MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE AND
NINE MONTHS ENDED 30 SEPTEMBER 2019

Content

The following discussion should be read in conjunction with the unaudited consolidated interim condensed financial statements prepared in accordance with IFRS and the related notes, published simultaneously with this Management's Discussion and Analysis of financial condition and results of operations (MD&A). This report includes forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in the forward-looking statements as a result of numerous factors, including those discussed later in this MD&A. Words such as "believes," "anticipates," "expects," "estimates," "intends," "plans," etc. – that reflect management's current estimates and beliefs, but are not guarantees of future results. Please see "Forward-looking statements" for a discussion of some factors that could cause actual results to differ materially.

For financial reporting purposes, Tatneft converts metric tonnes of crude oil to barrels using a conversion factor of 7.123. This factor represents a blend of varying conversion factors specific to each of Tatneft's fields. Because the proportion of actual production by field varies from period to period, total reserves and production volumes for the Group in barrels converted from tonnes using the blended rate may differ from total reserves and production calculated on a field by field basis. Translations of cubic meters to cubic feet were made at the rate of 35.31 cubic feet per cubic meter. Translations of barrels of crude oil into barrels of oil equivalent ("BOE") were made at the rate of 1 barrel per BOE and of cubic feet into BOE at the rate of 6 thousand cubic feet per BOE.

Background

PJSC Tatneft (the "Company") and its subsidiaries (jointly referred to as the "Group" or "Tatneft") is one of the largest vertically integrated oil companies in Russia in terms of crude oil production and proved oil reserves. The Company is a public joint-stock company organized under the laws of the Russian Federation with the headquarters located in City of Almetyevsk, Tatarstan. The principal business of the Group is to explore for, develop, produce and market crude oil and refined products. The Group is also involved in treatment and refining of oil and gas, petrochemicals', mainly tires, production and marketing, manufacturing of equipment, engineering, procurement, and construction services for oil, gas and petrochemical projects and, from the fourth quarter of 2016, in banking activities.

As of 30 September 2019 and 31 December 2018 the government of Tatarstan controls approximately 36% of the Company's voting stock. Tatarstan also holds a "Golden Share", a special governmental right, in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and one representative to the Revision Committee of the Company as well as to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization of the Company and "major" and "interested party" transactions as defined under Russian law. The Golden Share currently has an indefinite term.

The majority of the Group's crude oil and gas production, refining capacity and other operations are located in Tatarstan, a republic of the Russian Federation, situated between the Volga River and the Ural Mountains, with its capital city Kazan 797 kilometers southeast of Moscow.

The Group currently holds most of the exploration and production licenses and produces substantially all its crude oil in Tatarstan.

Key financial and operational results

	3 months ended		Chg., %	9 months ended		Chg., %
	30 September 2019	30 June 2019		30 September 2019	30 September 2018	
Financial results						
Sales on non-banking activities, net (RR million)	241,753	222,330	*8.7*	691,409	675,157	*2.4*
Profit attributable to Group shareholders (RR million)	58,433	54,135	*7.9*	172,719	174,096	*(0.8)*
EBITDA[(1)] (RR million)	83,688	76,963	*8.7*	248,070	237,674	*4.4*
Additions to property, plant and equipment (RR million)	21,928	20,115	*9.0*	61,361	67,172	*(8.7)*
Free Cash Flow[(2)] (RR million)	85,093	16,621	*>100*	143,402	113,825	*26.0*
Net debt[(3)] (RR million)	(44,426)	(47,793)	*(7.0)*	(44,426)	(79,980)	*(44.5)*
Basic and Diluted profit per share (RR)						
Common	25.96	24.06	*7.9*	76.74	77.36	*(0.8)*
Preferred	25.96	23.95	*8.4*	76.74	77.06	*(0.4)*
Operational results						
Crude oil production by the Group (th. tonnes)	7,523	7,495	*0.4*	22,352	21,791	*2.6*
Crude oil production by the Group (th. barrels)	53,585	53,393	*0.4*	159,215	155,219	*2.6*
Crude oil daily production (th. barrels per day)	582.4	586.7	*(0.7)*	583.2	568.6	*2.6*
Gas production by the Group (million cubic meters)	259.6	253.3	*2.5*	764.9	681.8	*12.2*
Gas daily production (th. boe per day)	16.6	16.4	*1.2*	16.5	14.7	*12.2*
Refined products produced (th. tonnes)	2,812	2,388	*17.8*	7,398	6,706	*10.3*
incl. produced for third parties under tolling arrangements	-	-	*n/a*	7.5	227.8	*(96.7)*
Gas products produced[(4)] (th. tonnes)	298	297	*0.3*	894	878	*1.8*
Refining throughput* (th. barrels per day)	228.3	185.2	*23.3*	198,2	178.6	*11.0*
Production of tires (million tires)	3.1	2.5	*24.0*	7.4	10.8	*(31.5)*
Number of petrol (gas) stations in Russia[(5)] [(3)]	603	602		603	582	
Number of petrol (gas) stations outside of Russia[(5)] [(3)]	111	109		111	109	

[(1)] *As defined on page 15*
[(2)] *As calculated on page 17*
[(3)] *At the end of the period*
[(4)] *Including natural stable gasoline, produced by gas refining division Tatneftegaspererabotka*
[(5)] *Including leased petrol (gas) stations*
** Current and comparative periods use different accounting approaches (the effect is immaterial)*
*** Including volumes produced for third parties under tolling arrangements*

Our net profit (attributable to Group shareholders) in the third quarter of 2019 increased by RR 4,298 million in comparison to the second quarter of 2019 mainly due to a higher volumes of crude oil sold following the resumption of shipments via Transneft's "Druzhba" pipeline system which were temporarily suspended following an incident with the contamination of crude oil in April 2019 (the Company's production was not affected by the incident, but it led to a higher than normal inventory build-up during the second quarter of 2019) and the expansion of production at TANECO refinery with the launch of the second crude and vaccum distillation unit (CDU-VDU-6), partly offset by weaker macro environment resulting in lower realized sales prices. EBITDA (see page 15) in the third quarter of 2019 increased by 8.7% quarter on quarter mainly due to better net banking operating results, while the Group's free cash flow (see page 17) in the same period grew to RR 85,093 million on the back of higher net cash provided by operating activities.

The Group's net profit (attributable to Group shareholders) in the nine months of 2019 was RR 172,719 million, which is RR 1,377 million, or 0.8%, less than in the corresponding period of 2018. The main factors behind the decrease in our profit for the nine months of 2019 compared to the corresponding period of 2018 were lower crude oil and refined products prices, partly offset by higher volumes sold, and higher costs, including mineral extraction tax (MET) expense (constituting the majority of taxes other than income tax) and operating expenses, as well as larger impairment loss on property, plant and equipment and foreign exchange loss. EBITDA (see page 15) for the 9 months of 2019 increased to RR 248,070 million due to higher net revenues on non-banking activities, supported by larger sales volumes, although affected by lower realized prices in the reporting period, and improved net banking operating results. Free cash flow (see page 17) for the 9 months of 2019 increased to RR 143,402 million with higher net cash provided by operating activities and lower capital expenditures reflected in additions to property, plant and equipment.

In the third quarter of 2019 the Group produced 7.5 million metric tonnes of crude oil which is 0.4% higher than in the second quarter of 2019. Our gas production in the third quarter of 2019 was 259.6 million cubic meters which is 2.5% higher than in the second quarter of 2019.

In the nine months of 2019 the Group produced 22.4 million metric tonnes of crude oil which is 2.6% higher than in the nine months of 2018. Our gas production in the nine months of 2019 was 764.9 million cubic meters which is 12.2% higher than in the corresponding period of 2018.

The following table sets forth TANECO's refined product output volumes.

TANECO operational results	**3 months ended**		**Chg., %**	**9 months ended**		**Chg., %**
	30 September 2019	**30 June 2019**		**30 September 2019**	**30 September 2018**	
	(in thousand tonnes)			(in thousand tonnes)		
Refined products output:	**2,767.4**	**2,329.2**	***18.8***	**7,243.0**	**6,517.5**	***11.1***
incl. produced for third parties under tolling arrangements	-	-	*n/a*	7.5	227.8	*(96.7)*
Diesel fuel	888.1	921.6	*(3.6)*	2,723.9	1,503.3	*81.2*
Middle distillates	563.7	205.0	*>100.0*	1,030.7	2,005.0	*(48.6)*
Petrol fuel	284.4	267.1	*6.5*	809.7	-	*n/a*
Naphtha	215.0	116.6	*84.4*	467.6	1,224.2	*(61.8)*
Kerosene	88.2	59.9	*47.2*	186.4	176.4	*5.7*
Jet fuel	125.0	154.5	*(19.1)*	381.3	240.9	*58.3*
Petroleum coke	201.7	114.0	*76.9*	477.8	446.1	*7.1*
Other	401.3	490.5	*(18.2)*	1,165.6	921.6	*26.5*

Segment information

Our operations are currently divided into the following main segments:

- **Exploration and production** – consists of the Company's oil and gas extraction and production divisions, as well as production subsidiaries. Most oil and gas exploration and production activities are concentrated within the Company and centrally managed by Tatneft-Upstream (*Tatneft-Dobycha*) division.

- **Refining and marketing** – consists of a refining and petrochemical complex in Nizhnekamsk, Tatarstan, operated by TANECO, our gas collection, transportation and refining division Tatneftegaspererabotka, Elkhov oil refining division operating a small refinery in Kichui, Tatarstan; the Company's sales and marketing division (*URNiN*), Tatneft-AZS Center, Tatneft-AZS-Zapad and other subsidiaries which manage the Tatneft branded gas stations network in Russia and abroad, and carry out refined products wholesale sales; as well as various ancillary companies.

- **Petrochemicals -** our petrochemicals segment has been consolidated under a management company, Tatneft-Petrochemicals (*Tatneft-Neftekhim*) which manages Nizhnekamskshina, one of the largest tire manufacturers in Russia, and the companies technologically integrated with it, including Nizhnekamsk Industrial Carbon Plant, Yarpolymermash-Tatneft, Nizhnekamskiy Mekhanicheskiy Zavod and Nizhnekamskiy Zavod Shin CMK. Trading House Kama is responsible for procuring supplies and marketing products produced by the companies within this segment.

- **Banking -** our banking segment in represented by ZENIT Banking Group which has been consolidated into the Tatneft Group's financial statements from the fourth quarter of 2016.

  As of 30 September 2019 ZENIT Banking Group (further "Bank ZENIT") consists of PJSC Bank ZENIT, Bank Devon-Credit, Lipetskkombank, Bank ZENIT Sochi and SPIRITBANK.

  Tatarstan is one of the main regions where Bank ZENIT has a presence and offers a full range of banking services to a large number of customers, including the Group's entities and employees.

These segments are determined by the way management recognizes the segments within the Group for making operating decisions and how they are evident from the Group structure.

Intersegment Sales

Tatneft's three main non-banking business segments are interconnected and dependent on each other and hence a portion of the revenues of one main segment is related to the expenses of the other main segment. In particular, exploration and production Group companies supply part of crude oil for the processing at our own refineries, mainly TANECO, and the refined products are then either sold by the Company in international or domestic markets or to the Company's consumer marketing subsidiaries for subsequent distribution.

As a result of certain factors benchmarking crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil and other goods and services reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of crude oil refining and other factors. Accordingly, an analysis of either of these segments on a stand-alone basis could give a misleading perception of those segments' underlying financial position and results of operations. For this reason, we do not analyze either of our main segments separately in the discussion that follows. However, we present the financial data for each respective segment in Note 17 "Segment information" to our consolidated interim condensed financial statements. All intercompany operations are eliminated on the consolidation level.

Executive overview of major subsequent events

The management believes that the following subsequent events, which occurred after the end of the reporting period (30 September 2019), are important for the reader of this MD&A:

The Group purchased petrochemical facilities for the production of various types of synthetic rubber used in the manufacturing of tires as well as MTBE, butadiene and other related products located in the Samara region in Russia through the acquisition of 100% interest in LLC SIBUR Togliatti and JSC Togliattisintez from PJSC SIBUR Holding for a cash consideration of RR 12,865 million (including cash on accounts adjustment of RR 1,565 million), paid in October 2019.

The Group purchased a fuel retail business consisting of 75 fuel (gas) stations and a fuel terminal in the northwestern Russia through the acquisition of 100% interest in LLC Neste Saint Petersburg from Finnish corporation Neste Oyj for a cash consideration of RR 10,832 million (including cash on accounts and working capital adjustment of RR 1,375 million), paid in October 2019.

In November 2019 the Company's Board of Directors recommended to approve interim dividends on the preference and ordinary shares for the nine months ended 30 September 2019 in the amount of RR 64.47 per each preference and ordinary share with the consideration of earlier paid interim dividends for the six months ended 30 June 2019 in the amount of RR 40.11 per each preference and ordinary share. The decision on payment of interim dividends for the 9 months of 2019 will be taken by the extraordinary shareholders meeting held by proxy voting on 19 December 2019. Subject to the shareholders' approval, the dividend payment is planned for the first quarter of 2020.

On 15 November 2019 Bank ZENIT completed the merger of Bank Devon-Credit and Lipetskkombank, former subsidiaries, into the parent bank PJSC Bank ZENIT.

Results of the Group operations for the three and nine months ended 30 September 2019 compared to the three months ended 30 June 2019 and nine months ended 30 September 2018

The following table sets forth the consolidated statement of profit or loss both in absolute values and respective changes (where relevant) over the analyzed periods:

(RR million)	3 months ended 30 September 2019	3 months ended 30 June 2019	Chg., %	9 months ended 30 September 2019	9 months ended 30 September 2018	Chg., %
Sales and other operating revenues on non-banking activities, net	**241,753**	**222,330**	***8.7***	**691,409**	**675,157**	***2.4***
Costs and other deductions on non-banking activities						
Operating expenses	(36,348)	(32,290)	*12.6*	(100,558)	(92,333)	*8.9*
Purchased oil and refined products	(10,961)	(16,040)	*(31.7)*	(37,451)	(56,226)	*(33.4)*
Exploration	(279)	(297)	*(6.1)*	(658)	(522)	*26.1*
Transportation	(10,176)	(8,126)	*25.2*	(27,987)	(27,303)	*2.5*
Selling, general and administrative	(13,567)	(12,788)	*6.1*	(37,650)	(36,077)	*4.4*
Depreciation, depletion and amortization	(8,715)	(7,108)	*22.6*	(23,273)	(22,405)	*3.9*
Impairments loss on financial assets, net of reversal	(1,543)	564	*n/a*	496	(5,422)	*n/a*
Impairments loss on property, plant and equipment and other non-financial assets, net of reversal	(1,636)	(91)	*>100*	(1,873)	(464)	*>100*
Taxes other than income taxes	(82,639)	(75,468)	*9.5*	(234,694)	(215,765)	*8.8*
Maintenance of social infrastructure and transfer of social assets	(2,480)	(1,227)	*>100*	(5,052)	(4,220)	*19.7*
Total costs and other deductions on non-banking activities	**(168,344)**	**(152,871)**	***10.1***	**(468,700)**	**(460,737)**	***1.7***
Gain / (loss) on disposals of interests in subsidiaries and associates, net	-	1	*(100.0)*	1	94	*(98.9)*
Other operating gain / (loss), net	(263)	327	*n/a*	(635)	(312)	*>100*
Operating profit on non-banking activities	**73,146**	**69,787**	***4.8***	**222,075**	**214,202**	***3.7***
Net interest, fee and commission and other operating income/ (expenses) and gains/ (losses) on banking activities						
Interest, fee and commission income	5,700	5,930	*(3.9)*	17,081	17,308	*(1.3)*
Interest, fee and commission expense	(3,568)	(2,710)	*31.7*	(9,050)	(8,417)	*7.5*
Net income/(expense) on creating provision for credit losses associated with debt financial assets	118	(613)	*n/a*	(6)	(1,531)	*(99.6)*
Operating expenses, banking activities	(1,664)	(2,797)	*(40.5)*	(7,172)	(6,385)	*12.3*
Loss arising from dealing in foreign currencies. net	650	(36)	*n/a*	84	(93)	*n/a*
Other operating income, net	328	621	*(47.2)*	1,150	(127)	*n/a*
Total net interest, fee and commission and other operating income/ (expenses) and gains/ (losses) on banking activities	**1,564**	**395**	***>100***	**2,087**	**755**	***>100***
Other income/(expenses)						
Foreign exchange (loss)/ gain, net	1,380	(568)	*n/a*	(1,532)	6,000	*n/a*
Interest income on non-banking activities	290	352	*(17.6)*	1,084	3,827	*(71.7)*
Interest expense on non-banking activities, net of amounts capitalized	(1,257)	(1,238)	*1.5*	(3,753)	(2,358)	*59.2*
Share of results of associates and joint ventures, net	(48)	87	*n/a*	108	(12)	*n/a*
Total other (expenses)/ income	**365**	**(1,367)**	***n/a***	**(4,093)**	**7,457**	***n/a***
Profit before income tax	**75,075**	**68,815**	***9.1***	**220,069**	**222,414**	***(1.1)***
Current income tax expense	(17,371)	(11,563)	*50.2*	(43,396)	(44,423)	*(2.3)*
Deferred income tax expense	1,333	(2,993)	*n/a*	(3,142)	(4,051)	*(22.4)*
Total income tax expense	**(16,038)**	**(14,556)**	***10.2***	**(46,538)**	**(48,474)**	***(4.0)***
Profit for the period	**59,037**	**54,259**	***8.8***	**173,531**	**173,940**	***(0.2)***
Less: (profit)/ loss attributable to non-controlling interest	(604)	(124)	*>100*	(812)	156	*n/a*
Profit attributable to Group shareholders	**58,433**	**54,135**	***7.9***	**172,719**	**174,096**	***(0.8)***

Sales and other operating revenues on non-banking activities

A breakdown of sales and other operating revenues on non-banking activities (by product type) is provided in the following table:

(RR million)	3 months ended 30 September 2019	3 months ended 30 June 2019	Chg., %	9 months ended 30 September 2019	9 months ended 30 September 2018	Chg., %
Crude oil						
Sales	137,696	117,782	*16.9*	398,380	407,381	*(2.2)*
Less related export duties	*(15,810)*	*(9,605)*	*64.6*	*(40,377)*	*(50,170)*	*(19.5)*
	121,886	108,177	*12.7*	358,003	357,211	*0.2*
Refined products						
Sales	104,791	99,667	*5.1*	291,890	286,586	*1.9*
Less related export duties and excise taxes	*(7,411)*	*(4,788)*	*54.8*	*(18,675)*	*(25,075)*	*(25.5)*
	97,380	94,879	*2.6*	273,215	261,511	*4.5*
Petrochemicals	13,998	12,573	*11.3*	34,596	36,062	*(4.1)*
Corporate and other sales	8,489	6,701	*26.7*	25,595	20,373	*25.6*
Total Sales and other operating Revenues on non-banking activities, net	**241,753**	**222,330**	***8.7***	**691,409**	**675,157**	***2.4***

Increase in net sales and other operating revenues on non-banking activities in the third quarter of 2019 in comparison to the second quarter of 2019 was due to higher revenues on crude oil and refined products sales supported by larger sales volumes resulting from crude oil inventory unwinding and expansion of production at TANECO.

Increase in net sales and other operating revenues on non-banking activities in the nine months of 2019 in comparison to the corresponding period of 2018 was primarily due to higher revenue on refined products sales supported by lower related export duties and excise taxes.

Export duties and excise taxes

(RR million)	3 months ended 30 September 2019	3 months ended 30 June 2019	Chg., %	9 months ended 30 September 2019	9 months ended 30 September 2018	Chg., %
Export duties	18,751	11,995	*56.3*	47,738	63,210	*(24.5)*
Excise taxes net “reverse excise tax”	4,470	2,398	*86.4*	11,314	12,035	*(6.0)*
“reverse excise tax” from 2019	(6,248)	(7,052)	*(11.4)*	(17,720)	-	*n/a*
Total export duties and excise taxes	**23,221**	**14,393**	***61.3***	**59,052**	**75,245**	***(21.5)***

In the third quarter of 2019 export duties paid by the Group increased by 56.3% in comparison to the second quater of 2019 to RR 18,751 million due to higher non-CIS export sales of crude oil and refined products partly offset by a decrease in average export duty rates in the reporting period.

In the nine months of 2019 compared to the same period of 2018, export duties paid by the Group decreased by 24.5% to RR 47,738 million mainly due to decrease in average export duty rates and application of an adjusting factor to the standard crude oil export duty rate in the nine months of 2019 as a part of the tax maneuver.

Our excise tax expenses in the third quarter of 2019 increased by 86.4% to RR 4,470 million compared to RR 2,398 million in the second quarter of 2019 mainly due to lower “reverse excise” deducted in the reporting period in accordance with the amended tax legislation in effect from 1 January 2019.

Our excise tax expenses in the nine months of 2019 decreased by 6% to RR 11,314 million compared to RR 12,035 million in the nine months of 2018 mainly due to the “reverse excise tax” deduction partly offset by an increase in excise tax rates on some of refined products in 2019.

Sales of crude oil and refined products outside of Russia

For crude oil export the Group is using transportation services of Transneft, the state-owned monopoly owner and operator of Russia’s trunk crude oil pipelines.

Three months ended 30 September 2019

In the third quarter of 2019 the Group exported approximately 66% of all its crude oil sold compared to 53% in the second quarter of 2019.

In the third quarter of 2019 the Company delivered 90% (56% in the second quarter of 2019) of its own crude oil for export through Transneft's Druzhba pipeline (mainly to Slovakia, Poland and Czech Republic); 4% (10% in the second quarter of 2019) of crude oil was shipped through Russian Black Sea ports (mainly Novorossiysk) and 6% (34% in the second quarter of 2019) of crude oil exported through Russian Baltic Sea ports (mainly Primorsk). (*)

In the third quarter of 2018 the Group exported 1,391 thousand tonnes of refined products (including 39 thousand tonnes of purchased refined products) in comparison to 1,084 thousand tonnes in the second quarter of 2019 (including 30 thousand tonnes of purchased refined products).

Nine months ended 30 September 2019

During the nine months of 2019 the Group exported approximately 62% of all its crude oil sold compared to 59% in the corresponding period of 2018.

In the nine months of 2019 the Company delivered 76% (75% in the nine months of 2018) of its own crude oil for export through Transneft's Druzhba pipeline (mainly to Poland, Slovakia and Hungary); 6% (2% in the nine months of 2018) of crude oil was shipped through Russian Black Sea ports (mainly Novorossiysk) and 18% (23% in the nine months of 2018) of crude oil exported through Russian Baltic Sea ports (mainly Primorsk). (*)

In the nine months of 2019 the Group exported 3,518 thousand tonnes of refined products (including 98 thousand tonnes of purchased refined products) in comparison to 4,654 thousand tonnes in the corresponding period of 2018 (including 207 thousand tonnes of purchased refined products).

(*) Sales of crude oil to the Commonwealth of Independent States (CIS) countries were excluded in the calculation of figures in percent in the paragraphs above

Sales breakdown on non-banking activities

Sales revenues

(RR million)	3 months ended 30 September 2019	3 months ended 30 June 2019	Chg., %	9 months ended 30 September 2019	9 months ended 30 September 2018	Chg., %
Crude oil						
Non-CIS						
Export sales	91,483	65,805	*39.0*	250,260	247,328	*1.2*
Less related export duties	(15,810)	(9,605)	*64.6*	(40,377)	(50,170)	*(19.5)*
CIS sales	7,767	4,184	*85.6*	19,386	21,362	*(9.3)*
Domestic sales	38,446	47,793	*(19.6)*	128,734	138,691	*(7.2)*
	121,886	**108,177**	*12.7*	**358,003**	**357,211**	*0.2*
Refined products						
Non-CIS export sales						
Export sales	38,642	34,806	*11.0*	104,536	137,564	*(24.0)*
Less related export duties	(2,938)	(2,376)	*23.7*	(7,337)	(12,977)	*(43.5)*
CIS sales						
CIS sales	3,283	2,439	*34.6*	9,820	15,067	*(34.8)*
Less related export duties	(3)	(14)	*(78.6)*	(24)	(63)	*(61.9)*
Domestic sales						
Domestic sales	62,866	62,422	*0.7*	177,534	133,955	*32.5*
Less related excise taxes	(4,470)	(2,398)	*86.4*	(11,314)	(12,035)	*(6.0)*
	97,380	**94,879**	*2.6*	**273,215**	**261,511**	*4.5*
Petrochemical products						
Tires sales	13,342	11,836	*12.7*	32,270	33,630	*(4.0)*
Other petrochemicals sales	656	737	*(11.0)*	2,326	2,432	*(4.4)*
	13,998	**12,573**	*11.3*	**34,596**	**36,062**	*(4.1)*
Other sales	**8,489**	**6,701**	*26.7*	**25,595**	**20,373**	*25.6*

Sales volumes

(thousand tonnes)	3 months ended 30 September 2019	3 months ended 30 June 2019	Chg., %	9 months ended 30 September 2019	9 months ended 30 September 2018	Chg., %
Crude oil						
Non-CIS export sales	3,267	2,148	*52.1*	8,585	7,983	*7.5*
CIS sales	346	174	*98.9*	825	902	*(8.5)*
Domestic sales	1,873	2,073	*(9.6)*	5,842	6,262	*(6.7)*
	5,486	**4,395**	***24.8***	**15,252**	**15,147**	***0.7***
Refined products						
Non-CIS export sales	1,303	1,025	*27.1*	3,265	4,189	*(22.1)*
CIS sales	88	59	*49.2*	253	465	*(45.6)*
Domestic sales	1,806	1,891	*(4.5)*	5,163	3,885	*32.9*
	3,197	**2,975**	*7.5*	**8,681**	**8,539**	*1.7*

Realized average sales prices

(th. RR per tonne)	3 months ended 30 September 2019	3 months ended 30 June 2019	Chg., %	9 months ended 30 September 2019	9 months ended 30 September 2019	Chg., 30 June 2019
Crude oil						
Non-CIS export sales	28.00	30.64	*(8.6)*	29.15	30.98	*(5.9)*
CIS sales	22.42	24.05	*(6.8)*	23.48	23.68	*(0.8)*
Domestic sales	20.53	23.05	*(10.9)*	22.04	22.15	*(0.5)*
Refined products						
Non-CIS export sales	29.66	33.96	*(12.7)*	32.02	32.84	*(2.5)*
CIS sales	37.41	41.34	*(9.5)*	38.85	32.40	*19.9*
Domestic sales	34.82	33.01	*5.5*	34.39	34.48	*(0.3)*

Sales of crude oil

In the third quarter of 2019 sales of crude oil, before the deduction of export duties, increased by 16.9% to RR 137,696 million in comparison to the second quarter of 2019 mainly due to higher volumes of crude oil sold in non-CIS export markets.

Decrease in crude oil sales (before the deduction of export duties) by 2.2% in the nine months of 2019 in comparison to the same period of 2018 was mainly due to lower realized average sales prices.

Sales of refined products

In the third quarter of 2019 sales of refined products before deduction of export duties and excise tax increased by 5.1% to RR 104,791 million in comparison to the second quarter of 2019 mainly due to the growth of refined products volumes sold following the expansion of production at TANECO.

Increase in sales of refined products (before the deduction of export duties and excise tax) by 1.9% in the nine months of 2019 in comparison to the same period of 2018 was mainly due to the growth of volumes of refined products sold.

	3 months ended 30 September 2019		3 months ended 30 June 2019		Chg.*, %		9 months ended 30 September 2019		9 months ended 30 September 2018		Chg.*, %	
Non-CIS export sales	**RR mln**	**mln tonnes**	**RR mln**	**mln tonnes**	**Sales**	**Volumes**	**RR mln**	**mln tonnes**	**RR mln**	**mln tonnes**	**Sales**	**Volumes**
Naphtha	7,284	0.25	6,062	0.19	*20.2*	*31.6*	19,856	0.64	44,534	1.19	*(55.4)*	*(46.2)*
Middle distillates	10,072	0.3	2,401	0.06	*>100*	*>100*	15,495	0.45	44,144	1.34	*(64.9)*	*(66.4)*
Engine oil	1,465	0.04	1,194	0.03	*22.7*	*33.3*	4,177	0.10	3,597	0.09	*16.1*	*11.1*
Diesel fuel	11,168	0.30	13,760	0.35	*(18.8)*	*(14.3)*	38,158	0.99	20,594	0.52	*85.3*	*90.4*
Gas products	443	0.02	702	0.02	*(36.9)*	*(0.0)*	1,839	0.07	1,660	0.06	*10.8*	*16.7*
Other	8,210	0.40	10,687	0.38	*(23.2)*	*5.3*	25,011	1.01	23,035	1.00	*8.6*	*1.0*
Total	**38,642**	**1.31**	**34,806**	**1.03**	***11.0***	***27.2***	**104,536**	**3.26**	**137,564**	**4.19**	***(24.0)***	***(22.2)***

CIS export sales	3 months ended 30 September 2019 RR mln	mln tonnes	30 June 2019 RR mln	mln tonnes	Chg.*, % Sales	Volumes	9 months ended 30 September 2019 RR mln	mln tonnes	30 September 2018 RR mln	mln tonnes	Chg.*, % Sales	Volumes
Diesel fuel	1,830	0.04	1,166	0.02	*56.9*	*100.0*	6,066	0.13	4,474	0.11	*35.6*	*18.2*
Gas products	727	0.04	494	0.02	*47.2*	*100.0*	1,766	0.08	1,267	0.05	*39.4*	*60.0*
Naphtha	-	-	-	-	*n/a*	*n/a*	-	-	4,641	0.15	*(100.0)*	*(100.0)*
Other	726	0.01	779	0.02	*(6.8)*	*(50.0)*	1,988	0.04	4,685	0.16	*(57.6)*	*(75.0)*
Total	**3,283**	**0.09**	**2,439**	**0.06**	***34.6***	***50.0***	**9,820**	**0.25**	**15,067**	**0.47**	***(34.8)***	***(46.8)***

Domestic sales	3 months ended 30 September 2019 RR mln	mln tonnes	30 June 2019 RR mln	mln tonnes	Chg.*, % Sales	Volumes	9 months ended 30 September 2019 RR mln	mln tonnes	30 September 2018 RR mln	mln tonnes	Chg.*, % Sales	Volumes
Diesel fuel	28,006	0.68	31,627	0.77	*(11.4)*	*(11.7)*	86,959	2.10	50,626	1.27	*71.8*	*65.4*
Middle distillates	9,037	0.17	4,577	0.13	*97.4*	*30.8*	19,314	0.47	25,790	0.75	*(25.1)*	*(37.3)*
Automobile gasoline	16,248	0.36	13,806	0.31	*17.7*	*16.1*	41,191	0.92	30,684	0.69	*34.2*	*33.3*
Gas products	3,124	0.21	3,390	0.24	*(7.8)*	*(12.5)*	9,540	0.63	14,637	0.68	*(34.8)*	*(7.4)*
Engine oil	1,124	0.02	1,010	0.02	*11.3*	*0.0*	3,087	0.07	2,471	0.06	*24.9*	*16.7*
Jet fuel	3,890	0.10	4,022	0.11	*(3.3)*	*(9.1)*	10,781	0.29	5,489	0.15	*96.4*	*93.3*
Other	1,437	0.26	3,990	0.30	*(64.0)*	*(13.3)*	6,663	0.68	4,259	0.29	*56.4*	*>100*
Total	**62,866**	**1.80**	**62,422**	**1.89**	***0.7***	***(4.8)***	**177,535**	**5.16**	**133,956**	**3.88**	***32.5***	***33.0***

** The difference between percentages presented here and in the sections above is a result of rounding*

Sales of petrochemical products

In the third quarter of 2019 sales of petrochemical products in the amount of RR 13,998 million increased by 11.3% compared to the second quarter of 2018 primarily due to higher volumes of tires sold.

In the nine months of 2019 sales of petrochemical products decreased by 4.1% to RR 34,596 million compared to the corresponding period of 2018.

The Group's production of tires in the third quarter of 2019 increased by 24% compared to the second quarter of 2019 and amounted to 3.1 million tires. The Group's production of tires in the nine months of 2019 compared to the same period of 2018 decreased by 31.5% and amounted to 7.4 million tires primarily due to lower volumes of tires sold associated with temporary suspension of production due to the interruption of raw materials supply from a third party.

Other sales

Other sales primarily represent sales of materials and equipment, various oilfield services and sales of energy, water and steam by the Group entities to third parties.

In the third quarter of 2019 compared to the second quarter of 2019 other sales increased by 26.7% mostly due to an increase in sales of other goods and increase in fees received.

Increase in other sales in the nine months of 2019 by 25.6% compared to the same period of 2018 was mostly due to an increase in sales of other goods and transport services.

Costs and other deductions on non-banking activities

Operating expenses. Operating expenses include the following costs:

	3 months ended		9 months ended	
(RR million)	**30 September 2019**	**30 June 2019**	**30 September 2019**	**30 September 2018**
Crude oil extraction expenses	13,810	13,013	39,204	39,425
Refining expenses	4,327	3,923	12,419	9,402
Petrochemical production expenses	11,676	10,565	29,522	28,622
Cost of other sales	4,838	6,365	19,016	15,191
Operating expenses not attributed to the revenues in the current period[(1)]	1,697	(1,576)	397	(307)
Total operating expenses	**36,348**	**32,290**	**100,558**	**92,333**

[(1)] This charge includes extraction expenses related to crude oil produced by the Group in one period but sold to third parties in the different reporting period.

Crude oil extraction expenses. The Group's extraction ("lifting") expenses related to crude oil production are incurred by the Company's oil and gas producing divisions and subsidiaries. They include expenditures related to maintenance services, repairs and insurance of extraction equipment, labour costs, expenses on artificial stimulation of reservoirs, fuel and electricity costs, materials and goods consumed in crude oil production, and other similar costs.

The Company's crude oil production units' and subsidiaries' costs of purchased services and goods that are unrelated to their core activities and the change in crude oil and refined products inventory, have been excluded from extraction expenses and are included in other operating costs.

In the third quarter of 2019 lifting expenses averaged to RR 257.7 per barrel compared to RR 243.7 per barrel in the second quarter of 2019.

In the nine months of 2019 lifting expenses averaged to RR 246.2 per barrel compared to RR 254.0 per barrel in the corresponding period of 2018.

Increase in per barrel lifting expenses in the third quarter of 2019 by 5.7% compared to the second quarter of 2019 was mainly due to higher expenses on artificial stimulation of reservoirs.

In the nine months of 2019 per barrel lifting expenses decreased by 3.1% compared to the corresponding period of 2018 as a result of adoption of IFRS 16 "Leases" from 1 January 2019 (please refer to the further discussion on page 15).

Refining expenses. Refining expenses mostly consist of expenses related to the production of refined products at our TANECO refinery and primarily include expenditures of raw materials and supplies, except of crude oil and purchased vacuum gasoil, routine maintenance and repairs of productive equipment, labour and electricity costs, and other similar costs.

The refining expenses incurred at TANECO in the third quarter of 2019 were RR 1,597 per tonne of crude oil throughput (RR 1,564 per tonne of products output) compared to RR 1,570 per tonne of crude oil throughput (RR 1,684 per tonne of products output) in the second quarter of 2019.

The refining expenses incurred at TANECO in the nine months of 2018 were RR 1,597 per tonne of crude oil throughput (RR 1,716 per tonne of products output) compared to RR 1,399 per tonne of crude oil throughput (RR 1,495 per tonne of products output) in the corresponding period of 2018.

Changes in per tonne refining expenses at TANECO were mostly due to changes in expenditures on materials as well as electricity, heating and fuel associated with the commissioning of new production units and higher output.

Petrochemical production expenses. Petrochemical production expenses primarily include the costs of raw materials, labour, maintenance and electricity consumed in the production of petrochemical products.

Increase in operating expenses related to the production of petrochemicals both in the third quarter of 2019 and in the nine months of 2019 by 10.5% and by 3.1% compared to the second quarter of 2019 and the nine months of 2018, respectively, was primarily related to an increase in cost of raw materials for the production of tires.

Cost of other sales include costs of other services, goods and materials not related to the core production activities of the Group.

In the third quater of 2019 cost of other sales compared to the second quarter of 2019 decreased by 24% to RR 4,838 million due to lower cost of services and materials used in the generation of other sales.

Increase in cost of other sales in the nine months of 2019 compared to the nine months of 2018 by 25.2% was mainly due to increase in other sales.

Cost of purchased crude oil and refined products. A summary of purchased oil and refined products in the respective periods of 2019 and 2018 were as follows:

	3 months ended				9 months ended			
	30 September 2019		30 June 2019		30 September 2019		30 September 2018	
	RR mln	th. tonnes	RR mln	th. tonnes	RR mln	th. tonnes	RR mln	th. tonnes
Purchased crude oil	1,256	47	2,823	95	5,721	197	5,683	185
Purchased refined products	9,705	321	13,217	375	31,730	893	50,543	1,177
Total cost of purchased oil and refined products*	**10,961**		**16,040**		**37,451**		**56,226**	

** Calculated average prices of crude oil and refined products purchased from third parties may be higher than the calculated average selling prices of crude oil and refined products due to differences in the structure and directions of purchased and sold products.*

Exploration expenses. Exploration expenses consist primarily of geological and geophysical costs, and the costs of carrying and retaining undeveloped properties.

In the third quarter of 2019 and the nine months of 2019 exploration expenses amounted to RR 279 million and RR 658 million compared to RR 297 million and RR 522 million in the second quarter of 2019 and the nine months of 2018, respectively.

Transportation expenses. Transportation of the Group's crude oil and refined products, including purchased crude oil and refined products, are mostly carried out using the Transneft trunk pipeline system and the railway.

Increase in transportation expense in the third quarter of 2019 by 25.5% to RR 10,176 million compared to the second quarter of 2019 was mainly due to an increase in crude oil volumes sold for export.

Increase in transportation expense in the nine months of 2019 in comparison with the corresponding period of 2018 by 2.5% to 27,987 million was mostly due to higher volumes of crude oil and refined products sold.

Selling, general and administrative expenses. These expenses by nature are fixed costs which are not directly related to production or sales volumes. These include salary expenses, general business costs, insurance, advertising, legal fees, consulting and audit services, charity and other expenses.

In the third quarter of 2019 increase in selling, general and administrative expenses by 6.1% to RR 13,567 million compared to the second quarter of 2019 was mostly attributed to an increase in charitable expenses as well as an increase in consulting, information and legal services.

In the nine months of 2019 compared to the corresponding period of 2018 selling, general and administrative expenses increased by 4.4% to RR 37,650 million.

Impairment loss on financial assets, net of reversal. As a result of adoption of IFRS 9 "Financial instruments" into this new line item were included gains/losses from accrual/reversal of provision of financial assets determined in accordance with requirements of IFRS 9. All other gains/losses from accrual/reversal of provision of other assets are disclosed in "Impairment loss on property, plant and equipment and other non-financial assets, net of reversal".

In the nine months of 2019 "Impairment loss on financial assets, net of reversal" included a gain from reversal of credit loss allowance on accounts receivable in the amount RR 863 million partly offset by a loss in the amount of RR 367 million on impairment of certain loans initially issued by Bank ZENIT, subsequently transferred under the assignment agreements to other subsidiaries of the Group.

Impairment loss on property, plant and equipment and other non-financial assets, net of reversal. In the nine months of 2019 the Group recorded net impairment losses on some of its property, plant and equipment and other non-financial assets in the amount of RR 1,873 million.

Taxes. Effective tax burden (taxes other than income tax plus export duties and excise taxes to the gross revenue on non-banking activities) of the Group in the third and the second quarters of 2019 was approximately 40% and 38%, respectively. In the nine months of 2019 and in the nine months of 2018 the effective tax burden of the Group was approximately 39%.

Share of fiscal seizures in the financial result on non-banking activities of the Group excluding other operating income/loss was 68% and 66% in the third quarter of 2019 and in the nine months of 2019 respectively.

Taxes other than income taxes include the following:

	3 months ended		9 months ended	
(RR million)	**30 September 2019**	**30 June 2019**	**30 September 2019**	**30 September 2018**
Mineral extraction tax	80,065	73,150	227,667	209,521
Property tax	1,839	1,689	5,287	5,020
Other	735	629	1,740	1,224
Total taxes other than income taxes	**82,639**	**75,468**	**234,694**	**215,765**

Increase in taxes other than income taxes in the third quarter of 2019 by 9.5% in comparison to the second quarter of 2019 was mainly due to an increase in mineral extraction tax expense based on higher crude oil sales volumes, partly offset by lower MET rates linked to market crude oil prices.

Taxes other than income taxes increased in the nine months of 2019 by 8.8% in comparison to the nine months of 2018 mainly due to higher mineral extraction tax expense based on change in calculation of MET formula through additional factors added into calculation from 2019, as well as an increase in additional component added into MET formula earlier (from 1 January 2019 it was increased to RR 428 per tonne from RR 357 per tonne in 2018).

Effective from 1 January 2007, the mineral extraction tax rate was modified to provide for a discount for the production from oil fields with the depletion rate of 80% or higher as determined under Russian reserves classification. Under these rules, the Group benefits for each percent of depletion over 80% per field. The Group's largest field – Romashkinskoye – and certain other fields are more than 80% depleted. The Group's benefit from this tax regime in the third quarter of 2019 and the nine months of 2019 amounted to RR 12.0 billion and RR 38.6 billion respectively (in comparison to RR 13.9 billion and RR 38.6 billion in the second quarter of 2019 and the nine months of 2018 respectively).

Tax incentives also apply to the Group's production of highly viscous crude oil from the Ashalchinskoye and some other fields. Related tax benefits in the third quarter of 2019 and the nine months of 2019 amounted approximately to RR 9.9 billion and RR 28.5 billion respectively in comparison to RR 10.4 billion and RR 21.4 billion in the second quarter of 2019 and the nine months of 2018, respectively.

Maintenance of social infrastructure and transfer of social assets. In the third quarter of 2019 and the nine months of 2019 maintenance of social infrastructure expenses and transfer of social assets amounted to RR 2,480 million and RR 5,052 million, respectively, compared to RR 1,227 million and RR 4,220 million in the second quarter of 2019 and the nine months of 2018, respectively. These social infrastructure expenses relate primarily to housing, schools and cultural buildings in Tatarstan.

Other operating (expenses)/income, net. Other expenses, net, in the third quarter of 2019 amounted to RR 263 million compared to RR 327 million of other income, net, in the second quarter of 2019.

In the nine months of 2019 the Group recorded other expense, net, in the amount of RR 635 million compared to RR 312 million of other expense, net, in the corresponding period of 2018.

Net interest, fee and commission and other operating expenses and losses on banking activities

Our banking activities were represented by Bank ZENIT. This section reflected the results of operations for the third quarter of 2019 and the nine months of 2019 and the related comparatives from the consolidated statement of income and loss of the Bank ZENIT's financial statements.

Other income/ (expenses)

Foreign exchange gain/(loss), net. In the third quarter of 2019 the Group recorded foreign exchange gains of RR 1,380 in comparison to RR 568 million foreign exchange losses in the second quater of 2019. In the nine months of 2019 the Group recorded RR 1,532 million foreign exchange loss, compared to a foreign exchange gain of RR 6,000 million in the corresponding period of 2018 which were due to volatility of Ruble to US Dollar exchange rate in the reporting periods, resulting in the corresponding revaluation of US Dollars denominated monetary assets and liabilities of the Group.

Interest income on non-banking activities in the third quarter of 2019 decreased by 17.6% compared to the second quarter of 2019 and amounted to RR 290 million due to a decrease in interest income received on loans and receivables.

Decrease of interest income in the nine months of 2019 by 71.7% compared to the corresponding period of 2018 was attributable to a decrease in interest income received on loans and receivables. In the nine months of 2019, funds were placed on deposits, denominated in foreign currency.

Interest expense on non-banking activities, net of amounts capitalized, includes among other things an unwinding of the present value discount of decommissioning provision on oil and gas assets. Also as a result of adoption from 1 January 2019 of IFRS 16 "Leases" an interest expense on lease obligations was included into this line item.

In the third quarter of 2019 interest expense, net of amounts capitalized, increased by 1.5% to RR 1,257 million compared to the RR 1,238 million in the second quarter of 2019.

In the nine months of 2019 interest expense, net of amounts capitalized, increased by 59.2% to RR 3,753 million, compared to the RR 2,358 million in the corresponding period of 2018. Increase in interest expense reflects accounting of an interest expense on lease obligations due to the adoption of IFRS 16 "Leases" from 1 January 2019.

Share of results of associates and joint ventures. In the third quarter of 2019 the Group recorded an equity share in losses of associates and joint ventures in the amount of RR 48 million compared to RR 87 million profits in the second quarter of 2019.

In the nine months of 2019 the Group recorded an equity share in profits of associates and joint ventures in the amount of RR 108 million compared to RR 12 million losses in the corresponding period of 2018.

Income taxes

The Group's effective income tax rate in the nine months of 2019 was 21.1% compared to the statutory tax rate of 20% in the Russian Federation.

EBITDA reconciliation

	3 months ended		9 months ended	
(RR million)	**30 September 2019**	**30 June 2019**	**30 September 2019**	**30 September 2018**
Sales and other operating revenues on non-banking activities, net	241,753	222,330	691,409	675,157
Costs and other deductions on non-banking activities	(168,344)	(152,871)	(468,700)	(460,737)
Gain/(loss) on disposal of interest in subsidiaries and associates, net	-	1	1	94
Banking operating results, net	1,564	395	2,087	755
Depreciation, depletion and amortization	8,715	7,108	23,273	22,405
EBITDA	**83,688**	**76,963**	**248,070**	**237,674**

Return on average capital employed (ROACE)*

	12 months ended	
	30 September 2019	**30 September 2018**
Profit attributable to Group shareholders	210,435	208,439
Interest expense on non-banking activities	4,985	3,164
Profit/(loss) attributable to non-controlling interest	704	1,412
Effective income tax rate**	22.2%	22.3%
Profit used for calculation of ROACE	**215,017**	**212,310**
Non-controlling interest	6,884	4,500
Total Group shareholders' equity	782,723	782,275
Short term debt	11,271	6,555
Long term debt	1,697	10,470
Capital employed	802,575	803,800
Average capital employed	**803,188**	**791,231**
ROACE, %	**26.8%**	**26.8%**

** Calculation is based on the profit/(loss) for 12 consecutive months preceding the reporting date.*
*** Income tax expense to profit before income tax*

EBITDA (Earnings before interest. taxes. depreciation and amortization) and ROACE (Return on average capital employed) are non-IFRS financial measures. Herewith, their calculation methodologies are not standardized, therefore above presented methods do not reflect unified approaches. EBITDA and ROACE provide useful information to investors being the indicators of the strength and performance of our business operations. EBITDA also shows our ability to finance capital expenditures, acquisitions and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under IFRS, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods.

ROACE and EBITDA are commonly used as a basis by some investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies within the oil and gas industry. These indicators should not be considered in isolation as an alternative to net profit, operating income or any other measure of performance under IFRS. EBITDA and ROACE do not consider our need to replace our capital equipment over time.

Financial Condition Summary Information

The following table shows certain key financial indicators based on the Consoldiated Statement of Financial Position:

(RR million)	**At 30 September 2019**	**At 31 December 2018**
Current assets	298,792	311,732
Long-term assets	982,699	889,556
Total assets	**1,281,491**	**1,201,288**
Current liabilities	389,509	346,820
Long-term liabilities	102,375	77,687
Total liabilities	**491,884**	**424,507**
Shareholders' equity	**789,607**	**776,781**
Working capital (incl. cash and cash equivalents)	(90,717)	(35,088)

<u>Working capital position</u>

The working capital in the nine months of 2019 was affected by higher current liabilities, mostly associated with an increase in dividends payable as of 30 September 2019 relating to the dividends approved for payment for the 6 months 2019. Also due to specifics of banking activities, almost all customer accounts are short-term in nature and are included in current liabilities.

Liquidity and Capital Resources

The following table shows a summary from the Consolidated Statement of Cash Flows:

(RR million)	**9 months ended 30 September 2019**	**9 months ended 30 September 2018**
Net cash provided by operating activities	204,763	180,997
including:		
Net cash provided by non-banking operating activities before income tax and interest	249,602	222,909
Net cash (used in)/ provided by banking operating activities before income tax	(2,008)	(2,855)
Net cash used in investing activities	(86,828)	(65,079)
Net cash used in financing activities	(124,701)	(62,584)
Net change in cash and cash equivalents	(6,766)	53,334

<u>Net cash provided by operating activities</u>

Our primary source of cash flow is funds generated from our operations. Net cash provided by operating activities in the nine months of 2019 increased by 13.1% to RR 204,763 million from RR 180,997 million in the corresponding period of 2018.

Net cash provided by <u>non-banking</u> operating activities before income tax and interest

Net cash provided by non-banking operating activities before income tax and interest increased by 12% to RR 249,602 million in the nine months of 2019 from RR 222,909 million in the corresponding period of 2018.

Net cash (used in)/ provided by <u>banking</u> operating activities before income tax

Net cash used in banking operating activities before income tax amounted to RR 2,008 million in the nine months of 2019 compared to RR 2,855 million provided by banking operating activities in the nine months of 2018 which was primarily due to a growth in the Bank's net interest, fee and commission and other operating income and gains, and changes in the Bank's operational working capital

Net cash used in investing activities

Net cash used in investing activities increased by 33.4% to RR 86,828 million in the nine months of 2019 from RR 65,079 million in the corresponding period of 2018, which was primarily due to net changes in proceeds from redemption and purchase financial assets, and increase in cash placed in bank deposits partly offset by decrease in cash used on capital expenditures reflected in additions to property, plant and equipment.

Net cash used in financing activities

Increase in cash flow used in financing activities in the nine months of 2019 to RR 124,701 million from RR 62,584 million in the corresponding period of 2018 was primarily due to an increase in cash used for payment of dividends partly offset by net changes in net debt repayments.

Additions to property, plant and equipment

The following additions to property, plant and equipment (by segment, excluding non-cash additions) were made in the respective periods of 2019 and 2018:

	3 months ended		9 months ended	
(RR million)	**30 September 2019**	**30 June 2019**	**30 September 2019**	**30 September 2018**
Exploration and production	9,647	9,145	28,522	31,195
Refining and marketing	5,965	7,716	20,751	29,154
Petrochemicals	583	546	1,444	880
Banking	223	-	540	2,606
Corporate and other	5,510	2,708	10,104	3,337
Total additions to property. plant and equipment	**21,928**	**20,115**	**61,361**	**67,172**

Calculation of Free Cash Flow

	3 months ended		9 months ended	
(RR million)	**30 September 2019**	**30 June 2019**	**30 September 2019**	**30 September 2018**
Net cash provided by operating activities	107,021	36,736	204,763	180,997
Additions to property, plant and equipment	(21,928)	(20,115)	(61,361)	(67,172)
Free Cash Flow	**85,093**	**16,621**	**143,402**	**113,825**

Analysis of Debt

At 30 September 2019, total short-term and long-term debt amounted to RR 12,968 million compared to RR 15,037 million at 31 December 2018.

Total short-term and long-term debt at 30 September 2019, without the Bank ZENIT's debt, amounted to RR 8,144 million compared to RR 9,271 million at 31 December 2018.

In November 2011, TANECO entered into a US$ 75 million credit facility with equal semi-annual repayments during ten years. The loan was arranged by Nordea Bank AB (Publ), Société Générale and Sumitomo Mitsui Banking Corporation Europe Limited. The loan bears interest at LIBOR plus 1.1% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios. The undiscounted amounts outstanding under this credit facility, including the current portion, as of 30 September 2019 and 31 December 2018 were RR 1,208 million (US$ 18.8 million) and RR 1,563 million (US$ 22.5 million), respectively.

Also in November 2011, TANECO entered into a US$ 144.5 million credit facility with equal semi-annual repayments during ten years with the first repayment date on 15 May 2014. The loan was arranged by Société Générale, Sumitomo Mitsui Banking Corporation Europe Limited and the Bank of Tokyo-Mitsubishi UFJ, LTD. The loan bears interest at LIBOR plus 1.25% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. The undiscounted amounts outstanding under this credit facility, including the current portion, as of 30 September 2019 and 31 December 2018 were RR 2,447 million (US$ 38.0 million) and RR 2,932 million (US$ 42.2 million), respectively.

In May 2013, TANECO entered into a EUR 55 million credit facility with equal semi-annual repayment during ten years. The loan was arranged by The Royal Bank of Scotland plc and Sumitomo Mitsui Banking Corporation Europe Limited. In May 2016 this credit facility was assigned to Citibank Europe plc. UK Branch with credit facility details remaining. The loan bears interest at LIBOR plus 1.5% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. The undiscounted amounts outstanding under this credit facility, including the current portion, as of 30 September 2019 and 31 December 2018 were RR 1,951 million (EUR 27.7 million) and RR 2,353 million (EUR 29.6 million), respectively.

The aggregate maturities of long-term debt (based on the discounted contractual cash flows) in the respective periods were as follows:

(RR million)	At 30 September 2019	At 31 December 2018
Due for repayment:		
Between one and two years	19	183
Between two and five years	1,413	1,478
After five years	265	1,423
Total long-term debt	**1,697**	**3,084**

Calculation of Net Debt

(RR million)	At 30 September 2019	At 31 December 2018
Short term debt	11,271	11,953
Long term debt	1,697	3,084
Total debt	12,968	**15,037**
Cash and cash equivalents	57,394	65,489
Net Debt	**(44,426)**	**(50,452)**

Contractual obligations, other contingencies and off balance sheet arrangements

Guarantees

The Group has guarantees issued related to banking activities at 30 September 2019 and at 31 December 2018.

Commitments and Contingent Liabilities

The Group is subject to various lawsuits and claims arising in the ordinary course of business. The outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present. In the case of all known contingencies the Group accrues a liability when the loss is probable and the amount is reasonably estimable. Based on currently available information, management believes that it is remote that future costs related to known contingent liability exposures would have a material adverse impact on the Group's consolidated financial statements.

Libya

As a result of the political situation in Libya, in February 2011 the Group had to entirely suspend its operations in that country and evacuate all its personnel. In February 2013 the Group started the process of resuming its activities in Libya, including the return of its personnel to a branch in Tripoli and recommencement of some exploration activities. Due to the deterioration of security situation in Libya in the second half of 2014 the Group had to suspend all of its operations and announced a force-majeure under the Exploration and Production Sharing Agreements, acknowledged by the National Oil Company, which is continuing as of the date of this report. The Group is constantly monitoring the security and political situation in Libya, and plans to resume its operations once the conditions permit to do so.

Social commitments

The Group contributes significantly to the maintenance of local infrastructure and the welfare of its employees within Tatarstan, which includes contributions towards the construction, development and maintenance of housing, hospitals and transport services, recreation and other social needs. Such funding is periodically determined by the Board of Directors after consultation with governmental authorities and recorded as expenditures when incurred.

Certain Macroeconomic and Other Factors Affecting the Group's Results of Operations

The Group's results of operations and the period-to-period changes therein have been and will continue to be impacted by various factors outlined below.

Crude oil and refined products prices

The primary driver of our revenue is the selling price of crude oil and refined products. During the third quarter of 2019, Brent crude oil price fluctuated between $55 and $68 per barrel and averaged $62.0 per barrel in comparison to average $68.9 per barrel in the second quarter of 2019.

During the nine months of 2019, Brent crude oil price fluctuated between $53 and $75 per barrel and averaged $64.6 per barrel in comparison to average $72.1 per barrel in the corresponding period of 2018.

Substantially all the crude oil we sell is Urals blend. Tables below show average crude oil and refined products prices for the respective periods in US Dollars and RUB. The prices nominated in US Dollar are translated into RUB at average US Dollar/RUB exchange rate for the respective period.

	Average for the 3 months ended		Chg.,	Average for the 9 months ended		Chg.,
	30 September 2019	**30 June 2019**	**%**	**30 September 2019**	**30 September 2018**	**%**
World market [1]	(in US$ per barrel. except for figures in percent)					
Brent crude	62.0	68.9	*(10.0)*	64.6	72.1	*(10.4)*
Urals crude *(average Med+NWE)*	61.3	67.9	*(9.7)*	64.1	70.6	*(9.2)*
	(in US$ per tonne. except for figures in percent)					
Gasoline *(average Med+NWE)*	610.9	664.5	*(8.1)*	610.2	693.7	*(12.0)*
Diesel fuel *(average Med+NWE)*	586.0	614.8	*(4.7)*	599.5	645.9	*(7.2)*
Naphtha *(average Med+NWE)*	472.8	522.2	*(9.5)*	495.8	617.3	*(19.7)*
Gasoil *(average NWE)*	473.3	507.8	*(6.8)*	480.2	519.5	*(7.6)*
Fuel oil 3.5% *(average Med+NWE)*	335.3	389.2	*(13.8)*	368.2	396.1	*(7.0)*

Source: average prices and changes are calculated based on the unrounded data of analytical agencies.

	Average for the 3 months ended		Chg.,	Average for the 9 months ended		Chg.,
	30 September 2019	**30 June 2019**	**%**	**30 September 2019**	**30 September 2018**	**%**
World market [1]	(in th. RR per tonne. except for figures in percent)					
Brent crude	28.5	31.7	*(10.1)*	29.9	31.6	*(5.4)*
Urals crude *(average Med+NWE)*	28.0	31.1	*(10.0)*	29.5	30.9	*(4.5)*
	(in th. RR per tonne. except for figures in percent)					
Gasoline *(average Med+NWE)*	39.4	42.9	*(8.2)*	39.7	42.6	*(6.8)*
Diesel fuel *(average Med+NWE)*	37.8	39.7	*(4.8)*	39.0	39.7	*(1.8)*
Naphtha *(average Med+NWE)*	30.5	33.7	*(9.5)*	32.3	37.9	*(14.8)*
Gasoil *(average NWE)*	30.6	32.8	*(6.7)*	31.3	31.9	*(1.9)*
Fuel oil 3.5% *(average Med+NWE)*	21.6	25.1	*(13.9)*	24.0	24.3	*(1.2)*

Translated into Rubles using the average exchange rate for the period.

	Average for the 3 months ended		Chg.,	Average for the 9 months ended		Chg.,
	30 September 2019	**30 June 2019**	**%**	**30 September 2019**	**30 September 2018**	**%**
Russian market [1]	(in th. RR per tonne (incl. excise tax and VAT). except for figures in percent)					
Crude oil	23.46	27.08	*(13.4)*	25.34	24.88	*1.8*
Diesel (summer)	47.32	47.33	*(0.0)*	46.63	45.29	*3.0*
Diesel (winter)	49.70	47.06	*5.6*	48.41	47.54	*1.8*

Source: data of analytical agencies

[1] The Company sells crude oil and refined products for export and in the domestic market on various delivery terms. Therefore, our average realized sales prices differ from average reported prices

There is no independent nor uniform market price for crude oil and refined products in Russia primarily because a significant portion of crude oil destined for sale in Russia is produced by vertically integrated Russian oil companies and is refined by the same vertically integrated companies. As a result, domestic prices may differ significantly from export ones and also they vary in different regions of Russia based on demand and supply.

Inflation and foreign currency exchange rate fluctuations

A significant part of the Group's revenues is derived from export sales of crude oil and refined products which are denominated in US Dollars. The Group's operating costs are primarily denominated in Rubles. Accordingly, the relative movements of Ruble inflation and Ruble/US Dollar exchange rates can significantly affect the results of operations of the Group. For instance, operating margins are generally adversely affected by an appreciation of the Ruble against the US Dollar, because this will generally cause costs to increase relative to revenues.

The following table shows the rates of inflation in Russia, the period-end and average Ruble/US Dollar exchange rates for the periods indicated.

	3 months ended		9 months ended	
	30 September 2019	30 June 2019	30 September 2019	30 September 2018
Ruble inflation, %	(0.2)	0.7	2.3	2.5
Period-end exchange rate (Ruble to US$)	64.42	63.08	64.42	65.59
Average exchange rate (Ruble to US$)	64.57	64.56	65.08	61.44

Sources: Federal Service of State Statistics and the Central Bank of Russia

At present, the Ruble is not a freely convertible currency in global markets and certain exchange restrictions and controls still exist related to converting Rubles into other currencies.

Taxation

The Russian Government currently implements the so-called "tax maneuver" in the oil industry, which involves the reduction and effective elimination of export duty on crude oil and refined products and increase in the crude oil mineral extraction tax and excise tax rates.

In 2018, there were no material amendments to the export duty and crude oil mineral extraction tax rates formulas, however, during the previous year the Russian Government adopted new laws which came into effect on 1 January 2019. According to the Federal Laws 301-FZ and 305-FZ of 03 August 2018, new amendments were introduced to the Customs Tariff Law and the Tax Code to complete the "tax maneuver" in the oil and gas industry. These laws regulate the process of completion of the tax maneuver, which involves the phasing out of export duty on crude oil, and accordingly on refined products, effectively eliminating it from 2024 accompanied by an increase in the basic rate of mineral extraction tax (MET).

Technically, it was implemented through the introduction of an adjusting factor which in relation to export duty starts at 0.833 in 2019 and decreases to zero by 2024, and in relation to MET correction coefficient conversely starts at 0.167 in 2019 and increases to 1 by 2024. The new MET formula will consist of several components: 1) the previously used MET formula; 2) export duty formula (for highly viscous crude oil of 10,000 Megapascal x S and higher in reservoir conditions from 2019 export duty is calculated on the basis of 30%. rather than 55% of the difference between the average Urals crude oil market price and US $182.5) multiplied by the adjusting factor (which is set for MET) and 3) additional factor ("Kabdt") meant to partially compensate the Government losses due to the introduction of compensatory surcharge on damper upon calculating negative ("reverse") excise tax (if netbacks are exceed base prices). Simultaneously, the provisions of the law provide for a gradual reduction in the export customs duty on oil for 6 years, starting from 2019, by multiplying the current customs duty rate by the correction coefficient (which is set for export duty).

To eliminate the negative effect of export duty reduction on refining margins, a negative ("reverse") excise on refinery feedstock was introduced. To reduce the sensitivity of domestic prices for motor fuels to changes in international prices a so called damper coefficient was included into the "reverse excise tax" formula.

The tables below present a summary of statutory tax rates that the Company and the majority of its subsidiaries were subject to in the respective periods:

Tax	3 months ended 30 September 2019	3 months ended 30 June 2019	Chg., %	9 months ended 30 September 2019	9 months ended 30 September 2018	Chg., %	Taxable base
Income tax – maximum rate	20%	20%	-	20%	20%	-	Taxable income
Value Added Tax (VAT)	20%	20%	-	20%	18%	*11.1*	Sales from goods/services
Property tax – maximum rate	2.2%	2.2%	-	2.2%	2.2%	-	Taxable property
	(in RR per tonne. except for figures in percent)						
Mineral extraction tax, average rates[1]	12,389	14,168	*(12.6)*	13,152	12,441	*5.7*	Tonne produced (crude oil)
	(in US $ per tonne. except for figures in percent)						
Crude oil export duty, average rates	95.1	104.1	*(8.6)*	95.5	124.2	*(23.1)*	Tonne exported
Refined products export duty average rates:							Tonne exported
Automobile gasoline	28.5	31.2	*(8.7)*	28.6	37.2	*(23.1)*	
Straight-run gasoline	52.2	57.2	*(8.7)*	52.5	68.2	*(23.0)*	
Diesel fuel	28.5	31.2	*(8.7)*	28.6	37.2	*(23.1)*	
Light and middle distillates	28.5	31.2	*(8.7)*	28.6	37.2	*(23.1)*	
Fuel oil (mazut)	95.1	104.1	*(8.6)*	95.5	124.2	*(23.1)*	

[1] *Without taking into account the differentiated taxation relating to depletion of oilfields*

The rates of mineral extraction tax and export duties for crude oil and refined products are linked to international crude oil prices and are changed in line with them.

New amendments introduced from 1 January 2019, in respect of excise taxes, mineral extraction tax and other taxes as well as tax rates calculation approach are discussed further.

Mineral extraction tax (MET) rate. The base tax rate for the production of oil for 2019 is set at RR 919 per tonne and is adjusted depending on the international market price of Urals blend and the Ruble/US Dollar average exchange rate.

Starting from January 2017, an additional component was added into calculation of MET formula, which increases the amount of tax. In 2018 it amounted to 357 RUB/tonne and for the period from 2019 to 2021, inclusive, it is 428 RUB/tonne.

Starting from 2019, additional factors have been added to the MET formula in connection with the introduction of “reverse excise tax” and reduction of export customs duties as a part of the completion of the tax maneuver. The first factor equals to the amount of export duty rate reduction. The other two factors are applicable when the corresponding components of the damper coefficient are positive. Damper factors and export duty rate reduction factor are presented in the below table:

	2019	2020	2021	2022	2023	2024 and further
Export duty rate reduction factor	0.167	0.333	0.5	0.667	0.833	1
			(in Rubles)			
Damper factor for gasoline	125 (200 from 1 October 2019 to 31 December 2019)	105	105	105	105	105
Damper factor for diesel fuel	110 (185 from 1 October 2019 to 31 December 2019)	92	92	92	92	92

The MET rate is applied with a discount based on the level of depletion of the related oil fields as determined under Russian reserves classification guidelines. Such formula benefits producers with oil fields having a depletion level 80% and above as determined by the Russian reserves classification. The Group receives benefits for each percent of depletion over 80% per field. Benefit is calculated using the rate of RR 559 per tonne. As Romashkinskoye field, the Group's largest, along with certain other fields, is more than 80% depleted, the Group received a benefit related to crude oil production from these fields in the third quarter of 2019 and nine months of 2019 in the amounts of RR 12.0 billion and RR 38.6 billion, respectively (in comparison to RR 13.9 billion and RR 38.6 billion. in the second quarter of 2019 and the nine months of 2018. respectively).

Tax benefits through the application of a coefficient characterizing the region of production and crude oil features and lowering the generally established tax rate, are applied to the production of highly viscous crude oil of 200 – 10,000 Megapascal x S in reservoir conditions. MET rate related to the production of highly viscous crude oil of 10,000 Megapascal x S and more in reservoir conditions, as a result of the completion of tax maneuver in 2019, is no longer zero and is calculated as the sum of the two components: 1) current (which is used in 2019) export duty formula for the highly viscous crude oil multiplied by the adjusting factor (which is set for MET) and 2) "Kabdt" factor set in connection with the introduction of "reverse excise tax" for oil raw materials. Tax benefits from the Group's production of highly viscous crude oil from the Ashalchinskoye and some other similar fields amounted to approximately RR 9.9 billion in the third quarter of 2019 and RR 28.5 billion in the nine months of 2019 in comparison to RR 10.4 billion in the second quarter of 2019 and RR 21.4 billion in the nine months of 2018.

Tax on additional income. New amendments to the Tax Code provide for the introduction from 1 January 2019 of an alternative crude oil production taxation regime - the tax on additional income from the production of hydrocarbons. The tax is charged at the rate of 50% on the additional oil production income calculated as the difference between the estimated revenue from hydrocarbons' sales and actual and estimated costs for its production. The new tax regime requires MET preservation but at a reduced rate. The new tax regime is applicable to some groups of oil fields: greenfields in Eastern Siberia, brownfields and greenfields in Western Siberia. The Group's licensed fields in Nenets Autonomous Region are subject to this new tax regime.

Crude oil export duties. The Government determines the export duty rate, which is dependent on the average Urals price for the monitoring period and cannot exceed the following levels:

Quoted Urals price (P), US$ per tonne	Maximum Export Duty Rate
0 – 109.50	0%
109.50 – 146.00	35.0% * (P - 109.50)
146.00 – 182.50	US$ 12.78 + 45.0% * (P - 146.00)
>182.50	US$ 29.20 + 30.0% * (P - 182.50)

The crude oil export duty rate is revised monthly on the basis of monitoring of crude oil prices for preceding one-month period between the 15th day of each calendar month and the 14th day of the following calendar month (inclusive).

The Government established formulas for calculation of the export customs duties on crude oil based on international oil prices (reflecting the levels described above and providing for special formulas with respect to highly viscous oil and oil with special physical and chemical characteristics). Crude oil export customs duties are calculated and published by the Russian Ministry of Economic Development in accordance with the established formulas.

From 2019 to 2024 the export duty rate will be gradually reduced to zero by applying an adjusting factor to the standard crude oil export duty rate in accordance with the table below:

	2019	2020	2021	2022	2023	2024 and further
Adjusting factor	0.833	0.667	0.5	0.333	0.167	0

Refined products export duties. Export customs duty rates on refined products are set every month by the Government simultaneously with the export customs duty rate on crude oil and are denominated in US$ per tonne. The rate of the export customs duty on refined products is linked to the crude oil export duty rate. At the moment, the rate of the export customs duty is the same for all types of refined products with the exception of fuel oil and straight-run gasoline and is calculated by multiplying the current crude oil export duty rate by a coefficient according to the table below.

	2017 and further
Multiplier for:	
Light. middle distillates; oil lubricants	0.30
Diesel fuel	0.30
Fuel oil	1.00
Gasoline	0.30
Straight-run gasoline	0.55

The rates are calculated and published by the Russian Ministry of Economic Development.

Crude oil and refined products exported to the member countries of the Custom Union – are not subject to export duties.

Excise tax on refined products. The duty to calculate and pay excises on refined products is assigned to the producers of refined products. In case of production of refined products from raw materials under processing contracts, the duty is assigned to the refineries. The excise tax is paid per metric tonne produced and sold domestically. The excise tax rates on refined products are differentiated in line with the refined products quality requirements.

The table below shows excise tax rates on refined products for indicated periods.

(RR per tonne)	01.01.18-31.05.18	01.06.18-31.12.18	2019	01.01.20-31.03.20	01.04.20-31.12.20	2021
Gasoline below Euro-5	13,100	13,100	13,100	13,100	13,100	13,624
Gasoline Euro-5	11,213	8,213	12,314	12,752	12,752	13,262
Diesel fuel	7,665	5,665	8,541	8,835	8,835	9,188
Motor oils	5,400	5,400	5,400	5,616	5,616	5,841
Jet fuel	2,800	2,800	2,800	2,800	2,800	2,800
Middle distillates	8,662	6,665	9,241	9,535	calculating by the formula	calculating by the formula
Straight-run gasoline	13,100	13,100	13,912	14,720	14,720	15,533
Benzol, paraxylene	2,800	2,800	2,929	3,058	3,058	3,187

Federal Law No. 301-FZ of 3.08.2018 (subject to the provisions of Federal Law № 424-FZ of 27.11.2018) provides for amendments to the taxation of excise duties since 1 January 2019.

In particular, new excisable good - oil raw material was introduced, with the possibility of applying the mechanism of“reverse excise” (deduction of the accrued excise tax with an increasing coefficient).

The excise tax for oil raw materials is calculated by the formula depending on the oil price, the volume of oil refining, volumes of refined products produced. Ruble/US Dollar exchange rate and the logistic coefficient, depending on the remoteness of the refinery.

It is paid to companies refining oil at Russian refineries, if world prices for refined products exceed the cost of fuel in the domestic market. Excise tax is introduced for refineries that process its own crude oil and for companies that process oil through a tolling scheme with the refineries. In order to receive a ”reversed excise tax“, both parties must have a certificate of registration performing processing operations.

Oil raw materials excise rate calculated according to the following formulas:

Aorm= ((Pcrude oil x 7.3 – 182.5) x 0.3+ 29.2) x R x Spu x Kadj x Kreg

“Pcrude oil” – average Urals price at international markets

“R” – average USD/RUB ex-rate

“Spu” – specific coefficient defining the set of petroleum products produced from the crude oil materials

“Kadj” (adjusting factor) - equal to 0.167 for 2019, 0.333 for 2020, 0.5 for 2021, 0.667 for 2022, 0.833 for 2023, 1 from 2024

“Kreg” – coefficient reflecting regional specifics for petroleum products market.

The procedure of application of “reverse excise” on oil raw material includes the approach for calculating the “damping component” of the excise deduction aimed at reducing the effect of macroeconomic fluctuations on the domestic market of motor fuels. “Damping component” in the period from 1 January 2019 to June 30, 2019 was calculated according to the following formulas:

Kdemp = ((Dg + Fg) x Vg + (Ddf + Fdf) x Vdf) x Kcomp

“Vg” / “Vdt” – gasoline with octane value 92 and above class 5 / diesel fuel class 5 volumes sold in the Russian Federation.

“Kcomp” – equal to 0.6.

“Dg” / “Ddt” – difference between the average export alternative price and nominal average wholesale price of gasoline with octane value 92 class 5 / diesel fuel class 5 in the Russian Federation

“Fg”, “Fdt” – compensating allowance for gasoline / diesel fuel equal to:

a) 0, if value of Dg, Ddt is less or equal to 0 or

b) Fg =5,600 and Fdt = 5,000, if value of Dg, Ddt is more than 0 respectively.

Federal Law N 255-FZ of 30.07.2019 amended the formula for calculating the Kdemp value. Moreover, these changes apply to legal relations arising from 1 July 2019.

KDEMP = Dg x Vg x Kg_comp + Ddf x Vdf x Kdf_comp + Dg_fe x Vg_fe + Ddf_fe x Vdf_fe

"Vg", "Vdt" – gasoline and diesel fuel class 5 volumes sold or used for own purposes in the Russian Federation.

"Kg_comp" – equal to 0.75 for the period July-December 2019, 0.68 from 1 January 2020;

"Kdf_comp" – equal to 0.7 for the period July-December 2019, 0.65 from 1 January 2020;

"Vg_fe", "Vdf_fe" – gasoline and diesel fuel class 5 volumes sold at the delivery basis in the Russian Far East region.

"Dg_fe", "Ddf_fe" – Far East surcharges calculated as sum of 2,000 Roubles and Dg or Ddf. If value of Dg or Ddf is more than 2,000 Roubles or less than 0, than value of Dg or Ddf is equal to 2,000 or 0 respectively.

An excise tax on oil raw materials is subject to deduction. The amount of tax deduction is defined as the amount of oil raw materials excise tax multiplied by coefficient 2 and increased by Kdemp.

Property tax. The maximum real estate property tax rate in Russia is 2.2%. Exact tax rates are set by the regional authorities.

Value added tax (VAT). The Group is subject to value added tax (or VAT) of 18% on most sales in the amount of 18% in 2018 and 20% - from 2019. The Group's results of operations exclude the impact of VAT.

Income tax. Statutory rate of income tax in Russia is 20%.

Transportation of crude oil and refined products

Due to the fact that majority of Russian crude oil production regions are remote from the main crude oil and refined products markets oil companies are dependent on the extent of diversification of transport infrastructure and access to it. Thus, transportation cost is an important factor affecting our operations and financial results.

The Group transports substantially all of the crude oil that it sells in export and local markets through trunk pipelines in Russia that are controlled by Transneft.

Transportation of crude oil is based on contracts with Transneft and its subsidiaries, which set forth the basic obligations of the contracting parties, including the right of Transneft to blend or substitute a company's oil with oil of other producers. The Group's crude oil is blended in the Transneft pipeline system with other crude oil of varying qualities to produce an export blend commonly referred to as Urals.

A significant portion of crude oil transported by pipeline is delivered to marine terminals for onward transportation. There are constraints present in Russia's oil shipment terminals due to geographic location, weather conditions, and port capacity limitations. However, government sponsored and private programs are seeking to improve port facilities.

Transneft receives payments on prepayment terms a Ruble tariff on domestic shipments and an additional US Dollar tariff on exports.

Transportation of refined products in the Russian Federation is carried out using railway transport and through the oil products pipeline network of Transneft. The railway infrastructure in Russia is owned by Russian Railways. The Group transports refined products using both oil products pipeline network and railways infrastructure. For deliveries to the regions close to oil refining sites the Group uses motor transports. Transportation of refined products to Non-CIS markets from Russian ports is performed by tankers.

Transneft and Russian Railways are state-owned companies. As the activities of the above mentioned companies fall under the scope of natural monopolies, the fundamentals of their tariff policies are defined by the state authorities to ensure the balance of interests of the state and all participants in the transportation process. Transportation tariffs of natural monopolies are regulated by the Federal Antimonopoly Service of the Russian Federation ("FAS") and set in Rubles. Tariff rates depend on transportation directions, scope of delivery, transportation distance and some other factors. They are revised by the FAS at least once a year.

Critical accounting policies

The preparation of consolidated financial statements in conformity with IFRS requires management to select appropriate accounting policies and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. For a full description of our significant accounting policies, please refer to Note 2 of our consolidated interim condensed financial statements.

Forward-looking statements

Certain statements in this document are not historical facts and are ‘‘forward-looking’’ (as such term is defined in the US Private Securities Litigation Reform Act of 1995). We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to:

- projections of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios;
- statements of our plans, objectives or goals, including those related to products or services;
- statements of future economic performance; and
- statements of assumptions underlying such statements.

Words such as "believes", "anticipates", "expects", "intends" and "plans" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

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

These factors include:

- inflation, interest rate and exchange rate fluctuations;
- the price of oil;
- the effect of, and changes in, Russian or Tatarstan government policy;
- the effect of terrorist attack or other geopolitical instability, either within Russia or elsewhere;
- the effects of competition in the geographic and business areas in which we conduct operations;
- the effects of changes in laws, regulations, taxation or accounting standards or practices;
- our ability to increase market share and control expenses;
- acquisitions or divestitures;
- technological changes.

This list of important factors is not exhaustive; when relying on forward-looking statements to make decisions with respect to our shares, American Depositary Shares (ADSs) or other securities, investors and others should carefully consider the foregoing factors and other uncertainties and events, especially in light of the difficult political, economic, social and legal environment in which we operate. Such forward-looking statements speak only at the date on which they are made, and we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.