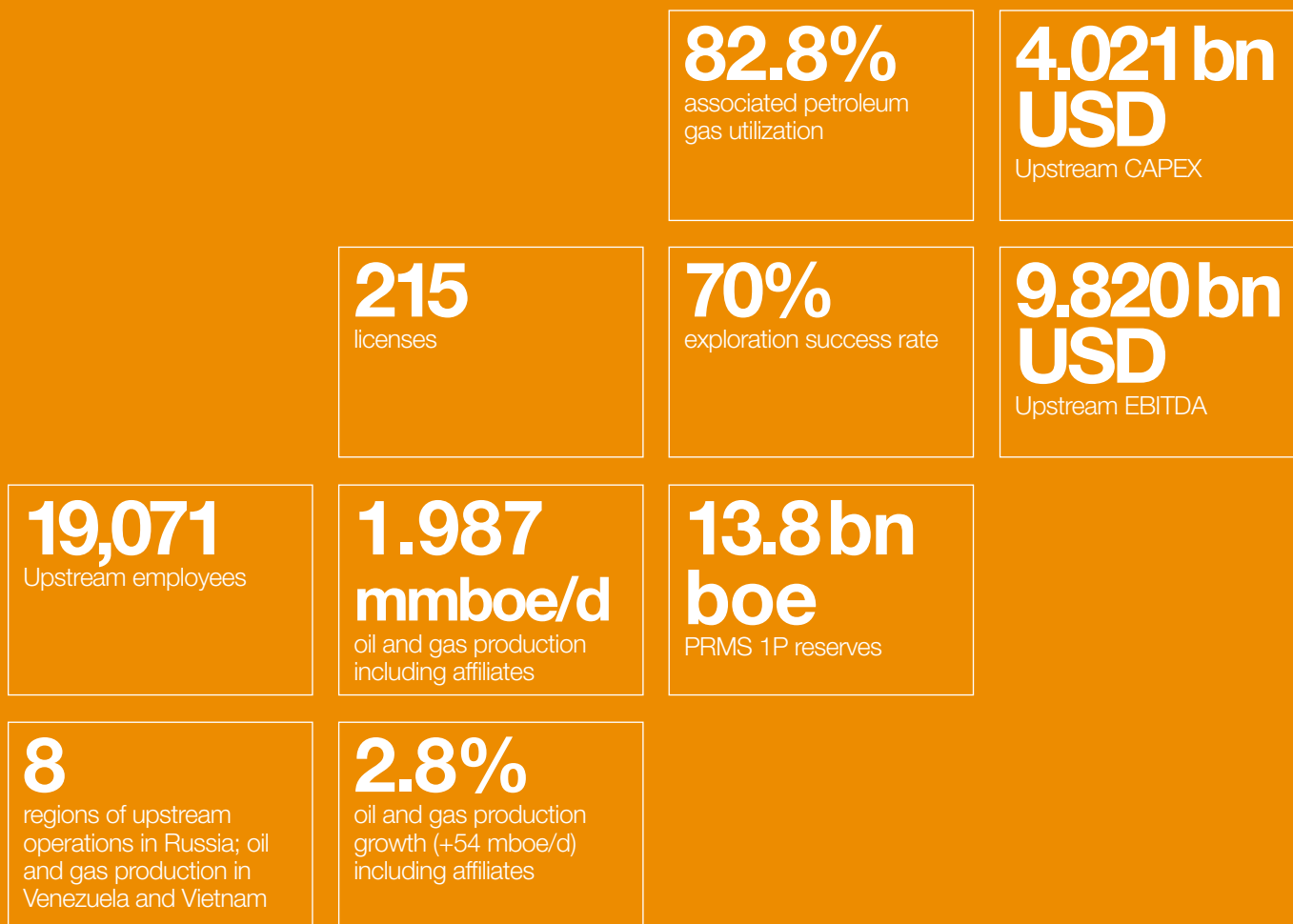
The Ust-Tegusskoye field of the Uvat project in the south of the Tyumen region of Russia



Upstream

Exploration and production of hydrocarbons form the backbone of TNK-BP, provide the basis for its stability today and will support its dynamic development in the future. Our strategic goals are to ensure efficient renewal and expansion of the Company's resource base, maintain production levels and maximize the potential of existing fields, while growing production through cost-effective, safe and efficient new developments.

Upstream		16-59
19	Exploration and reserve replacement	
25	Oil and gas production	
32	Brownfield production	
41	Greenfield production	
57	Interaction with suppliers and contractors	



Upstream efficiency highlights in 2011

- Water intake reduced by 4.9 mln cub. m thanks to water shut-off actions in West Siberia
- Drilling cycle reduced by more than 12% compared to 2011
 - the greatest reduction in drilling cycle, by 17.6%, was achieved in the Verkhnechonskoye field despite a simultaneous increase in complexity (borehole length increased by 8% and step-out by 16%)
 - 1,092 wells drilled during the year
- Base decline in West Siberia was reduced by 4%, with a flattening out trend, thanks to successful waterflood management
- Power consumption for oil lifting purposes reduced by 1.2 GWh in 2011, following the implementation of a comprehensive energy efficiency program
- Well intervention performance program included pilot testing of new technologies (skin fracs, new chemicals for acid jobs and dual completions)
- The Tyumen-based Drilling Support Center, which operates in real time and uses an Advanced Drilling Database and software enabling real-time design engineering and monitoring, provides drilling support across Russia
- System for prompt two-way data exchange (software, communication facilities, and automatically updated database) covers more than 50% of complex development wells or wildcat wells
 - a new software package to address technical issues is being implemented as a daily tool for drilling engineers (OpenWells, Compass, WellPlan, etc.).

Upstream innovative technology highlights in 2011

- Bright Water nanotechnology tried out at various fields in West Siberia
- Multi-stage fracturing pilots, with expanded application across TNK-BP in 2012
- Innovative approach to drilling cost reduction; a feasibility study as part of the low-cost access program; first wells are to be drilled in 2012
- Use of rotary steerable systems (RSS) in horizontal wells with extreme dogleg severity:
 - ‘Asset of the Future’ automatic data management systems at major West Siberia fields; digital downhole sensors to collect data for enhanced recovery purposes.

Exploration and reserve replacement

Finding new hydrocarbon reserves and successfully replenishing the resource base by more than the amount it produces is a strategic priority for TNK-BP.

The Company's strategic approach to seeking new hydrocarbons is distinctive because it pursues a range of exploration activities in three areas:

1. Unlocking the potential of producing fields in the Orenburg region and greenfields in East Siberia and Uvat

The use of 3D seismic surveys in the search for satellite oil fields in the Orenburg region, for example, has enabled the fields to be brought into production in less than a year. In 2011, we also discovered two new fields in the Buzuluk and Kulikovskoye license areas, and a new dome of the Sorochino-Nikolskoye oil field. TNK-BP is continuing its program of exploration activities in Uvat. In 2011, we discovered new oil-and-gas-bearing formations in the Jurassic sediments of the Severo-Tamarginskoye and Protazanovskoye oil fields and removed risks impeding the development of reserves at the Urnenskoye and Ust-Tegusskoye oil fields.

2. New projects in the Yamalo-Nenets autonomous region, north of the Krasnoyarsk region

TNK-BP is exploring and carrying out development work on highly promising new deposits where a lack of technology and organizational capacity has previously made oil production impossible.

The Company is also carrying out appraisal work on new license blocks in Yamal and the north of the Krasnoyarsk region to prepare them for commercial development in the middle of the current decade. In 2011, we also found new oil-and-gas-bearing layers in Jurassic and Cretaceous sediments of the Russko-Rechenskoye and Tagulskoye oil fields (please see the chapter on Yamal projects on page 49).

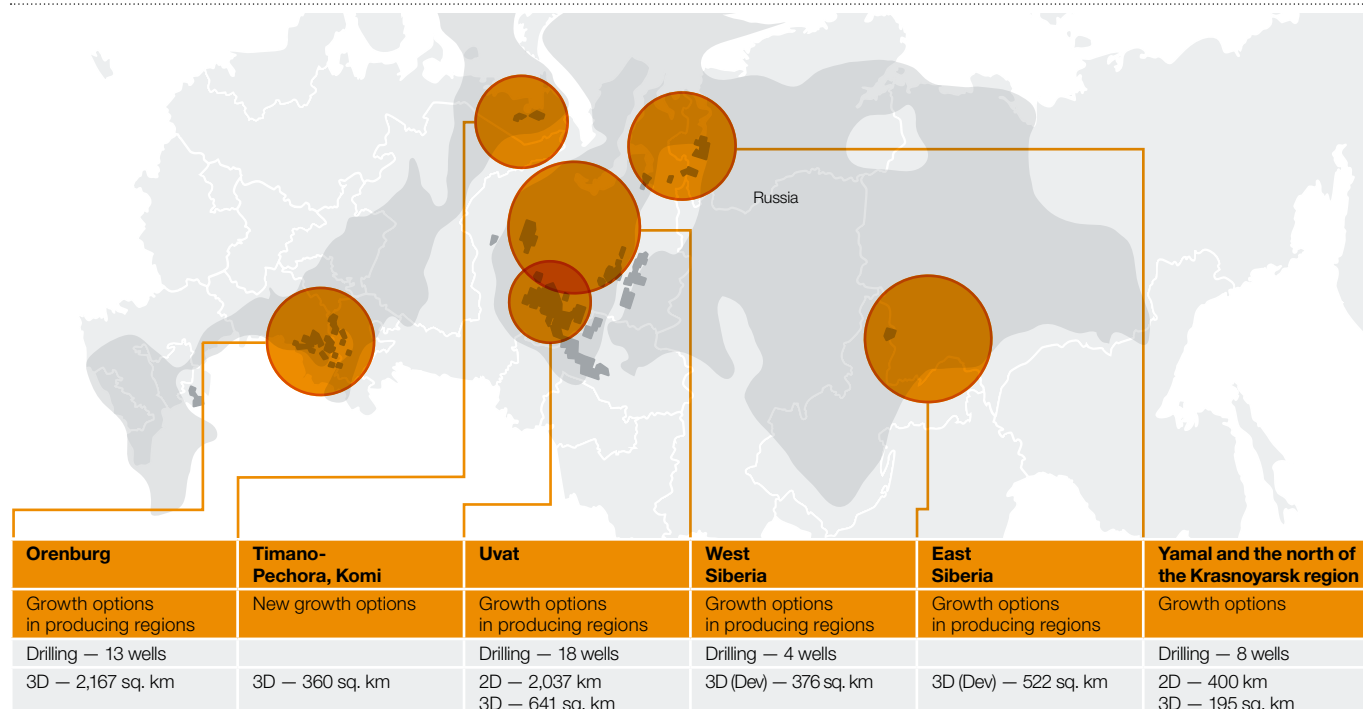
3. Acquiring licenses for exploration and appraisal activities

TNK-BP looks at many opportunities for the inorganic growth of the Company's resource base. Acquiring new licenses in regions where we already operate allows us to bring fields on-stream quickly and at minimal cost, thanks to existing infrastructure and synergies with fields that are already in production. In 2011, for example, we acquired nine licenses in the Orenburg region, which added 283 mln boe of resources to the Company's resource base.

We also continuously review and implement the most attractive options for gaining access to new regions, in order to diversify our asset portfolio and reinforce our competitive strengths.

TNK-BP's exploration activities in 2011

■ TNK-BP license areas ■ Oil and gas provinces



2D — area covered by 2D seismic

3D — area covered by 3D seismic

3D (Dev) — 3D seismic activity in areas under development

In 2011, we achieved significant successes in replenishing our production with new reserves. According to an independent audit, TNK-BP's total proved SEC LOF (Life of Field) reserves at 31 December 2011 amounted to 9.115 bn boe, inclusive of Vietnam, as of 31 December 2011. With a proved reserves increase of 0.972 bn bbl, the replacement ratio for total proved SEC LOF reserves in 2011 amounted to 145%.

As of 31 December 2011, TNK-BP's total proved reserves according to PRMS criteria amounted to 13.8 bn boe, with a reserve replacement ratio of 203%.

The bulk of added reserves were provided through petrophysical studies at our oil fields in Orenburg, active development and reservoir pressure maintenance measures at the Urnenskoye and Ust-Tegusskoye fields (in the Uvat Group in the south of the Tyumen region) as well as at the Verkhnechonskoye oil field in East Siberia. The high reserve replacement ratio was also supported by favorable market conditions in 2011.

A long-term transportation agreement with Gazprom and our plans for full-field development brought further reserves at Rospan International's gas condensate fields.

In 2011, we also booked gas reserves which are used by the Company for captive power generation.

141%

TNK-BP's eight-year average SEC LOF reserve replacement ratio.

Exploratory drilling and seismic survey						
	2007	2008	2009	2010	2011	2012 plan
Drilling						
Wells drilled	49	46	27	29	43	32
Success rate, %	59%	74%	74%	72%	70%	–
Seismic						
2D km	5,391	5,536	468	4,681	2,437	1,510
3D sq. km	5,055	2,555	997	2,821	3,364	2,964
3D Development	1,893	1,866	280	1,166	1,179	440

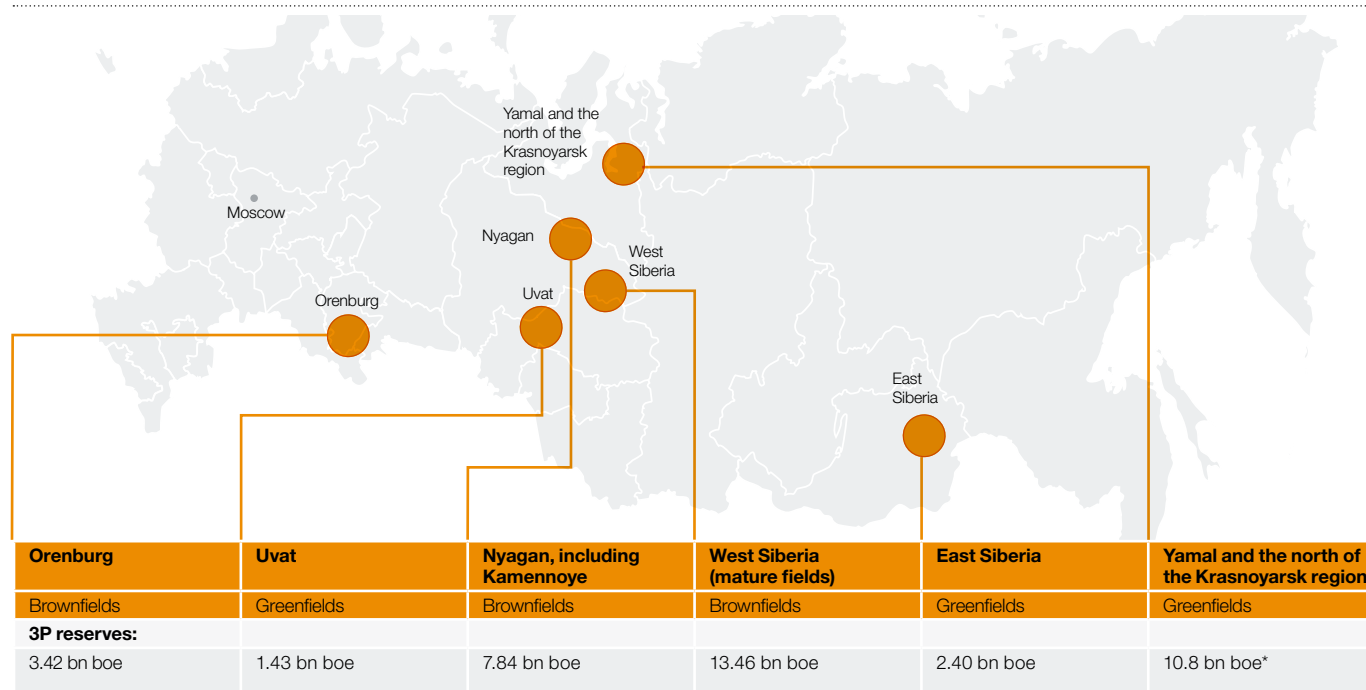
72%

average exploration success rate for three years.

In 2011, discoveries of new deposits and successful exploration and appraisal activities helped to add 422 mln bbls of resources, primarily in the Yamalo-Nenets autonomous region and the Orenburg region.

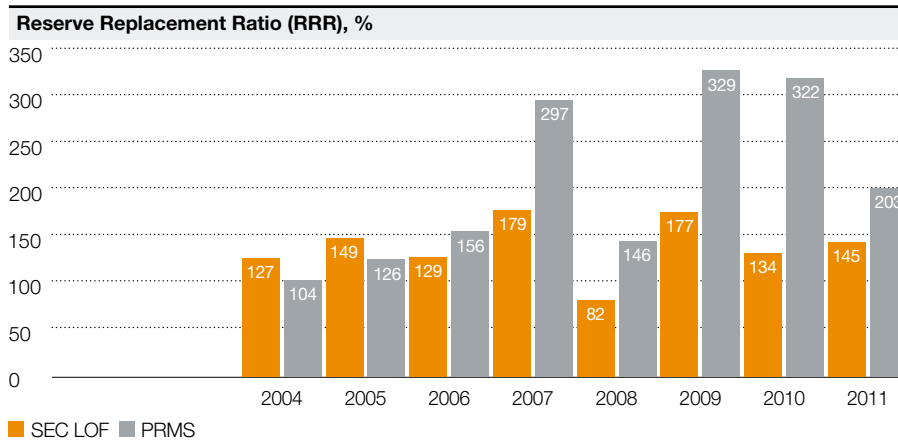
TNK-BP's resource base by region

3P reserves as of 31 December 2011, PRMS criteria.



*Including Rospan and 50% of Messoyakha

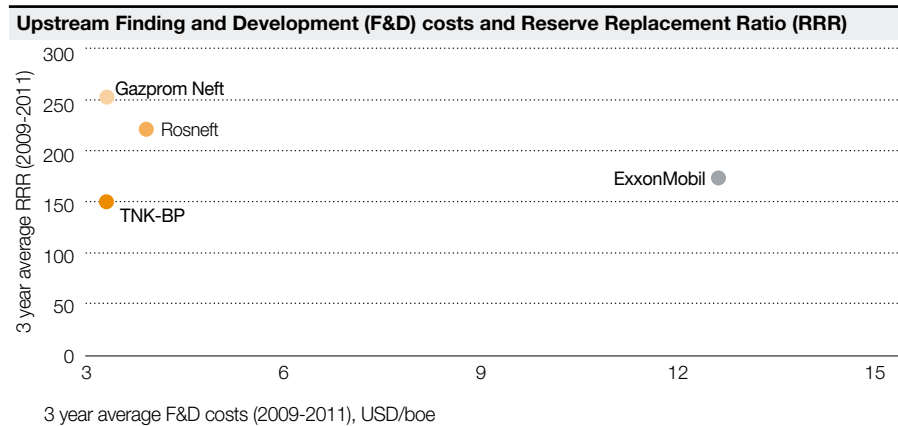
Exploration and reserve replacement



Our average reserve replacement ratio for 8 years on the SEC LOF basis amounted to 141% which is a world-class achievement.

An agreement on the transportation of gas from Rospan International's fields has laid the foundations for a substantial increase in natural gas production over the next 10 years (please see the chapter on CJSC Rospan International on page 54). This has enabled the Company to increase its aggregate proved gas reserves in Russia to 2.9 bn boe, according to PRMS criteria.

Most importantly, we have replaced our reserves on commercially attractive terms. TNK-BP's average finding and development costs are USD 4.4 per barrel of aggregate proved reserves (SEC LOF) – one of the best results in the industry. Efficient management of exploration costs has been achieved through the optimization of seismic work, a high success rate in exploratory drilling, and competitive selection of contractors and service suppliers.



Competitive finding and development costs and reserve replacement ratio.

Source: Company reports, TNK-BP data, Reserve Replacement Ratio (RRR) based on SEC LOF reserve data

Technologies behind our exploration success

TNK-BP leads the field in Russia in the application of seismic technology. Between 2007 and 2011, we acquired 2D and 3D seismic data covering 18,153 linear km and 14,792 sq. km, respectively. 3D seismic survey data helps create three-dimensional models of fields which, in turn, help to define more accurately the optimum locations for new wells and to enhance their efficiency.

In 2011, we carried out 3D seismic surveys in Orenburg, the Yamalo-Nenets autonomous region, the Verkhnechonskoye field in East Siberia, the Samotlor field in West Siberia and the Uvat Group of fields in the south of the Tyumen region. The results from the Verkhnechonskoye field were particularly successful, helping to substantially update the geological model of the field and increase the average flow-rate. Thanks to the implemented 3D seismic survey, we found promising new structures at new license areas in the Orenburg region.

The effectiveness of the Company's seismic survey work was due not only to the number of acquisition sites, but also to the quality of processing and interpretation of the data acquired. Seismic data is processed in two dedicated centers operated by Western Geco and CGG-Veritas, and 80% of all interpretation work is carried out at the Tyumen Petroleum Research Center (TNNTs).

The information obtained from the processing and interpretation of seismic data forms part of a database containing visual information on complex geological structures and hydrocarbon accumulations, to aid analysis and project decisions at the Company's fields.

TNK-BP is proud of a number of important achievements in 2011:

- A 450% increase in 3D seismic density, resulting in a major improvement in the accuracy of geological modeling

- Application of high-productivity vibro-seismic techniques (HPVA) for dense high-resolution surveys based on GPS systems, enabling high-quality, high-resolution imaging throughout the target depth range
- Application of digital wave field modeling when designing 3D surveys for highly complex structures such as the Russkoye oil field, helping the Company to optimize 3D seismic operations and cut exploration costs
- Application of advanced 3D seismic interpretation (seismic inversion) techniques, helping to obtain data on the geology and reservoir properties of oil and gas fields.

Tyumen Petroleum Research Center – TNK-BP's research hub

TNK-BP established the Tyumen Petroleum Research Center (TNNts) – its Upstream science and technology center – in November 2000, to perform research and design work in exploration and reservoir development. Since 2003, TNNts has worked on over 100 oil and gas fields in West Siberia (Khanty-Mansiysk Autonomous District, YaNAO, Tyumen region), East Siberia (Irkutsk region) and Volga-Urals (Orenburg region).

Over the past decade, TNNts has become the leading corporate scientific and technological research center for Russia's oil industry: a uniquely well-equipped base for modern laboratory research and reservoir fluid analysis. TNNts's Core Storage holds about 97,000 linear meters of rock samples that contain information about dozens of fields in the Volga-Urals region and West and East Siberia.

Strategic lines of activity at TNNts include:

- Developing and supporting programs on exploration work related to prospecting and exploration for new oil and gas deposits
- Interpreting 2D and 3D seismic data, including application of new technologies such as seismic inversion
- Designing and supporting greenfield and brownfield reservoir development (and operation), including modeling, reserves estimation and recovery factor feasibility studies
- Ensuring the safe storage of core samples recovered from wells of TNK-BP Group companies, along with studies of those samples and of reservoir fluids and crude oil
- Maintaining the balance of hydrocarbon reserves in relation to individual enterprises and the Group as a whole; preparing materials for international reserve audits
- Monitoring the resource base: building and supporting databases of geological, geophysical and field information, including seismic studies archives

- Performing integrated design (optimization of infrastructure) for oil and gas fields
- Executing more than 90% of work on reservoir development at TNK-BP major fields
- Monitoring and advising on removal of risks in oil production, reserves replacement, hydraulic fracturing, APG utilization and environmental protection
- Making plans for reserves progression for the next five years
- Supporting operators throughout the entire field development process cycle.

TNNts – team and highlights:

- Specialists – 638, including 31 internationally qualified experts in reservoir engineering, seismic, and modeling, 2 doctors of sciences and 47 science graduates, 190 members of scientific societies including the Russian Academy of Natural Sciences, Society of Petroleum Engineers (SPE), and the European Association of Geophysicists and Engineers (EAGE)
- Awards – 35 TNNts employees have won awards:
 - Letter of Gratitude (Ministry of Energy) – 12 people
 - Certificate of Merit (Ministry of Energy) – 10 people
 - Letter of Gratitude (Tyumen Region Governor) – 7 people
 - Certificate of Merit (Tyumen Region Governor) – 4 people
 - Letter of Acknowledgement (Tyumen Region Governor) – 2 people.
- Co-operation with universities:
 - 45 interns work in TNNts every year
 - Over 80 students are contracted to work part-time to acquire practical experience. Target programs involve overseas educational institutions, such as Heriot-Watt in Scotland and Royal Holloway in England.
 - In 2011, TNNts hired nine graduates – there are currently 88, in total, working at TNNts.

Achievements in 2011:

- 21 reserve estimation documents completed for 15 fields
- 3D seismic interpretation completed – 3.7 th. sq. km; 2D – 7.3 th. linear m
- 88 geological and simulation models for reservoir management built and updated
- Models built (geological, PVT, simulation) for Rospan gas for the first time
- A team set up to support assets in Vietnam, including work to improve the Lan Tay geological model
- Central Development Commission under the Ministry of Energy approved 31 technological design documents for reservoir development and 24 papers on the oil recovery factor and reserve appraisal
- New petrophysical models for Urnenskoye, Ust-Tegusskoye, Tyamkinskoe, Samotlor, Suzunskoye fields built and implemented
- 10 comprehensive projects (Deep Dive) on Western Siberia and South East Division supervised and supported.

Plans for 2012:

- Organize regular monitoring and support of reservoir development
- Improve reservoir modeling
- Ensure improvement of model reliability and data quality
- Improve quality of design documents, minimize license risks
- Organize expert support of subsidiaries on all aspects of geology and reservoir engineering
- Develop new simulation technologies for giant fields
- Increase specialists' competence, ensure staff development.

Oil and gas production

Upstream is the Company's business stream, responsible for hydrocarbon production. TNK-BP's strategic goal in this area is to safely recover and develop new reserves in the most efficient manner, improving the oil recovery factor, while leveraging the entire resource potential of fields at the development stage.

Upstream also focuses on developing the Company's gas business, and oversees associated petroleum gas utilization projects, preparing for the full development of the Rospan fields and, in the long term, developing gas caps for oil fields.

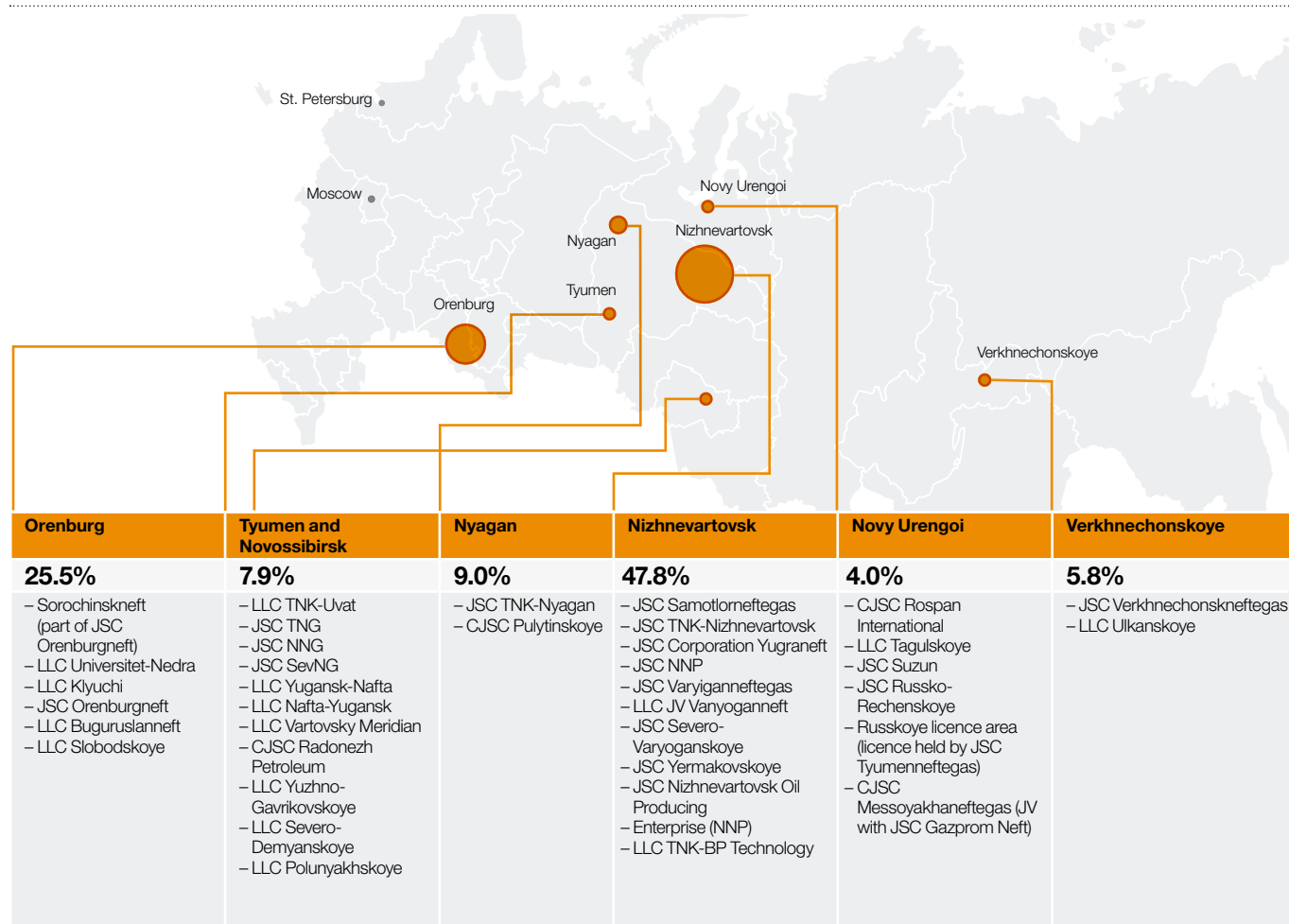
Upstream operates according to the principle of continuous improvement in the quality of planning throughout the life cycle of an entire field. We strive to improve our governance of investment in production assets, and to develop and optimize management systems and staff capabilities.

Developing organizational capability in Upstream in 2011:

1. Staff Development Networks (SDN) are active in three key disciplines: Drilling, Wellwork, Reservoir Engineering
2. External company NEXT, a Schlumberger subsidiary, assessed the competencies of employees in the geology function. Based on the assessment findings we have prepared a pilot development program
3. Target programs are underway for young specialists in Wellwork, and we are launching programs also for young specialists in Reservoir Engineering and Capital Construction
4. We have implemented a new version of the Major Projects Academy curriculum and enrolled a second stream of students
5. We optimized the headcount at our production subsidiaries, and recruitment plans for Capital Construction and Rospan are in hand
6. In 2011, we introduced a comprehensive program for the promotion of a continuous improvement culture: about 1,400 performance improvement proposals were registered during the year. Work is underway to create a single project (initiative) information exchange portal.

Principal upstream assets in Russia

In 2011, hydrocarbon production of consolidated subsidiaries in Russia equaled 650.2 mln boe



Note: % shows contribution of consolidated subsidiaries in Russia to the total hydrocarbon production

TNK-BP had 215 licenses in 2011.

To sustain our business into the future, we work continuously to ensure that licenses for areas already under development can be extended. With 12 licenses extended during the year, more than 57% of our licenses now cover the period 2031 to 2077.

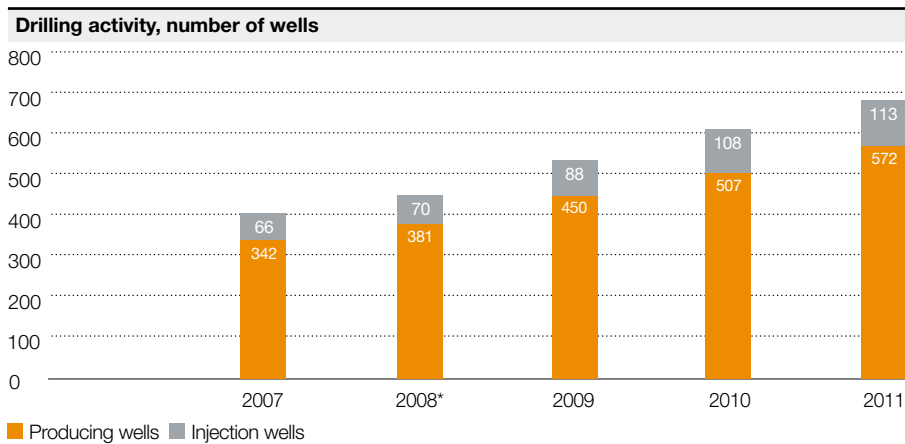
Meanwhile, the Company has also continued to acquire new licenses through the tender process, as a result of discovering new reserves and inorganic activities. Overall, of nine licenses acquired in 2011 in the Orenburg region, five are expected to be brought on stream between 2013 and 2015.

In 2011, oil and gas production of consolidated subsidiaries reached 1.781 mln mmb/d – the highest level since the Company was established in 2003. Production in Russia grew by 2.3% compared to 2010 – excluding affiliates – thanks to build-up in greenfield production in the Uvat Group of West Siberia and the Verkhnechonskoye field in East Siberia, along with continued production growth in the Orenburg region.

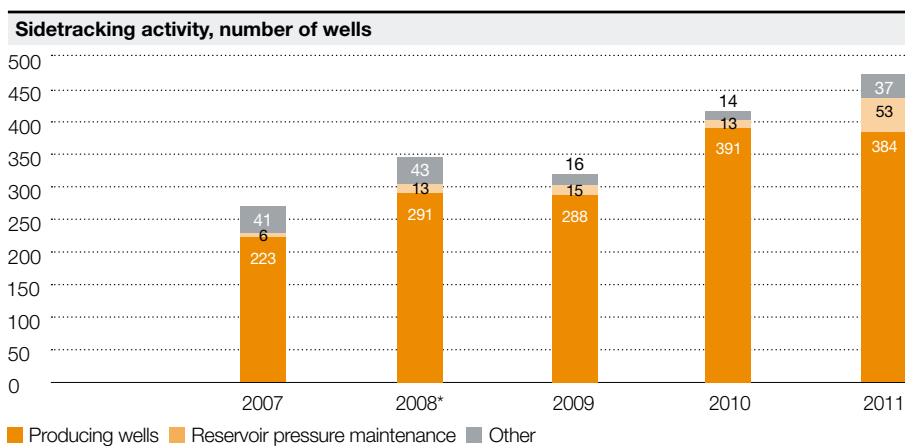
Oil, natural gas liquids (NGL) and condensate production (liquids) amounted to 1.546 mmb/d (about 75 mln tons), while gas sales grew by 9.5%, reaching 14.1 bcm, primarily thanks to increased production at the Rospan International field (please see the article about Rospan International on page 54).

At 31 December 2011, the Company's operational well stock consisted of 30,134 wells, of which 21,006 were producing wells and 8,366 were injection wells. As a result of drilling activities in 2011, 616 new producing wells were brought on stream (as against 557 in 2010).

The Company's average oil well rate is 98 b/d (13 tons/d). It includes an average well rate for greenfields of 821 b/d (109 tons/d) and an average rate of West Siberia and Orenburg brownfields of 65 b/d (9 tons/d) and 212 b/d (28 tons/d) respectively. TNK-BP seeks to maintain well rates through the use of water flooding systems and sidetracking.



◁ In 2011, we drilled 68% more wells than five years ago due to increased greenfield drilling, incremental drilling at Samotlor and Kamennoye fields and in the Orenburg region. Exploration drilling averaged 40 wells per year except for reduced volumes in 2009-2010 impacted by the global financial crisis.



◁ In 2011, sidetracking increased by 75.5% as compared to 2007 due to incremental activities in West Siberia and additional sidetracking of injection wells.

Oil industry – taxation

The success of our operations in existing fields and in greenfield projects depends to a large extent on the tax system creating a supportive economic environment for investment in the development of reserves of various complexity.

The key industry taxes are the Mineral Extraction Tax (MET) and customs duties that are calculated on the basis of oil prices. The MET and customs duties account for 82% of marginal taxation on crude oil exports.

TNK-BP is an active participant in the working group, under the Russian Ministry of Energy, that develops the key parameters for a new tax system.

The proposed new system includes, in particular: a lower customs duty rate for crude oil exports; alignment of customs duty rates for light and dark oil product exports; retention of MET in respect of old license areas; and transition to a profit-based taxation.

The Russian Government has decided to use a phased transition to the new oil industry taxation principles.

Phase 1: introduction of the '60-66' tax regime (in effect from October 2011 – see below)

Phase 2: transition to a profit-based taxation:

- Introduce a new oil production tax for new fields
- Reduce the crude oil export duty rate
- Reduce the MET rate.

The '60-66' tax regime provides for reduction of the maximum crude export duty rate from 65% to 60% and alignment of oil products export duty rates at 66% of the crude export duty rate, except for marketable and straight-run gasolines which are subject to a rate equal to 90% of the crude export duty rate. This measure aims to protect the Russian domestic market. To encourage deeper oil refining in the Russian Federation, from 2015 it has been announced that the

fuel oil duty rate is expected to equal the crude duty rate.

The economic effect of the '60-66' tax regime is expected to be temporary, lasting for the first three years only as the benefits will be offset by increasing MET rates, tariffs and inflation. After that, a further crude oil export duty rate reduction to 55% will be required to sustain production at West Siberian brownfields.

The new taxation system aims to not only retain but even increase government revenues generated by the oil industry. At the same time, the new taxation system will create an economic environment that will encourage oil companies to actively invest in the development of capital-intensive greenfield projects and apply cutting-edge and highly effective production maintenance technologies at the existing fields, at the same time promoting investment in oil product quality improvements.

Oil product duty rates (approved by Russian Government Resolution No. 716 dated 26 August 2011):		
Item	Coefficient (K)	
	1 October 2011 through 31 December 2014	From 1 January 2015
	Straight-run gasolines	0.90
Light distillates medium distillates, diesel fuel	0.66	0.66
Commercial gasolines	0.90	0.90
Benzene	0.66	0.66
Toluene	0.66	0.66
Xylenes	0.66	0.66
Fuel oil	0.66	1
Lubricating oils; other oils	0.66	1
Waste oil products	0.66	1
Vaseline and paraffin, except for:	0.66	1
Raw stock	0	0
Other stock	0	0
Oil coke and oil bitumen, except for:	0.66	1
Calcinated oil coke	0	0

According to the Customs Tariff Law, the export duty is set by the Russian Government based on the average world price of the Urals blend oil during the last monitoring period and is in effect from the 1st of the next month following the monitoring period. The monitoring period is one month from the 15th of each month to the 14th of the next month. The crude duty rate (in USD/ton) is determined every month according to the following formula: $29.2 + 60\% \times (\text{Oil price} - 182.5)$ when the oil price equals or exceeds USD 182.5 per ton.

Oil product excises

The following applies in relation to gasolines and diesel fuel:

- excise rates are set on a semi-annual basis: from 1 January through 30 June 2012 the rates remain at the level set in the Russian Tax Code for 2012 (a temporary price stabilization measure); from 1 July through 31 December 2012, the rates will be indexed for inflation (see table below)
- excise rates will be differentiated between Classes 4* and 5, with Class 4 becoming subject to higher rates in the second half of 2012 (at present, Classes 4 and 5 are subject to a uniform excise rate).

In relation to straight-run gasoline and motor oils, excise rates will not change as compared to the Russian Tax Code values in 2012-2013.

Excise rates (RUR/ton)				
Excisable goods	1 Jan 2012 – 30 Jun 2012	1 Jul 2012 – 31 Dec 2012	2013	2014
Auto gasoline Class 2	7,725	8,225	10,100	11,110
Auto gasoline Class 3	7,382	7,882	9,750	10,725
Auto gasoline Class 4	6,822	6,822	8,560	9,416
Auto gasoline Class 5	6,822	5,143	5,143	5,657

*Russian Classes 4 and 5 comply with Euro-4 and Euro-5 grades correspondingly

Oil and gas production

Change in natural gas and gas condensate MET rates

MET rates applicable to natural gas and gas condensate were changed with effect from 1 January 2012.

Natural gas – MET rates were differentiated by taxpayer category:

- the rates were substantially increased for Gazprom and for entities held more than 50% by Gazprom

- MET rates were increased at a lower rate for independent gas producers outside the Gazprom system.

Gas condensate – The *ad valorem* MET rate of 17.5% of the produced hydrocarbons value were replaced with a fixed rate in roubles per ton, which resulted in a reduced level of taxation on the gas condensate produced at TNK-BP fields.

MET rates for gas and gas condensate			
Feedstock	2012	2013	2014
Flammable natural gas (RUR/mcm): for Gazprom	509	582	622
for entities less than 50% held by Gazprom*	$509 \times 0.493 = 251$ $582 \times 0.455 = 265$ $622 \times 0.447 = 278$		
Gas condensate (RUR/ton):	556	590	647

* The level of MET for entities less than 50% held by Gazprom is still being discussed by the government.

Changes in rates of insurance contributions to the Pension Fund, Social and Health Insurance Funds

With effect from 1 January 2012, the overall insurance contributions rate was formally reduced from 34% to 30% with, however, an

additional rate of 10% on any income exceeding RUR 512 thousand in 2012. Any change in the insurance contributions rates will primarily impact high-income industries, including the oil industry.

Insurance contribution rates in 2012 – 2013			
Taxable income amount	Pension Fund	Social	Health
		Insurance Fund	Insurance Fund
Up to RUR 512,000	22%	2.9%	5.1%
Above RUR 512,000	10%	0	0

Pension Fund contributions are payable on income earned by foreign individuals temporarily working in the Russian Federation – whether on perpetual employment contracts or on employment contracts of six months or more in duration – other than ‘highly qualified specialists’. The law defines a highly qualified specialist as a person earning more than RUR 2 million a year.

Beneficial rates of the profit tax for entities based in the Khanty-Mansiisk (KhMAO) autonomous region

With effect from 2012, KhMAO-based hydrocarbon producers enjoy the following reduced rates for the corporate profit tax:

- 14% – if the previous year’s amount of investment in fixed assets and E&A costs exceeds 50% of the amount of investment made over the two years preceding the previous year. For example, the benefit will be available in 2012 if the amount of 2011 investment exceeds 50% of the investment made over 2010 and 2009
- 15% – if the monetary amount of the beneficial profit tax rate does not exceed 10% of the investments made in the region in the same period.

**Tax benefits in the Irkutsk region
(profit tax and property tax)**

Profit tax benefits are granted to fossil energy producers whose:

- operating revenues from their main activities account for more than 80%

- amount of previous year's investment in fixed assets exceeds RUR 4 bn
- tax situation shows no outstanding liabilities
- fixed assets are accounted for separately in respect of each area of operations, as follows:

Benefit amount, %	Beneficial rate	Cost of newly commissioned fixed assets/total value of fixed assets (based on previous year data)
1%	17%	5% to 10%
2.5%	15.5%	10% to 15%
4%	14%	15% to 40%
4.5%	13.5%	above 40%

Property tax benefits are granted to fossil energy producers whose operating revenues from their main activities account for over

70% of the total revenue, and no tax liability is outstanding, as follows:

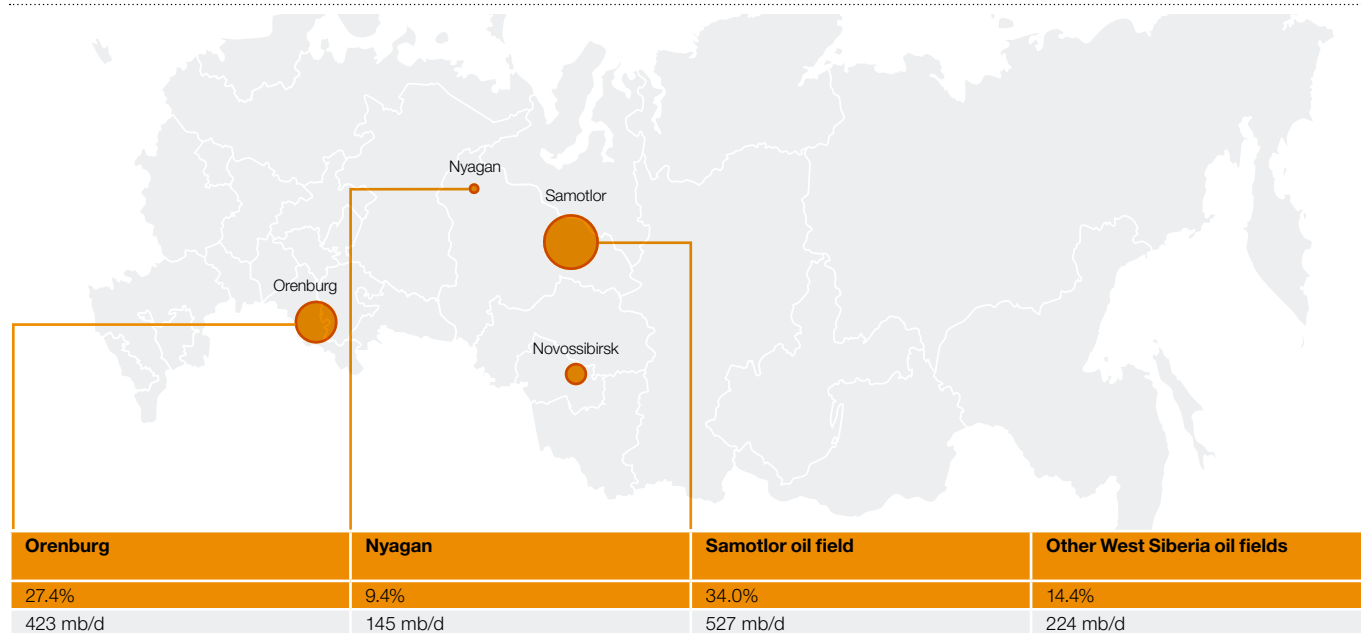
Cost of newly commissioned, reconstructed and upgraded fixed assets (over a year)	Beneficial rate, %	Effective period
Over RUR 10 mln	0.55%	FA commissioning year
Over RUR 50 mln	0.55%	FA commissioning year
	1.1%	1 year after FA commissioning
Over RUR 100 mln	0.55%	FA commissioning year
	1.1%	2 years after FA commissioning

Brownfield production

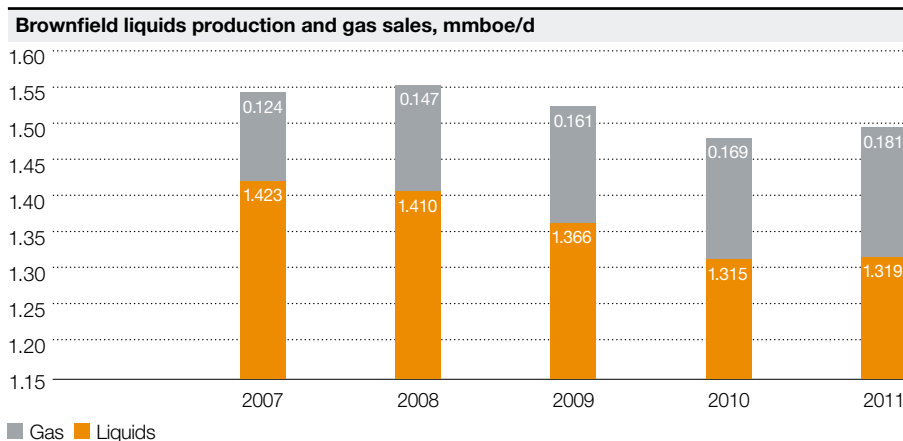
The Company operates brownfields in West Siberia and the Orenburg region in the Volga-Urals region.

In 2011, TNK-BP brownfields produced approximately 1.319 mmb/d of liquid hydrocarbons – 86% of the Company’s total liquids production. The Company’s strategic goal is to maintain the level of brownfield production and extract the remaining reserves in the most efficient manner, using the best and safest technologies.

TNK-BP’s brownfield liquids production in Russia



Note: % shows contribution to the total liquids production in 2011



Note: In 2011, brownfield production included output from the Kamennoye oil field (approximately 59 mb/d) which in prior years had been accounted for in greenfield production

Oil and gas production at our brownfield assets reduced by 7% over five years. Natural decline of the mature oil production was partially offset by incremental gas volumes.

West Siberia History in brief

West Siberia is a unique region containing both oil and gas reserves, with a resource potential comparable only to the vast fields of Saudi Arabia. Around 500 oil, oil-and-gas and oil-and-gas condensate fields have been discovered in West Siberia, constituting 73% of Russia's current proved oil reserves. Over a period of less than 30 years, almost 6 bn tons of oil have been produced in West Siberia – 45% of Russian cumulative production.

The first reserves were discovered in the region in the early 1960s. The major discovery in West Siberia – Samotlor, one of the world's five major fields – was in 1965. Its recoverable reserves are approximately 14 bn bbl.

The first producing well was drilled in Samotlor in 1969 and, in less than eight months, production at the field had reached 5 mln tons. Samotlor reached peak production of 158.9 mln tons per year in 1980, only 11 years after its discovery.

In 1981, Samotlor produced its billionth ton of oil. Over the following years, Samotlor wells were yielding up to one million tons per day: at the time, the field accounted for half of all Russian oil production.

West Siberian oil production grew from 1964 to 1988, when it peaked at 415 mln tons (including condensate).

Between 1989 and 1992, the difficult economic situation in the country led to regional production falling by more than 150 mln tons. Nevertheless, West Siberia remained the leading Russian province, in terms of annual oil production; and in 2000, when the national economy stabilised, the revival of the Russian oil industry started to create opportunities for full-scale investments.

Overview of brownfield production in West Siberia

The Company is developing 48 license areas in the Khanty-Mansiysk autonomous region, and in the Tyumen Region. The main fields under development are Samotlor, Van-Yogan, Verkhnekolik-Yogan, Khokhryakovskoye, Em-Yogovskoye, Talinskoye and Kamennoye.

In 2011, West Siberia's share of brownfield production amounted to 326.8 mln bbl (0.895 mmb/d or 43 mln tons), approximately 60% of the Company's total production of liquid hydrocarbons. That level of liquids production in the West Siberian brownfields was, nevertheless, a decrease of 6.6% on 2010 figures, caused by a natural production decline in depleted fields.

Sales of associated petroleum gas (APG) produced in West Siberian brownfields amounted to 9 bcm, or 64% of the Company's total gas sales – an increase of 4.8% compared to 2010, owing to the expansion of APG utilisation capacities in the region.

West Siberian brownfields offer considerable resources, with some 21.3 bn bbl of PRMS 3P reserves (proved, probable and possible reserves according to PRMS criteria). It remains TNK-BP's strategic goal to continue exploration in the region and test innovative technologies to improve the brownfield oil recovery factor and develop complicated reservoirs.

As part of 2011 exploration activities, the Company drilled four wells and carried out 3D seismic surveying over an area of 376 sq. km. In 2012, the plan is to drill three exploratory wells and carry out 3D seismic surveys over 130 sq. km in preparation for future development.

In the medium term, TNK-BP intends to maintain stable hydrocarbon production in West Siberia, compensating for the decrease in natural oil production from depleted fields by technology application, developing additional reserves and building up gas sales.

Water flood management – the key to maintaining brownfield production in West Siberia

We maintain production levels at our brownfields in West Siberia by effective water flood management. Around 95% of West Siberian production is maintained by water flooding which helped bring about a 4% reduction in the base rate of decline in production from West Siberian fields in 2011. The Company maintains an injection well stock of approximately 5,100 wells, and a production well stock of 13,700 wells.

The main areas in which water flooding is used to maintain production are as follows:

- Improvement of water injection efficiency by optimising the current reservoir pressure maintenance system, coupled with targeted activities aimed at redistributing injection and improving injectant efficiency
- Development of a reservoir pressure maintenance system, which involves commissioning new injectors and creating flood starting points for maintaining production in sections of the reservoir with new drilling, sidetracking and wellwork

- Development of injection analysis and performance technology.

How does TNK-BP manage water flooding?

- The wells are organized into ‘patterns’ in which the number of injection wells is optimized in relation to the number of producing wells
- The optimal injection rate is determined for each injection well in the pattern
- Each element of the pattern is monitored and continuously reviewed. If required, intervention plans are developed to optimize the pattern. These activities can include the conversion of producers into injectors, recompletion of producers, sidetracking of wells and various production enhancement activities.

TNK-BP understands that the accurate selection of water flooding technologies is key to the success of its activities. In 2011, water flooding technology development activities included:

- Selecting water injection techniques
- Drilling of horizontal injectors using sidetracking technology
- Equalizers to manage well response (these devices ensure an even rate of water injection into the reservoir)
- Dual injection
- Tandem systems for down-hole water injection from the water-bearing to the oil-bearing bed
- Use of stream line modeling to ensure that injection water is being targeted to the unswept zones (which are not yet part of the water injection procedures)
- Using tertiary recovery methods to manage water inflow – which include injecting chemical agents and polymers to clog pores and cause water to flow in the required manner – in order to optimize production (non-stationary injection, redistribution of filtration flows, Bright Water™ nanotechnology).

West Siberian associated petroleum gas utilization projects

In 2011, TNK-BP implemented associated petroleum gas (APG) utilization projects in two areas in West Siberia. APG was used to generate on-site electricity, while other APG volumes were supplied to gas processing plants in the Nyagan and Nizhnevartovsk areas (please see page 81).

APG utilization in West Siberia brownfields reached 90% in 2011 – 20% above the 2007 level.

In 2011, the Company commissioned Phase 1 of a gas turbine power plant (GTPP) in the Kamennoye oil field, which has an aggregate installed capacity of 24 MW. In the Nizhnevartovsk region we started expanding the gas pipeline to transport gas volumes from the Bakhilovskaya Group of fields and utilization of the treated associated gas at the Verkhnekolik-Yeganskoye oil field. We plan to commission these facilities during 2012.

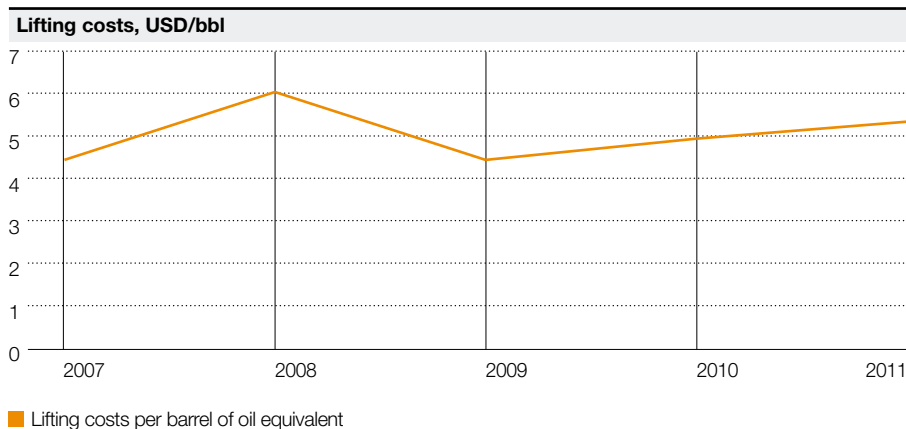
Thanks to the optimization of technical maintenance periods and the expansion of gas transportation and gas processing facilities, TNK-BP also increased APG supplies to the Belozerny and Nizhnevartovsk gas processing plants (GPPs) operated by JV Yugragazpererabotka (YuGP) – a joint venture with the Sibur petrochemical Company.

Cost management

Efficient cost management is key to the successful development of TNK-BP's business, both in regions where the Company currently has a presence and with regard to new projects. Cost management comprises several critical elements, such as the implementation of an integrated energy efficiency program, optimization of all production processes, a specific set of qualification requirements for investment, and strict control over expenditure. In 2011, an overall cost reduction in upstream amounted to USD 129 mln.

In addition to one-off initiatives at the subsidiary level, in 2011 we made a successful start to a program of cost management in Upstream which includes the following elements:

- Improvement of the performance of artificial lifts:
 - Energy-efficient design
 - Optimization of electric submersible pumps parameters: voltages, pressures, depths and capacity
- Water shut-offs
- Suspension of uneconomic wells with high water cuts
- Reduction in inefficient water injection
- Infrastructure re-engineering and decommissioning of loss-making facilities
- Continuous improvement in the efficiency of well interventions, sidetracking and drilling (in co-operation with contractors)
- Associated petroleum gas utilization projects
- Development of captive power generation.



Lifting costs growth was primarily driven by foreign exchange rate differences and rouble costs inflation, in particular electricity tariffs more than doubling over the 5-year period.

Starting 2009, that was partly curbed by efficiency improvement measures, with actual cost growth lower than the inflationary trend.

Maintaining production at Samotlor

Liquids production at Samotlor amounted to 527 mb/d in 2011 – a 34% share in the total production of liquid hydrocarbons. The field remains the largest asset in TNK-BP's portfolio with 7.74 bn boe of 3P (proved, probable and possible) reserves according to PRMS criteria.

Nevertheless, over the past five years, production at Samotlor has decreased due to natural depletion (current reserve depletion exceeds 70%) and the field has seen an increase in the percentage of hard-to-recover reserves. The Company's strategic goal with regard to the development of the Samotlor field is to stabilize production, while arresting, as far as possible, the natural depletion process.

In light of the increase in the percentage of hard-to-recover reserves, optimization of the development system and an improvement in the efficiency of oil production are

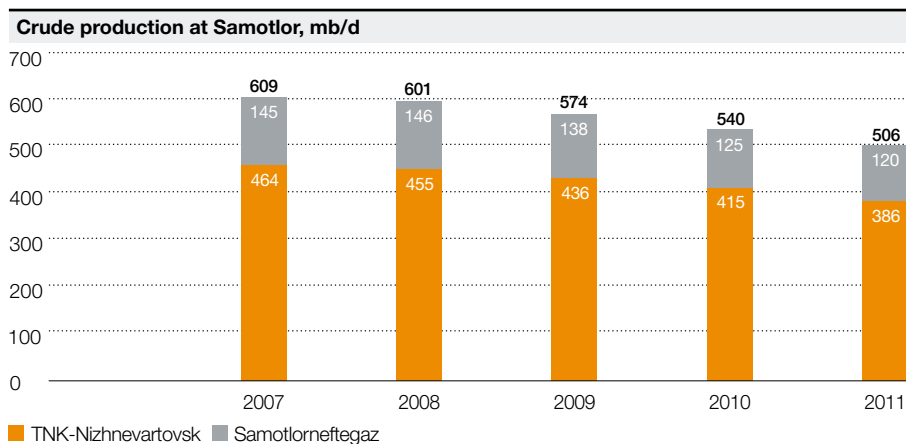
increasingly becoming the Company's strategic priorities, along with a reduction in associated water production, the use of new technologies on hard-to-recover reserves and greater efficiency in energy consumption.

In 2011, OJSC Samotlorneftegaz continued to deploy selective isolation technologies to shut off produced water, thereby improving the economics of reservoir developments. Successful water shut-off operations helped to reduce flow rates in some cases by 5 to 10 times. Pilot tests were carried out on the latest water shut-off technologies, employing high-molecular polymer compositions and thin-dispersal molecular cement in remedial cementing jobs. Over 200 water shut-off and remedial cementing operations were performed in 2011 and this is set to rise to between 300 and 350 operations in 2012.

The shallow Ryabchik formation is a potential target for future development, though it has

very challenging reservoir properties. The peripheral segments of the Samotlor field are being actively drilled and infill drilling is underway. Modern technologies are being used to tap previously untouched segments: horizontal drilling, hydraulic fracturing in horizontal wells, sidetrack drilling, alternating water-gas and biopolymer reservoir treatment, and creation of 3D geological and reservoir simulation models. To maintain the required level of oil production over 60 new wells are already being brought on stream every year and around 200 sidetracks are being drilled.

In 2011, over 40 new technology projects were carried out at the Samotlor oil field, some of them for the first time in Russia. Our continuing application of innovations is a priority focus for the future efficient development of Samotlor.



Over five years crude oil production at Samotlor decreased by 17%.

Innovative solutions for development at Samotlor

In 2011, we implemented a series of new technical solutions at Samotlor:

- Continuing the drilling of horizontal wells and sidetracks to create a network of horizontal injection wells to improve waterflood performance. To date, about 100 horizontal injectors, including newly drilled wells and sidetracks, have been implemented, with 40 wells drilled in 2011;
- Implementation of T-Navigator software that plans and monitors the efficiency of well transfer to injection, based on sector 3D modeling
- Testing of technology for multi-stage hydrofracture in horizontal wells of different profiles
- The 'Asset of the Future' program (automated solutions for field operations) being implemented at Samotlor – target 100% coverage of the oil field by a production data surveillance system
- Dual completion wells producing from multiple zones
- Skin frack
- Tracer studies
- Bright Water™ injection.

The Company believes that the continuing development and roll-out of these technologies will allow it to further improve the efficient recovery of the remaining reserves at Samotlor and, in particular, start efficient development of the significant Ryabchik shallow accumulation.

Nyagan brownfield development

The Company is currently involved in the development of eight licensed areas around the city of Nyagan, in the south-west of the Khanty-Mansiysk autonomous region. The Kamennoye, Talinskoye and Em-Yogovskoye fields are the largest in the area, forming the so-called Krasnoleninskaya field Group. In addition, four licenses in the Republic of Komi and the Nenetsky Autonomous District are in the appraisal stage.

The PRMS 3P (proven, probable and possible) reserves of the TNK-BP fields in Nyagan are estimated at 7.84 bn boe, of which the 3P reserves of the Kamennoye field make up 2.49 bn boe.

In 2011, liquids production in Nyagan fields totaled 145 mb/d (7.0 mln tons) or 9.4% of our total liquids output. That output remained flat at the previous year's level, with a decline in the Em-Egovskoye field offset by production growth in the Kamennoye field.

In 2011, our team in Nyagan put 206 wells on-stream, including 162 wells within the Kamennoye license and 44 wells within the Em-Egovskoye license.

Advanced efficient technologies are key to successfully developing the significant remaining reserves in Nyagan. In 2011, well completions in the Kamennoye oil field successfully employed Slugs Fracturing technology, which rules out fracture breakout into the underlying aquifer. A successful multi-stage frac job carried out in the horizontal holes of the Em-Egovskoye

license used IsoJet coil tubing. In 2011, the TNK-Nyagan workforce undertook a joint project with the Tyumen Petroleum Research Center (see page 24) to improve the waterflood system within those areas of the Kamennoye license where production is already underway. Base production decline has been reduced (to 18.3% a year) with the resulting production savings exceeding 130 th. tons. Similar actions were also taken in the Talinskoe field.

APG utilization at Nyagan in 2011 was 0.922 bcm, some of which was supplied to the Krasnoleninsky gas processing plant. In late 2010, TNK-BP reached agreement with Sibur over the incorporation of the Krasnoleninsky gas processing plant into JV Yugragazpererabotka, which will allow it to increase APG supplies for processing.

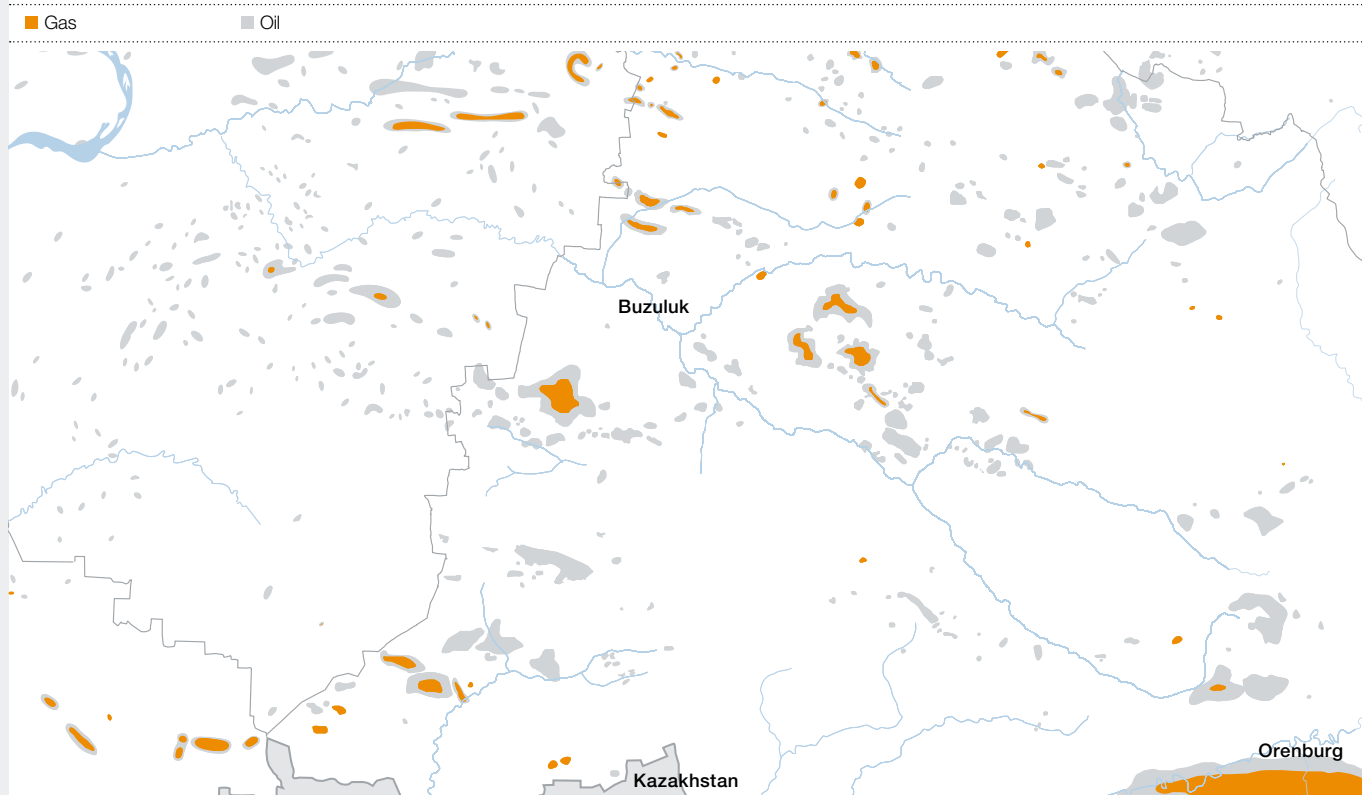
Another promising area for APG utilization is the construction of a gas turbine power plant at the Kamennoye field. The installed capacity of the first stage of the Kamennoye GTPP is 24 MW. The launch of the first stage of the power plant took place in December 2011. The project also envisages construction of a second stage of the power plant with a capacity of 48 MW, planned for commissioning in 2012. These activities will enable the Company to achieve an APG utilisation rate of at least 95%, which is in compliance with regulatory requirements. The APG utilisation rate at Nyagan was 81.49% in 2011.

Working wonders at Orenburg

We take pride in the results achieved in Orenburg. TNK-BP's brownfields in the area have consistently demonstrated outstanding performance, proving that the Company has adopted the right approach to field development. Our mature assets in Orenburg have consistently shown record high growth rates for brownfields, and over the period 2007 to 2011 our output in the region increased by 20.9%.

TNK-BP's strategic goal in this region is to sustain hydrocarbon production growth through the targeted use of efficient technologies and the acquisition of licenses in the region and adjacent areas, as well as to develop our comprehensive gas business.

Orenburg region showing TNK-BP's assets



History of oil production in the Orenburg region

25 July 1937

Buguruslan field Well No. 1, drilled to a depth of 285 meters in an eastern suburb of Buguruslan provides the first flow of oil in the Orenburg region, thereby launching commercial oil production in the region.

5 November 1937

The first train carrying Orenburg oil departs Buguruslan railway station.

19 February 1963

The Orenburneft oil production company is established.

March 1976

13 years later, the one hundred-millionth tonne of Orenburg oil is produced.

1978

An oil production level of 13.1 mln tons is achieved in the Orenburg region.

September 2000

TNK takes over ownership of Orenburneft.

29 August 2003

TNK-BP announces that it is commencing operations in the region, as TNK production assets in the Orenburg region are incorporated into TNK-BP.

Brownfield production

Working wonders at Orenburg

Resource base potential and the transition of reserves into production

Operations in the Orenburg region are maintained by 2 producing units – Orenburgneft and Buguruslanneft – and production is carried out in 18 districts.

In 2011, TNK-BP production subsidiaries recorded 124 license areas across 108 fields on their balance sheets. PRMS 3P reserves contained in Orenburg assets amounted to 3.42 bn boe.

In 2011, we continued to implement an active exploration program, investing USD 114 mln. We completed 13 wells in the course of the exploration program, nine of which came to be productive (four wells were brought on-stream) with an exploration success rate of 64%. In addition, the Company covered 2,167 sq. km with 3D seismic surveys.

Also in 2011, intense wildcat drilling took place within license areas located in the Saratov and Samara regions.

In the Samara region, exploration work has been completed within the Peshkovskaya license. Four wildcat wells have been drilled in total, adding 494 th. tons in C1+C2 reserves. Another wildcat well completed in the Bugrinskiy area added 222 th. tons in C1 reserves. 3D seismic work covering 315 sq. km was completed within the Slobodskoy license.

In the Saratov region, we completed a well within the Kulikovskiy license area where testing showed commercial flows of gas and condensate.

We also continued intensive inorganic growth of our resource base in the Orenburg region. In 2011, nine licenses located in the Orenburg region were acquired at auction, adding 283 mln boe in resources.

In 2011, the Company received a government certificate testifying to the Taraschanskoe field discovery within the Vostochno-Radovskiy license.

We shall be able to put new license acquisitions on-stream quickly, and with minimal expense, thanks to their proximity to existing infrastructure.

Consistent improvement of the resource base, coupled with existing developed infrastructure, helps TNK-BP maintain record rates of production growth in its fields in Orenburg. In 2011, our liquids production in Orenburg reached 423 mb/d (approximately 20.5 mln tons).

Key drivers underlying the record rate of oil production growth include a program of drilling and well intervention, new fields and oil pools discovered within areas under development, acquisition of new licenses, and implementation of reservoir pressure maintenance measures.

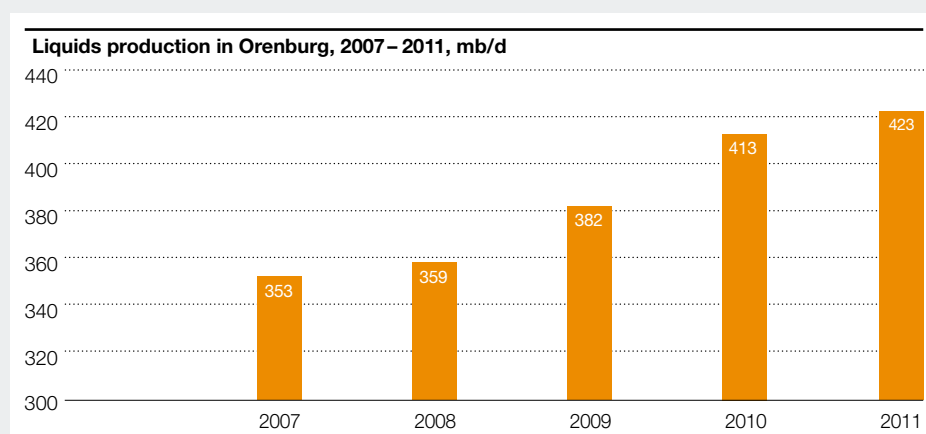
Innovative technologies

In 2011, the Company developed a five-year new technology program that calls for annual piloting of various technologies in 6 priority areas:

- Reservoir management
- Downhole work
- Drilling
- Artificial lift
- Energy efficiency
- Infrastructure.

The best of those new technologies will be scaled up. The areas of greatest urgency in terms of technology development at producing subsidiaries in the Orenburg area include downhole operations (bottom-hole treatment and water shut-off) plus drilling process optimization. To broaden our search for the best modern technologies, the Company held a Technology Forum attended by 15 potential technology providers.

In 2011, we implemented 73 innovative projects in the Orenburg region, for a total of USD 49.6 mln. In 2012, the innovation program is planned to be further expanded, with 81 projects.



Consistent improvement of its resource base, coupled with existing developed infrastructure, helps TNK-BP maintain record rates of production growth in its brownfields.

Most successful technology projects of 2011:

- 1. Diverters and reaction inhibitors for bottom-hole treatment.** Injection of acid at certain consistencies enables targeted treatment of an oil reservoir so as to increase oil recovery
- 2. Thermal bottom-hole treatment** – like the above technology, it enables selective channeling of active components to less permeable reservoir sections for better recovery
- 3. DSGA** is a chemical used for selectively shutting off water, so as to actively produce oil-saturated reservoir sections with lower permeability and water cut
- 4. Brine Block** technology is used for water shut-off purposes, to isolate production string leaks, eliminate cross-flows, and isolate waterlogged perforation zones
- 5. Drilling process optimization using** selection of an optimum technically permissible drilling cycle while minimizing downtime
- 6. Well logging using INGKS-73 hardware/software complex of 73 mm diameter** is used to determine oil saturation of various reservoirs.

Strategy for developing gas business in Orenburg

Creating a dynamic gas business – from well head to end customers – is another prospective area for the future development of company operations in the Orenburg region, thanks to its favorable geographical location, developed infrastructure and established demand.

In 2010, the Board of Directors reviewed the Company's gas and power supply business strategy in the Orenburg region which envisaged three main areas of activity:

- 1.** An increase in gas sales from the current 1.8 bcm to 3 bcm a year, in the short term
- 2.** Potential development of large-scale captive power generation capacities, providing for the sale of excess electricity to external customers
- 3.** Creation of a gas value chain in the region.

The region's largest gas development project – the Orenburg Integrated Project (OIP) – is intended to implement the associated petroleum gas (APG) utilization alternatives which offer the greatest benefits economically and technologically. Following the project's implementation, extra capacities will be created for commercial use of APG at the Pokrovskaya, Bobrovskaya, Zapadnaya and Vostochnaya field Groups.

The OIP envisages construction of an extensive infrastructure to gather, transport, treat and process APG. In particular, the Zaikinskiy gas processing plant (GPP) is to double its capacity to 2.2 bcm a year, while

increasing its gas processing depth. The construction of a rail terminal at the GPP (the Tyulpan station) would expand our marketing capabilities as regards processed gas products. The construction of a Pokrovskaya Gas Treatment Unit (GTU) with an annual capacity of 0.45 bcm would enable treatment of APG from the Pokrovskoe and Sorochinsko-Nikolskoe fields.

To date a great deal has been done, as part of the OIP, to design and build gas infrastructure facilities. In particular, the following has been completed:

- construction of 329 km of gas lines
- construction of nine gas compressor stations and a local gas turbine power plant (GTPP)
- core process equipment has been manufactured and delivered to the construction site for the Pokrovskaya GTU and Train 2 of Zaikinskiy GPP; and
- construction started of the Pokrovskaya GTU, Train 2 of Zaikinskiy GPP, and the rail terminal.

In 2012, work under the Orenburg Integrated Project will maintain its momentum and envisages the completion and operational launch of Train 2 of the Zaikinskiy gas processing plant, the Pokrovskaya gas treatment unit and the rail terminal, along with the completion of other gas infrastructure.

20.9%

oil and gas production growth at TNK-BP's assets in Orenburg 2007- 2011.



Greenfield production

TNK-BP enjoys an excellent portfolio of new projects that, in the long run, will ensure sustainable production growth. The aggregate PRMS proved, probable and possible reserves of TNK-BP's new projects amount to 14.6 bn boe. Some of these projects, such as the Uvat group of fields and the Verkhnechonskoye field, were discovered in the second half of the last century. TNK-BP has enabled the development of these fields through a systematic approach to technology selection and project management in accordance with international standards.

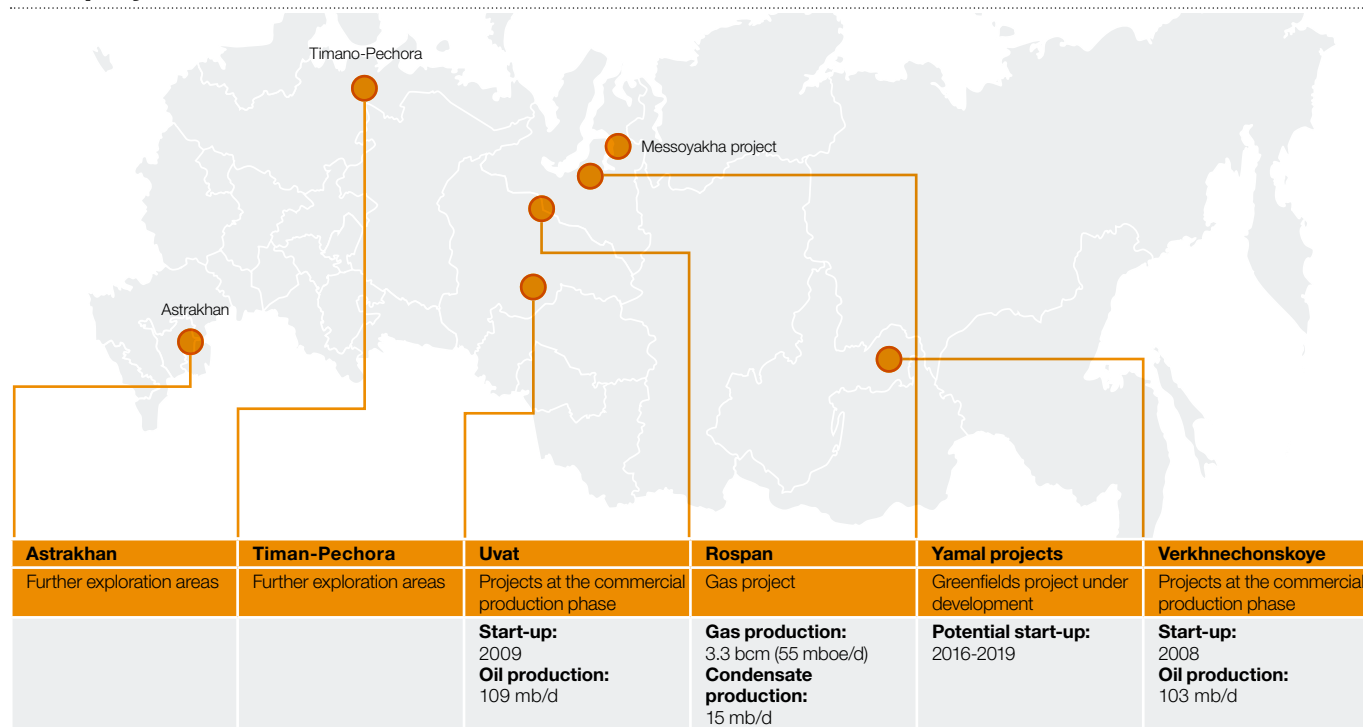
Support from the Russian Government – which offers tax benefits for developing new oil and gas provinces and encourages the creation of appropriate transportation infrastructure – plays an important role in the creation of new projects.

Our greenfields can be split into two groups: those where commercial production is already on-stream, including the Uvat group of fields and the Verkhnechonskoye oil field; and those where active exploration licenses and full field development preparation in the second half of this decade are still in progress, such as fields in the Yamalo-Nenets autonomous region and in the north of the Krasnoyarsk region.

14%

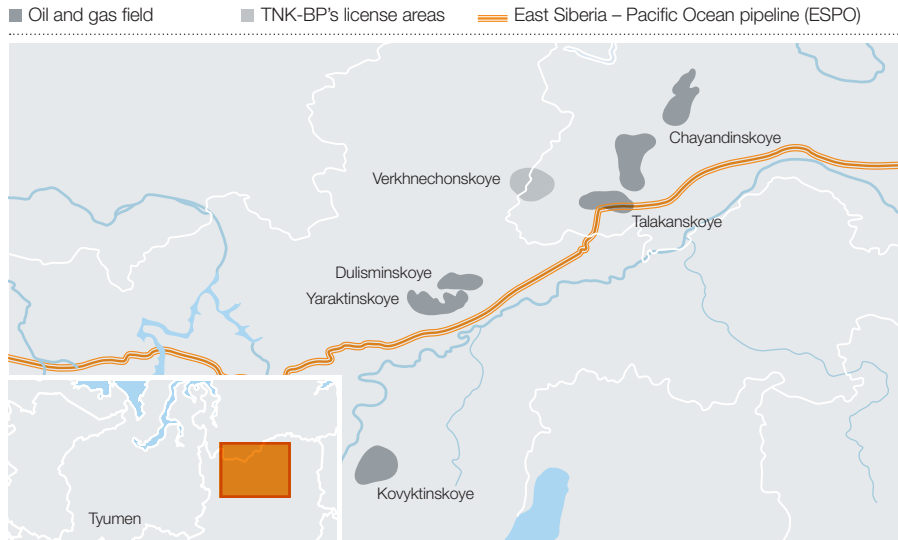
greenfield share
in 2011 Company
liquids production.

New projects of TNK-BP



Verkhnechonskoye field – a new production hub in East Siberia

Verkhnechonskoye field in East Siberia



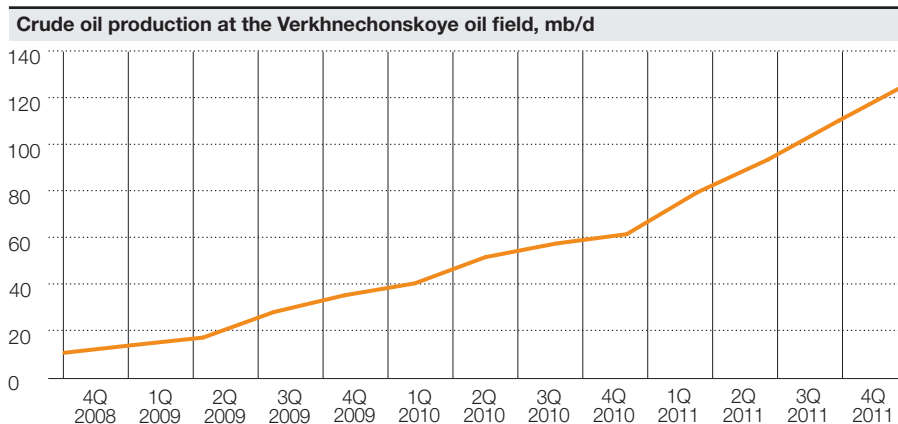
103 mb/d

production – 93% increase on 2010.

The Verkhnechonskoye field is a large new production hub in East Siberia. In 2011, the field's hydrocarbon production reached 103 mb/d (5 mln tons per year), approximately 7% of total Company liquids production. Production was 93% higher than in 2010.

Verkhnechonskoye 3P (PRMS) reserves are estimated at 2.4 bn boe, which makes the field the second largest in East Siberia.

By the end of 2011, since development started in 2005, the Company had invested USD 2.5 bn in the Verkhnechonskoye field. Infrastructure to support current production levels is already in place and includes an oil treatment facility (OTF-1) and two captive power plants. Further active infrastructure development is in progress. In 2011, the capacity of the oil treatment facility was expanded to 120 mb/d (6 mln tons per year), to reach a capacity of 160 mb/d (7.8 mln tons) in 2013, matching the expected peak production.



Greenfield production

Verkhnechonskoye field – a new production hub in East Siberia

Exploration activity

East Siberia is the oldest oil province in the world, and the Verkhnechonskoye field is a pre-Cambrian rock formation that goes back as far as the origins of the very first life forms.

It is a multi-horizon field, where the Verkhnechonskoye main pay is the most explored portion. The overlying formations still require appraisal.

In 2011, the Company completed a three-year program of 3D seismic surveys, covering 1,508 sq. km and also finished computer interpretation of the seismic data received during 2010 and 2011 surveys.

We plan to continue this work and will complete a final report on the seismic study of the Verkhnechonskoye oil field by the end of the first quarter of 2013.

Unique technical properties of the Verkhnechonskoye field

The Verkhnechonskoye geological structure is one of the most complicated, not only in Russia, but globally. It is unique for its combination of geological and geophysical factors, such as hard rock, salt deposits and a low reservoir temperature, as well as for the presence of gums and paraffin in the oil. These complicated and combined factors require an unconventional approach towards field development.

To resolve these problems, an interdisciplinary team of geologists, reservoir engineers, seismologists, core analysis specialists, petro-physicists, industrial engineers, drillers and economists was set up by JSC VCNG, TNNs and TNK-BP HQ Technology and Upstream. BP specialists in gas impact, water-gas and well completion strategy contributed actively to developing and guaranteeing technical solutions to the problems.

The mix of specialists from different disciplines and areas, representing several TNK-BP streams, helped us to create an innovative development approach for the Verkhnechonskoye field, successfully implement the most advanced technological solutions and significantly increase short- and mid-term oil production.

Technical processes at the Verkhnechonskoye field

Inflow control devices in the horizontal wellbore

This technique is used to modify inflow profile along the wellbore and reduce the water cut of the well product (pressure equalising activities).

Logging while drilling (LWD)

LWD techniques enable the user to record data while drilling, rendering it possible to make real-time decisions on well path adjustments and thus drilling horizontal wellbores into the most productive beds. This is routinely used in all extended reach and horizontal wells.

Bottom-hole treatment (BHT)

In 2010 a new bottom-hole wax treatment technique was introduced whereby chemical agents were injected and tested on low-temperature formations. Field trials continued in 2011. Given the low temperatures of the field and the unusual composition of the formation fluids, this problem requires the application of unique production chemistry.

Hydraulic fracturing

The purpose of hydraulic fracturing at the Verkhnechonskoye field is to improve well productivity. In 2011, fracturing continued on horizontal and directional producers and, as a pilot initiative, was also performed on injector wells.

Geomechanical model

The purpose of geomechanical modeling is to investigate reservoir behaviour in the course of development, and assess the optimal operating modes for production and injection wells in terms of their impact on production. The first stage of this multi-year project was completed in 2011.

Water shut-off technologies

Pilot testing was performed to determine at what producing intervals water shut-off technologies would be applied. Work will be continued during 2012.

Brief historical background

The Verkhnechonskoye field was discovered in 1978. But it remained undeveloped for decades due to a lack of infrastructure needed to transport oil to potential markets, as well as challenging geological structure and an absence of technology solutions.

Field development began with the construction of the East Siberia – Pacific Ocean (ESPO) pipeline system that passes through 80 km of the field. The provision of MET benefits and export duty preferences to fields in East Siberia facilitated development of the project. This development project is TNK-BP's first major venture into the development of oil fields in East Siberia. The first commercial oil was delivered into the ESPO system in October 2008.

The field's operator, JSC Verkhnechonskneftegaz, is owned 74% by TNK-BP and 26% by Rosneft.

Peak production is expected at 160 mb/d (7.8 mln tons per year). Total investment in developing the field, including past investments, is planned at roughly USD 5 bn.

680

tons per day – the oil flow reached at a well in Verkhnechonskoye by using an electric submersible pump with an enhanced capacity.

Associated petroleum gas utilization

Owing to its remote location, there is no potential demand for gas in the vicinity of the Verkhnechonskoye field. In 2010, the Company decided to apply gas injection technology for temporarily storing APG underground. It is the first time that this technology has been used for this purpose in the Russian oil industry.

Company specialists, in co-operation with VNIIGAZ (The Russian Research Institute for Natural Gases and Gas Technologies), developed a draft document explaining how APG can be stored underground by making use of gas reservoirs in the license area.

We plan to begin APG reinjection in the temporary underground storage in 2014. Including the APG used for the Company's own needs, this will allow us to reach the required 95% utilization level.

Innovative project management

The Verkhnechonskoye field is situated in the headwaters of the Chona River, 1,100 km to the north of Irkutsk in East Siberia. It is a sparsely populated and remote area, which creates a number of issues, such as:

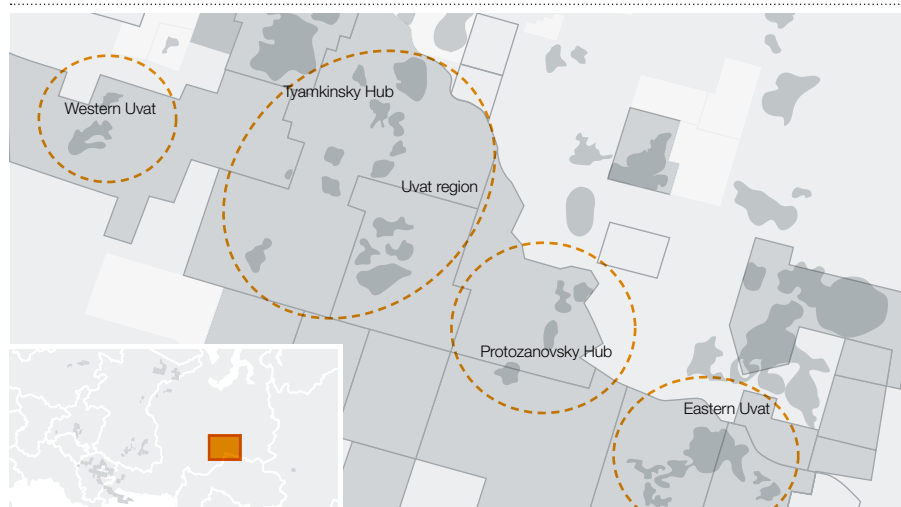
- Materials and equipment can only be supplied on a seasonal basis
- Field workers are on a rotational timetable, and can reach the field only by helicopter from the nearby Ust-Kut town airport
- The absence of an electricity supply has meant the Company has had to build its own power plants, operating on APG which partially resolves the issue of APG utilization.

Uvat field Group

Development of the Uvat field Group in the south of the Tyumen region is one of TNK-BP's major projects, which is why we are creating a new production hub in Uvat with the potential to produce 200 mb/d. In 2011, the Eastern and Central Uvat hubs produced 109 mb/d (5.3 mln tons a year) – an increase of 35% over the previous year. In 2011, the Company started a pilot development in the Central Uvat field and continued active exploration of other potential areas.

Uvat field Group with a snapshot of the Eastern and Central hubs

● TNK-BP's license areas



84

mln bbl (11.2 mln tons)
– production at the Uvat
project since production
launch in February 2009.

Brief project overview

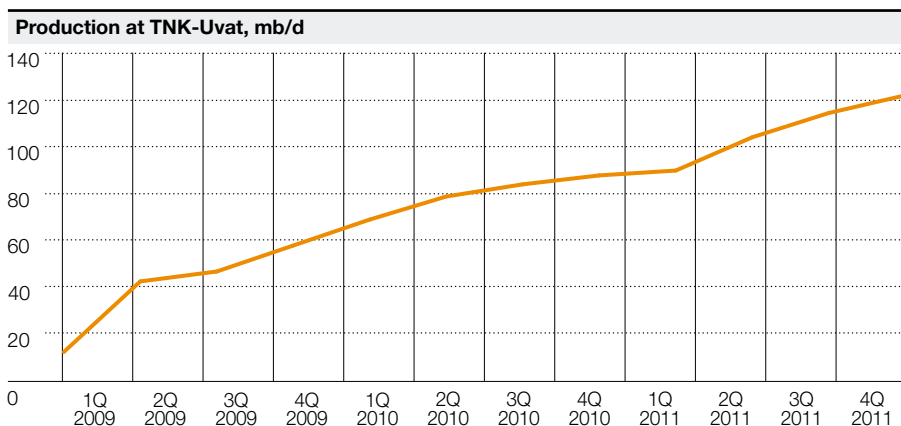
The Uvat project consists of 12 license areas. A major license holder in the south of the Tyumen region, TNK-BP has been engaged in creating an infrastructure which will allow for a comprehensive development of its license stock.

This area is the largest for TNK-BP where exploration and development have been started from scratch. The remoteness of the fields, their isolation from the region's transport infrastructure and the geological shape and complicated structure of reservoirs have long prevented us from finding an economically viable method of developing the area.

We started active operations in the region in 2006.

Currently, the Uvat project includes several development centers, the Eastern and Tyamkinskiy hubs, which may be joined in future by one or two more.

The Russian Deputy Prime Minister, Igor Sechin, inaugurated the launch of production at Uvat's Eastern hub at a ceremony, in February 2009, which started at the Urnskoye and Ust-Tegusskoye oil fields linked to the trunk pipeline system by a freshly built field pipeline. By commissioning a production pilot at the Tyumkinskoye oil field, part of the Central hub, followed in March 2010.



In 2011, crude production increased by 35% as compared with 2010.

The Eastern hub is our most significant and economically attractive area in the south of the Tyumen region. The project includes four oil fields located within the Urnenskiy and Ust-Tegusskiy license areas.

Currently, the Eastern hub accounts for more than 60% (900 mln bbl) of the Uvat reserve base.

In May 2011, we moved to the next stage of the Eastern hub development: drilling 249 wells and constructing infrastructure which should allow for a production increase to 150 mb/d (7.5 mln tons per year) in 2015.

The Central hub – the Tyamkinskiy hub and the Protazanovski hub are our next priorities in the Tyumen region. In September 2011, the Board of Directors gave their approval for a Tyamkinskiy hub project providing for comprehensive development of the area. We will also continue exploration and appraisal activities which may last until 2024.

Currently, our activities are focused on the following:

- Construction of the infrastructure to support production at Tyamkinskoye of up to 40 mb/d (2 mln tons per year)
- Complete drilling at the Tyamkinskoye oil field and ensure the launch of two new oil fields, Yuzhno-Petjegovskoye and Radonezhskoye.

In 2011, we tested a fractured exploration well to assess the production potential of the reservoirs of the Yuzhno-Petjegovskoye and Radonezhskoye oil fields: potential well oil flow is 400 tons a day.

Uvat exploration program. The Board of Directors approved a program for exploration activity in Uvat in 2012 to 2014 with a total investment of USD 328 mln. The program provides for drilling 40 exploration and appraisal wells and for undertaking 2D and 3D seismic surveys. By the end of 2014 we plan to have one-third of Uvat reserves ready for commercial production and further grow our resource base in the area.

1 mln meters

– the total length of drilled development wells at the new fields in Uvat.

Development challenges and solutions

The Central and Eastern Uvat fields are located in a largely swampy area in the south of the Tyumen region. The area has no industrial, social or transport infrastructure whatsoever and the nearest oil and gas facility is 300 km away.

The climate is temperate and rainy in summer with snow and ice in winter.

Under such weather conditions the terrain is too swampy to operate in for most of the

year. Cargo deliveries can be made only in a 90-day window, using temporary winter roads across frozen swamps. The specific nature of the Uvat project is defined by the winter months: this is the only period in which basic construction and oil production preparation work – such as felling forests, digging borrow pits and clearing areas for construction and for the storage of construction materials, lubricants and equipment – can be done. Residential camps also need to be built for contractors

and TNK-Uvat staff, and enough cargo delivered to cover the various winter operations.

Our subsidiary LLC TNK-Uvat was set up to ensure that the Company's development in the region is sustainable, by creating cargo accumulation bases, winter roads and well pads. The first stage of the Ust-Tegusskoye field central oil and gas gathering facility has been completed along with trunk oil pipelines and the Kalchinskoye field oil pumping station.

Associated petroleum gas utilization

One of the crucial aspects in the development of the Uvat fields is the environmental safety of the entire production cycle, including the complete utilization of any associated petroleum gas (APG) produced. As a solution, much of the gas is being used to generate electricity in captive power plants.

In 2010, the first stage of a 25 MW gas turbine power plant was commissioned in Eastern Uvat, with the second stage already underway.

In 2011, the APG utilization rate amounted to 44%. Implementation of our APG utilization plans targets to reach the required 95% utilization rate in 2017.

2011 Uvat milestones

- The 10 millionth ton of crude produced in the Eastern hub of Uvat
- 2 extra rigs mobilized to accelerate development of the Eastern and Central hubs
- Motorway construction started to connect the Ust-Tegusskoye and Tailakovskoye oil fields.

Effective technologies for Uvat development

1. Horizontal drilling and dual completion

After piloting in 2010, LLC TNK-Uvat continued to drill horizontal wells. Drilling efficiency improved dramatically with an improvement of 9% in terms of days' drilling per 1,000 feet.

2. Hydraulic fracturing

In 2011, we undertook 23 well fracturing jobs at the Urnenskoye and Ust-Tegusskoye fields during development drilling, using new hydrofracturing technology such as FiberFrac, ClearFrac and SuperFoam.

While the work was underway, we tested a technique – for measuring micro-seismic waves during fracturing – which will help to optimize fracturing design in 2012. New methods of well perforation also tested then will be scaled up in 2012 and should improve the initial production rates after drilling and well intervention activity.

The territory of the future – project development in the Yamalo-Nenets autonomous region and in the north of the Krasnoyarsk region

The hydrocarbon reserves at Yamal and the north of the Krasnoyarsk region will form the basis of a globally significant oil and gas province. Of 236 oil and gas fields which have already been explored in the region, only 63 have been developed.

The majority of the fields are above the Arctic Circle in the permafrost region, where average annual temperatures fluctuate around 10 degrees Celsius and local population density is 7 people per 10 sq. km.

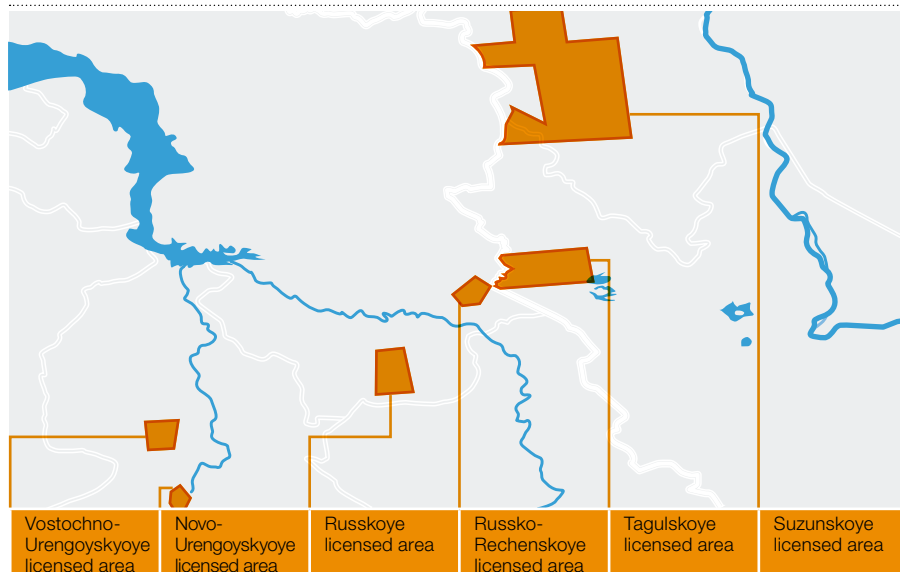
TNK-BP holds 19 field production licenses in the region, the largest being the Russkoye oil field and the gas condensate fields of CJSC Rospan International in the Yamalo-Nenets autonomous region, along with the Suzunskoye and Tagulskoye fields in the north of the Krasnoyarsk region. The Company has also carried out geological exploration at the Messoyakha fields in conjunction with Gazprom Neft.

TNK-BP's total share of PRMS 3P category reserves in the fields it has explored in the Yamalo-Nenets autonomous region and the north of the Krasnoyarsk region is 10.8 bn boe. They could potentially account for over 30% of TNK-BP's total production by 2020. The Company continues to foster dialogue with other large oil companies and the Government to find the most effective production methods for Yamal and to ensure the construction of the required transport infrastructure.

Greenfield production

The territory of the future – project development in the Yamalo-Nenets autonomous region and in the north of the Krasnoyarsk region

Projects in the Yamalo-Nenets autonomous region



Construction concept and launch date agreed for the tie-in to link TNK-BP's oil fields and the Transneft trunk pipeline.

Suzunskoye field

Estimated reserves (3P PRMS): **0.32 bn bbl**
 Estimated overall investment: **USD 2.2 bn**
 Estimated production start date: **2016**
 Expected peak production: **100 mb/d**
(4.8 mln tons per year)

The Suzunskoye field is located in the north of the Krasnoyarsk region, above the Arctic Circle. It is the most explored field in the area with a clear understanding of geology and high-quality light oil reserves. The field is divided into northern (containing the majority of the field's reserves), southern and central sections.

In 2011, the pilot project continued and an optimum development strategy was chosen to provide maximum cost efficiency for production in the northern section of the field. Pilot work provided an estimate to determine optimum vertical and horizontal well depths and well spacing, and the characteristics of hydraulic fracturing, flood pattern, and to create field hydrodynamic simulations. The Company envisages completing the pilot project in the northern section of the field in the second half of 2012. Also in 2011 an exploration well in the southern section of the field was tested. The success of the pilot project and positive results of the exploration well tests give confidence in the readiness of the field for the full field development planned for 2016.

In 2011, our investment in Suzunskoye amounted to USD 36 mln. In 2012, we plan to raise the investment amount to USD 60 mln and spend it on completion of the pilot project, design and survey work and proceed with construction of the facilities necessary for the start of the full field development in 2016.

Tagulskoye field

Estimated reserves (3P PRMS): **1.7 bn bbl**
 Estimated overall investment: **>USD 3.5 bn**
 Estimated production start date: **2019**
 Expected peak production: **100 mb/d**
(4.7 mln tons per year)

The Tagulskoye oil field is also located in the north of the Krasnoyarsk region, above the Arctic Circle. It differs from the Suzunskoye field in that it has a complicated structure, with multiple reservoirs containing oil with different properties.

In 2011, well testing and research work continued at the Tagulskoe field within the pilot project and is aimed at estimating the production potential of the field's main productive geological formation. We also carried out exploration and appraisal activities and analytical work to update the field production profile.

Full field design concept and the Suzunskoye launch date in 2016 approved.

New Tagulskoye development concept based on updated production profile.

In 2011, our investment in the Tagulskoye oil field amounted to USD 40 mln, with the same spending level planned for 2012. We will work to complete the pilot project and exploration activity aimed at improving the field's production profile.

Russkoye field

Estimated reserves (3P PRMS): **2.22 bn bbl**
 Estimated overall investment: **>USD 4.0 bn**
 Estimated production start date: **2017**
 Expected peak production: **150 mb/d**
(7.5 mln tons per year)

The Russkoye oil field is located in the Yamalo-Nenets autonomous region and holds a vast quantity of viscous oil reserves.

In 2011, TNK-BP continued three pilot projects at the field, involving well stimulation methods and interpretation of results. We also started 3D seismic surveys and continued work on geological modeling and improving Russkoye's development well success ratio.

In 2011, our investment in the Russkoye oil field amounted to USD 65 mln. In 2012, we plan to ramp up our investment to USD 160 mln to fund pilot projects, design of the full field facilities and exploration and appraisal work.

Effectiveness of water injection tested and proved.

Improved production results from the tested formations.

Messoyakha project

Development of the Messoyakha fields is one of the largest projects in the Company's portfolio, with 3P PRMS reserves of 1.14 bn boe (for 100% of the project). Based on these figures, annual oil production from the Messoyakha fields could account for approximately 10% of the Company's total production profile in the future. The estimated start date for commercial production at these fields is in 2016-2019.

The Messoyakha project includes licenses for developing the Vostochno-Messoyakhskoye and Zapadno-Messoyakhskoye fields, located in the

Tazovsk district of the Yamalo-Nenets autonomous region, some 300 km north of Novy Urengoy. Development of the fields is being carried out by CJSC Messoyakhaneftegaz, owned on a parity basis by TNK-BP and Gazprom Neft. At present, the volume and degree of exploration of the fields' reserves have been sufficient to begin evaluation of options for its commercial development and for the implementation of pilot projects.

In 2011, we drilled five exploration and appraisal wells, completed 3D seismic surveys 280 sq. km in the Vostochno-

Messoyakhskoye field and carried out well testing and research work. We plan two pilot projects in 2012, each of which will include drilling four production wells and four exploration and appraisal wells.

In 2011, TNK-BP's 50% share of investment volume in Messoyakha amounted to USD 46 mln. In 2012, it is planned to rise to USD 80 mln and will be spent on pilot projects, exploration and appraisal work and 3D seismic surveys.

Greenfield production

The territory of the future – project development in the Yamalo-Nenets autonomous region and in the north of the Krasnoyarsk region

Transport infrastructure for oil fields in the Yamalo-Nenets autonomous region and the north of the Krasnoyarsk region

Transport infrastructure is vital for the successful development of the region's oil fields. Transneft is currently planning the construction of the Purpe-Zapolyarnoe pipeline, working to a timeframe mandated in a Russian Government Executive Order and using their own sources of finance. In 2011, TNK-BP and Transneft signed a Transportation Agreement whereby we shall be entitled to ship agreed volumes from our Yamal oil fields, on agreed tariff terms.

Concurrently, TNK-BP is planning to build an intra-field connecting pipeline Suzun-Tagul-Russkoe-Zapolyarnoe. In 2011, we completed a comprehensive study of construction concepts and routing options, chose a base case and carried out design work which will be completed in 2012.

In 2011, we spent USD 7 mln on preparatory work for construction of the intra-field pipeline. In 2012, increased investment of USD 57 mln will be allocated for completion of the design work and the start of construction of the linear section and other facilities.

Pipelines of the Yamalo-Nenets autonomous region and the north of the Krasnoyarsk region

■ Vankor trunk oil pipeline ■ Planned trunk oil pipelines ■ Planned field oil pipelines ● Oil pumping station



The implementation of innovative technologies at the fields of the Yamalo-Nenets autonomous region and the north of the Krasnoyarsk region

The long distances that need to be spanned in undeveloped areas, severe climatic conditions and complicated geological structure of the fields in the region require non-standard project design and the implementation of innovative technologies. In 2011, TNK-BP implemented the following important initiatives in this area:

- The Company continued testing hot water injection technology at the Russkoye field to assess the efficiency of the waterflooding system for highly viscous oil recovery
- We initiated surveys in horizontal wellbores with pressure and temperature control devices distributed internally along the wellbore. The data gathered will allow us to define horizontal well productivity parameters and make an informed decision on their viability for the Yamal oil fields' full field development
- The Company started multi-phase measurements of well productivity rates, without preliminary product separation, at the Suzunskoye and Russkoye fields.

Associated petroleum gas utilization

In 2011, TNK-BP continued work on associated petroleum gas (APG) utilization. A feasibility study will identify options for APG usage and further appraise gas reserves in the Yamal assets. Basic core and fluid sampling work was performed together with reservoir engineering studies. The Company explored such options as gas enhanced recovery, gas preparation and transportation within Gazprom's main pipeline network for

further distribution to consumers, and also internal electricity production and commercial sales.

The Company's specialists are performing a commercial analysis of the options for APG utilization, including the possibility of improving its economic effectiveness by creating an integrated utilization system for associated petroleum gas, free gas resources and gas caps at the Yamal oil fields. The existence of a well-developed gas

transportation system in the region provides potential for transporting large volumes of gas. The Company is also studying options for collaboration with other subsoil users over the utilization of gas infrastructure. Appraisal will continue until the end of 2012 when further steps will be discussed.

Gas pipelines in the Yamalo-Nenets autonomous region and the north of the Krasnoyarsk region

■ Acting trunk gas pipelines ■ Planned gas pipelines ● Gas pumping station



Development strategy for Rospan

Project overview

CJSC Rospan International, a subsidiary of TNK-BP, develops the Vostochno-Urengoy sky and Novo-Urengoy sky license blocks in the Purovsky region of the Yamalo-Nenets autonomous region. Rospan's proved reserves are estimated at approximately 2.266 bn boe of gas and gas condensate, which constitutes 38% of Rospan's 3P reserves under the PRMS criteria, estimated at 5.9 bn boe. The huge potential of Rospan's fields makes the full-scale realization of this project fundamental for the stable growth of the Company in the future.

The development of Rospan's fields requires innovative technological and design solutions. The Rospan accumulation lies at a considerable depth (>3,500 m), has a complicated geologic structure, abnormally high formation pressure and a high concentration of condensate in gas formations. The high concentration of wax is another factor complicating field development.

On the other hand, the Vostochno-Urengoy sky and Novo-Urengoy sky fields have in place the required infrastructure to prepare and transport the gas and gas condensate produced. Each field has a gas treatment unit (GTU), with stand-alone power generation from several gas turbine power generators. Treated gas is supplied through the Company's own gas pipelines (with a total length of 181 km) into the intra-field gas pipeline system of the regional Gazprom production unit, and from there into Gazprom's unified gas transportation system.

In 2011, we reached a number of important milestones in the Rospan development:

- Approval of the unified technical development concept for the Achimov accumulation
- Approval of a long-term gas marketing agreement between Rospan and the Novy-Urengoi Gas Company, our marketing joint venture with Gazprom
- Approval of the budget for drilling and equipment procurement.

Stabilised gas condensate is transported by oil tank trucks to railway oil depots at a distance of 50-150 km, for onward transportation by rail.

**2.266
bn boe**

Rospan's proved reserves under PRMS criteria.

Activity in 2011

In 2011, production from the Rospan fields amounted to 3.3 bcm of gas, which is 20% more than in the previous year. The volume of condensate produced was 15.4 mb/d (679 th. tons). In 2012, we plan to sustain these levels of gas and condensate production.

In 2011, our investment in Rospan amounted to USD 52.1 mln. That investment is expected to rise significantly in 2012 to approximately USD 200 mln, to be spent mainly on completion of design for key production and gas transportation facilities, acquisition of long lead equipment, drilling and the construction of a gas pipeline.

Further development of Rospan's gas and condensate assets is a cornerstone of TNK-BP's gas strategy which was approved by the Board of Directors in September 2011. TNK-BP's overall gas strategy envisages that the Company will produce up to 35 bcma of both free and associated petroleum gas by 2020. At the stage of full field development, the Rospan gas field has a potential to produce 16 bcma. The target gas condensate production level for that stage is 95 mb/d (4.2 mln tons).

Key priorities for 2012 include:

- Activities in line with the exploration strategy
- Acceleration of development drilling
- Ensuring that well pads can be promptly and smoothly prepared for drilling and construction of facilities
- Starting advance manufacturing of key equipment
- Completion of design engineering of treatment and transportation facilities for gas and gas condensate
- Sanctioning incremental investment for bringing gas production to 8.6 bcma starting 2015.

20%

increase in free gas production at Rospan fields to 3.3 bcma.

Innovative methods to develop the Rospan project

- The application of international best practice in the management of major capital-intensive projects, detailed planning and monitoring
- An integrated approach to field development
- New technologies, for measuring gas condensate well rates without separation, which eliminate atmospheric pollution and, as a result, reduce the Company's environmental footprint as well as increasing measurement accuracy and work safety
- Use of downhole telemetry for well testing purposes
- Upgrades of existing facilities to improve their safety and environmental performance.

ДЕНЬ ПОДРЯДЧИКА



Interaction with suppliers and contractors

Among oil and gas companies in Russia, TNK-BP is one of the largest consumers of materials, equipment and services. Our procurement budget averages USD 7 bn a year, and over 85% of our orders are placed with Russian contractors and suppliers. The Company considers its business relationships with suppliers in the areas in which it operates to be very important.

Interaction with suppliers and contractors

Transparency in business relations is an underlying principle in TNK-BP's purchasing activity. We establish the necessary conditions for fair and open competition among suppliers and contractors, and ensure a candid and impartial approach at all selection stages, as well as during further co-operation. According to TNK-BP's Corporate Procurement Standard, the Company undertakes to carry out its purchasing activity in good faith, adhering to the principles of integrity and transparency based on high professional standards and strict observance of legal norms.

Maintaining long-term relationships with contractors is one of TNK-BP's highest priorities, evidence of which is that more than 50% of materials and equipment, and over 40% of services are purchased under long-term contracts. By signing contracts for several years, the Company guarantees its partners constant sales over an extended period, helping those partners to be confident about investing in development and innovations. While a contract is in place,

contractors can rely on technical support from TNK-BP experts who take an active interest in the technological leadership of their suppliers and the high quality of products supplied. At present we have established long-term contractor relationships in procurement of tubular goods, submersible pumps and drilling services.

TNK-BP operates according to the principle that long-term business relations, based on good faith, respect, and mutual benefits, play a key role in a Company's success. Relationships that violate laws or business ethics are expressly forbidden, as they can tarnish a company's reputation and the good name of its employees, as well as undermine the Company's stable and sustainable development.

In our purchasing activities, we also put significant effort into developing the potential of our counterparties, our contractors and suppliers – incentivizing them to improve the quality of their performance, the goods and services they supply, and to be innovative in their work.

>50%
of materials and equipment and more than 40% of services purchased under long-term contracts.

Innovative approach to our relations with suppliers and contractors

In 2011, TNK-BP continued its open dialogue with companies – providers of materials, equipment and services for the oil and gas industry. In September 2011 we held the second TNK-BP Supplier and Contractor Forum, which had already developed into an effective platform for a direct dialogue between the Company and its counterparties. In his opening speech at the forum, German Khan, Executive Director of TNK-BP, said: "TNK-BP is consistently improving the efficiency of our contracting system on the basis of global best practice. We also urge our partners to unconditionally observe the standards of business ethics upheld in TNK-BP. This is a most important prerequisite for our mutually advantageous co-operation, and a guarantee of sustainable growth and success for our suppliers and contractors."

Most participants in the Supplier and Contractor Forum are leaders in their industry sectors, including recognized leaders in the international service industry such as Halliburton, Schlumberger, Weatherford and KCA Deutag. The forum also welcomed new delegates from medium and small businesses. Anatoly Tyomkin, Executive Vice President Business Support, TNK-BP, told the Forum that "The Company is interested in long-term partnerships with all the contractors based on level playing field rules and TNK-BP's corporate values."

For the first time, the Forum made awards for 'Long-standing partner of TNK-BP' to 87 of our suppliers and contractors. The award recognizes counterparties' impeccable work and commitment to developing long-term partnerships with TNK-BP. It offers considerable benefits to its holders, and also acts as a strong incentive for other companies.

The Forum reviewed TNK-BP's interaction with suppliers and contractors and reported in detail on the activities of corporate and regional councils and of arbitration commissions in relation to disputes with suppliers and contractors. In 2011, those bodies received over 70 complaints, out of which 30 were resolved in favor of our counterparties. The key function of the councils and arbitration commissions is to establish an open dialogue with our counterparties, increase the efficiency of the contracting system, and to clarify the co-operation principles for our counterparties as well as identifying and eliminating violation of those principles.

The polling of the Forum participants showed that 90% of them had seen improvements in their interaction with our Company in 2011.

TNK-BP strives to create and maintain a corporate culture based on zero-tolerance towards bribery, corrupt business practices and money laundering. The Company understands that the unethical and illegal activities of contractors can seriously tarnish its reputation and it pays considerable attention to all stages of the contracting system. In 2011, we identified cases of corrupt practices by our counterparties, in some cases involving Company employees. After thorough investigation, the employees involved were dismissed and the counterparties' relationship with TNK-BP terminated – demonstrating our zero-tolerance approach to wrongdoing.

Within the structure of laws and regulations, the Company analyzes the activities of potential contractors. They are screened to ensure that they strictly observe applicable

laws, regulations, ethical business standards and human rights. If this screening detects any violation of laws and regulations, the provision of fraudulent information, or the complicity of contractor owners, founders or managers in illegal activities, the contractor in question will be excluded from the list of potential contractors.

One part of the standard contract between TNK-BP and the contractor relates to health, safety and environmental protection. This states that contractors must comply with current laws and regulations of the Russian Federation, implement all necessary health, industrial safety, fire safety and environmental protection measures, and ensure that natural resources are used appropriately. The standard contract also contains an anti-corruption clause.

All policy and procedural matters related to the Company's interaction and co-operation with suppliers and contractors are brought to the attention of all contractors, suppliers, and Company employees. TNK-BP regularly inspects the activities of its employees, in order to check their compliance with relevant laws, regulations and corporate standards and practices. Every year, TNK-BP employees in management roles fill in a declaration stating their compliance with business ethics policies and Company standards, including those related to countering corruption, bribery and money laundering. The declaration facilitates the detection and resolution of conflicts of interest that may arise in relation to suppliers and contractors.

Efficiency improvements in supplier and contractor relationships in 2011

- Open dialogue with the services market established via the TNK-BP Supplier and Contractor Forum
- The status of 'Long-standing partner of TNK-BP' introduced
- United list of prequalified counterparties publicly available
- Contest for contract standardization with participation of largest contractors continued (70% of the Upstream procurement budget covered by standardized contracts).

Creating value through integration



Downstream

Downstream is an integrated business which makes the best possible use of every barrel of oil we produce. Our downstream strategy is focused on bringing the Company's oil refineries into compliance with best industry quality and safety standards, optimizing the throughput capacity of every oil refinery, increasing the sales of high-quality oil products through the Company's own retail networks, developing presence in attractive B2B channels and adding value through efficient trading operations with crude oil and oil products both within and beyond Russia.

Downstream		60-75
62	Oil refining	
68	Marketing	
73	B2B product wholesale	
74	Sales, trading and logistics	

Downstream

25,609
employees

747
mb/d
historic maximum
refinery throughput

5
oil refineries in Russia
and Ukraine and an
approximately 50% stake
in the YANOS oil refinery

USD
825 mln
in capital investment

17
regions of downstream
operations in Russia
as well as operations
in Ukraine and Belarus

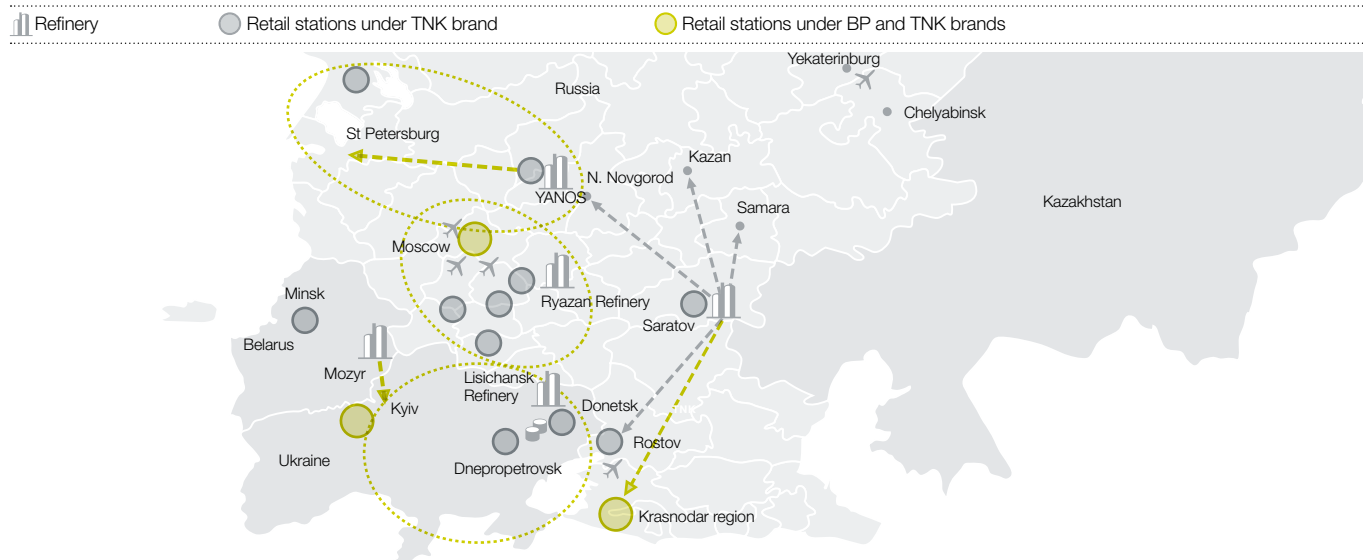
37.5
mln tons of oil products
sold in Russia and abroad

USD
4.1 bn
Downstream EBITDA

1,388
retail stations

Oil refining

Major downstream assets and projects



	YANOS (50%)	Ryazan refinery	Saratov refinery	Lisichansk refinery (LINIK)	Nizhnevartovsk refinery	Krasnoleninskiy refinery
Capacity	143 mb/d	323 mb/d	132 mb/d	143 mb/d	27 mb/d	4 mb/d
Conversion ratio	62.3%	60.4%	68%	64.4%	–	–
Refining throughput in 2011	148 mb/d +3% on 2010	336 mb/d, +4% on 2010	124 mb/d, – 8% on 2010	109 mb/d, +6% on 2010	27 mb/d, +2% on 2010	3 mb/d, no change
Output of light products	56%	54%	45%	55%	–	–
Operational availability	95%	94%	87%	99%	–	–
Nelson complexity index in 2010	7.5	6.3	4.3	6.4	–	–

To deliver the full value of downstream business, our task is to maintain an effective balance between the Company's oil refining capacity, sales of oil products and oil production levels. The nameplate capacity of the oil refineries the Company currently controls is approximately 771 mb/d (38.6 mln tons of oil per year). We operate the Ryazan refinery in Central Russia, the Saratov refinery in the Volga-Urals region, the Nizhnevartovsk and Krasnoleninsk refineries in West Siberia and the Lisichansk refinery (LINIK) in Ukraine. We also hold an approximately 50% share in the operations of the Yaroslavlnefteorgsintez refinery (YANOS) in Central Russia, which TNK-BP owns on a par basis with Gazprom Neft.

In 2011, TNK-BP refineries processed 747 mb/d, or 15 mb/d more than in the previous year and an all-time processing record. Thanks to operational improvements and removing logistical constraints, we also succeeded in improving our refining cover to 44.5%. Our capital expenditure in refining amounted to

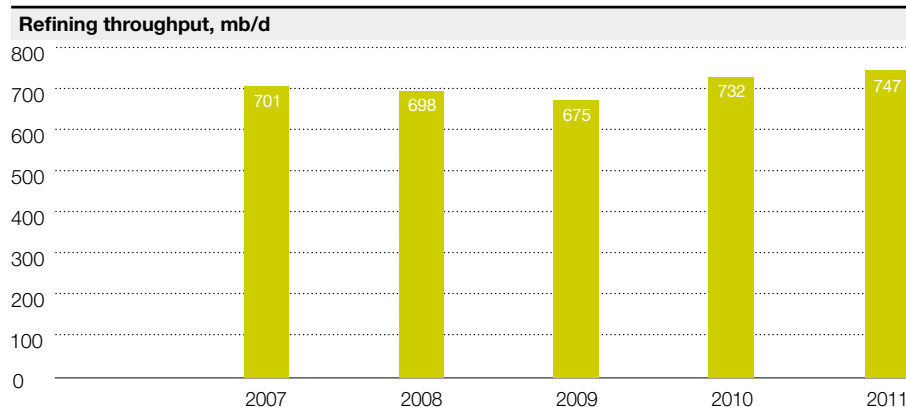
approximately USD 472 mln, mainly spent on technical and efficiency improvements at our key refineries, including a tower replacement at the crude distillation unit and a technical upgrade of the light oil product loading rack at the Saratov refinery.

During 2011, the Company initiated a number of recovery measures to improve the financial results of the Ukrainian business, including expanded tolling operations at the Lisichansk refinery, feedstock optimization as well as reducing the headcount and overheads. The recovery program was successful in the first nine months of 2011. In the fourth quarter, however, LINIK showed negative performance, primarily due to taxation changes in Russia, reducing tolling efficiency.

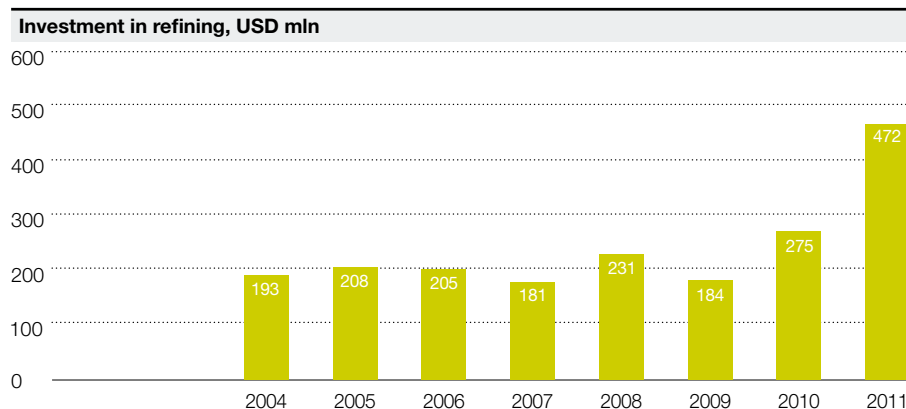
Due to economic and industry conditions currently prevailing in Ukraine, subsequent to year end, management has decided to temporarily halt crude deliveries to LINIK from 1 March 2012 and put the refinery on maintenance.

747 mb/d

highest annual refining throughput since inception.



◀ In 2011, refining throughput increased by 2% to reach an historic high.



◀ In 2004-2011, we invested USD 1.949 bn in integrity, HSE standards and upgrades at our refineries.

In 2012, moving into an active stage in the implementation of our major quality and development projects at the Ryazan and

Saratov refineries will increase refining capital expenditure by a further 17%.



Efficiency improvements in refining in 2011

- Pilot transition to a 3-year turnaround cycle at the Ryazan refinery for AT-6 crude distillation complex
- Outsourcing of the support functions with headcount reduction of 330 employees
- Energy efficiency and fuel loss reduction programs with a saving effect of more than USD 10 mln.

Key refining projects

Our ambitious modernization program is aimed at increasing the refining depth and improving fuel quality at our refineries. In the period 2012 to 2015, investments planned for refinery modernization amount to USD 2.5 bn.

In 2011, of USD 250 mln available for modernization, over 70% was spent on fuel quality projects.

**USD
2.5bn**

refinery modernization program in 2012 – 2015.

Downstream

Refinery/Project	Isomerization unit construction	Diesel hydrotreater unit upgrade	Vacuum section of the crude distillation unit construction	VGO hydro-cracking unit	Elementary sulphur unit upgrade
Ryazan	<ul style="list-style-type: none"> – 96% of long lead equipment vendors selected 	<ul style="list-style-type: none"> – Equipment delivery under way – Preparation for CAW* in progress 	<ul style="list-style-type: none"> – Technical and commercial proposals collected from equipment providers – Design documents reviewed by the Glavgoexpertiza*** state expert agency 	<ul style="list-style-type: none"> – Work in progress on 3 base designs of hydrocracker, H2 and sulphur recovery units 	<ul style="list-style-type: none"> –
	<p>Next steps:</p> <ul style="list-style-type: none"> – Select construction and assembly contractor – Tender the remaining equipment 	<p>Next steps:</p> <ul style="list-style-type: none"> – Select the CAW contractor – Activity launch – Main hydrotreater equipment installed 	<p>Next steps:</p> <ul style="list-style-type: none"> – Receive Glavgoexpertiza*** approval – Hold tenders for equipment procurement and CAW 	<p>Next steps:</p> <ul style="list-style-type: none"> – Take final investment decision – Assess the water supply, drainage and power supply needs for a tie-in into the refinery facilities – Arrange transportation of large equipment to the site 	
Saratov	<ul style="list-style-type: none"> – 86% of equipment procured – Construction and assembly work in progress 	<ul style="list-style-type: none"> – Hydrotreater fully commissioned in March 2012 – Topographical survey for placement of RCPSA** done 	<ul style="list-style-type: none"> – 	<ul style="list-style-type: none"> – 	<ul style="list-style-type: none"> – Main equipment installed – CAW nearing completion – The unit launched in March 2012
	<p>Next steps:</p> <ul style="list-style-type: none"> – Start of pre-commissioning activity by end 2012 	<p>Next steps:</p> <ul style="list-style-type: none"> – Complete hydrotreater upgrade – Launch RCPSA by end 2012 	<p>Next steps:</p> <ul style="list-style-type: none"> – 	<p>Next steps:</p> <ul style="list-style-type: none"> – 	<p>Next steps:</p> <ul style="list-style-type: none"> – Pre-commissioning and bringing on-stream

* CAW – construction and assembly work

** RCPSA – rapid cycle pressure swing absorption

*** Glavgoexpertiza – the Russian state agency which is authorized to carry out state expert review of project documentation, results of engineering surveys and check the accuracy of estimated costs of capital construction projects.

Refinery maintenance in 2011

In 2011, the Company held three scheduled turnarounds at the Ryazan and Saratov refineries. The work undertaken resulted in improved equipment reliability and integrity, and an increase in operational availability.

At the Ryazan refinery, in April to May 2011, technical maintenance included maintenance of a crude distillation unit, a vacuum residue visbreaker, two naphtha reformer units, a light naphtha isomerization unit and a diesel hydrotreater unit.

A second maintenance operation at Ryazan in September – covering further equipment

– was equally successful, all the work being completed on time and on budget.

In November to December 2011, we suspended all operations at the Saratov refinery so that a total overhaul of all process units could take place.

Along with the scheduled turnarounds, in order to increase the sustainability and reliability of the Ryazan and Saratov operations we ran a number of equipment and process upgrades.

We carried out no turnarounds at our Lisichansk refinery in the Ukraine in 2011.

In the Russian refining industry, short maintenance turnaround cycles are usual practice. This year, in an innovative move, we successfully completed a pilot transition to a longer, three-year turnaround cycle at the Ryazan refinery's AT-6 crude distillation complex. We plan to transfer to the new turnaround cycle the remaining set of units at Ryazan and all units at the Saratov refinery.

Quality of oil products

The quality of the oil products we produce for the Russian and Ukrainian domestic markets as well as for export has always been a high priority for TNK-BP. We are constantly working on quality improvements to meet modern environmental requirements and satisfy a growing demand for higher-quality fuels. Our investment in quality projects is also in compliance with new government-imposed technical regulations for fuel marketed in Russia.

In 2011, we materially improved the range and quality of fuels we offer to our customers.

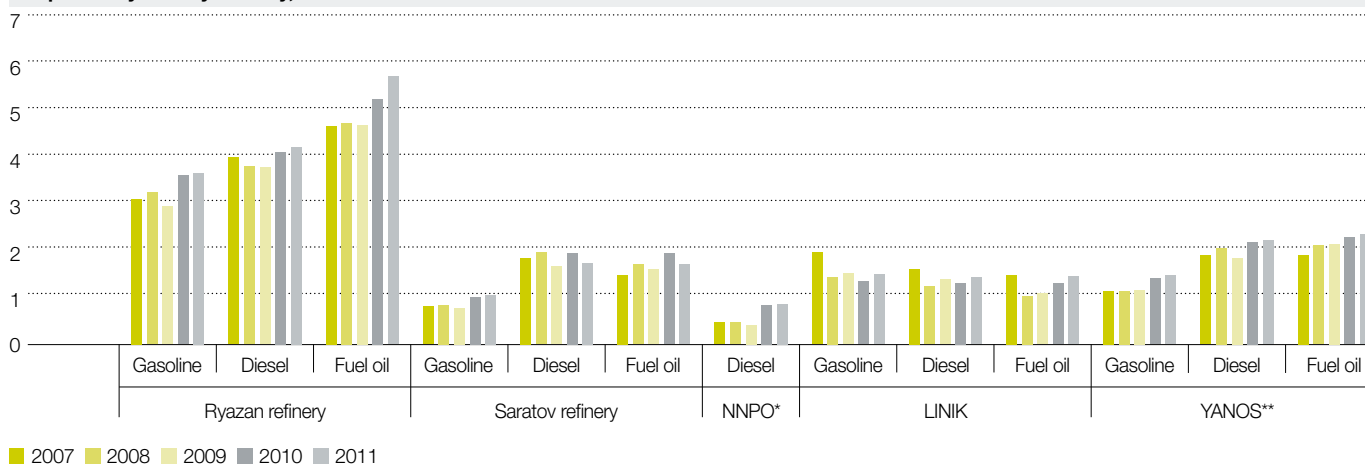
Gasoline

- The Ryazan refinery:
 - Production of gasoline compliant with Euro-5 standards since October 2011
 - Production of PULSAR-92 and PULSAR-95 branded gasoline since December 2011
- The Saratov refinery:
 - Production of gasoline compliant with Euro-4 standards since February 2011
 - Production of PULSAR-95 branded fuel since May 2011
- The Lisichansk refinery has switched to 100% production of Euro-4 gasoline since July 2011.

Diesel

- The Ryazan and YANOS refineries have been producing Euro-5 diesel since 2008
- Euro-3 and Euro-4 diesel from the Ryazan, Saratov and YANOS refineries was the standard quality fuel for retail supplies in 2011
- Since September 2011 the Lisichansk refinery has started production of diesel fuel compliant with Euro-5 standards.

Oil product yields by refinery, thousand tons

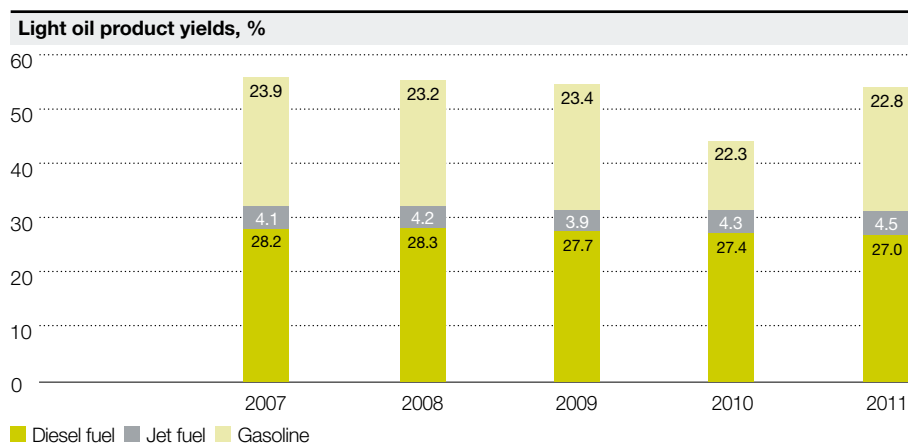


Note: gasoline including alkilate and M grade; fuel oil excluding furnace oil
 * Nizhneartovsk Oil Refining Enterprise
 ** Showing our 50% share

The fuel we produce for domestic sales is fully compliant with the technical regulations enacted in Russia.

The yield structure of the Company's motor fuels in 2011		
2011 breakdown by fuel class*	Ryazan	Saratov
Motor gasoline Class 5	0.1%	
Motor gasoline Class 4	62%	15%
Motor gasoline Class 3	38%	85%
Total for motor gasoline	100%	100%
Diesel Class 5	33%	
Diesel Class 4	34%	6%
Diesel Class 3		31%
Diesel below Class 3	33%	63%
Total for diesel	100%	100%

*Russian fuel classes 3, 4 and 5 correspond to Euro-3, -4 and -5 respectively.



Share of gasoline, diesel fuel and jet fuel in our oil product yields.

Quality management and control systems

The quality management systems of all TNK-BP enterprises comply with the requirements of ISO 9000 international standards.

The general management systems of the Company's enterprises include an environmental protection management system compliant with ISO 14000

international standards and a health and safety system compliant with the OHSAS 18000 international standards, ensuring that the Company's business processes are organized in accordance with global best practice.

The expert level of testing is an important component of maintaining oil product quality.

To assess and maintain the technical expertise of the laboratories at the Company's refineries, we collaborate with the industry research institute VNI Neftepererabotka in holding annual comparative tests. Those undertaken in 2011, which involved 18 of our laboratories, confirmed the accuracy and reliability of their assessments.

Health, safety and environmental achievements

— In 2011, our refineries worked without significant accidents. The number of identified technical failures (incidents) characterized by high accident risk decreased year-on-year by 68% (from 77 to 24 incidents pa).

— We completed a project on construction of protective facilities to eliminate subsurface pollution at the sludge collectors of the Ryazan refinery.

— We also completed another project to establish monitoring of groundwater contamination under the Company's refinery sites. The overall number of monitoring wells is 291.

Marketing

In a dynamic and highly professional company, Marketing is one of the most dynamic divisions. In 2011, we expanded our retail footprint in nine regions across Russia – Moscow, St. Petersburg, Saratov, Rostov, Yekaterinburg, Smolensk, Tver, Nizhniy Novgorod and Volgograd – a 4% retail coverage increase once assets are fully integrated. We pursue a multi-brand strategy: developing TNK and BP brands and targeting different segments of the consumer market. The Company is particularly focused on the promotion of branded fuels with improved environmental and technical characteristics: BP Ultimate and PULSAR. By responding to the dynamic growth in demand for quality fuels we aim to gain the maximum possible share of the Russian and Ukrainian markets.

Retail stations operated by TNK-BP as of 31 December 2011				
	BP	TNK	Jobbers	Total
Moscow and Moscow region	87	138	83	308
St. Petersburg	12	19	–	31
Other regions in Russia	6	525	122	653
Ukraine	3	149*	204	356
Belarus	–	40	–	40
Total	108	871	409	1,388

*Includes TNK and other branded stations

Expansion of business in Russia

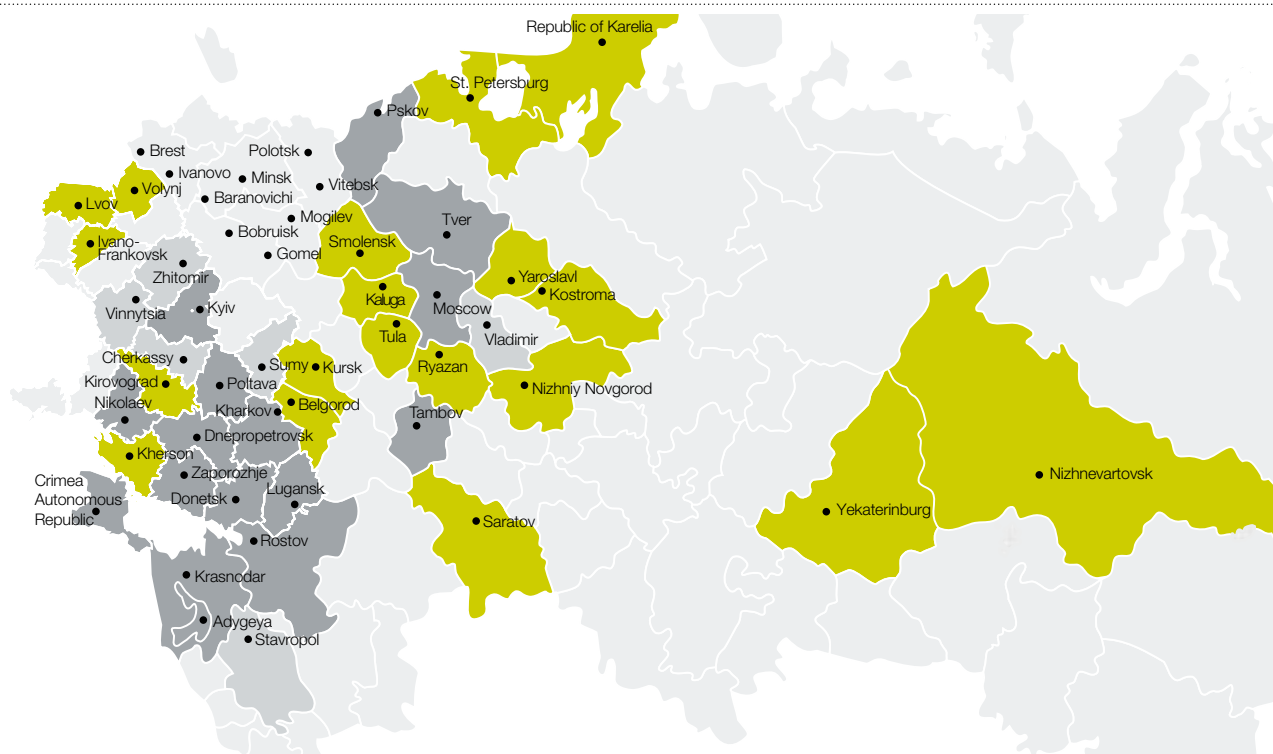
In 2011 TNK-BP set to improve the quality and performance of the current retail networks and expand the geography of its business.

In Russia, TNK-BP's Company-owned retail assets include 787 gasoline stations and 47 oil depots.

The gasoline stations' network is run under two brands: TNK (871 sites) and BP (108 sites).

TNK-BP's retail assets across Russia, Ukraine and Belarus

■ Regions with own retail sites ■ Regions with own and jobber retail sites ■ Regions with jobber retail sites



Current operations in the regions

One of the main areas where the Company's profitability can be increased is the optimization of the existing retail networks and oil depots by reconstructing commercially attractive assets and selling assets with a low commercial potential.

Since 2005 we have rebranded more than 500 stations under the new TNK brand, sold more than 155 outlets and liquidated or sold over 40 oil depots. By reducing the costs of maintaining inefficient assets, we have been able to focus on maximizing profits from our top-performing retail outlets and oil depots.

At the same time the Company continued to build new retail stations according to high standards of quality and safety. During 2011 we built 15 BP-branded stations (including 4 in Moscow, 3 in St. Petersburg) and 4 TNK-branded stations (one in Moscow, 2 in St. Petersburg and 1 in the Yaroslavl region).

In 2011, TNK-BP expanded its retail network also by purchasing land plots and retail stations in regions where we currently maintain a presence:

- Moscow and the Moscow region – 4 land plots and 2 retail stations
- St. Petersburg – 8 land plots
- Rostov and Krasnodar – 3 retail stations and 6 land plots
- Saratov – 1 retail station.

In addition, in 2011 we carried out a pilot project on opening 5 stand-alone Wild Bean Cafés located next to major residential areas, office buildings and shopping malls in the Moscow region.

Expansion to new retail regions

As well as optimizing the Company's current assets portfolio, TNK-BP is expanding in new regions. In 2011, we built 6 new multi-functional BP-branded stations in the Tver and Smolensk regions, and 1 TNK-branded station in the city of Tver. In addition, we acquired 12 stations and land plots in the Tver Region, 12 stations and plots in Yekaterinburg, and seven new assets in Smolensk, Nizhniy Novgorod and Volgograd.

>50

acquisitions of retail assets in 2011, including expansion in the Sverdlovsk and Nizhny Novgorod regions.

Asset integration will increase the retail cover by 4%.

The federal highways that make up the main routes through North-west Russia provide a focus for the Company's presence in these regions. Specifically, the development of retail hubs on the Moscow – St. Petersburg highway will create synergies for the TNK- and BP-branded networks in the Moscow and Leningrad regions.

We are keen to further expand our retail business and are currently considering opportunities in major industrial cities including Samara, Vladimir, Orel and Volgograd.

Brands managed by TNK-BP

In 2011, the Company continued to position and differentiate the TNK and BP brands and improve their appeal to customers. Average annual sales at a TNK retail station amounted to 5.1 mln liters, while annual fuel sales at a multi-functional BP retail station averaged 14.7 mln liters (a record throughput for a BP-branded retail station in Europe).

TNK brand

The main features of the TNK brand are quality, freshness, positive attitude, professionalism and reliability. To illustrate all of these features, in 2006 we started developing new visual standards for the trademark, including a revamped TNK logo and a refreshed color scheme.

Under the TNK brand, retail and wholesale customers have the choice of about 30 new products, including engine oils from the TNK Magnum series, PULSAR fuel, Alfabit bitumens, fast-food cafés and TNK-Express shops. The new TNK-branded products were developed with the aim of performing as well as imported goods, while being more competitive with locally-produced goods in price.

In July 2011, we launched the TNK *Carbon* Loyalty Program, which covers all the regions where the TNK brand is marketed. Holders of a *Carbon* card may use it as a debit card when they buy fuel, goods or services at TNK retail stations, and be rewarded with points which they can trade for bonus goods and free services at TNK-branded stations.

BP brand

The BP brand is a recognized leader in supplying quality gasoline, together with quality services, on the Russian market.

The distinctive features of this brand are:

- Fast service: Our express system allows free parking while customers stop and have a snack or visit one of our BP Connect food stores

- A pleasant environment: customers can use gloves provided free-of-charge at all the gasoline pumps, and in our stores buy freshly-baked goods and other high-quality products in a modern, well-equipped environment
- Guaranteed quality of our gasoline, accompanying products and level of service.

The key target customers for BP retail stations are brand-loyal, time-poor urban professionals.

By the end of 2011, TNK-BP managed 105 BP-branded retail stations in Russia and three retail stations in Ukraine. The Company has plans to expand the distribution of its BP-branded outlets within Russia beyond Moscow and St. Petersburg.

In April 2011, TNK-BP launched its strategy for developing a highway truck offer in the European part of Russia by opening the first of our new-format highway BP-branded stations. Working with the Russian Highways Public Corporation, TNK-BP plans to introduce multi-functional service areas at the stations, offering car engine maintenance and motels as well as parking lots and other highway facilities. In 2011, we launched eight new highway retail stations on the federal highways in the Moscow, Tver and Smolensk regions as well as in St. Petersburg.

We are constantly working to improve the quality of our fuels. In March 2011, BP-branded retail stations launched sales of the BP Ultimate Diesel fuel which protects car engines, improves performance and reduces harmful emissions.

TNK-BP has been working with partner companies from a variety of retail sectors to promote BP-branded customer loyalty programs. Since 2006 all BP stations in Moscow and the region have offered the *Malina* card to customers who are awarded points as they buy fuel, goods and services, and then can trade the points for bonus goods and services. Roughly 40% of BP's clients in Russia are *Malina* card holders.

513

TNK-branded stations revamped to meet the new standards by 31 December 2011.

30%

average growth in retail fuel sales thanks to the rebranding program.

59

TNK-branded stations revamped into a new offer and 5 TNK stations transformed into BP-branded sites in 2011. BP-branded truck offer launched.



TNC branded retail site in Russia

Downstream



Opening the first highway BP-branded retail site in the Tver region

Attracting new customers to branded fuel

Pulsar

In 2011, we undertook a significant marketing initiative aimed at building trust in the quality of TNK-branded fuels and services, improving the image of the TNK brand in line with its positioning strategy, and promoting TNK- and BP-branded fuels. The campaign included promotional activities at retail stations, and outdoor, radio and internet advertising.

In May 2011, sales of TNK PULSAR fuel were launched at TNK stations in the Saratov region. By December 2011, sales of PULSAR-95 amounted to 26% of the total of A-95 gasoline sold and the fuel was offered at 21 stations across the Saratov region.

In November 2011, we launched TNK PULSAR fuel in the Kursk and Belgorod Oblasts. In those regions the sales of PULSAR-95 amounted to 48% of the total of A-95 gasoline sold; and PULSAR-92 accounted for 9% of the total amount

of gasoline sold in November and December 2011.

TNK PULSAR is currently offered at 27 stations across the Kursk Oblast and 17 stations across the Belgorod Oblast. Owing to its popularity with consumers, we plan to further expand the area of its sales in 2012.

BP Ultimate

In 2011, we increased the share of BP Ultimate gasoline to 44% of the entire amount of fuel sold in Moscow and in the Moscow region. In St. Petersburg we continued promotion of BP Ultimate at BP-branded retail stations, where sales grew to 38% of the regular A-95 gasoline sold.

In March 2011, the Company launched sales of BP Ultimate diesel in the Moscow region. Proving its huge popularity with the customers, BP Ultimate sales currently account for 73% of total diesel sales in the Moscow region.

Efficient and socially responsible business

- Entry into the open market of oil products: In 2011, our marketing subsidiaries continue purchasing oil products at the St. Petersburg International Mercantile Exchange and Inter-Regional Stock Exchange of the Oil and Gas Complex (MBNK). The total volume of oil products purchased at the exchange exceeded 164 th. tons.
- Co-operation with agricultural producers: In 2011, TNK-BP marketing subsidiaries supplied approximately 420 th. tons of oil products to agricultural producers on favorable terms. The privileges granted amount to approximately 2.9 bn roubles.

B2B product wholesale

In 2011, the Company set out strategic guidelines for developing its B2B business through an increased presence in high-potential market segments, introduction of innovative products and inorganic acquisitions. In 2012, the Company is planning to increase sales to air companies, develop the network and enhance fueling facilities performance.

Jet fuel

In 2011, we continued to develop our jet fuel business, focusing on direct sales to leading air companies and airport hubs. Domestic jet fuel sales amounted to 1.446 mln tons, an increase of 18% on the previous year. In 2012, the Company is planning to increase sales to air companies, develop the network of sales channels and enhance the performance of our fueling facilities.

Achievements in 2011

- We increased our share in fuel supplies to the Sheremetyevo airport hub by 13% as a result of an acquisition of a 74.9% stake in the JSC TZK Sheremetyevo Refuelling Company by LLC TNK Sheremetyevo, a joint venture with 50% participation of TNK-BP.
- We raised the share of direct sales to airline companies to 45%, improving the sales structure. Sales volumes under long-term formula contracts increased by 2.5 times year-on-year.
- We expanded the geography of fueling services to the cities of Kemerovo, Ulan-Ude and Vladivostok due to a strategic agreement with TZK Aero Fuels fueling company.
- In 2011, the key customer management system was implemented to enhance sales efficiency.

Bitumen

In 2011, the Company sold 1.050 mln tons of bitumen, a 12% increase year-on-year. Our marketing policy highlighted TNK-Alfabit: promoting it in the Russian market led to sales volumes nine times higher than in the previous year. Test laying of TNK-Alfabit at the Moscow Ring Road and other key highways in the Moscow region, as well as preparation of a special Alfabit formula for the F1 race track in the city of Volokolamsk, drew attention to our innovative product.

Achievements in 2011

- Bitumen supply to the key high-margin market of Moscow and the Moscow region increased by 20% year-on-year.
- Active promotion of the new high-margin TNK-Alfabit product (PMB – polymer modified bitumen) in the Russian market with deliveries to main federal highways in co-operation with the Federal Road Agency Rosavtodor.
- A pilot batch of 500 tons of bitumen sent for exports to diversify the sales channels.

Lubricants

In 2011, the Company approved a renewed strategy for promoting its lubricants business and started its implementation. The renewed strategy envisages production of a broad range of motor oils meeting from Euro-1 to Euro-5 requirements. In 2012, we plan to increase our sales volumes and generally to strengthen the TNK lubricants brand position in the market.

Achievements in 2011

- 63 new lubricants developed and approved for production.
- Exclusive supply agreements were signed with metallurgical companies.
- 68 endorsements obtained from leading equipment and machinery manufacturers to use TNK oils in their products.

Liquefied Petroleum Gases

In 2011, the Company set up a liquefied petroleum gas (LPG) unit as part of our B2B business. Sales volume in the first year of operations amounted to 275,000 tons.

In 2012 we will concentrate our effort on small wholesale trade from container sites and gas storage stations.

Achievements in 2011

- Entering new regions in the south and central Russia, in particular due to the start of LPG supplies from the Lisichansk refinery.
- Renegotiation of a long-term formula-based contract for natural gas liquids (NGL) deliveries since July 2011.
- Formula-based contracts accounting for one third of LPG sales.

Sales, trading and logistics

2011 was a successful year in terms of increasing the efficiency of our crude oil and oil product sales. We exported 224 mmbbl of crude oil and sent 266 mmbbl to our refineries in Russia and Ukraine. Significant improvements in the distribution of crude production and in logistics allowed for increased light crude deliveries to the Ryazan and Saratov refineries which had a beneficial impact on the oil product quality.

In 2011, we ramped up the tolling volume to the Lisichansk refinery by 64% to 3.7 mln

tons which helped to keep the refinery in an operating mode and at the same time meet the demand for oil product in the south of Russia.

Our trading team succeeded in further diversification of our crude sales and of the customer base, having sold – at a competitive premium – 4 mln tons of crude oil via the ESPO pipeline to buyers from Japan, China, USA, Thailand, Singapore, Indonesia, the Philippines and South Korea, which was a 67% increase on the previous year.

67%

year-on-year growth of sales to Aeroflot, Transaero and Sibir.

Crude oil and oil product distribution in 2011		
	th. tons	mln bbl
Export	30,638	224
CIS	4,844	35
Domestic	10,004	73
Total	45,486	332
Refining volumes		
	th. tons	mln bbl
Ryazan	16,779	122
LINIK	5,459	40
Saratov	6,224	45
Nizhnevartovsk	1,326	11
Krasnoleninsk	144	1
YANOS	7,423	54
Total	37,355	273
Refined product sales		
	th. tons	mln bbl
Export	19,961	146
CIS	3,280	24
Domestic	14,238	104
Total	37,479	274

23%

TNK-BP share in the bitumen sales in the European part of Russia.

Achievements in 2011

1. Entering the Mongolian market.

A contract signed for winter diesel supplies from the Nizhnevartovsk refinery for the period from October 2010 through April 2011 at a much higher margin compared with alternative sales options.

2. Product supplies to Afghanistan.

Expanding the range of supplied oil products including supplies of 10 ppm diesel of own production and regular supplies of third-party products.

3. Crude supply optimization.

Effective crude reallocation from the domestic market to export. Extending long-term contracts with third-party refineries in Russia.

4. New crude supply schemes.

An economically viable scheme for processing at mini-refineries to deliver crude and off-take fuel oil and naphtha.

5. Development of gas sales.

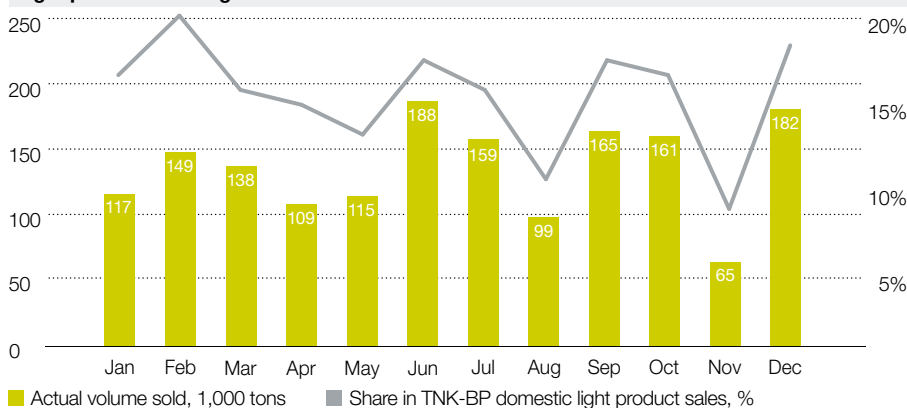
Comprehensive support for commercial assessment and negotiations regarding two major projects: LPG supplies from the Zaikinskiy gas processing enterprise and gas condensate supplies from Rospan.

Exchange trading in Russia

In 2011, TNK-BP sold approximately 16% of domestic light oil products at the St. Petersburg International Mercantile Exchange and Moscow Inter-Regional Oil and Gas Complex Exchange. Also, in 2011, registration of over-the-counter (OTC)-traded contracts commenced at the St. Petersburg exchange.

TNK-BP is an active supporter of the exchange trading development in Russia as an effective mechanism for ensuring fair and transparent pricing.

Light product exchange/auction sales in 2011



Risk management

In 2011, in compliance with advanced international practice our Sales, Trading and Logistics Division improved our risk management structure. In particular, calculation of open positions is now fully automated and we have materially improved the Value at Risk calculation. This approach enhances TNK-BP's existing instruments for

risk control, measurement and management, and increases the transparency of the Company's trading operations.

The efficiency of trading operations has been improved with the introduction of daily reporting on mark-to-market profit and loss (P&L) books.

A gas processing facility of Yugrugaspererabotka, a joint venture between TNK-BP and the Sibur petrochemical company



Gas business development

TNK-BP's strategic goal is to move away from being a predominantly oil-producing business to being a world-class, integrated oil and gas company.

Gas business development		76-85
80	External environment	
81	Free gas	
82	Associated petroleum gas	
83	Power generation projects	
85	Implementation of energy efficiency program	

Gas

82.8%

associated petroleum gas utilization

5.9

bn boe proved, probable and possible (3P PRMS) free gas reserves of Rospan

Unified Technological Development Plan for the Achimov layers, including Rospan reserves, approved

**14.3
bcm**

gas sales

**1,200
kWt**

energy-saving effect

Gas business development

TNK-BP's strategic goal, approved at Board level in 2011, is to move away from being a predominantly oil-producing business to being a world-class, integrated oil and gas company. This strategy calls for a significant increase in gas production, up to 2020, which we shall achieve through intensive development of available major gas reserves in Russia, such as Rospan, and through participation in new projects in Russia and abroad.



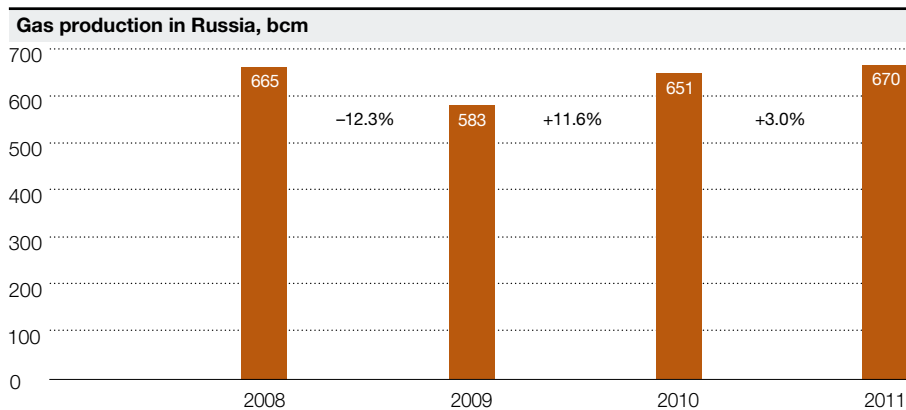
An equally important task is to ensure compliance with legislative requirements related to associated petroleum gas (APG) flaring. The Company's goal in this regard is to achieve a utilization level of 95% APG for all of its oil fields. TNK-BP will also continue to invest in commercial power generation, where it can monetize gas and improve energy efficiency for oil production and refining.

Thanks to optimal use of its resource base, existing experience, extra opportunities for gas business development in Russia and abroad, as well as positive shifts in the economic conditions and regulatory environment, TNK-BP will seek to ramp up its gas production to 35 bcma by 2020.

Objectives for TNK-BP Gas Business Development: produce up to 35 bcm a year by 2020

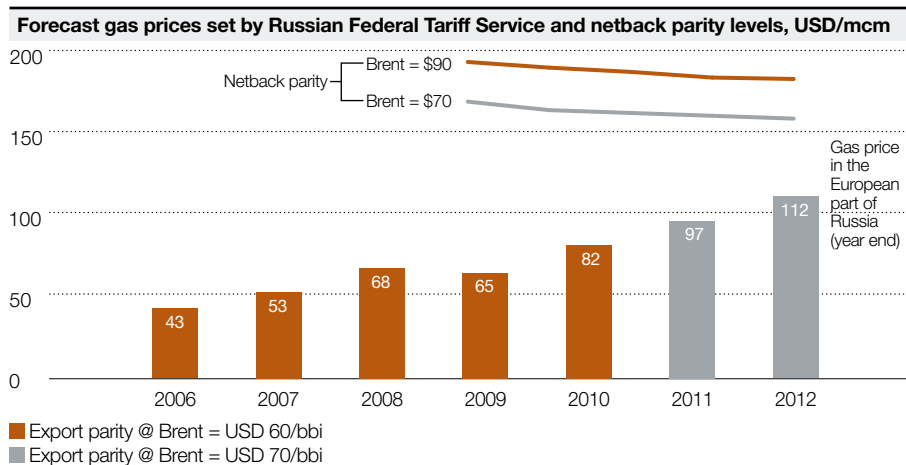
Launch of gas projects resilient to different macro scenarios	Reduce gas flaring to reach 95% gas utilization	Extend the gas value chain	Broaden gas business growth options (organic/inorganic)
<ul style="list-style-type: none"> - Rospan development - Long-term contracts with major gas consumers 	<ul style="list-style-type: none"> - Small-scale gas-to-power projects - Diversified options for APG utilization and monetization 	<ul style="list-style-type: none"> - Assessment of retail alternatives - Major gas-to-power projects 	<ul style="list-style-type: none"> - South Russia development - New gas projects abroad - Unconventional gas in East Europe

External environment

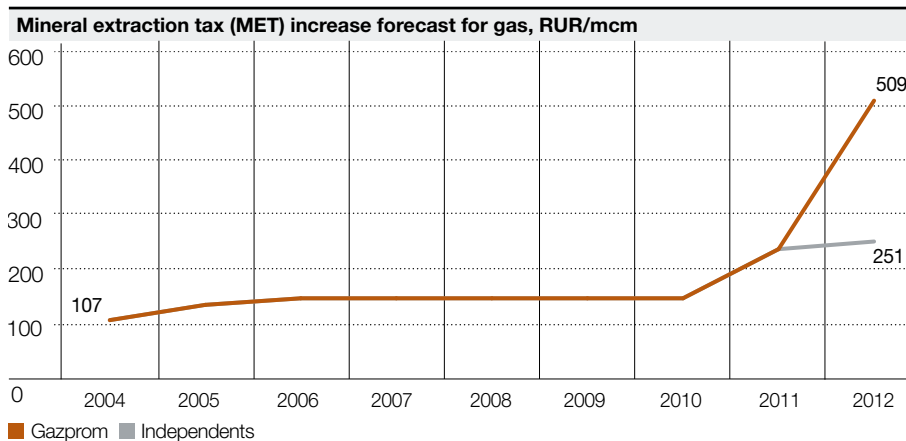


In 2011, gas demand in key world markets including Russia and neighboring countries exceeded the previous year's levels. At the same time, the external environment has become friendlier to independent gas producers. In 2011, Russian gas production exceeded the pre-crisis level of 2008 by 3%. Over the long term, according to BP Energy Outlook 2030, demand for natural gas is expected to keep rising in all major markets.

According to different scenarios for Russia's socio-economic development published by the Ministry for Economic Development, Russia should experience a steady growth in gas prices in the coming years. The rate of the Mineral Extraction Tax (MET) applicable to gas has been differentiated for Gazprom and independent producers. Different MET rates for Gazprom and independent producers may converge by 2017 when the government aims to achieve parity in export and domestic prices.



Source: The three-year economic scenario of Russian Ministry of Economic Development



Source: Tax Code of the Russian Federation, part 2 (edition of 28 November 2011, N 388-FZ)

Free gas

TNK-BP holds a 100% equity stake in CJSC Rospan International, a major gas producer in the Yamalo-Nenets autonomous region. Rospan's proved reserves (1P PRMS) total 2.266 bn boe, and its proved, probable and possible reserves (3P PRMS) stand at 5.9 bn boe. Rospan's total proved reserves under the SEC criteria equal 0.5 bn boe.

Considering the reserve potential, Rospan's annual gas production may reach 16.5 bcm. In 2011, Rospan gas sales stood at 3.3 bcm.

Rospan gas is marketed via the Novo-Urengoy Gas Company (NUGC), a marketing joint venture set up by TNK-BP and Mezhhregiongaz LLC (a Gazprom subsidiary). Since March 2008, it has been supplying gas to domestic industrial consumers at non-regulated prices. NUGC performs the important task of providing a stable marketing channel for gas produced from Rospan fields. Leveraging its experience of Mezhhregiongaz and knowledge of market specifics, NUGC aims to increase its presence in Russia's regional markets, offering an opportunity to increase gas production from Rospan fields over time. In 2011, NUGC entered into a contract to buy Rospan gas through to 2030.

The joint venture markets Rospan's entire gas production and is in constant search to improve sales efficiency. In 2011, significant volumes of this gas were delivered to high margin markets, such as the Sverdlovsk and Perm regions.

Under an agreement in 2010, Rospan has access to Gazprom's gas transportation system, for up to 13.2 bcma of gas, through to 2016.

In 2011, the Ministry of Natural Resources approved a Unified Technological Development Plan, drafted jointly with the operators of adjacent licenses. Ministry approval should facilitate development of the huge Achimov accumulation, of which Rospan reserves form part, and encourage co-operation with other license-holders in looking for the best development and infrastructure solutions. In 2012, we plan to complete design documentation for the main projects in Rospan's Full Field Development plan.

In addition to Rospan, TNK-BP has significant gas cap reserves in the Nizhnevartovsk region. The pilot phase of gas cap development is slated for 2014 to 2015, with full-scale development potentially to start in 2018 to 2019. A comprehensive technical and financial analysis of the project was undertaken in 2011 and will continue in 2012.

Our next focus will be on finding viable solutions for associated and free gas to be produced at the Company's fields in the Yamalo-Nenets autonomous region and in the north of the Krasnoyarsk region, such as Suzunskoye, Tagulskoye, Russkoe and the Messoyakha Group. These fields hold significant resources that are yet to be fully explored.

The United Technological Development Plan approved allows for cost-efficient development of the Achimov layers including the Rospan reserves.

Associated petroleum gas

TNK-BP produces the bulk of its associated petroleum gas (APG) in two key areas of the Company's oil production: the Nizhnevartovsk and Orenburg regions.

In 2011, the Company's APG production totalled 14.0 bcm, with a utilization rate at 82.8%. TNK-BP sees the increase in APG utilization as a business priority and plans to invest over USD 1.4 bn to enhance its overall APG utilization to 95%. This program involves the construction of new facilities for gas gathering and processing, for gas reinjection into reservoirs, and for facilities to use APG as a fuel for captive power generation. The utilization of associated petroleum gas is an essential part of the Company's commitment to protect the environment and fulfil licensing obligations.

In November 2006, TNK-BP and the SIBUR petrochemical holding set up a joint venture to treat APG at the Nizhnevartovsk and Belozerny gas processing plants in West Siberia. This JV, named Yugragazpererabotka, has been in business since April 2007. Yugragazpererabotka treats APG produced by TNK-BP and other oil companies in the Nizhnevartovsk area and Nyagan. Under the terms and conditions of the Joint Operations Agreement, TNK-BP obtains the entire production of dry gas, while SIBUR collects the liquid fractions resulting from APG treatment. In 2010, TNK-BP and SIBUR decided to merge Nyagangazpererabotka LLC, the gas processing enterprise previously owned by the SIBUR petrochemical holding, into Yugragazpererabotka LLC. Currently, Nyagangazpererabotka's capacities are sized to accept up to 2.14 bcm of APG annually.

In 2011, the total amount of APG taken for treatment in the Nizhnevartovsk area stood at 10,146 mmcm (compared to 9,703 mmcm in 2010). Of that total, Nyagangazpererabotka LLC took in 1,306 mmcm.

In December 2011, we opened a compressor station (CS-3) at the Nizhnevartovsk gas processing plant which has increased the plant's rated capacity in terms of APG intake by 700 mmcm a year.

Dry gas production in 2011 stood at 10,014 mmcm, of which 1,147 mmcm was processed at Nyagangazpererabotka LLC. Liquid hydrocarbon output in 2011 totalled 2,999 mln tons, 355 mln tons of that processed at Nyagangazpererabotka LLC.

The existing commercial contracts with JV Yugragazpererabotka as regards the Nizhnevartovsk and Belozerny gas processing plants remain in effect till the end of 2016. In late 2011, SIBUR and TNK-BP executed a memorandum of understanding to extend those commercial contracts for a further 10 years. Agreements relating to the JV and the contracts are planned to be signed in 2012.

In addition, TNK-BP is pursuing a project intended to expand the utilization of associated and free gas at the Company's oil fields in the Orenburg region (please see page 39). The project calls for a vastly expanded infrastructure to collect APG, including the construction of a gas fractionation unit and a rail terminal at the Zaikinsky gas processing plant, expansion of rail access and upgrades to a number of other gas treatment facilities. Annual APG production in Orenburg is expected to rise from 2.2 bcm in 2011 to 2.6 bcm in 2014. Phased operational launches of those facilities, including compressor stations and gas pipelines, have taken place since 2010 and will be completed in early 2014.

In addition to the Orenburg APG utilization program, the Company is formulating plans for the sizable resources of free gas in the region. With free gas development, TNK-BP would be able to fully enjoy economies of scale from company operations in the region.

Memorandum of understanding signed to extend the gas processing venture with Sibur till 2026.

Power generation projects

Power generation projects form an important part of TNK-BP's gas business development strategy and an effective means of cost reduction.

The first Group of power generation projects is designed to supply the Company's internal needs by replacing external power suppliers. This will have the following benefits:

- More predictability in the lifting costs structure, which will bring more efficiency in well stock management and planning of well interventions
- No restraints in electric power infrastructure; a sufficient and cost-efficient power supply to our subsidiaries.

Captive power generation involves building power stations at the Company's operating sites and, thereby, contributes to the utilization of associated petroleum gas.

In 2010 to 2011, TNK-BP commissioned gas turbine power plants (GTPP) at three of its fields: Kamennoye, Ust-Tegusskoye (Eastern Uvat) and one of Varyoganneftegaz's blocks. In the future, the Company plans to expand its existing facilities or to build new GTPPs at its major fields.

Secondly, TNK-BP specialists are closely looking at opportunities to expand the gas-to-power business in the regions where the Company operates. Potential new power projects are currently being assessed in the fields around Nizhnevartovsk and in the Orenburg region, as well as at the Verkhnechonskoye field, in Nyagan and on the Yamal peninsula.

Successful implementation of the Company's captive power generation plans is expected to cut operating costs by up to USD 150 mln in 2012 – 2014.

USD 150 mln

– expected reduction in operating costs in 2012 – 2014 due to development of captive power generation.

Gas

Nizhnevartovsk power plant

CJSC Nizhnevartovsk Power Plant (NVGRES) is a joint venture between TNK-BP (25% plus one share) and OJSC INTER RAO UES. The joint venture owns and operates the plant's existing heat and power units 1 and 2 (producing a total of 1,600 MW). The plant's capacity will be expanded with the construction of a third unit producing 400 MW. Once the third unit is commissioned in 2013, TNK-BP will be able to increase gas supplies to NVGRES from the current 3 bcma to 3.6 bcma and to secure electricity supplies in the region.

In 2010, TNK-BP and NVGRES signed a long-term agreement on gas supplies, on a 'take or pay' basis, for 18 years.

In 2011, we also held a tender to select a general contractor to run the project design, equipment supplies and construction of the third power unit. In July 2011, the first pile was driven on the construction site, signalling the launch of construction work. By the end of the year the foundation for the main equipment and the unit building had been completed and the gas turbine unit, together with the heat turbine generator, had been delivered to the site.



Kyoto Protocol projects

TNK-BP believes that the Kyoto Protocol mechanism is an important step towards extending the efficient use of associated petroleum gas. The 'Joint Implementation Mechanism' under the Kyoto Protocol to the UN Framework Convention on Climate Change incentivizes implementation of APG utilization and other projects aimed at reducing greenhouse emissions. In 2011, we moved further in broader application of the 'Joint Implementation Mechanism' to our activities.

In particular, the Company carried out an analysis of our energy efficiency and APG utilization programs 2006 to 2011, resulting in a list of 40 projects which may potentially qualify for implementation under the Kyoto Protocol.

In 2011, TNK-BP and Sberbank, an authorized operator of the allocation of carbon units in Russia, signed an agreement on partnership and co-operation, under which Sberbank supports TNK-BP in choosing projects which answer Russian and international criteria for implementation under the Kyoto Protocol, in recruiting consulting services to prepare the design documentation and in choosing a buyer for the emission reduction units (ERU).

The Company prepared and co-ordinated with Sberbank, and the Ministry of Natural Resources a set of documents (a verification

report, monitoring report and a verifier's expert findings) which is necessary for the issuing of emission reduction units for the 'Gas Collection at the Samotlor Field' project. According to the monitoring report and the verifier's findings, reduction in greenhouse emissions as a result of the project's implementation in 2009 to 2010 amounted to 355 th. CO₂ equivalent. Revenue from the transfer of the relevant emission reduction units to the buyer, BNP-Paribas, amounted to 65.2 mln RUR (around USD 2.2 mln).

We continue to review projects which may lead to reduced greenhouse emissions in West Siberia and the Orenburg region. In 2012, the Company plans to prepare the necessary documentation for the 'Associated petroleum gas utilization at the Khokhryakovskoye field' project and take part in the project selection organized by Sberbank. Estimated emission reduction units under this project correspond to 3 mln tons of CO₂ equivalent.

In 2012, we also plan to draw up documentation for a number of projects under the heading 'Construction of small-scale power projects using associated petroleum gas' as well as for initiatives on efficiency improvements in APG utilization in West Siberia and the Orenburg region.

Implementation of energy efficiency programs

Given the consistent growth in the cost of energy resources and the high energy intensity of processes associated with the production, transportation and refining of oil, gas and gas condensate, the Company regards the continuous improvement of its energy efficiency as a vital element of its business activities and as a contribution to the sustainable development of society as a whole.

Energy efficiency organization

TNK-BP's permanent Energy Efficiency Commission, set up in 2010, continues to function successfully. Its main aim is to ensure cost-efficient improvements in the energy efficiency of systems, business processes, structural units and equipment in all areas of activity over the long term.

On the basis of TNK-BP's Key Procedure 'Organization of the Energy Management System', in 2011 one of its oil production subsidiaries, OJSC TNK-BP Nizhnevartovsk, ran a pilot project to deploy the new Energy Management System with precertification to the ISO 50001 international standard. The Energy Efficiency Commission has decided to roll this project out to a further five subsidiaries in 2012.

Key objectives of improving energy efficiency:

- Apply advanced techniques and approaches in energy efficiency management
- Optimize existing technological processes and improve the energy efficiency of operations in terms of energy input, while maintaining key process parameters
- Improve energy efficiency in electricity and heat transmission and distribution systems
- Use energy efficiency criteria to analyze and improve existing business processes and in the design and construction of new facilities
- Deploy modern systems for the technological metering of energy and key technological process parameters.

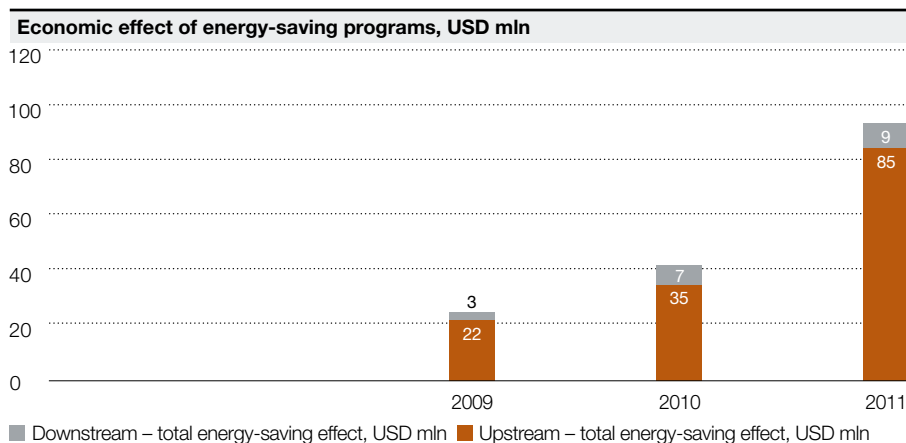
Energy efficiency programs: scope, implementation and impact

A process for monitoring and managing improvements in energy efficiency in oil production, which we started to establish early in 2009, has now evolved into a key corporate initiative for operating costs reduction. In 2010, following the creation of the Energy Efficiency Commission, we launched a comprehensive application of this process in the oil and gas refining segment. In 2011, we shared the best experience gained in energy efficiency activities with TNK-BP's joint ventures – Yugragazpererabotka and Slavneft.

The overall gain achieved through the Company's energy efficiency programs in 2009 to 2011 amounted to USD 161 mln.

Key energy efficiency initiatives implemented or launched in 2011:

- An agreement signed between TNK-BP and the Skolkovo Foundation on collaboration in improving energy efficiency, including an inter-university competition on energy-saving projects
- A concept devised and approved for the creation of energy-efficient metering and control systems; a pilot project to test this system launched in Upstream in 2012
- Energy audits of TNK-BP's Upstream subsidiaries completed; energy inspections launched to improve energy efficiency in the Company's oil refineries
- An active search underway for new technologies and technical solutions to improve energy efficiency; the energy efficiency program for 2012 to 2014 includes a roll-out of successful projects completed in 2010 to 2011
- Company staff being trained in the fundamentals of energy efficiency and standard energy-saving measures in Upstream and refining
- Work initiated to integrate energy efficiency aspects at the design and engineering stage of our greenfields.



161 mln USD

– the saving effect from the energy efficiency programs in 2009 – 2011.



Gaining new heights

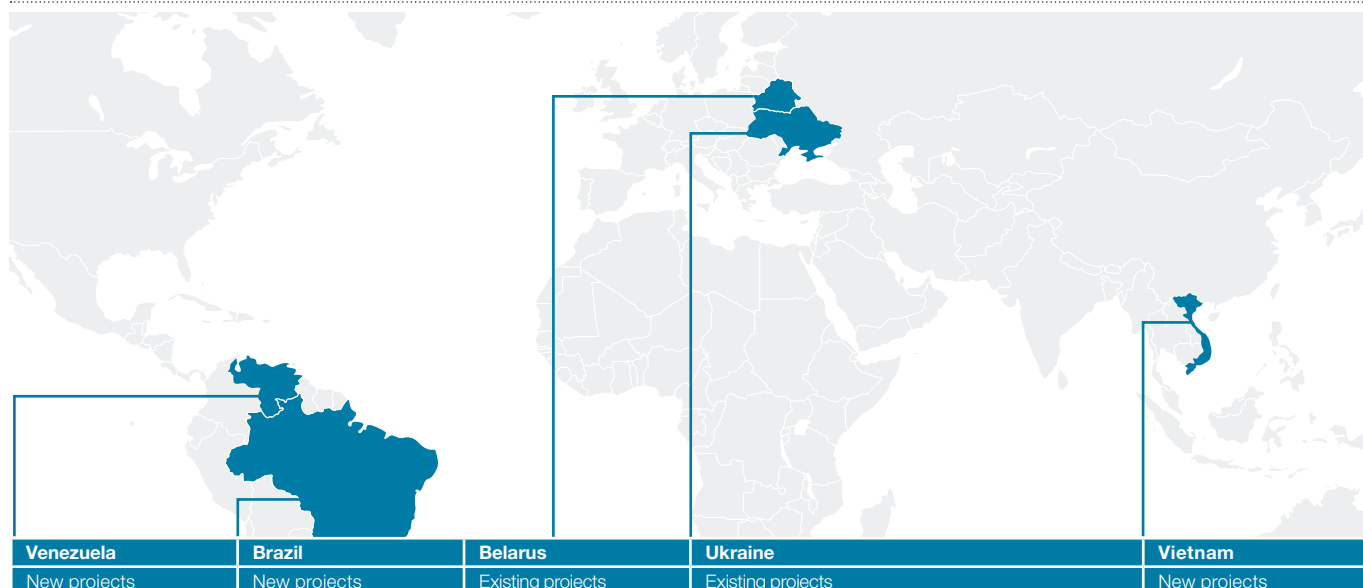
Global reach

We aim to become a world-class company and the leader among Russian private oil companies in terms of efficiency of operations, innovation, strong organizational capabilities and the use of best-in-class technology.

International diversification is a new dimension to our development and it will enable us to improve performance in these strategic areas.

We will broaden our skill set and apply our in-depth knowledge to TNK-BP's projects in Russia in order to increase efficiency and enhance our competitive edge.

International presence of TNK-BP



In 2010 and 2011, TNK-BP entered into a number of international partnerships in Vietnam, Venezuela and Brazil that will form the basis of our international portfolio and enrich the Company with additional expertise to strengthen our operations in Russia.

International interests of TNK-BP			
Country/Project	Project	TNK-BP interest	Other participants
Venezuela	Extra-heavy oil brownfield opportunity		
Deal completed 10 June 2011	JV PetroMonagas	16.67%	PDVSA – 83.3%
	Light oil brownfield opportunity		
	JV PetroPerija	40%	PDVSA – 60%
	JV Boqueron	26.67%	PDVSA – 60% OMV – 13.3%
	Extra-heavy oil greenfield opportunity		
	JV PetroMiranda	8% net to TNK-BP (20% in NPC)	PDVSA – 60% National Petroleum Consortium (NPC) – 40%
Vietnam*	Offshore upstream opportunity		
Deal completed 17 October 2011	Block 06.1	35%	ONGC – 45% PetroVietnam – 20%
	Midstream		
	The Nam Con Son pipeline	32.7%	PetroVietnam – 51% ConocoPhillips – 16.3%
Brazil	Onshore exploration opportunity		
Farm-In agreement signed 31 October 2011**	21 exploration blocks in the Solimões Basin	45%	HRT Oil & Gas – 55%

6.2 mln
boe of production from international assets in 2011.

* Acquisition of the Phu My 3 power plant is yet to be finalized

** For more details see page 91

We are developing a strategy in respect of our international assets with the following key themes:

- Secure and fully integrate the businesses in Vietnam, Venezuela and Brazil into the Group structure
- Maintain our high standard of HSE performance
- Look for opportunities in existing countries to deliver long-term international growth with appropriate financial returns to TNK-BP
- Ensure transfer of knowledge and lessons learnt from international assets to help the long-term development of challenging and new reserves in Russia, i.e. heavy oil and offshore
- Build organizational capability covering technical, commercial and support functions to enable TNK-BP to operate effectively overseas both as operator and as a non-operator partner
- Continue to review international opportunities that offer synergies with TNK-BP's existing businesses to continue international expansion in the future.



The Lan Do offshore platform in Vietnam

TNK-BP in Venezuela

Brownfield opportunity

In October 2010, TNK-BP entered into an agreement with BP to acquire certain assets in Venezuela, including minority stakes in three producing entities: PetroMonagas (16.67%), PetroPerija (40%) and Boqueron (26.67%), with state-owned PDVSA as the major partner (OMV also has a 13.3% stake in Boqueron).

On 10 June 2011, we closed the deal for purchasing the stakes in the three ventures. By the end of 2011, the integration process was successfully completed and data for the Venezuelan entities were included in financial, operational, organizational and other Group reports.

Upon completion, TNK-BP's net share in the ventures amounts to 200.3 mboe of proved PRMS reserves and approximately 25 mboe/d of production. The projects are self-funding and provide returns to investors through dividends. In 2011, the cash distribution received from ventures amounted to USD 26.4 mln.

PetroMonagas is an integrated project: the produced extra-heavy crude oil is transported by pipeline to an upgrader on the coast and converted there into export bound synthetic crude. TNK-BP's net share in production is approximately 20 mboe/d. Entering into this project means that TNK-BP has become the first Russian company to have hydrocarbon production in Venezuela and

the first Russian company to participate in the production of extra-heavy crude and upgrade it to commercial synthetic oil.

In December 2011, a successful drilling program in PetroMonagas allowed us to reach 120 mboe/d (gross oil production). The upgrader turnaround scheduled for the second half of 2012 and debottlenecking project execution scheduled for 2013 are expected to increase production up to 145 mboe/d by the end of 2013.

We continue to review ways to increase production growth up to 210 mboe/d. PetroMonagas staff and the TNK Venezuela team are running tests to evaluate the technical and financial efficiency of our current capacities and their potential enhancement.

PetroPerija and Boqueron are mature light oil assets. TNK-BP's net share of production is approximately 5 mboe/d.

Extra-heavy oil greenfield opportunity

Junin-6 integrated heavy oil project

In November 2008, TNK-BP and four other major Russian oil and gas companies (Rosneft, Lukoil, Gazprom Neft and Surgutneftegas) formed the National Petroleum Consortium (NPC), with each party receiving a 20% interest. The consortium, set up at the initiative of the Russian Government, is a public-private partnership established to promote energy co-operation between Russia and other countries.

In April 2010, PetroMiranda, a venture between NPC and PDVSA, the state oil company of Venezuela, was set up in order to develop and operate an integrated heavy oil project at the Junin-6 oil field in the Orinoco oil belt in Venezuela. NPC paid USD 600 mln to the Venezuelan Government. In Venezuela for a 40% interest in the venture and TNK-BP loaned USD 120 mln to NPC in respect of its 20%. With the main organizational issues resolved, the venture operations got underway. With people in place in Venezuela, we made significant progress toward early oil production. The in-place oil at Junin-6 is estimated at approximately 50 bn bbls of heavy and extra-heavy oil. The production plateau is expected to reach 450 mboe/d in 2016. The venture between NPC and PDVSA is established for 25 years, with a possible extension for another 15 years.

In December 2011, TNK-BP transferred approximately USD 4 mln to NPC as its share of funding PetroMiranda activities during 2011 and part of 2012. The PetroMiranda JV plans to execute an appraisal program and an Early Oil project in 2012, and to grow gross production up to 50 mboe/d by the end of 2013.

TNK-BP is considering options for creating a 'Heavy Oil Center of Expertise' in Caracas, the capital of Venezuela – a knowledge hub to improve the efficiency of heavy oil production in the country and elsewhere in TNK-BP operations.



TNK-BP
– the first Russian company to participate in the production of extra-heavy crude and upgrade it to commercial synthetic oil in Venezuela.

The Lan Do offshore platform in Vietnam



TNK-BP in Vietnam

In October 2010, TNK-BP entered into an agreement with BP to acquire certain assets in Vietnam. These include interests in an integrated gas project, including operatorship of offshore Block 06.1 (35% interest), the Nam Con Son gas pipeline (32.7% interest) and the Phu My 3 power plant (33.33% interest) – please see page 88.

Block 06.1, which includes two gas fields, Lan Tai and Lan Do, is located in the Nam Con Son oil and gas basin, some 370 km off the south coast of Vietnam. The fields are developed under a production-sharing agreement with partners including the Oil & Natural Gas Corporation (ONGC) of India (45%) and the Vietnamese state oil and gas company PetroVietnam (20%).

In October 2011, the Vietnamese Ministry of Investment and Trade granted TNK Vietnam B.V., the Vietnam-based subsidiary of TNK-BP, licenses to operate offshore gas Block 06.1. The acquisition has brought TNK-BP an additional 30.6 mmboe of proved PRMS reserves and approx. 15 mboe/d of production (net entitlement share).

In order to complement the current level of production at the Lan Tay field, TNK Vietnam has launched a drilling campaign at Lan Do. The first well had been drilled and completed in March 2012 with the second well completed in April 2012. Following a sub-sea installation campaign and tie-back to the Lan Tay platform in 2-3Q 2012, first gas from Lan Do is scheduled for 4Q 2012.

The Nam Con Son pipeline connects the Lan Tay field and other offshore fields with the Phu My 3 energy complex. The other partners in the pipeline project are PetroVietnam Gas (51%) and ConocoPhillips* (16.3%). The pipeline also transports hydrocarbons from the neighboring blocks under long-term transportation contracts. In 2011, the Nam Con Son pipeline pumped over 6 bcm of gas, including all gas produced at Block 06.1. The deal in respect of the Nam Con Son pipeline was completed in October 2011 and the integration process completed by the end of the year.

Phu My 3, a 750 MW combined cycle power plant, is located 70 km from Ho Chi Minh City, in the south of Vietnam. Phu My 3 meets up to 6% of Vietnam's electricity demand. The power plant purchases all of its gas from Block 06.1 and sells electricity under long-term contracts. The other partners in the power plant project include the Kyushu Electric Power and Sojitz consortium (33.33% each). TNK-BP's acquisition of the power plant is expected to be finalized in 2012.

TNK-BP in Brazil

In October 2011, TNK-Brasil, a subsidiary of TNK-BP, signed a Farm-In agreement and a Joint Operating Agreement (JOA) with the Brazilian company HRT O&G. Under the agreement, TNK-Brasil acquires a 45% stake in the Solimões basin project in Brazil. In March 2012, TNK-Brasil received ANP approval for the acquisition.

The 21 oil and gas exploration blocks in the Solimões Basin, majority owned and operated by HRT O&G, cover an area of approximately 48,500 sq.m. The Solimões Basin lies to the west of the city of Manaus in the Amazon region of Brazil.

According to a Degolyer & MacNaughton reserves audit report, which takes account of 11 discoveries where oil and gas were tested, the blocks bring TNK-BP a net prospective and contingent resource of 789 mmboe. Initial production from the fields in the Solimões Basin is expected in 2012-2013.

Of four wells completed by operator HRT, all have been designated as oil and/or gas condensate discoveries, which confirms the presence of hydrocarbons in the basin.

HRT has also begun an extensive seismic and well exploration program which will be conducted over the next four years. The initial 2D seismic program is underway, using Brazilian contractors to acquire data in the dense forest and river environment.

*ConocoPhillips announced the sale of the interest to Perenco in 1Q 2012

The office of Megionneftegas,
the main production
subsidiary of Slavneft



Slavneft

Slavneft is the seventh largest oil company in Russia, accounting for 3.5% of the country's output. TNK-BP effectively owns 49.9% of Slavneft on an equal basis with Gazprom Neft. In December 2010, TNK-BP and Gazprom Neft established a 50/50 joint venture to develop the Messoyakha Group of fields, spinning it off from Slavneft. Messoyakhskiye is a giant deposit in a remote, previously untouched area, and its development as a separate project will help to better allocate people, technology and capital.

Strategic guidance is provided to Slavneft by the Board of Directors, comprising 10 individuals, with equal representation from both shareholder groups.

In 2011, Slavneft held a total of 31 production and exploration licenses for fields in West Siberia and the Krasnoyarsk region in East Siberia. Its main production subsidiary is Slavneft-Megionneftegas, located in the Nizhnevartovsk area in West Siberia.

In 2011, Slavneft's fields produced 367 mb/d (18.1 mln tons) of oil or 98.5% of the 2010 level. The gas sales volume amounted to 0.645 bcm or 4.3% below the previous year. Associated gas utilization increased by 3.1% versus 2010 and reached 75%.

Slavneft has managed to significantly slow the natural rate of decline in hydrocarbon production thanks to the application of modern technologies at its mature fields: in 2011, production decreased by 1.5% as compared to a 2.28% decline in the previous year. During the year, Slavneft commissioned 217 new wells, undertaking 780.7 thousand meters of drilling.

Slavneft operates three refineries: YANOS and the Mendeleev refineries in the city of Yaroslavl in Central Russia, and the Mozyr refinery in Belarus (42.5% share).

In 2011, Slavneft refined almost 504 mb/d (25.2 mln tons), representing a 10% increase on the previous year. A significant growth in processing volumes at the Mozyr refinery is attributable to incremental oil supplies to the Republic of Belarus from Russia, Azerbaijan and Venezuela. YANOS is one of the largest

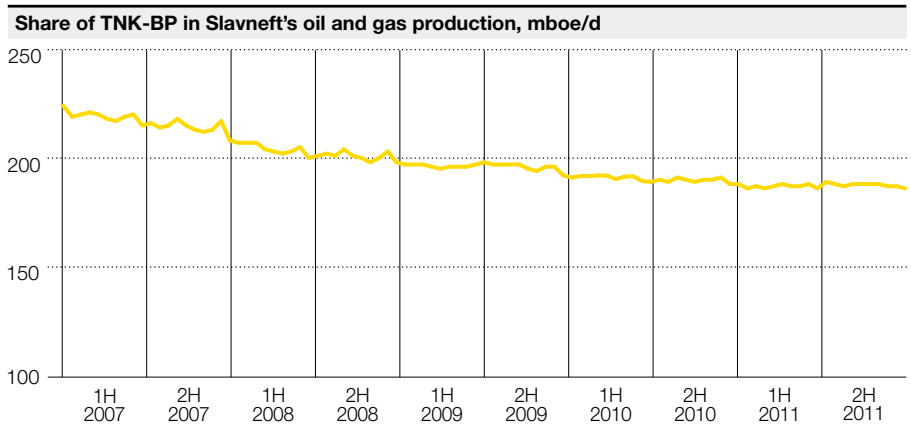
and most modern refineries in Central Russia, with a refining throughput of over 296 mb/d in 2011, a 5% increase on the previous year. YANOS produces high quality fuels, including 10 ppm diesel which meets Euro-5 quality standards.

In December 2011 YANOS commissioned a new processing facility – a Catalytic Cracking Gasoline Hydrotreatment Unit with an annual capacity of 800 th. tons. This facility will decrease the sulphur content in gasoline while maintaining its high-octane rating. The facility will consist of 9 combined blocks: five main blocks (selective hydrogenation, fracturing, hydrodesulfurization, stabilization, amine regeneration) and four auxiliary blocks. The total spend for this project amounts to 5.22 bn roubles. Construction of the Catalytic Cracking Gasoline Hydrotreatment Unit is the next stage in the implementation of the OAO Slavneft-YANOS's Revamping and Technical Upgrading Program.

In 2011, YANOS completed construction of the C5-C6 Gasoline Fractions Isomerization Unit (Izomalk-2). Commissioning of these processing facilities allows a substantial increase in the volume of high-octane gasoline: from 2.09 mln tons in 2011 up to a projected 2.48 mln tons in 2012. Since 1 January 2012, OAO Slavneft-YANOS has been producing motor gasoline compliant with the Euro-4 quality standard.

Slavneft's performance figures for 2011

Metric	2011	Change on 2010
Crude production (TNK-BP share)	183 mb/d (9.031 m/n tons)	- 1.5%
Gas sales (TNK-BP share)	5 mboe/d (0.322 bcm)	- 4.3%
Oil reserves as of 31 December 2011 (100% Slavneft)	1.642 bbl (TP SEC) 7.564 bn bbl (3P PRMS)	+ 0.4% + 2.4%
Gas reserves as of 31 December 2011 (100% Slavneft)	246 bn cub. ft. (TP SEC) 563 bn cub. ft. (3P PRMS)	- 10.6% - 12%
Refining at YANOS (TNK-BP share)	148 mb/d (7.423 m/n tons)	+ 3.4%
Gasoline yields at YANOS (TNK-BP share)	1.476 mln tons	+ 4.9%
Diesel yields at YANOS (TNK-BP share)	2.226 mln tons	+ 1.2%



◀ In 2011, the decline rate of mature field production slowed to 1.5% due to consistent application of modern technologies.

Slavneft operations comply with international standards through quality management certification for compliance with ISO 14001:2004 (environmental obligations) and OHSAS 18001:2007 (industrial and labour safety requirements).

You can find out more about Slavneft at www.slavneft.ru



Corporate governance

Good corporate governance is the foundation of any successful business that aims to grow value in the long term. We are working constantly to raise our corporate governance to the highest international standards.

Good governance is an ongoing commitment shared by our people at all levels in the Company. Our key business principles are cascaded down the organization through our Code of Business Policies and underlying corporate standards* to which all employees are expected to adhere.

We foster a culture where both corporate and personal ethics, integrity and accountability are fundamental to everyday business practices. Our Code of Business Policies is discussed in more detail on page 101.

The general principles underpinning corporate governance at TNK-BP are stipulated in the Shareholder Agreement between our two principal shareholders, BP and AAR (which is composed of Alfa Group Consortium, Access Industries and Renova). The terms of the Shareholder Agreement were updated by the shareholders in 2009, reflecting our maturing company and setting new objectives for its strategic development. The revised agreement establishes three decision-making bodies within the TNK-BP Group: the Board of Directors, the Management Board and the CEO.

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*The Code of Business Policies and corporate standards are mandatory for employees of JSC TNK-BP Management, the managing company of the Group, and TNK-BP Holding, operating the majority of our Upstream and Downstream assets in Russia, and are of an advisory nature for Group subsidiaries.



в будущем – Функции

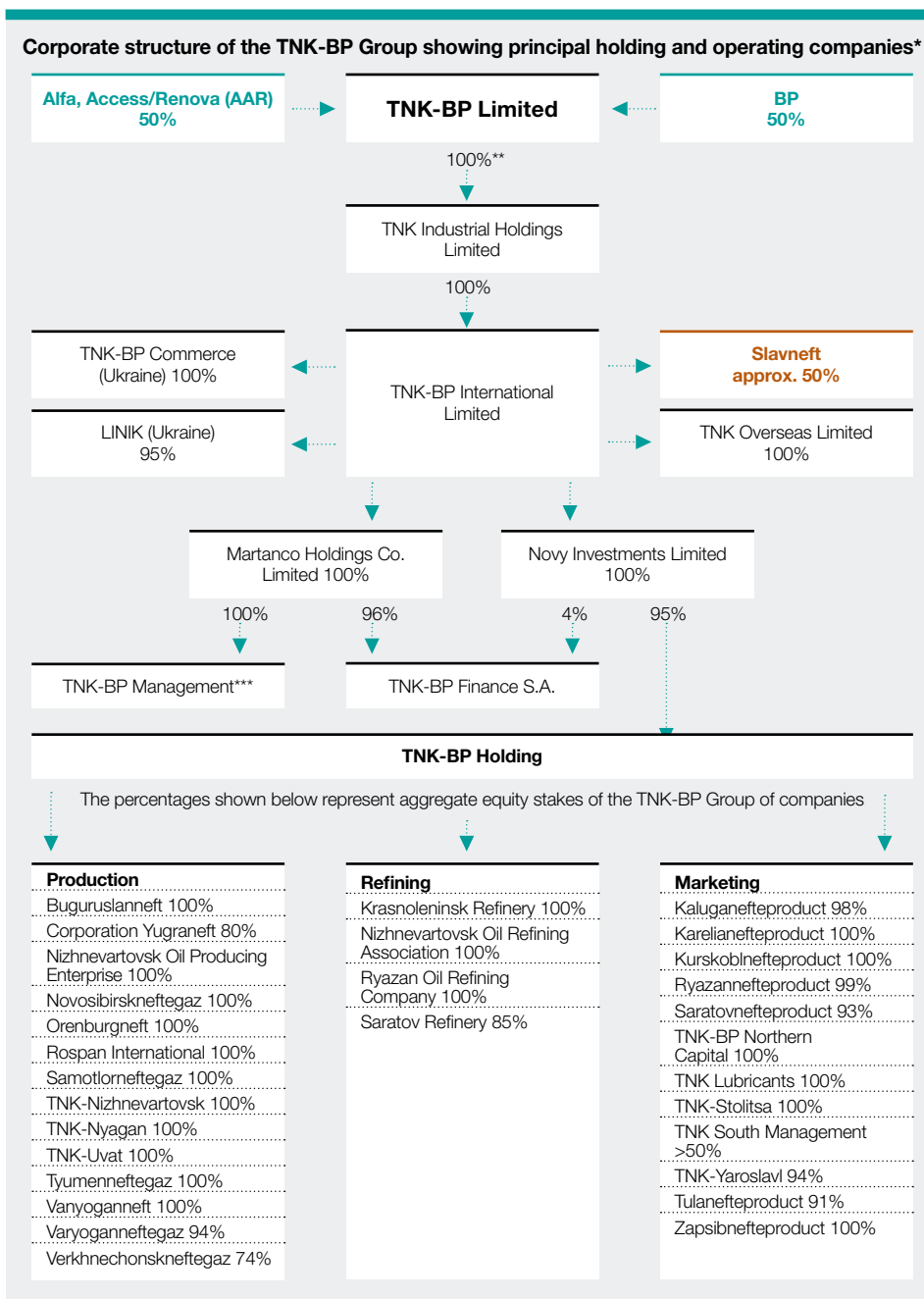
Уровни

Процессы

Эффективные
кодифицированные
Хорошие

Функции

Corporate structure of the TNK-BP Group



* Equity stakes are shown as percentage participation in the charter capital

** Of the total number of voting shares

*** TNK-BP Management is the managing company of TNK-BP Holding

Note: The stake in RUSIA Petroleum, operator of the Kovykta gas field, was sold in March 2011 (see page 120)

In January 2011, BP announced that it had agreed to enter into a transaction with Rosneft to jointly explore and develop three license blocks belonging to Rosneft on the Russian Arctic continental shelf, and BP and Rosneft would enter into, inter alia, a share swap, following which Rosneft would hold 5% of BP's ordinary voting shares and BP would hold approximately 9.5% of Rosneft's shares. The AAR shareholders objected to the Rosneft transaction on the basis that under the Shareholder Agreement, the parties were to use the TNK-BP Group as their primary vehicle for carrying on oil- and gas-related business in Russia and that the transaction with Rosneft should have been notified and offered to TNK-BP. Arbitration proceedings are continuing regarding AAR's claims against BP that BP's conduct in relation to the Rosneft transaction constituted breach of the Shareholder Agreement. In August 2011, BP filed for arbitration of its claims that Renova violated the Sale and Purchase Agreement relating to the formation of TNK-BP by not contributing certain assets of the Gazex group and interests in TZK Koltsovo to TNK-BP and/or Renova (and AAR) violated their obligations under the Shareholder Agreement to use the TNK-BP Group as their primary vehicle for carrying on the oil- and gas-related business in Russia by purchasing such assets without offering them to TNK-BP. The parties to these proceedings are in the process of appointing arbitrators. In relation to each of these arbitration claims, it is possible that TNK-BP may have a similar claim against the relevant respondents. TNK-BP's management does not believe that these actions will negatively impact the day-to-day operations of the Company.

Board of Directors

The Board of Directors of TNK-BP Limited, the ultimate holding company of the TNK-BP Group, comprises 11 members: four directors representing each of the two shareholder groups (AAR and BP) and three independent directors.

The Board provides strategic guidance to the Company, reviews company performance and strategy implementation, advises on major acquisitions and divestments, endorses capital expenditure, appoints and evaluates executives, executes financial control and ensures that TNK-BP meets high ethical standards of business.

The terms of reference of the Board of Directors are determined, among others, by the Shareholder Agreement.

On 1 January 2012, two independent directors resigned from the Board. As of the date of publication, one new director has been appointed and the other one is being sought to provide the quorum for the Board as stipulated by the Shareholder Agreement.

In 2011, members of the Board of Directors were:

AAR nominees

- Mikhail Fridman, Executive Chairman of the Board of Directors
- Viktor Vekselberg
- Len Blavatnik
- Alex Knaster

BP nominees

- RT Hon Lord (George) Robertson of Port Ellen
- Anthony Hayward/Michael Townshend as of 1 October 2011
- David Peattie
- Brian Gilvary

Independent directors*

- Gerhard Schroeder
 - Alexander Shokhin
 - James Leng
- Gerhard Schroeder and James Leng announced their resignation from the Board of Directors in December 2011.

Biographies of the Board members can be found on pages 102-103 of this report.

In 2011, the Board of Directors met nine times.

Board committees

To assist the Board in fulfilling its responsibilities, three Board committees have been set up: the Audit Committee; the Compensation Committee; and the Health, Safety and Environment Committee. Each committee acts within its scope of authority delegated by the Board. The committees are represented by an equal number of members from the two shareholder groups and one independent director.

Audit Committee

The Audit Committee assists the Board in fulfilling its functions in relation to internal control and financial reporting, monitoring compliance with legal and regulatory requirements, assessing the work of the internal audit function and the effectiveness of the risk management and internal control systems.

Members of the Audit Committee in 2011: RT Hon Lord (George) Robertson of Port Ellen (Chairman), Len Blavatnik, Brian Gilvary, Alex Knaster (Vice-Chairman) and Alexander Shokhin.

In 2011, the Audit Committee met five times.

Compensation Committee

The Compensation Committee determines compensation packages and agrees performance contracts for the CEO and top management and reviews their performance. It also reviews the Company's performance against the performance indicators and agrees on the amount of annual performance rewards (subject to the Board's approval).

Members of the Compensation Committee in 2011: Viktor Vekselberg (Chairman), Len Blavatnik, James Leng, Brian Gilvary and David Peattie (Vice-Chairman).

In 2011, the Compensation Committee met five times.

HSE Committee

The HSE Committee monitors major HSE risks and compliance with relevant laws and applicable corporate policies, approves the

HSE strategy and policy, and reviews the Company's HSE performance.

Members of the HSE Committee in 2011: David Peattie (Chairman), Alex Knaster and Gerhard Schroeder.

In 2011, the HSE Committee met four times.

The Chief Executive Officer (CEO), Management Board and corporate committees

Beyond matters reserved by the Board for its consideration and decision-making, all decisions related to the daily running of the business are generally delegated to the CEO and the management.

Chief Executive Officer and the Management Board

The CEO is nominated by BP and is approved by the Board of Directors generally for a period of three years. The CEO is entitled to make decisions related to the business activities of the Company, generally up to a limit of USD 100 mln, and is accountable to the Board for the performance of the Company.

In October 2011, the shareholders agreed on a number of decisions regarding senior management roles in TNK-BP which were then formally approved by the Board of Directors. As a result, a new senior management committee was formed to run TNK-BP on a day-to-day basis.

The new senior management committee consists of:

- Mikhail Fridman, serving as the CEO and Executive Chairman of TNK-BP for the calendar years 2012 and 2013, when BP will nominate a CEO to succeed Mr Fridman
- Jonathan Muir, continuing as Chief Financial Officer (CFO) and responsible for co-ordinating the work of the management board
- Viktor Vekselberg and German Khan, continuing as AAR-nominated Executive Directors

*The Shareholder Agreement describes an independent director as a person who is not and has not been, for the three years prior to his appointment, an employee, officer or consultant to any of the shareholders or their groups; does not receive and has not received, for five years prior to his appointment, remuneration from the TNK-BP Group (except for a director's fee) and other shareholders or their groups; does not have and has not had, in the three years prior to his appointment, any material business relations with any of the shareholders or their groups; and is not a close relative of any director or senior employee of the TNK-BP Group or any of the shareholders or their groups.

- Alexander Dodds, serving as the BP-nominated Executive Director and Executive Vice President Upstream
- Alfredo Barrios, serving as the BP-nominated Executive Director and Executive Vice President Downstream.

The senior management committee is responsible for making changes to TNK-BP's organizational structure and appointing executives, reviewing reports from the business streams, approving the Codes and corporate standards, establishing and terminating corporate committees and working groups as well as monitoring their activities. The senior management committee sets out guidelines for interaction between the managing company, TNK-BP Management, and the Company's subsidiaries; and approves candidates in the executive bodies with the participation of TNK-BP Management and TNK-BP Holding, operating the majority of our assets in Russia. The committee also issues voting recommendations at general shareholder meetings of the legal entities owned by TNK-BP Management and TNK-BP Holding.

Maxim Barskiy, Deputy Chairman of the Management Board, elected to continue his professional career outside the Company in October 2011. Following Mr Barskiy's departure, the position of deputy CEO was abolished.

Corporate committees

Corporate committees are created by the decision of the Management Board and work to resolve specific issues related to corporate governance and project management. There are seven corporate committees at TNK-BP.

Policies and Compliance Committee

- Oversees risk management.
- Sets the norms for ethical business behavior and monitors adherence to corporate business ethics regulations.
- Manages conflicts of interest.

- Acts as a single co-ordination center to control efficient implementation of the enterprise-wide risk management system and the Internal Control System.

HR Committee

- Manages the development of corporate HR standards and programs.
- Assures that these programs are implemented in headquarters and subsidiaries.
- Makes recommendations related to the development of our corporate culture.

Operations Committee

- Develops and oversees the delivery of the Company's business plan.
- Assures the implementation of major projects and operational strategies.
- Assures high standards of operational efficiency, optimization and integration across streams.
- Assures the efficiency of contracting processes (procurement and marketing), endorses approaches and oversees adherence to contracting rules.
- Reviews and endorses the guidelines of stream operational strategies and business priorities.

Investment Committee

- Approves and monitors major investment projects.
- Optimizes the investment process and redistributes capital among company streams.
- Approves key performance indicators and the principles for investment project assessment.

Internal Finance Committee

- Approves and implements our internal financing strategy and key principles.
- Reviews financial transactions that may lead to material financial or legal risks.

Credit Committee

- Manages our credit risks by introducing and monitoring a number of internal control processes.
- Approves major credit transactions.

IT Committee

- Endorses a uniform IT strategy and implementation plans, aligned with business needs and priorities.
- Oversees the implementation of our main corporate projects in IT.
- Controls the efficiency of IT investments.

A dedicated intranet site on matters related to corporate governance is available to our employees. All normative documents, the Company's governance structure, decisions of the Management Board and committees, are posted on a regularly updated website.

Internal control system

Our internal control system underpins the preparation of financial statements, safeguards the integrity of the results of business operations and ensures compliance with relevant legislation. The system has been developed in accordance with the methodology of the Committee of Sponsoring Organizations of the Treadway Commission (the CO SO Framework).

The current internal control system was put in place in 2008, since then we have focused on embedding it within the business. Our internal control team acts as a methodological center of excellence and a business partner for our Streams and Functions, helping with this process as well as ensuring that the internal control system remains robust and relevant.

In order to keep our internal control system up to date and in line with best practice, we are constantly looking to identify and implement further improvements. At the end of 2011, we launched an Internal Control Optimization project in order to further standardize, rationalize and automate our internal controls.

During 2012, we will continue to use international experience and best practice in order to further develop the internal control system in line with our changing business needs.

The Code of Business Policies

Over the past few years, we have created a comprehensive internal regulatory framework that governs our operations and the behavior of our people.

The documents that make up this framework are structured into three tiers:

- **The first tier** contains the Codes: public documents issued by the Company which formulate the company's position with regard to different areas

of our activities. At present that includes the Code of Business Policies containing TNK-BP corporate values and the guidelines for our business practices.

- **The second tier** consists of corporate standards that outline management authorities. TNK-BP has 13 corporate standards, detailing the provisions of the Code of Business Policies.

- **The third tier** includes other internal documents (procedures, regulations and technical standards) – the documents for our employees, explaining the rules for doing things in our Company. Currently, we have 180 internal regulatory documents explaining in detail the provisions of the Code of Business Policies and corporate standards.

AAR

Mikhail Fridman

- Executive Chairman
- Interim CEO of TNK-BP since June 2009
- Chairman of the Board of the Alfa Group Consortium
- Member of the Board of Vimpel-Com
- Member of the Board of Alfa-Bank and the Supervisory Board of X5 Retail Group
- Member of the Bureau of the Management Board of the Russian Council of Industrialists and Entrepreneurs
- Founder and member of the Board of Genesis Philanthropy Group

Viktor Vekselberg

- Founder and current Chairman of the Board of Directors of the Renova Group
- President of the SUAL Group from 1996 to 2003, Chairman of the Board of Directors of the SUAL Group from January 2003 to April 2007
- Chairman of the Board of Directors of the UC RUSAL since April 2007*
- Chairman of the TNK Management Board from 2002 to September 2003
- Since 2010 President of non-profit organization – Foundation for Development of the Center for Elaboration and Commercialization of New Technologies (Skolkovo Foundation)
- Member of the Bureau of the Management Board of the Russian Union of Industrialists and Entrepreneurs since 2003
- Co-Chairman of the Co-ordinating Council on Social Partnership and member of the Board of Trustees of the Bolshoi Theatre
- Member of the Board of Trustees of the State University Higher School of Economics

* Victor Vekselberg resigned from the position of the Chairman of the Board of Directors of the UC RUSAL in March 2012.

Len Blavatnik

- Founder and Chairman of Access Industries
- Director of numerous companies in the Access portfolio, including UC RUSAL
- Member of academic boards at Cambridge University, Harvard Business School and Tel Aviv University
- An active philanthropist, he sits on the Board of Directors of the 92nd Street Y, The White Nights Foundation of America and the Center for Jewish History in New York

Alex Knaster

- Chairman and Founder of Pamplona Capital Management
- CEO of Alfa Bank in Russia from 1998 to 2004
- General Director of Sidanco from 2002 to 2003
- Managing Director, President and CEO of Credit Suisse First Boston in Russia and the CIS from 1995 to 1998
- Managing Director at Bankers Trust Company from 1993 to 1995
- Managing Director and Partner at Simmons & Company from 1985 to 1993
- Member of the Board of Directors of Alfa-Bank
- Member of the International Society of Financial Analysts and the National Association of Petroleum Investment Analysts
- Founder and Chairman of the Board of Directors of Genesis Philanthropy Group

BP

Lord Robertson of Port Ellen

- Deputy Chairman of the Board and Chairman of the Board Audit Committee since 2006
- Elected to the House of Commons (Labour, Hamilton) in 1978
- Re-elected five times and on his appointment to NATO elevated to the House of Lords
- Served as Executive Deputy Chairman of Cable & Wireless Communications plc and Non-Executive Director of Smiths Group plc
- Currently Senior Adviser to Cable & Wireless and Non-Executive Director of the Weir Group plc and Western Ferries (Clyde) Ltd
- Senior Counsellor with the Cohen Group of Washington, D.C.
- Defence Secretary of the United Kingdom from 1997 to 1999
- Secretary General of NATO from 1999 to 2003
- Held a number of official positions in the opposition between 1979 and 1997
- Currently Joint President of the London-based Royal Institute of International Affairs, Joint President of the UK/Russia Round Table, Chairman of the Ditchley Foundation and a member of Her Majesty's Privy Council

Dr Brian Gilvary

- Joined BP in 1986. Following a variety of roles in exploration and production, downstream and trading, in 2000 he became Chief of Staff of BP's refining and marketing business and held a number of executive roles in the business, including CFO and commercial director from 2002 to 2005
- In 2003 he was appointed a director of TNK-BP, retiring from the Board in 2005 and rejoining in 2010
- From 2005 to 2010 he was Chief Executive of integrated supply and trading, BP's commodity trading arm
- In 2010 he was appointed deputy Group CFO with responsibility for the finance function
- On 1 January 2011, he was appointed to the Board of BP p.l.c. and became BP Group CFO

Michael Townshend

- 32 years in BP covering engineering, project management, operations, strategic planning, mergers and acquisitions. Posts include projects and operations in Alaska, Australia, Holland, Indonesia, Nigeria and Washington
- In 2002 CEO of the Baku-Tbilisi-Ceyhan pipeline and managing BP's onshore business in Azerbaijan, Georgia and Turkey including the South Caucasus gas pipeline
- In 2007 head of BP Oman, then BP President of Middle East and Pakistan
- President of BP Iraq in 2009. On the Board of TNK-BP in 2011
- Michael Townshend holds an honours degree in Engineering and an MBA with distinction

David Peattie

- Joined BP in 1979; became leader of the Algeria/Southern Europe gas business unit in 1995
- Worked as Head of Investor Relations for over three years
- Appointed Group Vice President and member of the Executive Committee of BP's Petrochemicals business in 2001, responsible for BP's businesses in Asia
- Became Group Vice President, Group Planning in 2003
- Appointed Group Vice President, Exploration and Production in 2005
- Became a member of the Exploration and Production Operating Committee in 2007; deputy to BP's Exploration and Production Chief Executive
- Head of BP Russia since September 2008

Dr Anthony Hayward*

- Rejoined the TNK-BP Board in 2010 having formerly been a Board member from 2003 to 2008
- Group Chief Executive of BP p.l.c from 2007 to 2010
- Joined BP in 1982 as a rig geologist and subsequently worked in a number of roles in China, France, Venezuela, Colombia and the UK

- Became Group Treasurer in 2000 before being appointed CEO of Exploration & Production and a Main Board member in 2003
- Studied geology at Aston University in Birmingham, England, and took his PhD at Edinburgh University, Scotland
- Holds Honorary Doctorates from the Universities of Edinburgh, Aston and Birmingham

* Anthony Hayward stepped down from the TNK-BP Board of Directors and was replaced by Michael Townshend as of 1 October 2011

INDEPENDENT DIRECTORS**Gerhard Schroeder***

- Elected to the Bundestag in 1980
- Prime Minister of Lower Saxony from 1990 to 1998
- Re-elected to the Bundestag in 1998 and became Chancellor of the Federal Republic of Germany; served as Chancellor for seven years
- Chairs the Shareholders' Committee of Nord Stream AG
- Member of the European Advisory Council of Rothschild Group and adviser to the Ringier publishing company
- Elected to TNK-BP's Board of Directors in January 2009

*Gerhard Schroeder stepped down from the TNK-BP Board of Directors on 31 December 2011

Alexander Shokhin

- Assistant for economic matters to the Minister of Foreign Affairs of the USSR, head of the International Economic Relations Directorate from 1987 to 1991
- Worked as Deputy Chairman of the Government of the Russian Federation
- In the course of three years, held the positions of Minister of Labour and Employment, Minister of Economics and Chairman of the Russian Agency for International Co-operation and Development

- Elected to the State Duma in 1994 and worked in three consecutive parliaments as First Deputy Chairman of the State Duma and Chairman of the State Duma Committee for Credit Organizations and Financial Markets
- In 1998, worked in the Government of the Russian Federation as Deputy Chairman with responsibility for financial and economic issues
- Joined Renaissance Capital Investment Group in 2002; headed the group's Supervisory Board until 2006
- Currently heads the Russian Union of Industrialists and Entrepreneurs
- From 1995 to date, he has been President of the National Research University Higher School of Economics. He acts in the capacity of Department Chair, Theoretical and Practical Studies of Business and State Interaction
- Elected to TNK-BP's Board of Directors in January 2009

James Leng*

- European Chairman of AEA, an American private equity partnership
- Non-Executive Director on the Board of Alstom, chairing the Nomination and Remuneration Committee
- Senior Adviser to HSBC, a Governor at Ashridge Business School and the National Institute of Economic and Social Research
- Between 2001 and 2009, Chairman of Corus, a global steel company, and Deputy Chairman of Tata Steel of India until July 2009
- Past Non-Executive Directorships include Chairman Doncasters Group Ltd, Pilkington plc, Hanson plc and IMI plc
- Occupied the position of CEO at Laporte plc, an international chemicals company, and before that at Low & Bonar plc, a diverse materials and packaging company
- Elected to TNK-BP's Board of Directors in January 2009

* James Leng stepped down from the TNK-BP Board of Directors on 31 December 2011

Internal Audit

TNK-BP is engaged in a continuous process of improving the effectiveness of its corporate governance. One of the most important elements of this process is an effective Internal Audit function.

The role of Internal Audit, its mission and goals, are set out in the Company's Internal Audit Charter, which has been approved by the Board Audit Committee and complies with International Standards for the Professional Practice of Internal Auditing.

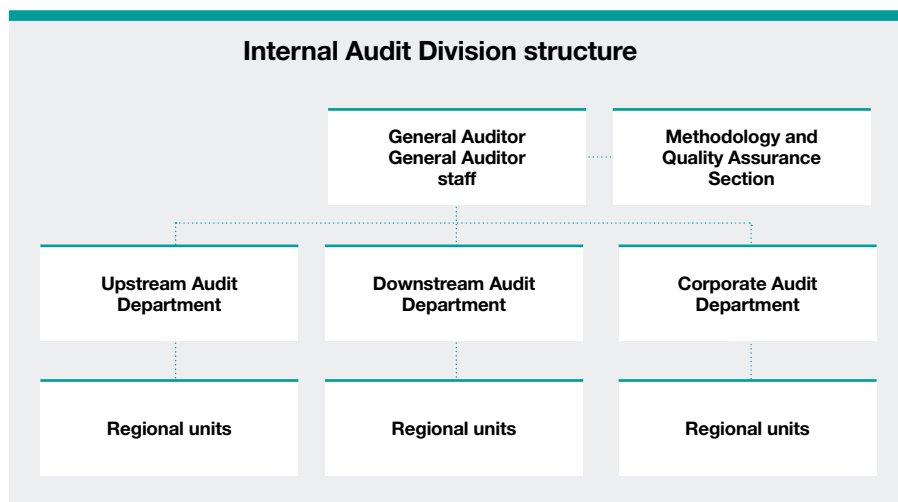
The goal of Internal Audit is to provide Company shareholders, executives and management with independent and objective assurance and with consulting services designed to add value to the Company operations.

Internal Audit helps the Company achieve its objectives by applying a systematic, disciplined approach to evaluating and assisting management in improving the effectiveness of risk management, internal controls and governance processes.

To ensure the independence of Internal Audit, the General Auditor reports to the Board Audit Committee functionally and to the Company CEO administratively. The Internal Audit Report is a standing agenda item at every Audit Committee meeting. Throughout the year, the Chairman and members of the Audit Committee hold regular meetings with the General Auditor without management. The Audit Committee approves the appointment and termination of the General Auditor, as well as annual work plans and any changes made to them. The Audit Committee also participates in the annual performance review of Internal Audit.

Organizational structure of Internal Audit

Since changes were introduced in 2010, the organizational structure of Internal Audit has followed a model usually applied by large organizations with a number of remote subsidiaries and affiliates: organizationally centralized while geographically dispersed. Within the Company's HQ, Internal Audit is responsible for evaluating the management and performance of the regional offices in Ryazan, Tyumen, Nizhnevartovsk, Kiev and Buzuluk. The appointment and termination of all regional internal auditors, as well as compensation matters, is the responsibility of the General Auditor.



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scheduled and ad-hoc internal audits carried out in 2011 to check the reliability of internal control systems, risk management and corporate governance.

Activities and achievements in 2011

The Company's annual and audit engagement planning processes are risk-based. Their primary objective is to ensure such coverage of material business processes and risks that would enable internal auditors to express their opinion on, and provide the Board Audit Committee with, reasonable assurance regarding the effectiveness of controls, risk management and corporate governance practices used by the Company.

Overall, more than 40% of the Company's risks and processes were covered by audits in 2011.

Based on the results of an annual assessment of the effectiveness of Enterprise-Wide Risk Management (EWRM) carried out in the autumn of 2011, Internal Audit concluded that the risk management process generally complies with COSO ERM criteria, which the Company used as a basis for process design. EWRM is incorporated in the Company's corporate governance, as well as in the planning and performance management processes.

The Company's internal auditors hold CIA, ACCA and CISA certifications, as well as engineering diplomas and other qualifications.

The internal audit cycle has been automated after introduction of the TeamMate system in 2010. The TeamMate software is also used to monitor the implementation of corrective actions recommended after the audits.

Internal Audit was charged with developing and implementing an ongoing quality assurance program for TNK-BP. One of the key elements of the quality assurance program, the external review, was jointly undertaken by the Institute of Internal Auditors, the world's largest professional association of internal auditors, and Ernst & Young.

The external review embraced all aspects of the Company's internal audit activities, including organizational structure and accountability, interaction with business, employee credentials, methods and approaches in use, the quality of working documentation and reporting. The Institute of Internal Auditors concluded that the work of TNK-BP's Internal Audit complies with international professional standards.

The key tasks facing Internal Audit in 2012 are:

- Further increase in the quality and efficiency of communication with audit customers
- Developing the function's organizational capability, including active knowledge-sharing with Internal Audit services of industry leaders; training and certification of internal auditors
- A prompt response to changes which affect the development of the Company's business, including development of international operations.

In 2011, Internal Audit successfully completed an external quality assurance review.



Social responsibility

TNK-BP is actively involved in activities relating to the oil and gas sector and to the wider business community to meet the needs of all our stakeholders. We make every effort to produce oil and gas safely, in ample quantities to satisfy the need for energy and with the minimum impact on the environment.

Social responsibility	106-117
108 Contributing to society	
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**11.7 mln
USD**

on employee professional training and development

**31 bn
USD**

paid in taxes

**37 mln
USD**

spent on external social programs

**20.9 bn
RUR**

capital investment in environmental protection in 2004-2011

Contributing to society

Our business is a part of the society around us. Our success is measured not only in satisfying the need for energy: it also requires the well-being of our stakeholders. Public good dictates that oil and gas should be produced safely, should benefit the national economy and should make the minimum impact on the environment.

TNK-BP is actively involved in activities relating to our sector and to the wider business community: the development of the new industry taxation system; improvements to standards in professional education; and socio-economic co-operation with local authorities in the regions in which we operate.

In 2011, TNK-BP paid, in aggregate, USD 31 bn of taxes in Russia, Ukraine and Belarus. Company social investments amounted to USD 37 mln. TNK-BP is also responsible for over 50,000 employees across 30 regions in Russia, Ukraine and

Belarus, providing them with industry-leading workplace conditions and opportunities for professional and career development.

TNK-BP holds regular meetings with non-governmental public organizations (NGOs), providing detailed information on the progress of our major projects. In 2011, the Company held 10 meetings with representatives of environmental NGOs and regional public groups, including visits to two project sites with an active environmental component (more details can be found in the TNK-BP Sustainability Report).

Taxes

Timely payment of taxes is one of the most important indicators of a socially responsible company. Total taxes paid by the Company over 8 years since inception have reached USD 162 bn.



◀ **31 bn
USD**
paid in taxes in Russia,
Ukraine and Belarus
in 2011.

Government relations

Our company is an active participant in industry discussions with the Government to facilitate and support the successful development of Russia's resources. In 2010 and 2011, we were involved in discussions concerning:

- Russian oil industry development until 2020
- Development of hydrocarbon resources in the Yamal-Nenets autonomous region in the north of the Krasnoyarsk region
- Oil industry taxation.

Dialogue between the Company and the Government continues via working Groups established under the leadership of ministries and government commissions. TNK-BP is also a member of the Russian Union of Industrialists and Entrepreneurs (RSPP), a non-governmental organization that co-operates with government authorities.

Social programs

In 2011, TNK-BP spent USD 37 mln on the implementation of external social programs. Aggregate social investments over the period 2005 to 2011 amounted to USD 575 mln.

The Company focuses on the following three key areas:

- Social support of the disadvantaged
- Health and sports
- Culture, education, preservation of cultural and historical heritage.

In 2011, TNK-BP supported important federal social programs, including assistance to socially disadvantaged groups and their associations, the support of gifted children and promising sportsmen, religious beliefs, etc. The Company installs advanced equipment at healthcare establishments, schools and sports facilities in its regions of operations, and finances ongoing repairs. As in previous years, in 2011 we supported the Gorchakov Boarding School (Pavlovsk); and allotted funds for the construction of an

Orthodox grammar school in the settlement of Saraktash, in the Orenburg region, as well as for repair activities at municipal pre-school and secondary school establishments. Last year, TNK-BP financial assistance made possible – among other events – the Eighth National Young Geologists' Open Field Contest, the Open Judo World Championship, the Football Festival in Yaroslavl; and we provide continuous support to the Russian Olympic Movement. During the year, the Company also supported families who suffered from floods in the Orenburg region.

In the regions in which the Company operates, we support social projects by concluding bilateral co-operation agreements with local governments. In 2011, TNK-BP entered into 18 agreements with regional administrations and 43 agreements with municipal authorities.

In 2011, we implemented the following important social initiatives in the regions:

- 'Generation 2020' – a program for educational establishments, which seeks out and supports talented young people
- 'TNK-BP Family – Love, Care and Support' – a program supporting children from poor and disadvantaged families, elderly people and socially vulnerable groups
- 'Our Success – Our Health' – a program supporting regional healthcare establishments, providing help to people in poor health and promoting healthy lifestyles
- 'Green' program – setting up environment protection actions and environmental education programs for children and young adults.

More details on the Company's social investments may be found in the TNK-BP Sustainability Report.

**162 bn
USD**

paid in taxes in
2004-2011.

**575 mln
USD**

spent on external social
programs in 2005-2011.

Environmental protection

We realise that oil production can have a significant effect on the environment, and that oil companies have a responsibility to society to prevent adverse impacts wherever that is possible. In 2011, TNK-BP's environmental activities included measures to clean up contaminated land, to maintain the integrity of the Company's pipelines and achieve significant spills reduction, as well as ensuring effective utilization of waste and expanding our infrastructure for associated petroleum gas utilization.

TNK-BP applies HSE guidelines which are enshrined in its Code of Business Practice, and which state the following goals:

- No injuries at work
- No accidents at work
- Care for the environment.

We also make every effort to prevent situations arising that would pose a threat to people's lives and to the environment. As part of these efforts, we provide regular training at

TNK-BP subsidiaries, covering ways to prevent different types of emergency.

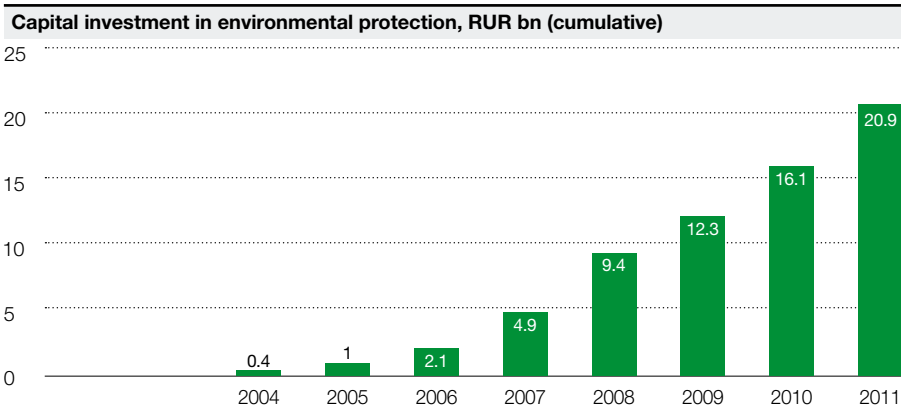
We understand that the safe operation of industrial facilities depends not only on integrity of our equipment, but also on the qualifications of our staff and unconditional compliance with corporate HSE rules, sanitary norms and safe working practices.

Investment in environmental protection

TNK-BP's investment in environmental protection measures in 2004-2011 (including environmental monitoring, training, support for research, investment in new waste treatment and water purification technologies, and land remediation) exceeded RUR 41 bn.

3,199ha
of remediated land handed over to the state since 2004.

**>41 bn
RUR**
spent on environmental protection in 2004-2011.



Land remediation

One of TNK-BP's environmental priorities is to improve the condition of contaminated land, including land inherited from its predecessor companies. Since 2004, we have remediated close to 3,200 hectares of polluted land and handed it over to the State.

In 2011, we handed over, to the relevant government agencies, 388 hectares of remediated land and completed recultivation of 55 sludge pits. TNK-BP was one of the first oil companies to carry out a comparative

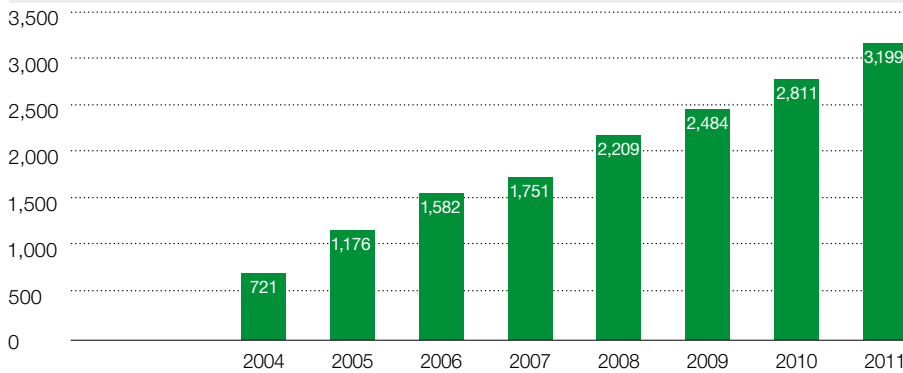
check of the inventory of its legacy pollution, using data supplied by the government of the Khanty-Mansiysk autonomous region to improve the accuracy of our planning and actions taken.

In 2012, the legacy remediation program will continue, with an enhanced focus on the quality of work. Our priority will be improving the land and sludge pit remediation in West Siberia, as well as evaluation of the required clean-up of lakes in West Siberia.

77%

Spills down by 77% since 2005.

Land remediation, ha (cumulative)



Since 2004, we have remediated and handed over to the state close to 3,200 hectares of polluted land.

Environmental protection

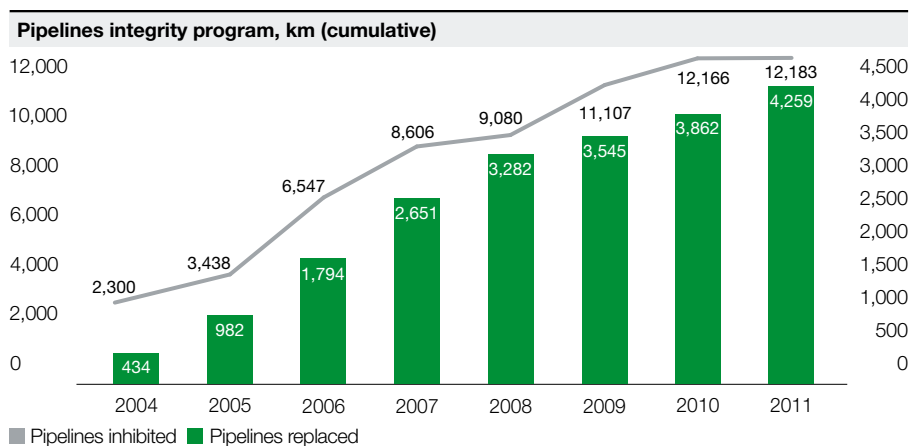
Pipeline integrity

TNK-BP's transportation system comprises around 22,000 km of pipelines. Ensuring their integrity is vital to the accident-free transportation of hydrocarbons and minimisation of any potential environmental impacts.

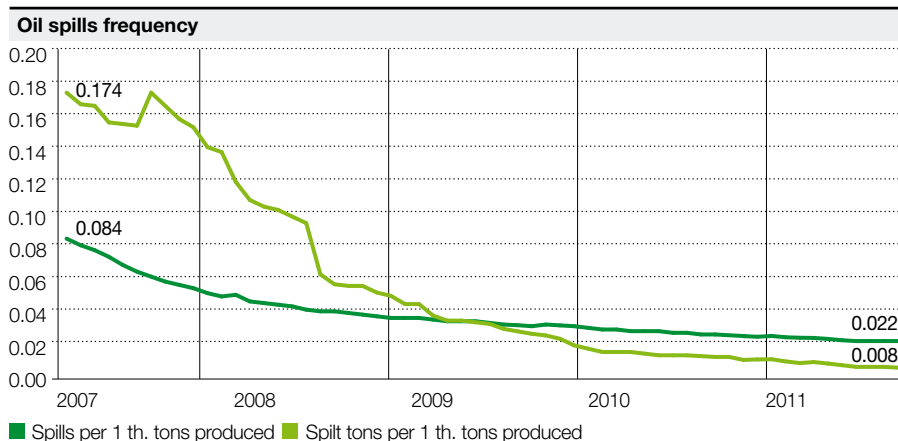
Since 2004, TNK-BP has been working on a pipeline integrity program aimed at replacing worn-out sections and using inhibitors to protect pipelines against corrosion. As part of this program, in 2011 we spent a total of USD 270 mln on ensuring the integrity of the Company's operating facilities. The majority of

these funds – approximately USD 164 mln – went towards continuing work on protecting pipelines against corrosion and on ensuring the integrity of our site facilities.

By the end of 2011 a total of 12,183 km of pipeline had been treated with inhibitors and 4,259 km of worn-out pipe had been replaced. As a result, the total number of oil spills fell by 12% compared to 2010. TNK-BP is continuing to develop new inhibition technologies and diagnostic techniques to build on the results achieved over the past years.



In 2011, we replaced 396.7 km of pipelines. The total length of the pipelines protected by inhibition amounted to 12,183 km, or more than half of our field pipeline network.



In 2011, the number of spills per thousand tons produced reduced by 12% year-on-year. Spilt tons per thousand tons produced was down 43% on 2010.

The Ust-Tegusskoye field of the Uvat project in the south of the Tyumen region of Russia



Our people

Health and safety

The health of employees and their own commitment to health protection must underlie effective occupational and industrial safety. TNK-BP's strategy in health, safety and environment prioritizes the life and safety of employees in all our operational activities.

In 2011, we launched our 'Live Longer' program, a large-scale campaign aimed at encouraging healthy life styles among our employees, encouraging them to take responsibility for their own health and the health of their families. The program consists of a number of projects, including prevention of cardio-vascular and other diseases, medical check-ups, giving up harmful habits and motivating employees to stick to healthy eating habits and take up sports and other healthy exercise.

In 2011 our focus remained on prevention of cardio-vascular diseases. We identified the main risk factors and identified employee groups requiring constant medical monitoring and preventive treatment. As a result, we succeeded in reducing mortality due to cardio-vascular diseases among our employees by 14% as compared with 2010.

To improve the quality and timeliness of emergency medical help, the Company implemented an innovative 'telemedicine' project at three of our remote locations in the Yamal region, providing for consultation from high-level medical experts in Moscow and Novy Urengoy via a videolink.

Industrial safety

One of TNK-BP's main priorities is to further develop its safe working culture.

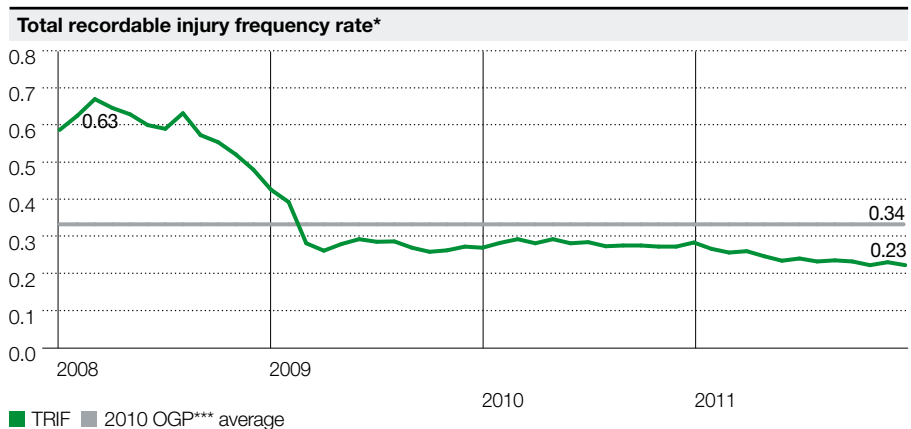
In 2011, we focused on the following initiatives:

- Introduction of the updated corporate standard on road safety, including installation of GRPS devices on the vehicles used by the Company, and holding a month-long campaign 'Transportation Safety – 2011'
- Strengthening organizational capability of HSE (health, safety and environment) teams at our subsidiaries through more efficient operations and professional appraisal
- Developing the leadership potential of and holding HSE forums for the general directors of subsidiaries
- Creating educational video materials on occupational safety
- Ensuring that our safety data reporting complies with the OSHA requirements (the US Health and Safety Act).

In 2011, the total recordable injury frequency rate reduced by 21%. Our occupational safety metrics are generally in line with best industry practice, which is confirmed by benchmarking with data produced by OGP (the International Association of Oil and Gas Producers).

30%
reduction in fatalities caused by health problems in 2011.

The golden rules of safe operations implemented across all subsidiaries and contractors working at TNK-BP sites.



Total Recordable Injury Frequency Rate reduced by 21% year-on-year due to consistent work on instilling safe working habits and improved healthcare.

* Total Recordable Injury Frequency Rate (TRIFR) comprises the total number of fatalities, lost time injuries, restricted work cases and medical treatment cases as per OSHA** definitions
 ** OSHA – Occupational Safety and Health Administration, US Government
 *** OGP – The International Association of Oil and Gas Producers

Investing in our people

A professional and committed team is a critical element in attaining our strategic goal – transforming TNK-BP into an international oil and gas company. In 2011 we introduced an updated system of human resource management which includes assessment of employee contribution based on TNK-BP's corporate values. Our approach to developing high-potential employees and strengthening the Company's organizational capability was reflected in 'People Reviews' held in all business streams and business functions.

TNK-BP employs approximately 50,000 people in Russia, Ukraine and Belarus. 91% of our employees are permanently employed by the Company and work in our upstream and downstream businesses.

In 2011, our headcount increased due to acquisition of international assets in Vietnam and Venezuela and amounted to 118 people.

An increased focus on operational efficiency, optimization of business processes and reduction of bureaucracy resulted in improved employee efficiency and concentration of human resources in key areas of our activities. Further automation of business processes was another factor contributing to better quality of management decision-making. The employee poll held in 2011 showed a high degree of employee involvement in the Company's activities, their awareness of TNK-BP's strategic priorities and corporate values.

Following acquisition of international assets and the need to build organizational capability for overseas operations we established the necessary infrastructure for employee transfer to work outside Russia.

In terms of reallocation of human resources, we also saw an increase in the workforce at our retail units due to TNK-BP's strategy to expand its retail presence in Russia and Ukraine.

Due to the historical development of the oil business, most of our employees are male. However, in areas where women are employed, they enjoy equal opportunities and career development opportunities. The Company strictly adheres to the Russian Labour Code and provides a competitive remuneration package as well as multiple opportunities for professional training and growth.

In 2011, the Company spent USD 11.7 mln on training and career development for our technical and engineering staff; over 400 college and university graduates joined TNK-BP as new work recruits.

We are a truly multinational company with people from 24 countries within our team.

Payment and remuneration

We use an effective system of payment and remuneration which was drawn up in line with international best practice. This allows us to attract high quality people and retain our top talent.

Our remuneration package includes:

- Base salary
- Short- and long-term incentive programs
- Spot bonuses for outstanding achievements
- Compensation for travel expenses, holidays, car expenses for office use, etc.
- Social benefits.

We also pay additional compensation to our expatriate workers.

The remuneration package depends on the grade of each position. The grade of a position is based on an international appraisal system which takes into account the level of required skills and competencies as well as the scope and complexity of responsibilities.

Each grade has a three-tier salary range and a determined level and criteria for calculating bonuses. This approach makes the remuneration system transparent and clear for each employee.

Corporate values

Since 2011, all TNK-BP employees act according to corporate values that reflect our team spirit. We also encourage our staff to uphold and observe them.

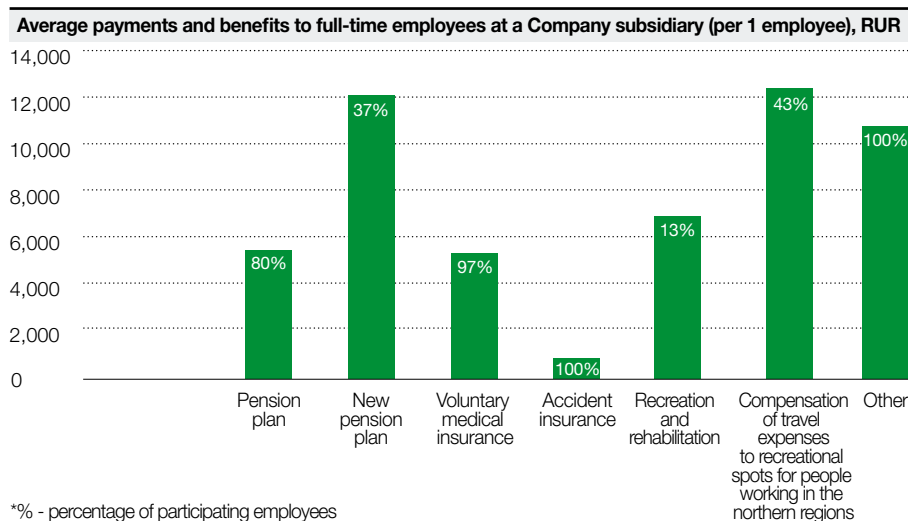
TNK-BP values:

Leadership – an ability to set clear ambitious goals and inspire others to achieve them

Performance – continuous implementation of the existing goals in the most effective way

Safety – carrying out our business without injury or damage to the environment

Integrity – an honest and responsible attitude to work, colleagues, society and the environment



Employee motivation

Each year we hold two Company-wide competitions for our people.

One competition is called Awards of the Chairman of the TNK-BP Board of Directors for achievements in our priority area – health, safety and environmental protection. The other company-wide competition assesses achievements in innovative and efficient technology application.

In 2011, 110 teams took part in the competitions. The winners and their achievements were promoted in our Company as best practices.

Business streams have their own competitions for employees and contractors as an effective way of knowledge-sharing and improving performance standards.

Program for development of organizational capability

In 2011, TNK-BP's 'Mobility' program transformed into the 'Program for development of organizational capability'. Within the program, all TNK-BP managers go through an annual review of their potential and performance. These comprehensive reviews result in plans for employee rotation and external hires as well as plans for developing a management succession pool till the next review period in a year's time.

Training and development

Training and professional development is an inherent part of our corporate culture. In 2011, our main focus here was on streamlining and increasing the efficiency of employee training. As a result, we drew up programs for developing management and leadership competencies and programs of professional development for each staff category.

In 2011, we continued to promote internal coaching which involved over 11,000 employees. Over 28,000 of our technical and engineering staff completed training courses in external educational institutions for the total budget of over USD 11 mln. Our budget for training courses for our blue-collar workers amounted to USD 1.5 mln and each of our 26,000 strong workforce attended a minimum of two training courses organized by the Company.

Qualified blue-collar personnel are crucial for the success of our business. In 2011, we approved corporate standards which formulate requirements to the level of blue-collar worker competencies.

TNK-BP – a leader in developing and applying modern educational technologies for blue-collar workers:

- The Russian Ministry of Energy plans to draw up oil industry standards for blue-collar workers' professional competencies based on TNK-BP's corporate standards
- TNK-BP's practice recognized as the best comprehensive approach to forming the required blue-collar competencies by the Russian Union of Industrialists and Entrepreneurs.

Our corporate training programs



Supporting young talent

We strive to make work in the oil industry and our company particularly attractive for young people. We start communicating with our potential young workers well before they join the Company through the student support program which provides the best regional school graduates with an opportunity to:

- Study in Russia's best oil and gas universities – partners of TNK-BP
- Have internship opportunities at the Company's subsidiaries
- Have a guaranteed work place upon university graduation
- Develop additional skills required for successful work in the Company under the 'Start undergraduate program'.

Each year we welcome approximately 400 young specialists into our Company. In 2011 we updated the content of the 'Three Horizons Program' for young specialists bringing it in line with our corporate values and a new model of corporate competencies. In 2011, the program was completed by over 1,000 young specialists with a budget of USD 1.6 mln.

More information on our employee relations can be found in the TNK-BP Sustainability Report.



Our financial performance

2011 financial highlights

2011 was the best year ever in all areas of TNK-BP's performance, with strong financial results mirroring outstanding operational achievements. EBITDA, net income and operating cashflow all reached historic high levels, underpinned by a favorable trading environment and continuing growth in oil and gas production and refining throughput, as well as international expansion.

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**USD
9.0 bn**

record net income attributable to Group shareholders, 54% up on 2010

**USD
14.6 bn**

EBITDA, 41% up on 2010

36%

ROACE, 38% up on 2010

**USD
10.5 bn**

strong operating cashflow, 9% up on 2010

Investment grade ratings with stable outlook maintained

Our financial performance

Our financial performance

2011 was the best year ever in all areas of TNK-BP's performance, from operational results to progressing major greenfield projects and expanding business to the world's most dynamic markets. Accelerated business activity underpinned by best-in-class investment governance and spending discipline, resulted in strong financial results:

- EBITDA, net income and cash flow from operations reached a historic high
- Record-high organic cash CAPEX of USD 4.7 bn for upstream and downstream operations
- International projects contributed USD 0.1 bn of net income for the first-time in TNK-BP's history
- Gearing at 26% as of 31 December 2011, with healthy cash balances and a strong liquidity position
- Investment-grade credit ratings with stable outlook maintained.

Business environment

In 2011, the business environment improved significantly compared to 2010. The average Urals price was 39% higher year-on-year

(USD 109/bbl in 2011 compared to USD 78/bbl in 2010), with domestic crude oil and petroleum product prices following the Urals trend. The rouble exchange rate somewhat offset the positive effect from the price increases: the average rate was 3% stronger in 2011 compared to 2010 (RUB 29.4 and 30.4 to 1 USD respectively), which had a negative impact on TNK-BP's rouble-denominated cost base.

Overview of financial results

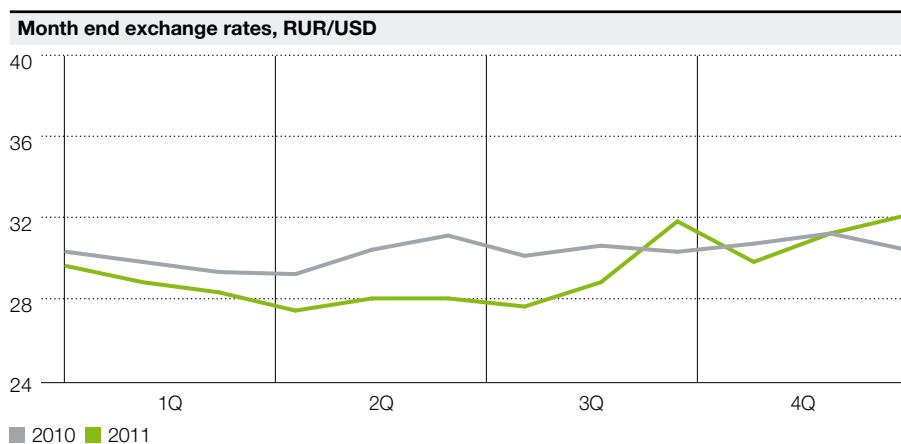
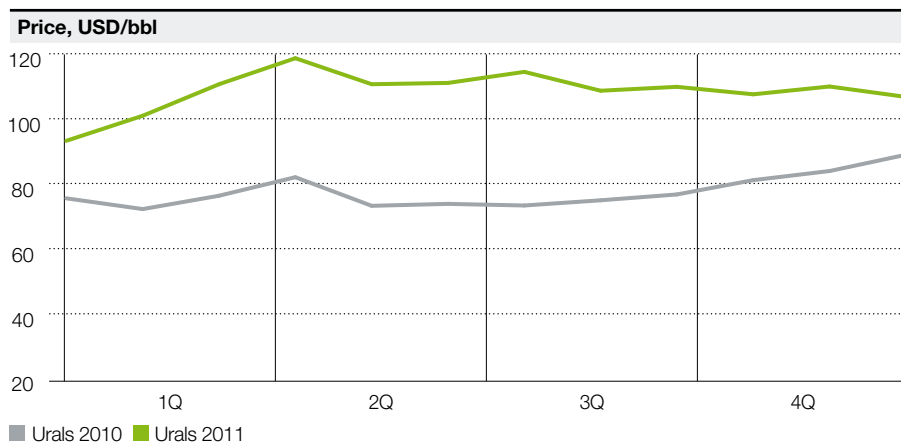
Our revenues increased by 35% relative to 2010, driven by a higher Urals price and production growth, partly offset by changes in sales mix, i.e. a redirection of crude volumes from export to the domestic and CIS market to take advantage of higher margins.

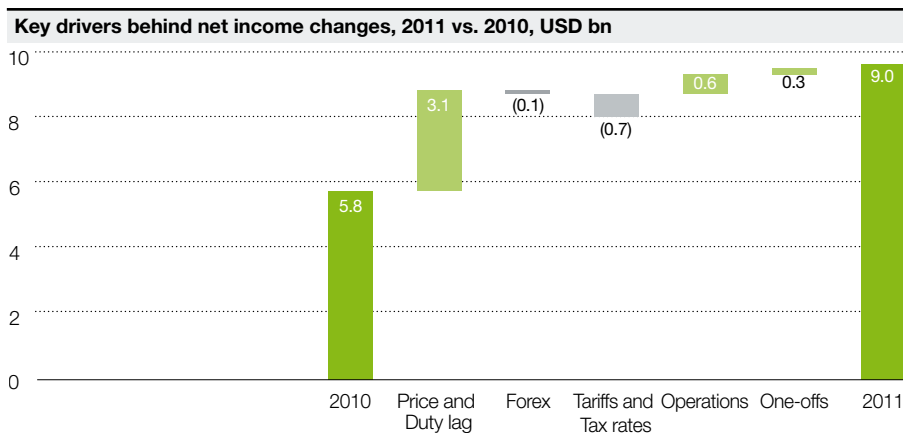
On the cost side, we continued to experience inflationary pressure driven by rouble strengthening by 3% and tariffs growth. Overall operating expenses – including transportation and marketing, general and administrative – increased by USD 1.6 bn, or 16.5%. That was driven primarily by higher electricity and transportation tariffs, the effect of a stronger rouble and other inflationary

pressures as well as an increase in production and refining volumes and provisions. That inflationary pressure was partly curbed by efficiency improvement initiatives, in particular energy savings and focused use of technology.

Other important positive factors are increased utilization of MET allowances for depleted fields in the Orenburg region and an increase in non-taxable production at the Verkhnechonskoe field. We also received, for the first time, 6.2 mmbob production and a USD 0.1 bn net income contribution from our international projects in Vietnam and Venezuela.

As usual, there were a number of one-off transactions in 2011 and 2010 which, on a comparative basis, had a positive effect of USD 0.3 bn, being primarily the result of disposal of the Kovykta assets in 2011, partly offset by higher provisions.



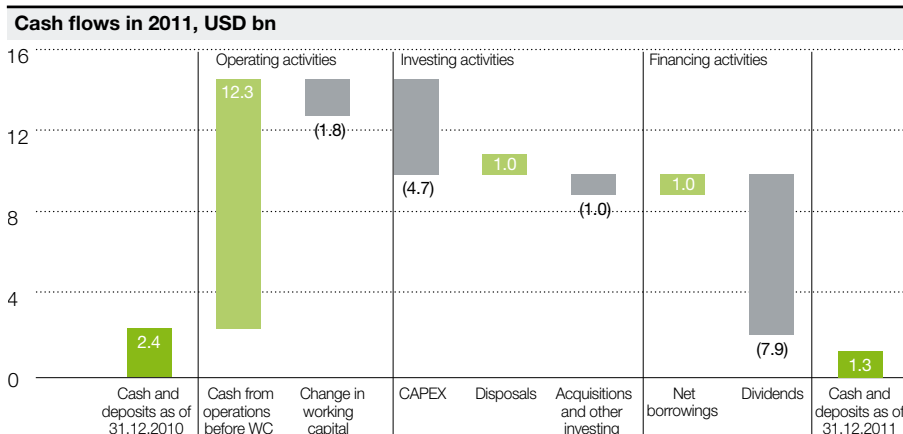


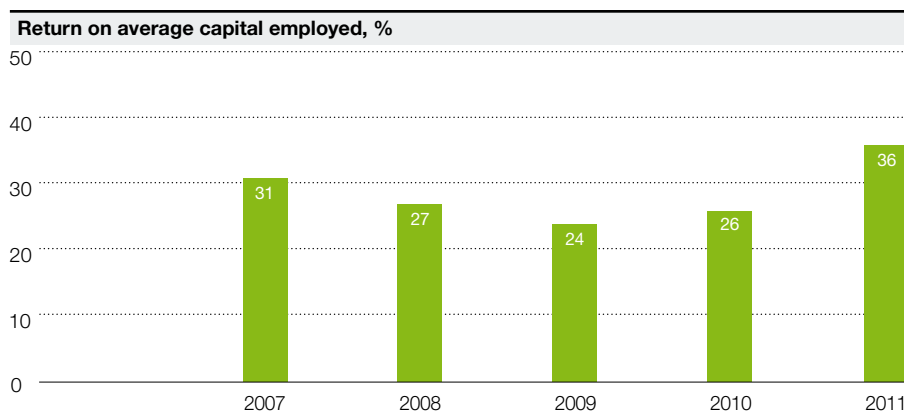
Cash flows and liquidity

We set another record in 2011, generating pre-tax operating proceeds of USD 41.6 bn, while tax payments of USD 31.1 bn remained the largest outflow. Operating cashflow for 2011 amounted to USD 10.5 bn. This comes after a USD 1.8 bn increase in working capital which is primarily due to our efforts to improve margins on exported crude oil and petroleum products by prolonging credit periods for some customers.

Alongside organic CAPEX of USD 4.7 bn, we spent USD 1.0 bn on acquisitions and other external activity, primarily including USD 0.6 bn related to finalization of the Vietnam and Venezuela deal with BP. Disposal inflows amounted to USD 1.0 bn, largely consisting of Kovykta disposal proceeds of USD 0.7 bn.

Our strong liquidity enabled us to pay USD 7.9 bn dividends to shareholders, while maintaining a prudent gearing level of 26%.





Debt portfolio and credit ratings

In 2011, TNK-BP efficiently managed its debt portfolio and, despite a volatile market environment, successfully fulfilled the Company's borrowing needs for the year. In particular, our achievements in this area in 2011 included:

- Gross long-term borrowings in 2011 amounted to USD 2 bn, consisting of the following transactions:
 - USD1.5 bn bank club loan facility closed with 10 international banks in August. Despite the adverse market conditions at the time of placing the transaction, we managed to achieve highly competitive pricing and upsize the loan facility from the initially requested USD 1 bn
 - A number of bilateral bank loans for a total amount of USD 0.5 bn signed in October/November
- Portfolio of undrawn committed bank lines, maintained in excess of USD 400 mln from a number of Russian and international banks, as an additional liquidity cushion
- Smooth debt repayment profile maintained for the coming decade, with fixed to floating debt ratio standing at a comfortable level of 62%/38%
- Gross debt and net debt increased from USD 7.1 bn to USD 8.0 bn and from USD 4.7 bn to USD 6.7 bn, respectively
- Gearing ratio increased from 21% to 26% and within the target band, which is 25% to 35%.

In 2011, TNK-BP continued to maintain investment-grade ratings with Standard and Poor's (BBB-), Moody's (Baa2) and Fitch (BBB-), all with a stable outlook. These credit ratings are underpinned by the strong financial metrics consistently demonstrated by TNK-BP.

For more detailed information on factors affecting our financial results please refer to the Management's Discussion and Analysis section on our website by following this link:

<http://www.tnk-bp.com/en/investors/reports/financial/international/>

Changes in reporting standards

In 2010, acknowledging the increasing role of International Financial Reporting Standards (IFRS) in the international business environment and the use of IFRS by other major oil and gas groups and by TNK-BP shareholders, TNK-BP decided to adopt IFRS as the basis of its consolidated financial statements reporting starting in 2012.

TNK-BP's last consolidated financial statements prepared in accordance with US GAAP were those prepared for the year ended 31 December 2011. Its first consolidated financial statements prepared in accordance with IFRS will be the interim financial statements for the three months ended 31 March 2012. While there are differences between IFRS and US GAAP, many will not be materially relevant to the Group. Reporting areas which will be most affected by the transition are: impairments, replacement accounting, IFRS transition of equity-accounted investees and deferred taxes.



REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of TNK-BP International Limited:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of TNK-BP International Limited and its subsidiaries as at 31 December 2011 and 2010, and the related consolidated statements of income, of cash flows and of changes in equity for the years then ended (not presented herein); and in our report dated 29 February 2012, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
29 February 2012

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T: +7 (495) 967 6000, F: +7 (495) 967 6001, www.pwc.ru*

Condensed consolidated balance sheets

(Expressed in USD millions, except as indicated)		
	31 December 2011	31 December 2010
ASSETS		
Cash and cash equivalents	1,164	1,844
Restricted cash	48	8
Bank deposits with maturity of more than 3 months	100	600
Trade and other receivables, net	5,276	3,464
Inventories	1,623	1,295
Other current assets	289	790
Total current assets	8,500	8,001
Long-term investments	3,715	3,665
Property, plant and equipment, net	22,731	19,712
Goodwill and intangible assets	1,095	896
Other long-term assets	1,031	852
Total assets	37,072	33,126
LIABILITIES AND EQUITY		
Short-term debt and current portion of long-term debt	998	1,051
Trade accounts and notes payable	2,264	1,956
Other accounts payable and accrued expenses	1,294	1,215
Taxes payable	1,471	1,228
Total current liabilities	6,027	5,450
Long-term debt	7,049	6,078
Asset retirement obligations	370	374
Deferred income tax liabilities	2,475	2,049
Other long-term liabilities	396	312
Total liabilities	16,317	14,263
Commitments and contingencies	-	-
Ordinary share capital (authorized and issued – 54,000 shares, USD 1 par value)	-	-
Additional paid-in capital	2,945	2,940
Retained earnings	16,235	14,747
Accumulated other comprehensive loss	(202)	(82)
Total Group shareholders' equity	18,978	17,605
Non-controlling interest	1,777	1,258
Total equity	20,755	18,863
Total liabilities and equity	37,072	33,126

Condensed consolidated statements of income

(Expressed in USD millions)		
	Year ended 31 December 2011	Year ended 31 December 2010
REVENUES		
Sales and other operating revenues	60,199	44,646
Total revenues	60,199	44,646
COSTS AND OTHER DEDUCTIONS		
Export duties	16,951	12,236
Taxes other than income tax	11,849	8,169
Operating expenses	5,710	4,774
Cost of purchased products	5,674	3,955
Transportation expenses	4,090	3,672
Depreciation, depletion and amortization	2,085	1,891
Selling, marketing, general and administrative expenses	1,625	1,364
Exploration expenses	145	77
Loss on disposals and impairment of assets	69	244
Total costs and other deductions	48,198	36,382
OTHER INCOME AND EXPENSES		
Earnings/(loss) from equity investments	175	(12)
Gain on disposals of subsidiaries	341	21
Interest income and net other income	65	199
Exchange gain/(loss), net	63	(44)
Interest expense	(242)	(241)
Total other income and expenses	402	(77)
Income before income taxes	12,403	8,187
INCOME TAXES		
Current tax expense	2,313	1,644
Deferred tax expense	362	274
Total income tax expense	2,675	1,918
Net income	9,728	6,269
Less: net income attributable to non-controlling interest	747	454
Net income attributable to Group shareholders	8,981	5,815

Condensed consolidated statements of cash flows

(Expressed in USD millions)		
	Year ended 31 December 2011	Year ended 31 December 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	9,728	6,269
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	2,085	1,891
Deferred tax expense	362	274
Loss on disposals and impairment of assets	69	244
Gain on disposals of subsidiaries	(341)	(21)
Loss from equity investments adjusted for dividends received	116	144
Dry hole expenses	67	13
Other non-cash adjustments, net	204	24
Exchange loss from investing and financing activities	–	3
Changes in operational working capital, excluding cash and cash equivalents:		
Restricted cash	(41)	3
Trade and other receivables, net	(1,698)	605
Inventories	(339)	(342)
Accounts and notes payable and accrued expenses	152	171
Taxes payable	199	392
Other	(38)	12
Net cash provided by operating activities	10,525	9,682
INVESTING ACTIVITIES		
Capital expenditures	(4,604)	(3,529)
Grants used for capital expenditures	(515)	(357)
Grants received	515	357
Purchase of intangible assets	(90)	(70)
Proceeds from disposals of non-current assets	1	12
Acquisition of subsidiaries and affiliates, net of cash received	(774)	(1,418)
Cash flows from sales of subsidiaries and affiliates	955	119
Proceeds from sales of short-term investments	–	450
Net change bank deposits with maturity of more than 3 months	500	(450)
Loans issued	(236)	(51)
Loans repaid	50	19
Net cash used for investing activities	(4,198)	(4,918)
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	2,025	1,987
Cost associated with the issuance of debt	(11)	(11)
Repayment of long-term debt	(1,104)	(1,554)
Proceeds from issuance of short-term debt	260	235
Repayment of short-term debt	(260)	(559)
Dividends paid to non-controlling interest shareholders	(369)	(338)
Dividends paid to Group shareholders	(7,493)	(3,560)
Net cash used for financing activities	(6,952)	(3,800)
Effect of exchange rate changes on cash and cash equivalents	(55)	(10)
Cash and cash equivalents reclassified to assets held for sale	–	–
Net change in cash and cash equivalents	(680)	954
Cash and cash equivalents at beginning of period	1,844	890
Cash and cash equivalents at end of period	1,164	1,844

Notes to the condensed consolidated financial statements

Summary accounting policies

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

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.

The US dollar (USD) is the reporting currency for the purposes of financial reporting under US GAAP. For the majority of the Group subsidiaries, the functional currency is the USD as it is the currency of the primary economic environment of these subsidiaries. For the Group's Russian Marketing business, effective January 2011, the functional currency is the Russian rouble.

The consolidated financial statements include the operations of all entities in which the Group directly or indirectly controls more than 50% of the voting stock and variable interest entities in which the Group is the primary beneficiary. Joint ventures and investments in which the Group has voting ownership interests between 20% and 50% and where the Group exerts significant influence are accounted for using the equity method. Investments in other companies are accounted for at cost and adjusted for estimated impairment.

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 the development of dry holes), and support equipment and facilities are capitalized. Depreciation, depletion and amortization of capitalized costs of proved oil and gas properties and equipment is calculated using the unit-of-production method for each field, based on proved reserves for property acquisitions and proved developed reserves for exploration and development costs. In both cases, the proved reserves data used is estimated on a life-of-field basis since management believes it will continue to be successful in the renewal of its oil and gas licenses.

Proved oil and gas properties and long-lived assets are assessed for possible impairment. Long-lived assets with recorded values that are not expected to be recovered through future cashflows are written down to current fair value. Fair value is generally determined by estimating discounted future net cash flows to be generated by the assets.

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

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 recorded on an undiscounted basis unless the aggregate amount of the obligation and the amount and timing of the cash payments are fixed or reliably determinable. Environmental expenditures that have future benefit are capitalized.

Revenues from the production and sale of crude oil and petroleum products are recognized when title has transferred and collectability is reasonably assured. Purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another are combined, considered as a single arrangement and netted against each other in the condensed consolidated statements of income. When companies of the Group act as an agent for purchases and sales of inventory, they are also reported on a net basis.

A variety of claims have been made against certain subsidiaries of the Group in a number of pending lawsuits and tax disputes. For further information on contingencies see Note 22 to the Consolidated Financial Statements in the Financial Reporting section of the Company's website at www.tnk-bp.com. Further information on the Group's accounting policies can also be found there.

Notes to the condensed consolidated financial statements

EBITDA reconciliation

EBITDA for the year ended 31 December 2011 and 31 December 2010 is reconciled to income before income taxes as follows:

USD millions	For the year ended 31 December 2011	For the year ended 31 December 2010
EBITDA	14,601	10,391
Depreciation, depletion and amortization	(2,085)	(1,891)
Interest expense	(242)	(241)
Exchange loss, net	63	(44)
Other differences	66	(28)
Income before income taxes	12,403	8,187

Segment information by geographical area

	As of and for the year ended 31 December 2011		As of and for the year ended 31 December 2010	
	Long-lived assets excluding deferred tax		Long-lived assets excluding deferred tax	
	Revenues	assets	Revenues	assets
Russian Federation	57,971	26,034	42,418	24,404
Ukraine	2,083	509	2,228	558
Vietnam	37	790	-	-
Venezuela	-	951	-	-
Other	108	16	-	-
Consolidated	60,199	28,300	44,646	24,962

The information in the condensed consolidated financial statements shown on pages 124 through 128, corresponds to the information in the Consolidated Financial Statements of TNK-BP International Limited as of and for the years ended 31 December 2011 and 31 December 2010. For complete consolidated financial statements, including notes, please refer to the company's website www.tnk-bp.com

Summary consolidated balance sheet for the past five years

USD millions					
	2011	2010	2009	2008	2007
ASSETS					
Cash and cash equivalents, restricted cash	1,212	1,852	901	1,751	3,230
Bank deposits with maturity of more than 3 months	100	600	150	–	–
Trade and other receivables, net	5,276	3,464	3,966	3,553	5,520
Other current assets	1,912	2,085	2,213	1,693	2,366
Total current assets	8,500	8,001	7,230	6,997	11,116
Property, plant and equipment, net	22,731	19,712	17,800	17,188	14,678
Other long-term assets	5,841	5,413	4,418	4,522	3,545
Total assets	37,072	33,126	29,448	28,707	29,339
LIABILITIES AND EQUITY					
Short-term debt and current portion of long-term debt	998	1,051	1,425	1,898	1,624
Other current liabilities	5,029	4,399	3,678	3,657	4,634
Total current liabilities	6,027	5,450	5,103	5,555	6,258
Long-term debt	7,049	6,078	5,593	6,094	6,924
Other long-term liabilities	3,241	2,735	2,321	2,269	2,298
Total liabilities	16,317	14,263	13,017	13,918	15,480
Group shareholders' equity	18,978	17,605	15,313	13,683	12,803
Non-controlling interest	1,777	1,258	1,118	1,106	1,056
Total equity	20,755	18,863	16,431	14,789	13,859
Total liabilities and equity	37,072	33,126	29,448	28,707	29,339

Summary consolidated income statement for the past five years

USD millions					
	2011	2010	2009	2008	2007
Revenues					
Export duties	(16,951)	(12,236)	(8,360)	(15,974)	(10,196)
Taxes other than income tax	(11,849)	(8,169)	(6,043)	(11,182)	(7,821)
Operating expenses and other costs	(17,313)	(14,086)	(11,720)	(14,792)	(11,788)
Depreciation, depletion and amortization	(2,085)	(1,891)	(1,803)	(1,564)	(1,414)
Total costs and other deductions	(48,198)	(36,382)	(27,926)	(43,512)	(31,219)
Earnings/(loss) from equity investments	175	(12)	26	278	309
Interest expense	(242)	(241)	(261)	(500)	(546)
Gain on disposal of subsidiaries	341	21	212	60	135
Other income and expenses	128	155	–	(244)	140
Income before income taxes	12,403	8,187	6,804	7,968	7,745
Income taxes	(2,675)	(1,918)	(1,534)	(2,323)	(1,993)
Net income	9,728	6,269	5,270	5,645	5,752
Less: net income attributable to non-controlling interest	(747)	(454)	(297)	(361)	(410)
Net income attributable to Group shareholders	8,981	5,815	4,973	5,284	5,342

Additional information

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Subsequent events

Please see below a brief outline of events that took place after the reporting period, but add to an understanding of TNK-BP's performance during 2011.

January 2012

- TNK-BP started first offshore drilling operations at Lan Do field development in Vietnam. Gas production from Lan Do is expected to bring 2 bcm of gas annually to sustain Block 06.1's current production of 4.7 bcm.

February 2012

- TNK-BP held a Supplier and Contractor Forum on Yamal projects. The company presented its oil and gas development projects in the region and provided the contractors with a detailed plan of action for each asset.
- TNK-BP announced a plan to invest USD 170 mln (RUR 5 bn) in modernization of the Saratov refinery in 2012. The refinery is intended to start production of fuels meeting the Euro-5 standard by the end of 2012.
- TNK-BP announced a plan to invest USD 50 mln in upgrading the Ryazan refinery to fully switch to the 3-year turnaround cycle. The program aims to improve production efficiency at the refinery as a result of modernizing the equipment and extending its service life.

March 2012

- TNK-BP decided to temporarily halt crude deliveries to the Lisichansk refinery (LINIK) from 1 March 2012 and put the refinery on maintenance due to economic and industry conditions currently prevailing in Ukraine.
- TNK-BP acquired the Koltsovo fuel filling company – the operator of the jet fuel storage and filling services at Koltsovo International Airport in Ekaterinburg.
- the Brazilian National Agency of Petroleum, Natural Gas and Biofuels (ANP) approved the concession rights and obligations transfer from HRT O&G to TNK Brasil regarding a 45% participating interest in 21 blocks located in the Solimões Basin, onshore Brazil, thus concluding the transaction between HRT and TNK Brasil.

Glossary

2D seismic – a seismic survey which produces a two-dimensional image of the subsurface.

3D seismic – a seismic survey which produces a three-dimensional image of the subsurface.

3P reserves – possible, probable and proved (reserves).

Associated petroleum gas (APG) – a natural gas found with oil, either dissolved into it or as a cap of free gas above it. APG contains significant quantities of ethane, propane, butane and other saturated hydrocarbons. APG can be utilized in two areas:

- energy – to produce power for oil field purposes
- petrochemistry – refined to produce dry gas (supplied to main pipeline), natural gasoline, natural gas liquids and liquefied gas for domestic consumption.

bbl – barrel (1 bbl = 0.134 metric tons)

boe – barrels of oil equivalent. Boe is a measurement of gas by its thermal equivalent in barrels of crude oil.

Condensate – light hydrocarbons produced with natural gas. Condensate condenses into a liquid at normal temperatures and pressures.

EBITDA – earnings before interest, taxes, depreciation and amortization.

ESP – electric submersible pump.

Industrial accident – a) destruction of a construction and/or technical equipment used at a hazardous facility, uncontrollable explosion and/or release of hazardous substances; b) dangerous man-caused incident creating at a facility, on a certain territory or in water zone a threat to life and health of people, leading to destruction of buildings, constructions, equipment and vehicles, affecting operating and transportation processes as well as causing damage to environment.

Industrial incident – a failure or damage of a technical device, used at a hazardous production facility, abnormal operation, violations of the provisions of the Federal Law # 116-FZ on Industrial Safety of Hazardous Facilities, other federal laws and regulations of the Russian Federation, as well as regulatory technical documents, prescribing work rules at a hazardous facility.

Inhibition – the action of treating pipelines with chemicals (inhibitors) to slow down metal corrosion.

Inorganic capital expenditure – capital expenditure on acquisitions.

Lost time injuries rate is calculated in accordance with the OSHA (Occupational Safety and Health Administration) regulations as the total number of injuries (including fatalities) relative to the total time worked, multiplied by 200,000.

Net debt – long-term and short-term debt less cash and cash equivalents.

Organic capital expenditure – capital expenditure excluding acquisitions.

Possible reserves – reserves that may exist but are less well-defined by well control than probable reserves. Possible reserves include:

- reserves based on log interpretation and other evidence of hydrocarbon saturation in zones behind the pipe in existing wells
- possible extensions to proven and probable reserve areas where indicated by geophysical and geological studies
- those to be recovered by enhanced recovery methods where data is insufficient to classify the reserves as proven or probable.

Probable reserves – reserves that are based on reasonable evidence of producible hydrocarbons within the limits of a structure or reservoir above

known or inferred fluid contacts. They have been defined to a lesser degree of certainty than proven reserves because of limited well control and/or the lack of definitive production tests.

Proved reserves – estimated quantities of crude oil, and/or natural gas which, based on geological and engineering data, with reasonable certainty, can be recovered in the future from known reservoirs under existing economic and operating conditions.

PRMS – Petroleum Resources Management System, formerly Society of Petroleum Engineers (SPE); a methodology that provides a reflection of the total resources available to be managed over the whole life of a field. PRMS guidelines rely to a large extent on continuity of reservoir geology rather than production.

Remediation – the action of removing pollution or contaminants from soil, groundwater, sediment or surface water to protect public health and the environment or from a brownfield site intended for redevelopment.

Reserve replacement ratio – ratio of total proven reserves added in a given year to that year's production.

ROACE – return on average capital employed. This is calculated as the ratio of net income to average capital employed; average capital employed is calculated as the average sum of total shareholder equity, minority interest, long-term and short-term debt at the beginning and end of a period.

SEC – the U.S. Securities and Exchange Commission. The standard for proven reserves requires that continuity of production be demonstrated.

SEC LOF (life of field) – our total proved reserves are quoted according to SEC criteria taken to the economic life of the field rather than license expiration.

Abbreviations and Units

Abbreviations

2P (reserves) – proved and probable (reserves)

3P (reserves) – proved, probable and possible (reserves)

APG – associated petroleum gas

HSE – health, safety and environment

LOF – life of field

OGP – The International Association of Oil and Gas Producers

PRMS – Petroleum Resources Management System

SEC – US Securities and Exchange Commission

Units

bbl – barrel (1 bbl = 0.134 metric tons)

bcm – billion cubic meters

bcma – billion cubic meters per annum

b/d – barrels per day

bn – billion

boe – barrel of oil equivalent

cub. m – cubic meters

ft. – feet

ha – hectare

km – kilometer

mb/d – thousand barrels per day

mboe/d – thousand barrels of oil equivalent per day

mln – million

mmbbl – million barrels

mmb/d – mln barrels per day

mmboe – million barrels of oil equivalent

mmboe/d – mln barrels of oil equivalent per day

mmcm – million cubic meters

RUR – rouble

sq. km – square kilometer

th. – thousand

tons/d – tons per day

USD – US dollar

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