DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE MONTHS ENDED 31 DECEMBER AND 30 SEPTEMBER 2019
AND YEARS ENDED 31 DECEMBER 2019 AND 2018

Content

The following discussion should be read in conjunction with the audited consolidated 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 31 December 2019 and 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.

Exceptional items

The Group's results of operations for the years 2019 and 2018 were impacted by certain exceptional losses, including those resulting from the Bank ZENIT consolidation in 2016, impairment provision loss on certain exploration and evaluation assets, related mainly to the oilfields located outside the Republic of Tatarstan, and an impairment provision loss on certain social assets not providing the future economic benefits, which were reflected in the lines "Net impairment losses on financial assets" and "Net impairment losses on property, plant and equipment and other non-financial assets" in the Consolidated Statement of Profit or Loss and other Comprehensive Income of the Group (see page 17):

	3 months ended		12 months ended	
(RR million)	**31 December 2019**	**30 September 2019**	**31 December 2019**	**31 December 2018**
Net impairment losses on financial assets, net of reversal	**7,233**	**1,543**	**6,737**	**14,955**
incl. Loss on impairment of certain loans initially issued by the Bank ZENIT	*2,878*	*44*	*3,245*	*8,715*
Net impairment losses (gains) on accounts receivable	*1,283*	*1,499*	*420*	*5,397*
Net impairment losses on property, plant and equipment and other non-financial assets	**29,002**	**1,636**	**30,875**	**5,874**
incl. Loss on impairment of some exploratory assets	*17,748*	*24*	*17,819*	*1,636*
Written-off non-capitalised overhead expenses	*14*	*16*	*66*	*1,542*
Loss on impairmen and disposals of property, plant and equipment	*11,241*	*1,596*	*12,991*	*2,696*
Total Exceptional items	**36,235**	**3,179**	**37,612**	**20,829**

Key financial and operational results

	3 months ended 31 December 2019	3 months ended 30 September 2019	Chg., %	12 months ended 31 December 2019	12 months ended 31 December 2018	Chg., %
Financial results						
Sales on non-banking activities, net (RR million)	240,887	241,753	*(0.4)*	932,296	910,534	*2.4*
Profit attributable to Group shareholders (RR million)	19,541	58,433	*(66.6)*	192,260	211,812	*(9.2)*
EBITDA(1) (RR million)	42,730	83,688	*(48.9)*	290,800	294,010	*(1.1)*
Adjusted EBITDA(1) (RR million)	78,965	86,867	*(9.1)*	328,412	314,839	*4.3*
Additions to property, plant and equipment (RR million)	34,633	21,928	*57.9*	95,994	97,945	*(2.0)*
Free Cash Flow(2) (RR million)	9,410	85,093	*(88.9)*	152,812	147,738	*3.4*
Net debt(3) (RR million)	16,092	(44,426)	*n/a*	16,092	(50,452)	*n/a*
Basic and Diluted profit per share (RR)						
Common	8.69	25.96	*(66.5)*	85.43	94.11	*(9.2)*
Preferred	8.69	25.96	*(66.5)*	85.43	93.89	*(9.0)*
Operational results						
Crude oil production by the Group (th. tonnes)	7,446	7,523	*(1.0)*	29,798	29,534	*0.9*
Crude oil production by the Group (th. barrels)	53,037	53,585	*(1.0)*	212,252	210,370	*0.9*
Crude oil daily production (th. barrels per day)	576.5	582.4	*(1.0)*	581.5	576.4	*0.9*
Gas production by the Group* (million cubic meters)	244.6	259.6	*(5.8)*	1,009.6	925.3	*9.1*
Gas daily production (th. boe per day)	15.6	16.6	*(6.0)*	16.3	14.9	*9.4*
Refined products produced (th. tonnes)	2,859	2,812	*1.7*	10,258	8,918	*15.0*
incl. produced for third parties under tolling arrangements	-	-	*n/a*	7.5	285.7	*(97.4)*
Gas products produced(4) (th. tonnes)	314	298	*5.4*	1,207	1,190	*1.4*
Refining throughput** (th. barrels per day)	232.0	228.3	*1.6*	206.7	179.0	*15.5*
Production of tires (million tires)	2.9	3.1	*(6.5)*	10.3	14.6	*(29.5)*
Number of petrol (gas) stations in Russia(5) (3)	691	603	*14.6*	691	602	*14.8*
Number of petrol (gas) stations outside of Russia(5) (3)	111	111	-	111	109	*1.8*

(1) *As defined on page 17*
(2) *As calculated on page 19*
(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*

The main reason for the decrease in our net profit in the fourth quarter of 2019 by RR 38,892 million in comparison to the third quarter of 2019 was higher costs and deductions, in particular exceptional impairment losses on some assets (see section Exceptional items). For more detailed presentation of various factors affecting the results of our operations as well as period-to-period comparison, please see page 9.

Our net profit in 2019 was RR 192,260 million, which is RR 19,552 million, or 9.2%, less than in 2018. Higher total costs and other deductions on non-banking activities and interest expense on non-banking activities in the current period, partly offset by an increase in net interest, fee and commission and other operating income/ (expenses) and gains/ (losses) on banking activities, were the main factors behind the decrease in our profit compared to 2018.

In the fourth quarter of 2019 the Group produced 7.4 million metric tonnes of crude oil which is 1.0% lower than in the third quarter of 2019. Our gas production in the fourth quarter of 2019 was 244.6 million cubic meters which is 5.8% lower than in the third quarter of 2019.

In 2019 the Group produced 29.8 million metric tonnes of crude oil which is 0.9% higher than in 2018. Our gas production in 2019 was 1,009.6 million cubic meters which is 9.1% higher than in 2018.

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

TANECO operational results	3 months ended 31 December 2019	3 months ended 30 September 2019	Chg., %	12 months ended 31 December 2019	12 months ended 31 December 2018	Chg., %
	(in thousand tonnes)			(in thousand tonnes)		
Refined products output:	**2,810.5**	**2,767.4**	***1.6***	**10,053.5**	**8,703.5**	***15.5***
incl. produced for third parties under tolling arrangements	-	-	*n/a*	7.5	285.7	*(97.4)*
Diesel fuel	928.2	888.1	*4.5*	3,652.1	2,286.2	*59.7*
Middle distillates	525.3	563.7	*(6.8)*	1,556.0	2,423.9	*(35.8)*
Automobile gasoline	318.6	284.4	*12.0*	1,128.3	-	*n/a*
Naphtha	227.8	215.0	*6.0*	695.4	1,508.9	*(53.9)*
Petroleum coke	199.6	201.7	*(1.0)*	677.4	613.9	*10.3*
Jet fuel	142.0	125.0	*13.6*	523.3	312.3	*67.6*
Lubricating oil compound	134.1	122.3	*9.6*	438.0	352.4	*24.3*
Kerosene	47.1	88.1	*(46.5)*	233.5	250.2	*(6.7)*
Engine oil	51.6	59.4	*(13.1)*	216.0	208.0	*3.8*
Other	236.2	219.7	*7.5*	933.5	747.7	*24.8*

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 -** 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** 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 31 December 2019 ZENIT Banking Group ("Bank ZENIT") consists of PJSC Bank ZENIT, Bank ZENIT Sochi and SPIRITBANK (the latter two are being merged into PJSC Bank ZENIT with the expected completion in the second quarter of 2020). 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 25 "Segment information" to our consolidated financial statements. All intercompany operations are eliminated on the consolidation level.

Executive overview

E&P activities in Tatarstan

One of the Company's primary strategic goals is a shift from stabilization to sustainable organic growth of crude oil production from its licensed fields in Tatarstan. In 2019 the Group increased production by 0.9% from its fields compared to 2018. Due to the relative maturity of the Company's main producing fields significant portion of all crude oil produced by the Company in Tatarstan was extracted using various enhanced oil recovery techniques.

Effective from January 1, 2007 the Company benefits from the differentiated taxation of crude oil production from certain of its fields in Tatarstan, including the Company's largest field - Romashkinskoye (more fully discussed in the Taxation subsection of Certain Macroeconomic Factors Affecting the Group's Results of Operations below).

E&P activities outside of Tatarstan

The Group continues to expand its operations outside of Tatarstan. The Group produces crude oil in Samara and Orenburg regions of the Russian Federation.

Tatneft is planning to continue expansion and diversification of its reserve base by gaining access, including through establishing strategic alliances, to reserves outside of Tatarstan. The Group is carrying out exploration and production projects in the Kalmykia Republic, the Ulyanovsk, Samara, Orenburg and Nenets Autonomous Region.

Highly viscous oil production

The Company produces highly viscous oil from the Ashalchinskoye field in Tatarstan using parallel steam injection and producing wells.

The Group benefits from a reduced mineral extraction tax rate related to the production of highly viscous oil in Tatarstan and other regions of Russia. The Group also benefits from certain other tax incentives associated with highly viscous oil production activities.

In 2019 production of highly viscous oil amounted to 3,370.2 thousand tonnes, including 2,735.1 thousand tonnes at the Ashalchinskoye and some other (with the viscocity more than 10,000 Megapascal x S) fields.

Crude oil refining and marketing

TANECO, the Group's core refining complex, located in Nizhnekamsk, Tatarstan, has been in commercial operation from December 2011. Starting from 2014 TANECO's capacity was increased to the level of 115% of the nameplate capacity. In 2016 the Group launched the delayed coker unit at TANECO, allowing it to eliminate the production of fuel oil and increase the overall refining depth to 99%. In 2019 the second crude oil distillation and vacuum distillation unit CDU-VDU-6 was launched at TANECO increasing the nameplate capacity of the refining complex to 15.3 million tonnes per year. However, until additional deep conversion units are completed and lauched the Group anticipates to utilize the expanded capacity at a level maximizing its economic effectiveness.

Petrochemicals

In 2019 production of tires by the Group's petrochemicals segment amounted to 10.3 million tires in comparison to 14.6 million tires in 2018.

Events in the fourth quarter of 2019

The Group acquired 100% of the share capital of LLC SIBUR Togliatti (later was renamed as LLC Togliattikauchuk) and 100% of the share capital of JSC Togliattisintez from the third party PJSC SIBUR Holding and obtained control becoming the sole shareholder of LLC SIBUR Togliatti and through its ability to cast a majority of votes in the general meeting of shareholders of JSC Togliattisintez. The acquired subsidiaries form a petrochemical complex for the production of various types of synthetic rubbers, as well as the high-octane component of MTBE for motor fuel, butadiene, isoprene, and other intermediate products. The acquired subsidiaries will contribute to the further development of the Group's petrochemical and tires business.

The Group acquired 100% of the share capital of LLC Neste Saint-Petersburg from third party Neste Oyj (Neste Corporation) and obtained control becoming its sole shareholder. LLC Neste Saint-Petersburg owns a network of 75 premium retail petroleum stations, a tank farm for the storage of oil products and an office building in Saint-Petersburg. The acquired subsidiary will increase the Group's presence in the fuel and retail market of the North-West Federal district of the Russian Federation.

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 taking into account the 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 was taken by the extraordinary shareholders meeting held by proxy voting on 19 December 2019. The dividend payment was made in 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.

Executive overview of major subsequent events

Since the end of 2019, the spread of a new coronavirus, called COVID-19, which can cause serious consequences leading to human death, has begun. At the end of 2019, the World Health Organization reported a limited number of cases of COVID-19 infection, but on January 31, 2020 declared a public health emergency of international concern, and on March 13, 2020, announced a pandemic due to the rapid spread of COVID-19 in Europe and other regions. The measures taken around the world to combat the spread of COVID-19 result in limitation of business activity, which affects the demand for energy resources and other products of the Group, as well as the need for protective measures aimed at preventing the spread of infection. In addition, in March 2020 no agreement was reached on the OPEC+ limitation of crude oil production and the existing arrangement expires on April 1, 2020, which leads to the possibility of an increase in the supply of crude oil and refined products in the market from producing countries. Against the backdrop of these events, there has been a significant drop in stock markets, commodity prices fell, in particular, crude oil prices declined significantly, the Russian Ruble weakened against the US dollar and the Euro, and the lending rates for many companies in the emerging markets increased. While this is still an evolving situation at the time of issuing this report, it appears that the impact on the global economy and uncertainty regarding further economic growth may negatively affect the financial position and financial results of the Group in the future.

Management is closely monitoring the situation and implements measures to reduce the negative impact of these events on the Group, while the excess of supply over demand and the associated decrease in world oil prices will directly affect the revenues of the Group and other financial results if prices do not recover within the near term. Management considers the reduction in oil demand due to the outbreak of COVID-19 coronavirus infection to be a non-corrective event after the reporting period.

Results of the Group operations for the three months and the year ended 31 December 2019 compared to the three months ended 30 September 2019 and the year ended 31 December 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:

	3 months ended		Chg.,	12 months ended		Chg.,
(RR million)	**31 December 2019**	**30 September 2019**	**%**	**31 December 2019**	**31 December 2018**	**%**
Sales and other operating revenues on non-banking activities, net	**240,887**	**241,753**	*(0.4)*	**932,296**	**910,534**	*2.4*
Costs and other deductions on non-banking activities						
Operating expenses	(39,482)	(36,348)	*8.6*	(140,040)	(132,215)	*5.9*
Purchased oil and refined products	(20,661)	(10,961)	*88.5*	(58,112)	(76,080)	*(23.6)*
Exploration	(348)	(279)	*24.7*	(1,006)	(688)	*46.2*
Transportation	(9,369)	(10,176)	*(7.9)*	(37,356)	(36,952)	*1.1*
Selling, general and administrative	(14,987)	(13,567)	*10.5*	(52,637)	(49,700)	*5.9*
Depreciation, depletion and amortization	(11,892)	(8,715)	*36.5*	(35,165)	(30,520)	*15.2*
Impairments loss on financial assets, net of reversal	(7,233)	(1,543)	*>100*	(6,737)	(14,955)	*(55.0)*
Impairments loss on property, plant and equipment and other non-financial assets, net of reversal	(29,002)	(1,636)	*>100*	(30,875)	(5,874)	*>100*
Taxes other than income taxes	(72,960)	(82,639)	*(11.7)*	(307,654)	(293,162)	*4.9*
Maintenance of social infrastructure and transfer of social assets	(4,288)	(2,480)	*72.9*	(9,340)	(5,613)	*66.4*
Total costs and other deductions on non-banking activities	**(210,222)**	**(168,344)**	*24.9*	**(678,922)**	**(645,759)**	*5.1*
Loss on disposals of interests in subsidiaries and associates, net	(42)	-	*n/a*	(41)	(1,842)	*(97.8)*
Other operating gain / (loss), net	1,628	(263)	*n/a*	993	488	*>100*
Operating profit on non-banking activities	**32,251**	**73,146**	*(55.9)*	**254,326**	**263,421**	*(3.5)*
Net interest, fee and commission and other operating income/ (expenses) and gains/ (losses) on banking activities						
Interest, fee and commission income	5,503	5,700	*(3.5)*	22,584	23,259	*(2.9)*
Interest, fee and commission expense	(3,068)	(3,568)	*(14.0)*	(12,118)	(11,132)	*8.9*
Net income/(expense) on creating provision for credit losses associated with debt financial assets	(456)	118	*n/a*	(462)	(1,310)	*(64.7)*
Operating expenses	(2,699)	(1,664)	*62.2*	(9,871)	(10,019)	*(1.5)*
Loss arising from dealing in foreign currencies. net	(14)	650	*n/a*	70	(205)	*n/a*
Other operating income/(expenses), net	949	328	*>100*	2,099	(36)	*n/a*
Total net interest, fee and commission and other operating income/ (expenses) and gains/ (losses) on banking activities	**215**	**1,564**	*(86.3)*	**2,302**	**557**	*>100*
Other income/(expenses)						
Foreign exchange (loss)/ gain, net	1,325	1,380	*(4.0)*	(207)	7,936	*n/a*
Interest income on non-banking activities	117	290	*(59.7)*	1,201	5,497	*(78.2)*
Interest expense on non-banking activities, net of amounts capitalized	(1,654)	(1,257)	*31.6*	(5,407)	(3,590)	*50.6*
Share of results of associates and joint ventures, net	19	(48)	*n/a*	127	(32)	*n/a*
Total other (expenses)/ income	**(193)**	**365**	*n/a*	**(4,286)**	**9,811**	*n/a*
Profit before income tax	**32,273**	**75,075**	*(57.0)*	**252,342**	**273,789**	*(7.8)*
Current income tax expense	(14,230)	(17,371)	*(18.1)*	(57,626)	(58,015)	*(0.7)*
Deferred income tax expense	1,244	1,333	*(6.7)*	(1,898)	(4,226)	*(55.1)*
Total income tax expense	**(12,986)**	**(16,038)**	*(19.0)*	**(59,524)**	**(62,241)**	*(4.4)*
Profit for the period	**19,287**	**59,037**	*(67.3)*	**192,818**	**211,548**	*(8.9)*
Less: (profit)/ loss attributable to non-controlling interest	254	(604)	*n/a*	(558)	264	*n/a*
Profit attributable to Group shareholders	**19,541**	**58,433**	*(66.6)*	**192,260**	**211,812**	*(9.2)*

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:

	3 months ended		Chg.,	12 months ended		Chg.,
(RR million)	**31 December 2019**	**30 September 2019**	**%**	**31 December 2019**	**31 December 2018**	**%**
Crude oil						
Sales	117,099	137,696	*(15.0)*	515,479	551,977	*(6.6)*
Less related export duties	*(8,379)*	*(15,810)*	*(47.0)*	*(48,756)*	*(77,640)*	*(37.2)*
	108,720	121,886	*(10.8)*	466,723	474,337	*(1.6)*
Refined products						
Sales	111,971	104,791	*6.9*	403,861	389,964	*3.6*
Less related export duties and excise taxes	*(6,688)*	*(7,411)*	*(9.8)*	*(25,363)*	*(34,942)*	*(27.4)*
	105,283	97,380	*8.1*	378,498	355,022	*6.6*
Petrochemicals	13,321	13,998	*(4.8)*	47,917	51,001	*(6.0)*
Corporate and other sales	13,563	8,489	*59.8*	39,158	30,174	*29.8*
Total Sales and other operating Revenues on non-banking activities, net	**240,887**	**241,753**	***(0.4)***	**932,296**	**910,534**	***2.4***

Net sales and other operating revenues on non-banking activities in the fourth quarter of 2019 in comparison to the third quarter of 2019 were mostly unchanged while revenues on crude oil sales decreased and refined products sales increased, supported by the expansion of production at TANECO.

Increase in net sales and other operating revenues on non-banking activities in 2019 in comparison to 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

	3 months ended		Chg.,	12 months ended		Chg.,
(RR million)	**31 December 2019**	**30 September 2019**	**%**	**31 December 2019**	**31 December 2018**	**%**
Export duties	10,787	18,751	*(42.5)*	58,525	94,426	*(38.0)*
Excise taxes net "reverse excise tax"	4,280	4,470	*(4.3)*	15,594	18,156	*(14.1)*
"reverse excise tax" from 2019	(5,587)	(6,248)	*(10.6)*	(23,307)	-	*n/a*
Total export duties and excise taxes	**15,067**	**23,221**	***(35.1)***	**74,119**	**112,582**	***(34.2)***

In the fourth quarter of 2019 export duties paid by the Group decreased by 42.5% in comparison to the third quarter of 2019 to RR 10,787 million due to lower non-CIS export sales of crude oil and refined products and a decrease in average export duty rates in the reporting period.

In 2019 compared to 2018, export duties paid by the Group decreased by 38.0% to RR 58,525 million mainly due to decrease in non-CIS export sales of crude oil and decrease in average export duty rates and application of an adjusting factor to the standard crude oil export duty rate in 2019 as a part of the tax maneuver.

Our excise tax expenses in the fourth quarter of 2019 decreased by 4.3% to RR 4,280 million compared to RR 4,470 million in the third quarter of 2019 mainly due to the structure of refined products sales and change of "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 2019 decreased by 14.1% to RR 15,594 million compared to RR 18,156 million in the twelve 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 31 December 2019

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

In the fourth quarter of 2019 the Company delivered 78% (90% in the third quarter of 2019) of its own crude oil for export through Transneft's Druzhba pipeline (mainly to Poland, Germany and Czech Republic); 4% (4% in the third quarter of 2019) of crude oil was shipped through Black Sea Russian port Novorossiysk and 18% (6% in the third quarter of 2019) of crude oil exported through Russian Baltic Sea ports (mainly Primorsk). (*)

In the fourth quarter of 2019 the Group exported 1,604 thousand tonnes of refined products (including 39 thousand tonnes of purchased refined products) in comparison to 1,391 thousand tonnes in the third quarter of 2019 (including 39 thousand tonnes of purchased refined products).

Twelve months ended 31 December 2019

In 2019 the Group exported approximately 60% of all its crude oil sold compared to approximately 62% in 2018.

In 2019 the Company delivered 77% (73% in 2018) of its own crude oil for export through Transneft's Druzhba pipeline (mainly to Poland, Slovakia and Hungary); 5% (3% in 2018) of crude oil was shipped through Black Sea Russian port Novorossiysk and 18% (24% in 2018) of crude oil exported through Russian Baltic Sea ports (mainly Primorsk). (*)

In 2019 the Group exported 5,121 thousand tonnes of refined products (including 137 thousand tonnes of purchased refined products) in comparison to 5,702 thousand tonnes in 2018 (including 247 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 31 December 2019	3 months ended 30 September 2019	Chg., %	12 months ended 31 December 2019	12 months ended 31 December 2018	Chg., %
Crude oil						
Non-CIS						
Export sales	62,999	91,483	*(31.1)*	313,259	355,888	*(12.0)*
Less related export duties	(8,379)	(15,810)	*(47.0)*	(48,756)	(77,640)	*(37.2)*
CIS sales	7,432	7,767	*(4.3)*	26,818	28,395	*(5.6)*
Domestic sales	46,668	38,446	*21.4*	175,402	167,694	*4.6*
	108,720	**121,886**	*(10.8)*	**466,723**	**474,337**	*(1.6)*
Refined products						
Non-CIS export sales						
Export sales	43,688	38,642	*13.1*	148,224	167,655	*(11.6)*
Less related export duties	(2,392)	(2,938)	*(18.6)*	(9,729)	(16,695)	*(41.7)*
CIS sales						
CIS sales	5,086	3,283	*54.9*	14,906	20,656	*(27.8)*
Less related export duties	(16)	(3)	*>100*	(40)	(91)	*(56.0)*
Domestic sales						
Domestic sales	63,197	62,866	*0.5*	240,731	201,653	*19.4*
Less related excise taxes	(4,280)	(4,470)	*(4.3)*	(15,594)	(18,156)	*(14.1)*
	105,283	**97,380**	*8.1*	**378,498**	**355,022**	*6.6*
Petrochemical products						
Tires sales	12,656	13,342	*(5.1)*	44,926	47,540	*(5.5)*
Other petrochemicals sales	665	656	*1.4*	2,991	3,461	*(13.6)*
	13,321	**13,998**	*(4.8)*	**47,917**	**51,001**	*(6.0)*
Other sales	**13,563**	**8,489**	*59.8*	**39,158**	**30,174**	*29.8*

Sales volumes

(thousand tonnes)	3 months ended 31 December 2019	3 months ended 30 September 2019	Chg., %	12 months ended 31 December 2019	12 months ended 31 December 2018	Chg., %
Crude oil						
Non-CIS export sales	2,255	3,267	*(31.0)*	10,840	11,395	*(4.9)*
CIS sales	324	346	*(6.4)*	1,149	1,211	*(5.1)*
Domestic sales	2,289	1,873	*22.2*	8,130	7,735	*5.1*
	4,868	**5,486**	*(11.3)*	**20,119**	**20,341**	*(1.1)*
Refined products						
Non-CIS export sales	1,469	1,303	*12.7*	4,733	5,113	*(7.4)*
CIS sales	135	88	*53.4*	388	589	*(34.1)*
Domestic sales	1,747	1,806	*(3.3)*	6,910	5,648	*22.3*
	3,351	**3,197**	*4.8*	**12,031**	**11,350**	*6.0*

Realized average sales prices

(th. RR per tonne)	3 months ended 31 December 2019	3 months ended 30 September 2019	Chg., %	12 months ended 31 December 2019	12 months ended 31 December 2018	Chg., %
Crude oil						
Non-CIS export sales	27.94	28.00	*(0.2)*	28.90	31.23	*(7.5)*
CIS sales	22.97	22.42	*2.5*	23.34	23.45	*(0.5)*
Domestic sales	20.39	20.53	*(0.7)*	21.57	21.68	*(0.5)*
Refined products						
Non-CIS export sales	29.74	29.66	*0.3*	31.32	32.79	*(4.5)*
CIS sales	37.61	37.41	*0.5*	38.42	35.07	*9.6*
Domestic sales	36.17	34.81	*3.9*	34.84	35.70	*(2.4)*

Sales of crude oil

In the fourth quarter of 2019 sales of crude oil, before the deduction of export duties, decreased by 15.0% to RR 117,099 million in comparison to the third quarter of 2019 mainly due to lower volumes of crude oil sold in non-CIS export markets.

Decrease in crude oil sales (before the deduction of export duties) by 6.6% in the twelve 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 fourth quarter of 2019 sales of refined products before deduction of export duties and excise tax increased by 6.9% to RR 111,971 million in comparison to the third 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 3.6% in the twelve months of 2019 in comparison to the same period of 2018 was mainly due to the growth of volumes of refined products sold in the domestic market in the current period.

	3 months ended				Chg.*, %		12 months ended				Chg.*, %	
	31 December 2019		30 September 2019				31 December 2019		31 December 2018			
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	9,504	0.30	7,284	0.25	*30.5*	*20.0*	29,360	0.94	56,467	1.54	*(48.0)*	*(39.0)*
Middle distillates	13,840	0.41	10,072	0.3	*37.4*	*36.7*	29,335	0.86	47,031	1.42	*(37.6)*	*(39.4)*
Engine oil	1,070	0.03	1,465	0.04	*(27.0)*	*(25.0)*	5,247	0.13	4,668	0.11	*12.4*	*18.2*
Diesel fuel	12,792	0.35	11,168	0.30	*14.5*	*16.7*	50,950	1.33	29,050	0.72	*75.4*	*84.7*
Gas products	240	0.01	443	0.02	*(45.8)*	*(50.0)*	2,080	0.08	2,325	0.07	*(10.5)*	*14.3*
Other	6,242	0.37	8,210	0.39	*(24.0)*	*(5.1)*	31,252	1.39	28,114	1.25	*11.2*	*11.2*
Total	**43,688**	**1.47**	**38,642**	**1.30**	***13.1***	***13.1***	**148,224**	**4.73**	**167,655**	**5.11**	***(11.6)***	***(7.4)***

	3 months ended				Chg.*, %		12 months ended				Chg.*, %	
	31 December 2019		30 September 2019				31 December 2019		31 December 2018			
CIS export sales	**RR mln**	**mln tonnes**	**RR mln**	**mln tonnes**	**Sales**	**Volumes**	**RR mln**	**mln tonnes**	**RR mln**	**mln tonnes**	**Sales**	**Volumes**
Diesel fuel	2,937	0.07	1,830	0.04	*60.5*	*75.0*	9,003	0.20	8,782	0.20	*2.5*	-
Gas products	946	0.04	727	0.04	*30.1*	-	2,712	0.12	1,669	0.06	*62.5*	*100.0*
Naphtha	0	0.00	0	0.00	*n/a*	*n/a*	0	0.00	4,641	0.15	*(100.0)*	*(100.0)*
Other	1,203	0.03	726	0.01	*65.7*	*200.0*	3,191	0.07	5,565	0.18	*(42.7)*	*(61.1)*
Total	**5,086**	**0.14**	**3,283**	**0.09**	***54.9***	***55.6***	**14,906**	**0.39**	**20,657**	**0.59**	***(27.8)***	***(33.9)***

	3 months ended				Chg.*, %		12 months ended				Chg.*, %	
	31 December 2019		30 September 2019				31 December 2019		31 December 2018			
Domestic sales	**RR mln**	**mln tonnes**	**RR mln**	**mln tonnes**	**Sales**	**Volumes**	**RR mln**	**mln tonnes**	**RR mln**	**mln tonnes**	**Sales**	**Volumes**
Diesel fuel	30,372	0.69	28,006	0.68	*8.4*	*1.5*	117,331	2.79	81,765	1.97	*43.5*	*41.6*
Middle distillates	4,322	0.09	9,037	0.17	*(52.2)*	*(47.1)*	23,636	0.56	38,633	1.09	*(38.8)*	*(48.6)*
Automobile gasoline	18,278	0.41	16,248	0.36	*12.5*	*13.9*	59,468	1.33	42,803	0.95	*38.9*	*40.0*
Gas products	2,866	0.18	3,124	0.21	*(8.3)*	*(14.3)*	12,406	0.81	19,601	0.91	*(36.7)*	*(11.0)*
Engine oil	1,197	0.03	1,124	0.02	*6.5*	*50.0*	4,284	0.10	3,538	0.09	*21.1*	*11.1*
Jet fuel	5,828	0.15	3,890	0.10	*49.8*	*50.0*	16,609	0.44	8,329	0.22	*99.4*	*100.0*
Other	334	0.20	1,437	0.27	*(76.8)*	*(25.9)*	6,997	0.88	6,984	0.42	*0.2*	*109.5*
Total	**63,197**	**1.75**	**62,866**	**1.81**	***0.5***	***(3.3)***	**240,731**	**6.91**	**201,653**	**5.65**	***19.4***	***22.3***

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

Sales of petrochemical products

In the fourth quarter of 2019 sales of petrochemical products in the amount of RR 13,321 million decreased by 4.8% compared to the third quarter of 2019.

In 2019 sales of petrochemical products decreased by 6.0% to RR 47,917 million compared to 2018.

The Group's production of tires in the fourth quarter of 2019 decreased by 6.5% compared to the third quarter of 2019 and amounted to 2.9 million tires. The Group's production of tires in 2019 compared to the same period of 2018 decreased by 29.5% and amounted to 10.3 million tires primarily due to temporary suspension of production caused by 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 fourth quarter of 2019 compared to the third quarter of 2019 other sales increased by 59.8% mostly due to an increase in sales of other goods and services as well as due to the addition of sales of petrochemical products of new subsidiaries acquired in the fourth quarter of 2019 partly offset by reduced sales of tire products.

Increase in other sales in 2019 by 29.8% compared to 2018 was mostly due to an increase in sales of other goods and services.

Costs and other deductions on non-banking activities

Operating expenses. Operating expenses include the following costs:

	3 months ended		12 months ended	
(RR million)	**31 December 2019**	**30 September 2019**	**31 December 2019**	**31 December 2018**
Crude oil extraction expenses	15,365	13,810	54,568	55,105
Refining expenses	5,012	4,327	17,431	13,430
Petrochemical production expenses	10,238	11,676	39,760	40,567
Cost of other sales	8,954	4,838	27,970	23,606
Operating expenses not attributed to the revenues in the current period[1]	(87)	1,697	311	(493)
Total operating expenses	**39,482**	**36,348**	**140,040**	**132,215**

[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 fourth quarter of 2019 lifting expenses averaged to RR 289.7 per barrel compared to RR 257.7 per barrel in the third quarter of 2019.

In 2019 lifting expenses averaged to RR 257.1 per barrel compared to RR 261.9 per barrel in 2018.

Increase in per barrel lifting expenses in the fourth quarter of 2019 by 11.3% compared to the third quarter of 2019 was mainly due to higher expenses on artificial stimulation of reservoirs.

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

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 fourth quarter of 2019 were RR 1,664 per tonne of crude oil throughput (RR 1,783 per tonne of products output) compared to RR 1,456 per tonne of crude oil throughput (RR 1,564 per tonne of products output) in the third quarter of 2019.

The refining expenses incurred at TANECO in 2018 were RR 1,616 per tonne of crude oil throughput (RR 1,735 per tonne of products output) compared to RR 1,486 per tonne of crude oil throughput (RR 1,595 per tonne of products output) in 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.

Decrease in operating expenses related to the production of petrochemicals both in the fourth quarter of 2019 and in the twelve months of 2019 by 12.3% and by 2.0% compared to the third quarter of 2019 and the twelve months of 2018, respectively, was primarily related to a decrease in production volume and sales 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 fourth quarter of 2019 cost of other sales compared to the third quarter of 2019 increased by 85.1% to RR 8,954 million due to higher cost of services and materials used in the generation of other sales.

Increase in cost of other sales in 2019 compared to 2018 by 18.5% 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				12 months ended			
	31 December 2019		30 September 2019		31 December 2019		31 December 2018	
	RR mln	th. tonnes	RR mln	th. tonnes	RR mln	th. tonnes	RR mln	th. tonnes
Purchased crude oil	8,844	393	1,256	47	14,565	590	7,354	243
Purchased refined products	11,817	262	9,705	321	43,547	1,155	68,726	1,545
Total cost of purchased oil and refined products*	**20,661**		**10,961**		**58,112**		**76,080**	

** 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 fourth quarter of 2019 and the twelve months of 2019 exploration expenses amounted to RR 348 million and RR 1 006 million compared to RR 279 million and RR 688 million in the third quarter of 2019 and the twelve 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.

Decrease in transportation expense in the fourth quarter of 2019 by 7.9% to RR 9,369 million compared to the third quarter of 2019 was mainly due to a decrease in crude oil volumes sold for export.

Increase in transportation expense in 2019 in comparison with 2018 by 1.1% to 37,356 million was mostly due to an increase in transportation tariffs.

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 fourth quarter of 2019 selling, general and administrative expenses increased by 10.5% to RR 14,987 million compared to the third quarter of 2019.

In 2019 compared to 2018 selling, general and administrative expenses increased by 5.9% to RR 52,637 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 non-financial assets are disclosed in "Impairment loss on property, plant and equipment and other non-financial assets, net of reversal".

In 2019 "Impairment loss on financial assets, net of reversal" included a loss in the amount of RR 3,245 million on impairment of certain loans initially issued by Bank ZENIT, subsequently transferred under the assignment agreements to other subsidiaries of the Group and impairment losses on accounts receivable in the amount RR 420 million.

Impairment loss on property, plant and equipment and other non-financial assets, net of reversal. In 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 30,875 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 fourth and the third quarters of 2019 was approximately 34% and 40%, respectively. In 2019 and in 2018 the effective tax burden of the Group was approximately 38% and 40% respectively.

Share of fiscal seizures in the financial result on non-banking activities of the Group excluding other operating income/loss was 84% and 69% in the fourth quarter of 2019 and in 2019 respectively.

Taxes other than income taxes include the following:

(RR million)	3 months ended 31 December 2019	3 months ended 30 September 2019	12 months ended 31 December 2019	12 months ended 31 December 2018
Mineral extraction tax	70,925	80,065	298,592	284,118
Property tax	2,033	1,839	7,320	6,680
Other	2	735	1,742	2,364
Total taxes other than income taxes	**72,960**	**82,639**	**307,654**	**293,162**

Decrease in taxes other than income taxes in the fourth quarter of 2019 by 11.7% in comparison to the third quarter of 2019 was mainly due to a decrease in mineral extraction tax expense based on lower crude oil production, partly offset by higher MET rates linked to market crude oil prices.

Taxes other than income taxes increased in 2019 by 4.9% in comparison to 2018 mainly due to higher mineral extraction tax expense based on increase crude oil production, as well as change in calculation of MET formula through additional factors added into calculation from 2019.

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 fourth quarter of 2019 and the twelve months of 2019 amounted to RR 11.8 billion and RR 50.4 billion respectively (in comparison to RR 12.0 billion and RR 52.2 billion in the third quarter of 2019 and the twelve 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 fourth quarter of 2019 and the twelve months of 2019 amounted approximately to RR 10.5 billion and RR 39.0 billion respectively in comparison to RR 9.9 billion and RR 29.0 billion in the third quarter of 2019 and the twelve months of 2018, respectively.

Maintenance of social infrastructure and transfer of social assets. In the fourth quarter of 2019 and in 2019 maintenance of social infrastructure expenses and transfer of social assets amounted to RR 4,288 million and RR 9,340 million, respectively, compared to RR 2,480 million and RR 5,613 million in the third quarter of 2019 and the twelve months of 2018, respectively. These social infrastructure expenses relate primarily to housing, schools and cultural buildings in Tatarstan.

Other operating gain / (loss), net. Other gain, net, in the fourth quarter of 2019 amounted to RR 1,628 million compared to RR 263 million of other loss, net, in the third quarter of 2019.

In 2019 the Group recorded other gain, net, in the amount of RR 993 million compared to RR 488 million of other gain, net, in 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 fourth quarter of 2019 and the twelve 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 fourth quarter of 2019 the Group recorded foreign exchange gains of RR 1,325 in comparison to RR 1,380 million foreign exchange losses in the third quarter of 2019. In 2019 the Group recorded RR 207 million foreign exchange loss, compared to a foreign exchange gain of RR 7,936 million in 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 fourth quarter of 2019 decreased by 59.7% compared to the third quarter of 2019 and amounted to RR 117 million due to a decrease in interest income received on loans and receivables.

Decrease of interest income in 2019 by 78.2% compared to 2018 was attributable to a decrease in interest income received on loans and receivables. In 2019, funds were placed on deposits.

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 fourth quarter of 2019 interest expense, net of amounts capitalized, increased by 31.6% to RR 1,654 million compared to the RR 1,257 million in the third quarter of 2019.

In 2019 interest expense, net of amounts capitalized, increased by 50.6% to RR 5,407 million, compared to the RR 3,590 million in 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 fourth quarter of 2019 the Group recorded an equity share in profits of associates and joint ventures in the amount of RR 19 million compared to RR 48 million profits in the third quarter of 2019.

In 2019 the Group recorded an equity share in profits of associates and joint ventures in the amount of RR 127 million compared to RR 32 million losses in 2018.

Income taxes

The Group's effective income tax rate in 2019 was 23.6% compared to the statutory tax rate of 20% in the Russian Federation.

EBITDA reconciliation

	3 months ended		12 months ended	
(RR million)	**31 December 2019**	**30 September 2019**	**31 December 2019**	**31 December 2018**
Sales and other operating revenues on non-banking activities, net	240,887	241,753	932,296	910,534
Costs and other deductions on non-banking activities	(210,222)	(168,344)	(678,922)	(645,759)
Gain/(loss) on disposal of interest in subsidiaries and associates, net	(42)	-	(41)	(1,842)
Banking operating results, net	215	1,564	2,302	557
Depreciation, depletion and amortization	11,892	8,715	35,165	30,520
EBITDA	**42,730**	**83,688**	**290,800**	**294,010**
Add back Exceptional items*	**36,235**	**3,179**	**37,612**	**20,829**
EBITDA adjusted for Exceptional items*	**78,965**	**86,867**	**328,412**	**314,839**

**See section Exceptional items (p.4)*

Return on average capital employed (ROACE)*

	12 months ended	
	31 December 2019	**31 December 2018**
Profit attributable to Group shareholders	192,260	211,812
Interest expense on non-banking activities	5,407	3,590
Profit/(loss) attributable to non-controlling interest	558	(264)
Effective income tax rate**	23.6%	22.7%
Profit used for calculation of ROACE	**196,949**	**214,322**
Non-controlling interest	6,598	5,516
Total Group shareholders' equity	745,532	771,265
Short term debt	19,592	11,953
Long term debt	21,657	3,084
Capital employed	793,379	791,818
Average capital employed	**792,599**	**778,680**
ROACE, %	**24.8%**	**27.5%**

** 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.

Credit ratings

In February 2019, following upgrade of the Russian Federation sovereign rating and credit rating of Republic of Tatarstan, Moody's has upgraded long-term issuer rating of the Group to "Baa2" from "Baa3" and changed the outlook on the rating to stable.

In April 2019, credit rating agency RAEX (Expert RA) affirmed Tatneft a nonfinancial company creditworthiness ruAAA rating. The outlook is stable. The credit rating has been assigned using the national scale and is long term.

In May 2019, Fitch Ratings affirmed Long- and Short-Term Issuer Default Ratings (IDR) of the Company at BBB- and F3, respectively. The outlook is stable.

A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization. The ratings do not address the marketability of any of our securities or their market price. Any change in the credit ratings of Tatneft or our securities could adversely affect the price that a subsequent purchaser will be willing to pay for our securities. We recommend that you analyse the significance of each rating independently from any other rating.

Financial Condition Summary Information

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

(RR million)	At 31 December 2019	At 31 December 2018
Current assets	253,127	311,732
Long-term assets	985,512	889,556
Total assets	**1,238,639**	**1,201,288**
Current liabilities	358,093	346,820
Long-term liabilities	128,416	77,687
Total liabilities	**486,509**	**424,507**
Shareholders' equity	**752,130**	**776,781**
Working capital (incl. cash and cash equivalents)	(104,966)	(35,088)

Working capital position

The change in working capital in the current period occurred both due to an increase in current liabilities, mainly related to an increase in accounts payable, and due to a decrease in current assets, mainly cash and cash equivalents. Also, due to the specifics of banking, almost all customer funds are included in current liabilities.

Liquidity and Capital Resources

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

(RR million)	12 months ended 31 December 2019	12 months ended 31 December 2018
Net cash provided by operating activities	248,806	245,683
including:		
Net cash provided by non-banking operating activities before income tax and interest	331,495	303,585
Net cash (used in)/ provided by banking operating activities before income tax	(17,201)	(4,302)
Net cash used in investing activities	(103,892)	(91,496)
Net cash used in financing activities	(184,205)	(132,850)
Net change in cash and cash equivalents	(39,291)	21,337

Net cash provided by operating activities

Our primary source of cash flow is funds generated from our operations. Net cash provided by operating activities in 2019 increased by 1.3% to RR 248,806 million from RR 245,683 million in 2018.

Net cash provided by non-banking operating activities before income tax and interest

Net cash provided by non-banking operating activities before income tax and interest increased by 9.2% to RR 331,495 million in 2019 from RR 303,585 million in 2018.

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

Net cash used in banking operating activities before income tax amounted to RR 17,201 million in 2019 compared to RR 4,302 million provided by banking operating activities in 2018 which was primarily due to changes in the Bank's operational working capital

Net cash used in investing activities

Net cash used in investing activities increased by 13.5% to RR 103,892 million in 2019 from RR 91,496 million in 2018, which was primarily due to the acquisition of fixed assets and subsidiaries, as well as a net change in the proceeds of the return and the acquisition of financial assets.

Net cash used in financing activities

Increase in cash flow used in financing activities in 2019 to RR 184,205 million from RR 132,850 million in 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		12 months ended	
(RR million)	**31 December 2019**	**30 September 2019**	**31 December 2019**	**31 December 2018**
Exploration and production	15,361	9,647	43,883	45,614
Refining and marketing	17,273	5,965	38,024	41,072
Petrochemicals	820	583	2,264	1,731
Banking	125	223	665	2,943
Corporate and other	1,054	5,510	11,158	6,585
Total additions to property. plant and equipment	**34,633**	**21,928**	**95,994**	**97,945**

Calculation of Free Cash Flow

	3 months ended		12 months ended	
(RR million)	**31 December 2019**	**30 September 2019**	**31 December 2019**	**31 December 2018**
Net cash provided by operating activities	44,043	107,021	248,806	245,683
Additions to property, plant and equipment	(34,633)	(21,928)	(95,994)	(97,945)
Free Cash Flow	**9,410**	**85,093**	**152,812**	**147,738**

Analysis of Debt

At 31 December 2019, total short-term and long-term debt amounted to RR 41,249 million compared to RR 15,037 million at 31 December 2018.

Total short-term and long-term debt at 31 December 2019, without the Bank ZENIT's debt, amounted to RR 32,184 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 31 December 2019 and 31 December 2018 were RR 929 million (US$ 15.0 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 31 December 2019 and 31 December 2018 were RR 2,090 million (US$ 33.8 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 31 December 2019 and 31 December 2018 were RR 1,652 million (EUR 23.8 million) and RR 2,353 million (EUR 29.6 million), respectively.

In December 2019, PJSC TATNEFT issued exchange bonds in the amount of RR 15,000 million with the maturity in 3 years. The rate on the bonds issued was set at 6.45% per annum.

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

(RR million)	At 31 December 2019	At 31 December 2018
Due for repayment:		
Between one and two years	5,023	183
Between two and five years	16,618	1,478
After five years	16	1,423
Total long-term debt	**21,657**	**3,084**

Calculation of Net Debt

(RR million)	At 31 December 2019	At 31 December 2018
Short term debt	19,592	11,953
Long term debt	21,657	3,084
Total debt	41,249	**15,037**
Cash and cash equivalents	25,157	65,489
Net Debt	**16,092**	**(50,452)**

Contractual obligations, other contingencies and off balance sheet arrangements

Guarantees

The Group has guarantees issued related to banking activities at 31 December 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 fourth quarter of 2019, Brent crude oil price fluctuated between $58 and $69 per barrel and averaged $63.1 per barrel in comparison to average $63.1 per barrel in the third quarter of 2019.

In 2019 Brent crude oil price fluctuated between $53 and $75 per barrel and averaged $64.2 per barrel in comparison to average $71.4 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 12 months ended		Chg.,
	31 December 2019	**30 September 2019**	**%**	**31 December 2019**	**31 December 2018**	**%**
World market (1)	(in US$ per barrel, except for figures in percent)					
Brent crude	63.1	62.0	*1.8*	64.2	71.4	*(10.1)*
Urals crude *(average Med+NWE)*	61.4	61.3	*0.2*	63.4	70.1	*(9.6)*
	(in US$ per tonne, except for figures in percent)					
Gasoline *(average Med+NWE)*	596.7	610.9	*(2.3)*	606.9	668.1	*(9.2)*
Diesel fuel *(average Med+NWE)*	595.6	586.0	*1.6*	598.5	645.2	*(7.2)*
Naphtha *(average Med+NWE)*	514.1	472.8	*8.7*	500.4	597.9	*(16.3)*
Gasoil *(average NWE)*	465.7	473.3	*(1.6)*	476.6	512.7	*(7.0)*
Fuel oil 3.5% *(average Med+NWE)*	234.7	335.3	*(30.0)*	334.8	397.1	*(15.7)*

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 12 months ended		Chg.,
	31 December 2019	**30 September 2019**	**%**	**31 December 2019**	**31 December 2018**	**%**
World market (1)	(in th. RR per tonne, except for figures in percent)					
Brent crude	28.6	28.5	*0.4*	29.6	31.9	*(7.2)*
Urals crude *(average Med+NWE)*	27.9	28.2	*(1.1)*	29.2	31.4	*(7.0)*
	(in th. RR per tonne, except for figures in percent)					
Gasoline *(average Med+NWE)*	38.0	39.4	*(3.6)*	39.3	41.9	*(6.2)*
Diesel fuel *(average Med+NWE)*	37.9	37.8	*0.3*	38.7	40.5	*(4.4)*
Naphtha *(average Med+NWE)*	32.8	30.5	*7.5*	32.4	37.5	*(13.6)*
Gasoil *(average NWE)*	29.7	30.6	*(2.9)*	30.9	32.2	*(4.0)*
Fuel oil 3.5% *(average Med+NWE)*	15.0	21.6	*(30.6)*	21.7	24.9	*(12.9)*

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

	Average for the 3 months ended		Chg.,	Average for the 12 months ended		Chg.,
	31 December 2019	30 September 2019	%	31 December 2019	31 December 2018	%
Russian market [1]	(in th. RR per tonne (incl. excise tax and VAT), except for figures in percent)					
Crude oil	23.2	23.5	*(1.3)*	24.8	25.0	*(0.8)*
Diesel (summer)	46.7	47.3	*(1.3)*	46.7	46.2	*1.1*
Diesel (winter)	52.2	49.7	*5.0*	48.7	49.9	*(2.4)*
Automobile gasoline	48.4	48.0	*0.8*	45.9	48.2	*(4.8)*

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		12 months ended	
	31 December 2019	30 September 2019	31 December 2019	31 December 2018
Ruble inflation, %	0.8	(0.2)	3.0	4.3
Period-end exchange rate (Ruble to US$)	61.91	64.42	61.91	69.47
Average exchange rate (Ruble to US$)	63.72	64.57	64.74	62.71

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 31 December 2019	3 months ended 30 September 2019	Chg., %	12 months ended 31 December 2019	12 months ended 31 December 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]	12,632	12,389	*2.0*	13,022	12,468	*4.4*	Tonne produced (crude oil)
	(in US $ per tonne. except for figures in percent)						
Crude oil export duty, average rates	88.7	95.1	*(6.7)*	93.8	128.5	*(27.0)*	Tonne exported
Refined products export duty average rates:							Tonne exported
Automobile gasoline	26.5	28.5	*(7.0)*	28.1	38.5	*(27.0)*	
Straight-run gasoline	48.7	52.2	*(6.7)*	51.5	70.6	*(27.1)*	
Diesel fuel	26.5	28.5	*(7.0)*	28.1	38.5	*(27.0)*	
Light and middle distillates	26.5	28.5	*(7.0)*	28.1	38.5	*(27.0)*	
Fuel oil (mazut)	88.7	95.1	*(6.7)*	93.8	128.5	*(27.0)*	

[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 fourth quarter of 2019 and twelve months of 2019 in the amounts of RR 11.8 billion and RR 50.4 billion, respectively (in comparison to RR 12.0 billion and RR 52.2 billion in the third quarter of 2019 and the twelve 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 10.5 billion in the fourth quarter of 2019 and RR 39.0 billion in the twelve months of 2019 in comparison to RR 9.9 billion in the third quarter of 2019 and RR 29.0 billion in the twelve 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 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.

Corporate Governance Statement

Corporate Governance Code

The Company's corporate governance standards are set out in the Corporate Governance Code of PJSC Tatneft, approved by our Board of Directors in March 2017 (the "Code").

The Code sets out principles of corporate governance within Tatneft, including, *inter alia*, procedures for protecting the interests of shareholders, requirements to members of corporate management bodies, their functions and main responsibilities, disclosure standards, internal controls and auditing principles.

The Code complies with the requirements of the Russian Federation laws and listing standards applicable to Tatneft, and follows some best practices of corporate governance.

A copy of the Code as well as information about the Company's corporate governance principles and practices is publicly available at the Company's web-site: http://www.tatneft.ru.

Main Features of Internal Control and Risk Management Systems in Relation to the Financial Reporting Process

The entities of the Group maintain their accounting records and prepare their statutory financial statements principally in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"), and applicable accounting and reporting standards of countries outside the Russian Federation. A number of entities of the Group prepare their financial statements in accordance with IFRS. The Group's consolidated financial statements for the periods up to 30 September 2012, inclusive, were prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The Group first adopted IFRS for the financial statements for the fiscal year ended 31 December 2012. The principal differences between RAR and IFRS relate to: (1) valuation (including indexation for the effect of hyperinflation in the Russian Federation through 2002) and depreciation of property, plant and equipment; (2) foreign currency translation; (3) deferred income taxes; (4) valuation allowances for unrecoverable assets; (5) consolidation; (6) accounting for oil and gas properties; (7) recognition and disclosure of guarantees, contingencies and commitments; (8) accounting for decommissioning provision; (9) pensions and other post-retirement benefits, (10) business combinations and goodwill and (11) lease liabilities and right-of-use assets recognition.

The Group's consolidated financial statements are prepared on the basis of the RAR accounting records and adjusted as necessary to comply with IFRS.

Internal control and risk management systems include special software products designed to minimize human influence on the flow of data for the preparation of the IFRS financial statements. These systems also involve respective controls at the Group's entities level.

Tatneft's Internal Audit Department is responsible for reviewing transactions of the Group's entities on a routine basis and reports directly to the Audit Committee of the Board of Directors of the Company.

Financial statements of major entities of the Group are audited by reputable independent auditing firms, and the IFRS financial statements of the Group are reviewed on a quarterly basis and audited annually by PwC, an independent auditor.

Information About Share Capital

Significant Holding of Ordinary Shares

At 31 December 2019, JSC Svyazinvestneftekhim ("Svyazinvestneftekhim"), a joint stock company wholly-owned by the Republic of Tatarstan, holds directly and through its subsidiary LLC Investneftekhim approximately 32.4% of the Company's voting stock.

BNY Mellon, as depositary bank for our ADR facility, at of 31 December 2019, held approximately 24.20% of the Company's ordinary shares.

Our major shareholders have the same voting rights per share as other shareholders.

Special Rights with Regard to Control of the Company

In addition to Svyazinvestneftekhim's ownership of our ordinary shares, the Tatarstan government holds a Golden Share. Under federal law, a holder of a Golden Share has the veto rights in respect of the major decisions at meetings of shareholders, including:

- decisions relating to changes to the share capital;
- amendments to the charter;
- liquidation or reorganization of the company; and

- entering into "major" or "interested party" transactions as defined in the Law on Joint Stock Companies.

Under the Federal Law of the Russian Federation No. 178-FZ "On Privatization of State and Municipal Property" of 12 December 2001 (as amended), the Golden Share also allows the government to appoint one representative of the government to each of our Board of Directors and Revision Committee.

Due to Svyazinvestneftekhim's current ownership of ordinary shares and its rights under the Golden Share, Tatarstan may elect members of the Board and influence our current and future operations, including decisions regarding acquisitions and other business opportunities, declaration of dividends and issuance of additional shares and other securities even without recourse to the Golden Share.

In addition to holding a Golden Share in Tatneft, the Tatarstan government holds a Golden Share in our subsidiary PJSC Nizhnekamskshina.

Voting Rights

Each fully paid ordinary share of the Company, except for treasury shares held by Tatneft directly (i.e. not through subsidiaries), gives its holder the right to participate in shareholders' meetings and vote on matters to be decided thereby. Holders of preferred shares are generally not entitled to vote at the shareholders' meetings. However, both the Charter and the Law on Joint Stock Companies entitle preferred stockholders to vote on changes and additions to the Charter where such changes provide for reorganization or liquidation of the Company, limitation of their rights, including the issuance of preferred shares with broader rights than those of the existing preferred shares, or change the amount of dividends on the preferred shares. Holders of preferred shares are also entitled to vote at the shareholders' meeting on any items that may appear on the agenda in the event that we fail to declare a dividend on preferred shares in full.

Under the Law on Joint Stock Companies a general shareholders' meeting is held at least once a year between 1 March and 30 June of each year, and the agenda must include the following items:

- election of members of the Board of Directors;
- election of members of the Revision Committee;
- approval of the annual report, balance sheet, and profit and loss statement;
- approval of any distribution of profits, except net profit that has been distributed as quarterly dividends or losses; and
- approval of an independent auditor.

A shareholder or a group of shareholders owning in the aggregate at least two percent of our issued voting shares may submit proposals to the agenda of the annual shareholders' meeting and may nominate candidates to serve as members of our Board or Revision Committee. The shareholders must provide their agenda proposals or nominations to us within 60 calendar days of the end of the fiscal year preceding the annual shareholders' meeting.

Extraordinary shareholders' meetings may be called by the Board at its own initiative to consider matters within the competence of the general shareholders' meeting, as well as upon written request by the Revision Committee, our independent auditor or shareholders owning not less than 10% of our ordinary shares in the aggregate as of the date of such request. The Board must then consider the request, and, if approved, schedule the meeting not more than 40 days from the date of receipt of the request or 75 days from the date of receipt of the request if the proposed agenda includes the re-election of the Board by way of cumulative voting.

The quorum for a shareholders' meeting constitutes presence in person or through authorized representatives of holders of more than 50% of our voting shares. Shareholders are entitled to participate in the shareholders' meeting by forwarding a ballot to us provided such duly completed ballot is received at least two days before the meeting. If the quorum requirement is not met, another shareholders' meeting must be scheduled, in which case the quorum requirement is met if shareholders owning at least 30% of the issued voting shares have registered at that meeting. Shareholders may participate in meetings by proxy, provided that the proxy holds a power of attorney issued by the shareholder.

All our shareholders entitled to participate in a shareholders' meeting must be notified of a meeting and its agenda no less than 30 days prior to the date of the meeting. However, if it is an extraordinary shareholders' meeting to elect our Board by cumulative voting or contains an item on reorganization, the shareholders must be notified at least 50 days prior to the date of the meeting. The record date of the shareholders' meeting is set by the Board and may not be (i) earlier than 10 days from the date of adoption of the resolution to hold a shareholders' meeting and (ii) more than 25 days before the date of the meeting or, in the case of an extraordinary shareholders' meeting to elect our Board or contains an item on reorganization, more than 55 days prior to the meeting.

Right to Dividends

The shareholders' meeting, which considers a proposal by the Board of Directors to pay a dividend (interim or annual), upon approval of such dividend shall set the date on which holders of our shares entitled to the dividend are identified ("ex-dividend date"); this date for our shares (as of an issuer whose shares are traded on a stock exchange) cannot be earlier than 10 days and later than 20 days after the date of respective shareholders' resolution, while the payment of dividends shall be effected to nominees and professional securities managers within 10 days, and to all other registered holders within 25 days, from such ex-dividend date.

Rules About Appointment of Directors and Amendment of the Charter

The Company complies with the requirements of Russian law as to appointment and replacement of Directors as well as amendment of the Charter (please see sections relating to voting rights above and the Board of Directors below).

The Powers of Directors

Please see section "Board of Directors" below.

Description of the Composition and Operation of the Administrative, Management and Supervisory Bodies and Their Committees

Board of Directors

Tatneft's Board of Directors currently consists of 15 members. Directors are elected by a resolution of shareholders passed at a shareholders' meeting by cumulative voting, serve until the next ordinary shareholders' meeting (or an extraordinary shareholders' meeting replacing the Board of Directors) and can be re-elected for an unlimited number of terms. All Directors can be removed by a resolution passed at a shareholders' meeting without cause. Apart from those members appointed by the Tatarstan government, through Svyazinvestneftekhim in its capacity as a shareholder of Tatneft, the Tatarstan government possesses a Golden Share right in our company that gives it the power to appoint a representative to our Board.

The members of our Board of Directors are:

Name	*Titles*	*Year of Birth*
Rustam Nurgalievich Minnikhanov*	Chairman of the Board, President of the Republic of Tatarstan	1957
Nail Ulfatovich Maganov	Director, General Director of Tatneft	1958
Shafagat Fakhrazovich Takhautdinov	Director, Advisor to the Chairman of the Board	1946
Radik Raufovich Gaizatullin	Director, Finance Minister of the Republic of Tatarstan	1964
Laszlo Gerecs	Independent Director, Managing Director of G Petroconsulting Ltd.	1953
Rustam Khamisovich Khalimov	Director, Deputy General Director on Exploration and Production of Oil and Gas	1965
Azat Kiyamovich Khamaev	Director, Minister of Land and Property Relations of Tatarstan	1956
Rais Salikhovich Khisamov	Director, Deputy General Director, Chief Geologist	1950
Yuri Lvovich Levin	Independent Director, Chairman of Audit Committee, Managing Director of BVM Capital Partners Ltd.	1953
Renat Haliullovich Muslimov	Director, Assistant to the President of the Republic of Tatarstan on Exploration of Oil and Gas Fields	1934
Rafael Saitovich Nurmukhametov	Director, Head of the Leninogorskneft NGDU	1949
Rinat Kasimovich Sabirov	Director, Advisor to the Prime-Minister of the Republic of Tatarstan on the Matters of Oil, Gas and Chemical Industry	1967
Valery Yurievich Sorokin	Director, General Director of Svyazinvestneftekhim	1964
Rene Frederic Steiner	Independent Director, Head of Private Equity Investments of FIDES Business Partner AG	1964
Nurislam Zinatulovich Syubaev	Director, Deputy General Director for trategic Development	1960

* Appointed to the Board of Directors pursuant to the exercise of the Golden Share right of the Tatarstan government.

Biographies of the Directors are set out below:

Rustam Nurgalievich Minnikhanov. Mr. Minnikhanov was born in 1957. In 1978, he graduated from the Kazan Agricultural Institute with a specialization in mechanical engineering, and from the Institute of Soviet Trade in 1986 with a degree in merchandizing of foodstuffs. He has a Ph.D. in Economics. He started work in 1978 as an engineer and was responsible for diagnostics at the Sabinsky district union of Agricultural Equipment. He further worked as senior and chief power engineer at the Sabinsky Forestry Engineering Co. From 1983 to 1985, he was Deputy Director of Trade of the Sabinsky district, and from 1985 to 1990, he was Chairman of the Arsky Consumer Supplies Board. He was then elected Chairman of the Executive Committee of the Arsky Council of Peoples' Deputies. In 1992, he was First Deputy Head of the Administration of the Arsky district of the Republic of Tatarstan. From 1993 to 1996, he was Chairman of the Visokogorsky district Council of People's Deputies and then Head of Administration of the Visokogorsky district of the Republic of Tatarstan. From 1996 to 1998, he was Minister of Finance of the Republic of Tatarstan. From 1998 to 2011, he was Prime Minister of the Republic of Tatarstan. Since 25 March 2010, he has been President of the Republic of Tatarstan. He has been a member of the Board of Directors since 1997 and has served as Chairman of the Board of Directors since June 1998.

Nail Ulfatovich Maganov. Mr. Maganov was born in 1958. In 1983, he graduated from the evening department of the Tatarstan branch of the Gubkin Petrochemical and Gas Industry Institute of Moscow. He started work in 1977 at the Elkhovneft NGDU, where he was gradually promoted from the position of transportation helper to that of Head of the Oil and Gas Production Division. Between 1991 and 1993, he was Deputy Head of the Zainskneft NGDU for capital construction. In 1993, he was transferred to the position of Head of Tatneft Oil and Refined Products Sales Department. In 1994, he was appointed Deputy General Director of Production of Tatneft. From July 2000 to November 2013, he was First Deputy General Director for the Sales of Oil and Refined Products and Refining and Head of Crude Oil and Refined Products Sales Department. In November 2013 he was appointed the General Director of the Company. He has been a member of the Board of Directors since 2000.

Shafagat Fakhrazovich Takhautdinov. Mr. Takhautdinov was born in 1946. In 1971, he graduated from the Gubkin Petrochemical and Gas Industry Institute of Moscow. He has a Ph.D. in Economics. He started work in 1964 as a driller's assistant at the Almetyevsk Drilling Operations Department and then worked as an oil production operator, underground well repair foreman and manager of a reservoir pressure maintenance section. He also served as Head of the Djalilneft NGDU (1978-1983), Head of the Almetyevneft NGDU (1983-1985) and First Secretary of the Communist Party Committee of Leninogorsk (1985-1990). From 1990 to 1999, he was Chief Engineer and First Deputy General Director of Tatneft. From 1999 to November 2013, he was the General Director. In November 2013 he was appointed an Advisor to the Chairman of the Board of Directors of Tatneft. He has been a member of the Board of Directors since 1994.

Radik Raufovich Gaizatullin. Mr. Gaizatullin was born in 1964. In 1985, he graduated from the Kazan Agricultural Institute with a specialization in accounting and economic analysis of agriculture. He started work as the chief accountant at the collective farm Mayak, Laishevsky district. He then worked as the leading economist for control and supervision of the Laishevsky district Cooperative Society, and then as the chief accountant of the agricultural firm Biryuli, Visokogorsky district. In 1999, he was transferred to the Ministry of Finance of the Republic of Tatarstan as Head of the Section for Financing Agriculture and Food Industry. In June 2000, he was appointed Deputy Minister of Finance of the Republic of Tatarstan and, in 2001, he was appointed First Deputy Minister of Finance of the Republic of Tatarstan. Since 27 June 2002, he has served as Finance Minister of the Republic of Tatarstan. He has been a member of the Board of Directors since 2000.

Laszlo Gerecs. Mr. Gerecs was born in 1953. He graduated from the Moscow Institute of Petrochemical and Gas Industry named after academician I.M. Gubkin in 1977 specializing in Development and Complex Mechanization of oil fields. He graduated with a Master Degree in Business Administration from the Oxford Business University in 1995. Since 2012 - Head of Project Management for oilfield production and infrastructure development, MOL Group, Budapest. From 2015 to 2016 - Managing Director of MOL Oman, Oman Branch in Muscat. Since January 2017- Managing Director of G Petroconsulting Ltd.

Rustam Khamisovich Khalimov. He was born in 1965. He graduated from the Moscow Institute of Petrochemical and Gas Industry in 1987 specializing in Technology and complex mechanization of oil and gas fields development. Later he graduated from the National Economy Academy under the Government of the Russian Federation and the Tyumen State Oil and Gas University. From 2010 to 2011 he worked as the Head of Tatneft Branch in Libya. He was appointed as the Head of NGDU Elkhovneft from 2011 to 2015. Since 2015 he became the Deputy General Director on Exploration and Production of Oil and Gas. He is a Candidate of Science in Engineering.

Azat Kiyamovich Khamaev. Mr. Khamaev was born in 1956. In 1978, he graduated from the Kazan Aviation Institute specializing as a mechanical engineer. He graduated from the Law Faculty of the Kazan State University in 2000. He worked as the General Director of Tatkhimfarmpreparaty Company between 2004 and 2008 and as the First Deputy Minister of

Land and Property Relations of the Republic of Tatarstan from December 2008. He was appointed the Minister of Land and Property Relations of the Republic of Tatarstan in March 2009. He has been a member of the Board of Directors since 2009.

Rais Salikhovich Khisamov. Mr. Khisamov was born in 1950. In 1978, he graduated from the evening department of the Gubkin Petrochemical and Gas Industry Institute of Moscow with a specialization in mining engineering. He has a Ph.D. in Geology and Mineralogy. He started work as an oil production operator at the Elkhovneft NGDU, then worked as a collector at the Birsk Geological Prospecting Unit and as an operator at the Irkenneft NGDU. In 1972, after serving in the Russian army, he returned to the Irkenneft NGDU, where he worked until 1997 and was gradually promoted from the position of well exploration operator to that of Chief Geologist of the Irkenneft NGDU. Since October 1997, he has been working as Chief Geologist and Deputy General Director of Tatneft. He has been a member of the Board of Directors since 1998.

Yuri Lvovich Levin. Mr. Levin was born in 1953. He graduated from the Moscow Finance Institute in 1975, in 1979 he completed post-graduate studies at the Institute of World Economy and International Relations. He has a Ph.D. in Economics. Since 2001, Mr. Levin is the Managing Partner in BVM Capital Partners Ltd.

Renat Haliullovich Muslimov. Mr. Muslimov was born in 1934. In 1957, he graduated from the Kazan State University with a specialization in geology and exploration of oil and natural gas fields. He has a Ph.D. in Geology and Mineralogy. He started work in 1957 as a driller's assistant, and later became Head of the Geological Section of the Bugulmaneft NGDU and Chief Geologist of the Leninogorskneft NGDU. From 1966 to 1997, he worked as Chief Geologist and Deputy General Director of Tatneft. Since 1997, he has been a professor in the Geology, Oil and Gas Department of the Kazan State University. In 1998, he became a State Advisor to the President of the Republic of Tatarstan. Since 2007, he has been Consultant to the President of the Republic of Tatarstan on Exploration of Oil and Gas Fields. He has been a member of the Board of Directors since 1995.

Rafael Saitovich Nurmukhametov. Mr. Nurmukhametov was born in 1949. He began working in 1966 as an electrician. In 1974, he graduated from the Ufa Oil Institute with a specialization in technology and complex mechanization of the development of oil and gas fields. After graduation, he worked at the Suleevneft NGDU as an oil production operator, technology engineer, foreman for oil production, Head of the Oil and Gas Production Shop, and Head of Subterranean and Capital Oil Well Workover. Mr. Nurmukhametov has also served at the Communist Party Committee of the Tatar region and as an instructor and Head of the Oil and Gas Production Departments of the Djalilneft NGDU (1983-1986), the Laseganneft NGDU (1986-1989) and the Pokachivneft NGDU (1987-1989). Since 1989, he has been Head of the Leninogorskneft NGDU of Tatneft and from 2016 a member of the Board of Directors.

Rinat Kasimovich Sabirov. Mr. Sabirov was born in 1967. In 1991, he graduated cum laude from the Kazan State University, and in 1994, he completed post-graduate studies from the Kazan State Technological Institute. In 1998, he completed the President Program of management training. He has a Ph.D. in Chemical Sciences. After working at the Kazan Technological Institute from 1990 to 1994 as an assistant in the Physical and Colloidal Chemistry Department, he became Chief Specialist, Head of the Marketing Department of JSC Tatneftekhiminvest-Holding. In June 2003, he was appointed as Chief Consultant of the Organizational Department in the Administration of the President of the Republic of Tatarstan. From August 2003 until June 2010, he was the Counsel (later – Assistant) to the Prime Minister of the Republic of Tatarstan on the Matters of Oil, Gas and Chemical Industry, as well as from 2006 to June 2010, the Head of Department on Matters of Oil, Gas and Petrochemical Industry of the Cabinet of Ministers' Administration. Since June 2010 he has been Assistant to the President of the Republic of Tatarstan. He has been a member of the Board of Directors since 2006.

Valery Yurievich Sorokin. Mr. Sorokin was born in 1964. He graduated from the Kazan State University in 1986 with a degree in mechanics. From 1996 to 2002, he was the Director of the Agency for State Debt Management of the Republic of Tatarstan under the Ministry of Finance of the Republic of Tatarstan. Since 2003, he has been the General Director of Svyazinvestneftekhim. He has been a member of the Board of Directors since 2005.

Rene Frederic Steiner. Mr. Steiner was born in 1964. Mr. Steiner graduated from Zurich Hochschule in 1989 and is a Swiss Certified Banking Expert. From 1983 to 2002 Mr. Steiner worked in various capacities in Credit Suisse Bank and UBS Bank in Switzerland. From 2002 to 2006 Mr Steiner was a partner at CERTUS AG. From 2006 to 2011 he was a partner and Director of Restructuring and Performance Services at KPMG Consulting Services Switzerland. From 2011 Mr Steiner has been serving as the Head of Private Equity Investments of FIDES Business Partner AG, which he co-founded the same year. He has been a member of the Board of Directors since 2013.
Authority of the Board of Directors

Nurislam Zinatulovich Syubaev. Mr. Syubaev was born in 1960. In 1982 he graduated from the Plekhanov Economy Institute with a diploma of an economist and in 1985 he completed the program "Financial accounting and audit" of the Requalification Institute for Banking and Finance under the Financial Academy of the Russian Government; in 1999 he qualified as "Economist in Banking" from the Banking Department of the Plekhanov Economy Institute. In 1992-1994 he served as the deputy CEO of Alfa-Bank and from 1994-1995 he headed the Financial Services Center of Higher School of International Business. From 1995 to 2001 Mr. Syubaev was the First Deputy CEO of Bank Zenit, and from 2001 he has been serving as the Head of the Strategic Planning Department of Tatneft and Advisor to General Director of Tatneft for Foreign Economic Affairs and Financial/Banking Issues and from 2014 - a member of the Management Board of Tatneft. In 2016 was appointed as Deputy General Director for Strategic Development of Tatneft.

Under the Law on Joint Stock Companies, the Charter and the Regulation on the Board of Directors, the Board of Directors has general authority to take all decisions regarding or related to our business activities, operations and internal affairs, except to the extent any specific matter or decision falls within the exclusive competence of the shareholders in a shareholders' meeting, the General Director or the Management Board. The following matters fall within the scope of authority of the Board of Directors:

- determining our strategic priorities;
- convening annual and extraordinary shareholders' meetings;
- approving agendas for, and other ancillary matters related to, shareholders' meetings;
- increasing our charter capital through public issuance of additional shares within the amount of authorized shares, but (in case of ordinary shares) in a total amount not exceeding 25% of the total amount of ordinary shares then outstanding;
- issuing bonds and other securities, as provided by law;
- amending our Charter following the placement of additional shares, including amendments relating to the increase in our charter capital, as provided by law;
- determining the market value of our property and the price for placing and repurchasing our securities, where provided for by law;
- acquiring stocks, bonds, and other securities placed by us, where provided for by law;
- appointing and dismissing the General Director and other members of the Management Board;
- appointing and dismissing the Secretary of the Board and determining her/his duties;
- appointing the First Deputy General Directors;
- making recommendations relating to the amount of remuneration and compensation to be paid to members of the Revision Committee and determining payments for the services of the independent auditors;
- approving the criteria for performance evaluation and the amount of compensation for the members of the Board of Directors and the Management Board, approving the Board of Directors' budget;
- recommending the amount to be declared and paid as dividends on our shares and facilitating payment of the same;
- using our reserves and other funds;
- establishing branches and opening representative offices;
- concluding certain major transactions and certain interested party transactions, (where provided for by law), and concluding certain other transactions (where provided for by internal documents);
- approving the appointment of a registrar and the terms and conditions under which such appointment is made;
- determining the procedures for presentation of all bills, reports and applications, and determining the system for calculation of profits and losses, including the rules relating to the depreciation of property;
- adopting the Corporate Governance Code and effecting amendments thereto;
- forming committees of the Board of Directors and approving related regulations;
- approving other internal documents of the Company on the regulation of the matters related to the competence of the Board of Directors, excluding internal documents that are within the competence of the shareholders' meeting, the General Director and the Management Board as provided for in the Charter; and
- making other decisions that are not within the competence of the shareholders' meeting, the General Director and the Management Board.

Meetings of the Board of Directors

Meetings of the Board of Directors are convened either by the Chairman of the Board of Directors, or upon request of the General Director, any member of the Board of Directors, the Management Board, the Revision Committee or the independent auditor. Although the Board of Directors only needs to meet once a year, at least one month prior to an annual shareholders' meeting, in order to review our annual report and resolve on other issues relating to holding the annual shareholders' meeting (unless the interests of the company require more frequent meetings), they are typically held once a month. The agenda for meetings of the Board of Directors must include any items proposed by shareholders who own in the aggregate at least 5% of our shares and the auditor, the General Director, members of the Board of Directors, the Revision Committee or the Management Board.

Under the Law on Joint Stock Companies and the Charter, the affirmative vote of a majority of the Directors present at a quorate meeting of the Board of Directors is usually required to pass a resolution and the Chairman of the Board of Directors shall cast the deciding vote in the event of a tie. However, certain resolutions, such as the approval of major transactions, and the issuance of additional shares, require the unanimous approval of all Directors present at a meeting of the Board of Directors. A quorum for the purpose of a meeting of the Board of Directors exists if more than 50% of the Directors are present. The minutes of meetings of the Board of Directors must be made available for review by any shareholder upon request.

The Law on Joint Stock Companies prohibits a person from holding the posts of Chairman of the Board of Directors and General Director at the same time.

Committees of the Board of Directors

Audit Committee. The Audit Committee of the Board of Directors is comprised of the following directors: Mr. Yuri L. Levin (Chairman), Mr. Radik R. Gaizatullin, Mr. Laszlo Gerecs and Mr. Rene F. Steiner. Under the terms of reference of the Audit Committee, its membership shall consist of at least three directors, including one director who is an audit committee financial expert. We have determined that three members of the Audit Committee are independent. Responsibilities of the Audit Committee are separate from the responsibilities of the Revision Committee, which must be maintained as a matter of Russian law. The Audit Committee is responsible for submitting recommendations to the Board of Directors on an annual basis regarding the independent auditor, negotiating the terms of engagement of the independent auditor and evaluating its performance, overseeing completeness and correctness of our financial statements and evaluating reliability, effectiveness of internal control, pre-approving permissible non-auditing services provided by the auditors and dealing with "whistleblowing" reports.

Human Resources and Compensation Committee. The Human Resources is comprised of the following directors and members of the Management Board: Mr. Rene F. Steiner (Chairman), Mr. Laszlo Gerecs, Mr. Yuri L. Levin, and Mr. Rinat K. Sabirov. The Human Resources and Compensation Committee is responsible for appraising the work of the Board of Directors and the Management Board, developing recommendations with respect to remuneration of top managers, the terms of their employment contracts and personnel policies more generally, establishing criteria for selecting candidates for the Management Board and to head our structural divisions, and preparing proposals on the main terms of agreements with members of the Board of Directors, the General Director and members of the Management Board.

Corporate Governance Committee. The Corporate Governance Committee is comprised of the following directors and members of senior management: Mr. Nail U. Maganov (Chairman), Ms. Natalia E. Dorpenko, Mr. Damir M. Gamirov, Mr. Vasily A. Mozgovoi, Mr. Rinat K. Sabirov, Mr. Nurislam Z. Syubaev, Mr. Evgeniy A. Tikhturov and Ms. Nuria Z. Valeyeva. The Corporate Governance Committee provides reports and recommendations to the Board of Directors regarding development and improvement of corporate governance practices, including relationships between the shareholders, the Board of Directors and the Management Board and interaction with our subsidiaries and other affiliates.

Management Board

Our Management Board currently consists of 6 members*. The Management Board is appointed by the Board of Directors. The Management Board coordinates and oversees the effective operation of the Company and its various divisions. The Management Board's authority extends across a broad remit and includes our long and short-term business development program, our participation in commercial and non-profit organizations, and our economic, financial and investment activities.

The members of our Management Board* are:

Name	***Titles***	***Year of Birth***
Nikolay Mikhailovich Glazkov	Deputy General Director for Capital Construction	1960
Nail Gabdulbarievich Ibragimov	Director, First Deputy General Director for Production, Chief Engineer	1955
Nail Ulfatovich Maganov	Director, General Director	1958
Rustam Nabiullovich Mukhamadeev	Deputy General Director for General Affairs	1952
Nurislam Zinatulovich Syubaev	Deputy General Director for Strategic Development	1960
Evgeniy Aleksandrovich Tikhturov	Head of Finance Department	1960

* Information as of 31 December 2019

Biographies of the members of the Management Board are set out below:

Nikolay Mikhailovich Glazkov. Mr. Glazkov was born in 1960. In 1988 he graduated from Kazan Engineering and Construction Institute specializing in industrial and civil construction. He began his career at SMU 51 (a construction company), where he became the CEO of the company. From 1999 to 2005 he worked as Deputy Head of the Administration of the Almetyevsk District and the city of Almetyevsk on construction and communications, then the First Deputy Head of the Administration of the city of Almetyevsk. Since 2005 he has been serving as Head of the Capital Construction Department of PJSC Tatneft and from 2012 a member of the Management Board.

Nail Gabdulbarievich Ibragimov. Mr. Ibragimov was born in 1955. In 1977, he graduated cum laude from the Gubkin Petrochemical and Gas Industry Institute of Moscow. He has a Ph.D. in Technical Sciences. He first worked as an oil and natural gas production operator with the Almetyevneft NGDU, and was then promoted to the position of Chief Engineer of the Almetyevneft NGDU. In 1999, he was appointed Deputy General Director and Chief Engineer of Tatneft. He has been First Deputy General Director for Production and Chief Engineer of Tatneft since 2000. He has been a member of the Board of Directors since 2000. As of the date of this report Mr. Ibragimov retired from the Company and has been removed from the Management Board.

Nail Ulfatovich Maganov. See “Board of Directors” above.

Rustam Nabiullovich Mukhamadeev. Mr. Mukhamadeev was born in 1952. In 1977, he graduated from the Gubkin Petrochemical and Gas Industry Institute of Moscow, with a specialization in technological and complex mechanization for the development of oil and gas fields. From 1970 to 1971, Mr. Mukhamadeev worked as a student operator at the Elkhovneft NGDU. Following service in the army, he joined the evening department of the Tatarstan branch of the Gubkin Petrochemical and Gas Industry Institute of Moscow as a senior laboratory technician. In 1975, Mr. Mukhamadeev returned to the Elkhovneft NGDU as an oil-pump research engineer, subsequently becoming a senior geologist at Tatneftegasrazvedka in 1978. His subsequent work includes serving as an instructor in the industrial-transport section of the Communist Party Committee of Almetyevsk (1981-1985); Secretary of the Communist Party Committee, Assistant Director for Personnel, extra-curricular and social development, Assistant Director for Social Development and Assistant Director for General Operations of the Elkhovneft NGDU (1985-1998); and head of the Almetyevsk repair and construction division of Tatneft (1998-2001). Mr. Mukhamadeev has served as Tatneft's Deputy General Director for Personnel and Social Development from 2001 to 2017. Since December 2017 - Deputy General Director for General Affairs.

Nurislam Zinatulovich Syubaev. See “Board of Directors” above.

Evgeniy Aleksandrovich Tikhturov. Mr. Tikhturov was born in 1960. In 1982, he graduated from the Ordjonikidze Moscow Management Institute with a specialization in organization of management. After service in the army, he started work in 1984 at the Yamashneft NGDU as an engineer. Subsequent positions included: Head of the Labor Organization Section, Head of the Labor and Salary Section, Deputy Head for Economics, and Deputy Head for Economics-Chief Accountant. In 1995, he was transferred to the position of Deputy Head of Economics and Finances of Tatneft. Mr. Tikhturov has served as the Head of Tatneft's Finance Department since 1999. As of the date of this report Mr. Tikhturov retired from the Company and has been removed from the Management Board.

Authority of the Management Board

The Management Board is our executive body and exercises day-to-day management and control over our business activities and operations. Under the Charter, the Management Board is, inter alia, explicitly responsible for:

- developing our programs of activities;
- participating in commercial and non-commercial organizations;
- performing our financial and investment programs;
- selling our shares and other securities to investors;
- determining procedures for granting access to the register of shareholders;
- submitting proposals on profit and loss distribution to the Board of Directors;
- determining internal and external pricing policies; and
- approving certain of our internal documents governing matters related to the competence of the Management Board and other documents provided by the General Director.

Under the Regulation on the Management Board approved by the shareholders on 28 June 2002 (as amended), the Management Board does not have a fixed number of members, appointed by the Board of Directors and is chaired by the General Director.

The Management Board is convened by the General Director. Meetings of the Management Board are deemed quorate if at least 50% of the members of the Management Board are present. All decisions of the Management Board must be approved by a simple majority of the votes cast, provided that the Chairman of the Management Board has a deciding vote in the event of a tie.

The General Director

The General Director is elected by the Board of Directors for a five-year term and can be removed by a vote of two thirds of the members of the Board of Directors. The current General Director, Mr. Nail U. Maganov, was appointed by the Board of Directors in November 2013.

The General Director exercises day-to-day control over our activities and chairs meetings of the Management Board. The General Director is accountable to the Board of Directors and our shareholders. Pursuant to the Charter, the Regulation on the General Director approved by the shareholders on 28 June 2002 (as amended), and Russian law, the General Director is authorized to, *inter alia,*:

- procure performance of the decisions of the shareholders' meeting and the Board of Directors;
- manage our assets in the manner prescribed by the Charter and the law;
- nominate candidates for the positions of First Deputy General Directors and members of the Management Board;
- organize and delegate duties within the Management Board, determine the amount of compensation of the members of the Management Board;
- make employment decisions;
- conclude collective bargaining agreements;
- appoint and dismiss heads of departments and representative offices and other employees;
- approve our internal documents, excluding those internal documents the approval of which is within the exclusive competence of the shareholders' meeting, the Board of Directors or the Management Board;
- exercise the rights of the Company as shareholder in its subsidiaries; and
- make any other decisions pertaining to the conduct of the Company's business in the ordinary course.

The General Director also chairs meetings of our Management Board.

Revision Committee

The Revision Committee is our financial control body, which can be formed pursuant to the Law on Joint Stock Companies, and is charged with supervising our financial and economic activity. It is elected by, and accountable to, the shareholders and consists of nine members, none of whom can be members of the Board of Directors or serve in any of our other management bodies. Members of the Revision Committee each serve until the next annual shareholders' meeting. Pursuant to the Charter the Revision Committee must submit annual reports to the Board of Directors at least 40 days prior to the date of each annual shareholders' meeting. Further, it can be directed to conduct a special audit by holders of 10% or more of our voting shares, by the shareholders' resolution passed at a shareholders' meeting, by the Board of Directors and at its own initiative. In such case, a report of the Revision Committee must be submitted to the Board of Directors not later than one month after the date of such direction. Any decision of the Revision Committee must be approved by a majority of its members.

The current members of the Revision Committee are:

- Nazilya Rafisovna Farkhutdinova, Deputy Director of Economics and Finance of OOO TagraS-Remservis;
- Saria Kashibulkhakovna Yusupova*, Deputy Head of Economic Analysis Department of Ministry of Finance of the Republic of Tatarstan;
- Ksenia Gennadievna Borzunova, Head of Department of the Ministry of Land and Property Relations of the Republic of Tatarstan;
- Azat Damirovich Galeev, Head of Investment Projects Expertise Department, Investment Department of Tatneft
- Guzel Rafisovna Gilfanova, Deputy Head of Control and Revision Department of Tatneft;
- Venera Gibadullovna Kuzmina, Retired, shareholder;
- Ravil Anasovich Sharifullin, Head of Control and Revision Department of Tatneft;
- Lilya Rafaelovna Rakhimzyanova, Head of Department of the Ministry of Industry and Trade of the Republic of Tatarstan;
- Salavat Galiaskarovich Zalyaev, Leading legal counsel of Corporate Legal Unit at Legal Department.

*Appointed to the Revision Committee pursuant to the exercise of the Golden Share rights of the Tatarstan government.