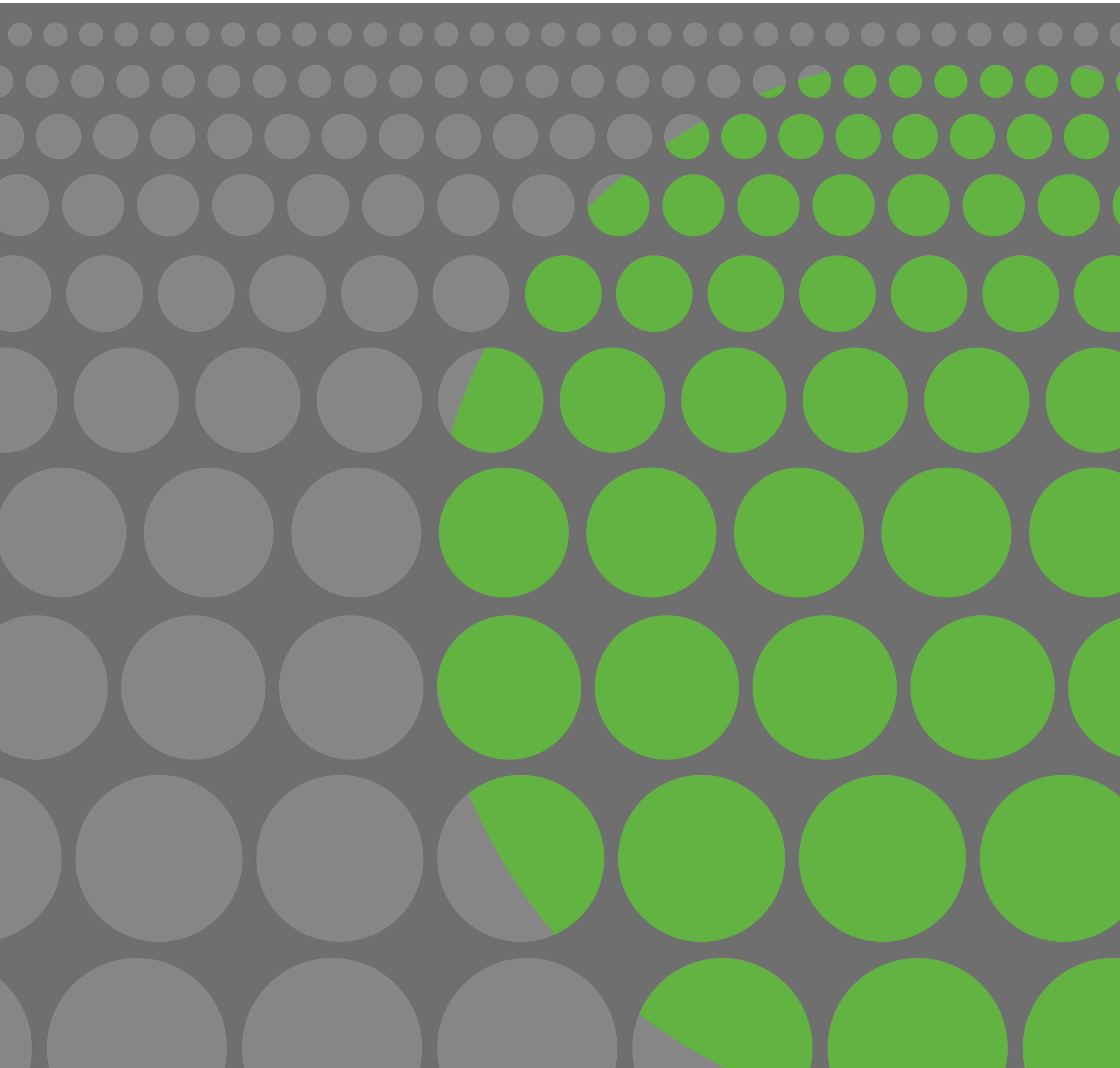
ANNUAL REPORT 2018

GROWTH STRATEGY
SUSTAINABLE DEVELOPMENT

TATNEFT



2018 was a landmark year for our Company. It is the year of the 75th anniversary of the beginning of the oil field development in the Republic of Tatarstan and the 70th anniversary of the discovery of one of the world's largest Romashkinskoye field. The Company participated in the development of these fields from the very beginning. The accumulated potential and new opportunities are a reliable foundation for the Company's long-term development.

TATNEFT

The 20018 Annual Report of the Public Joint Stock Company TATNEFT was approved by the Annual PJSC Tatneft Shareholders' Meeting held in June 21, 2019, Protocol No. 29 dated 25.06.2019

Contents

In 2018, TATNEFT successfully implemented its tasks with a focus on ensuring long-term growth in shareholder value.

The company follows the principle of constructive interaction with all stakeholders in the interests of shareholders to make strategically balanced decisions and achieve high performance simultaneously maintaining a favorable environment and developing human capital.

The Company's strategy implementation includes aspects of sustainable growth and provision of favorable economic and social conditions for business development based on the most efficient use of all types of resources and creating value for stakeholders at each stage of activity.

About the company

TATNEFT is one of the leading Russian oil and gas producers with over 75 years of experience in the industry. The full production cycle vertical integration strategy is implemented in the Group status.

The Company's main assets are located in the Russian Federation, business projects are implemented in the domestic and foreign markets.

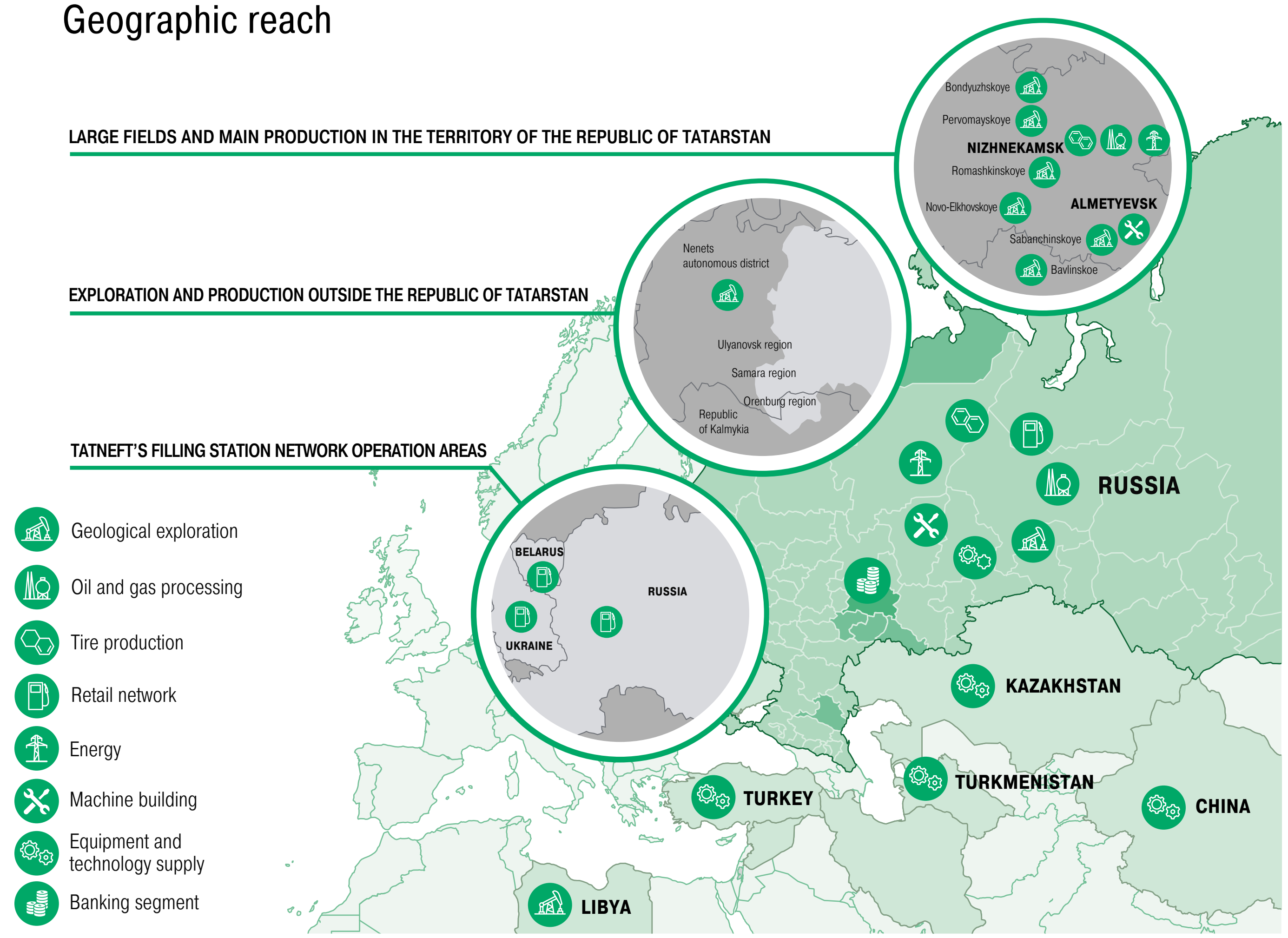
The TATNEFT Group's structure provides management processes from obtaining licenses for resource development to the sale of oil, oil and gas processing products and petrochemicals in the domestic market and for export, as well as the manufacturing of equipment for oil production, oil and gas treatment and processing, provision of engineering, supply and construction services for oil, gas and petrochemical projects. The Company operates a developed network of filling stations under the TATNEFT brand. By now, the Company has also begun to develop the gas and petrochemical industry.

The business infrastructure is formed by the geographical proximity of oil and gas production, the Company's own oil processing and generating facilities and high-quality logistics for the sale of oil and oil products.

The TATNEFT Group's structure includes banking business (ZENIT Banking Group).

For more information on the TATNEFT Group's structure and PJSC TATNEFT's subsidiaries, see the IFRS Consolidated Financial Statements for 2018 (Appendix 1 to the Annual Report) as well as on page 6-7 of this Annual Report.

Geographic reach



Company capitalization

Following the results of 2018, the Company's total market capitalization (the market value of common and preferred shares) increased by RUB 587.7 billion as compared to the end of 2017 and amounted to RUB 1.7 trillion.

In dollar terms, total market capitalization increased by 27.4% to USD 24.2 billion.

The company is in the top 10 of the most expensive public russian companies in terms of capitalization

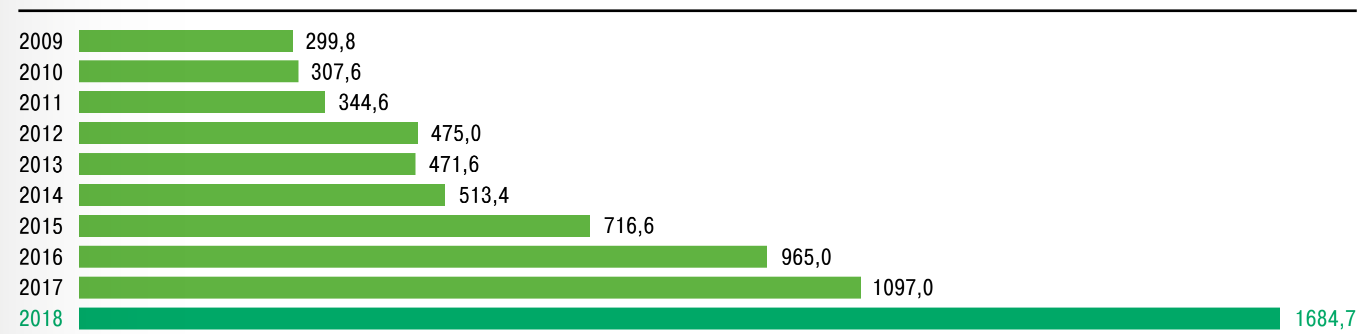
1,7 trillion rubles (USD 24,2 billion) total market capitalization of the Company in 2018

During 2018, TATNEFT's market capitalization reached more than RUB 1.9 trillion

+ 53.5%

CAPITALIZATION GROWTH COMPARED TO THE END OF 2018

Capitalization, billion RUB



Capitalization is calculated at the close of trading in the reporting year.

TATNEFT Group

Main segment-forming divisions and enterprises

PJSC TATNEFT
IS THE CORPORATE CENTER
OF THE GROUP

PJSC TATNEFT
BOARD
OF DIRECTORS

MANAGEMENT
BOARD EXECUTIVE
OFFICE

Oil and gas production

NGDU Almetyevneft
NGDU Aznakaevskneft
NGDU Bavlyneft
NGDU Jalilneft
NGDU Elkhovneft
NGDU Leninogorskneft
NGDU Nurlatneft
NGDU Prikamneft
NGDU Yamashneft
LLC TATNEFT-Samara
OJSC Kalmneftegaz
CJSC Severgeologiya
(**until 10.09.2018)
LLC Severgeologiya (*since 10.09.2018)
CJSC Severgaznefteprom
(**until 10.09.2018)
LLC TATNEFT-NAO (*since 10.09.2018)
CJSC KalmTatneft
CJSC Yambuloil

Oil and gas processing, oil and oil product sales

Crude Oil & Oil Products Sales Department
Tatneft Europe AG
Tataneftegazpererabotka Administration
Elkhovsk Oil Refining Administration
JSC TANECO
LLC Tatneft-AZS Center
LLC Tatneft-AZS-Zapad
LLC Tatneft-AZS-Yug
LLC Tatneft-AZS-Ukraine
LLC Tatneft-Trans
FLLC Tatbelnefteprodukt
LLC Saimen (**until 01.10.2018)
LLC Kharkov-Capital
LLC Poltava-Capital
LLC Processing Center
LLC TATNEFT-Aviaservice
LLC Tatneft-AZS-Tashkent (*since 26.12.2018)

Core production support

Tatneftesnab Administration
LLC Process Fluid Treatment Facility for Reservoir Pressure Maintenance
Tatar Geological Exploration Department
Bugulma Mechanical Plant
Motor Transport Enterprise LLC TATNEFT-URS
LLC TATNEFT Trade and Technology House
LLC TATNEFT-Neftekhimservis

R&D and organizational support

TatNIPIneft
Technological Development Center (Construction Project Delivery Department)
Business Service Center
LLC NTC TATNEFT (in Skolkovo)
LLC NPC Oil and Gas Technologies
JSC TatNIIneftemash
LLC TATITNEFT

Petrochemical production

LLC Managing Company TATNEFT-Neftekhim
PJSC Nizhnekamskshina
LLC Nizhnekamsk Truck Tire Factory
LLC Nizhnekamsk All Steel Tire Plant
JSC Nizhnekamsktekhuglerod
JSC Nizhnekamsk Mechanical Plant
LLC TATNEFT-Neftekhimsnab
(**until 06.07.2018)
LLC Trading House KAMA
JSC Yarpolimermash-TATNEFT

Heat power energy

LLC Nizhnekamsk CHP
LLC TATNEFT-Energosbyt
JSC Almetyevsk Heating Networks

Branch and representative offices

Representative Office in Moscow
Representative Office in the Republic of Iraq
Representative Office in Ukraine
Branch Office in Libya
Branch Office in Turkmenistan

As of December 31, 2018, TATNEFT Group included over 100 companies

PJSC TATNEFT is the corporate center of the Group coordinating the activities of the enterprises that form the Company's business segments. The TATNEFT Group management organization is based on a single mission and targeted development priorities, while respecting the fair interests of all members of the Group.

The primary industry environment is all large Russian oil companies, including PJSC Rosneft Oil Company, PJSC LUKOIL, PJSC Surgutneftegas, PJSC Gazprom Neft and Public Joint Stock Oil Company Bashneft. The Company competes with these and other oil companies for the right to supply crude oil and oil products in Russia and to the international market.

* enterprise creation
** enterprise liquidation

Business model

PJSC TATNEFT
IS THE CORPORATE CENTER
OF THE TATNEFT GROUP

CORPORATE GOVERNANCE

- Balanced strategy
- Logical organizational structure
- Resource consolidation
- Operational performance monitoring
- Growth point creation
- Reduction of intersegment costs
- Strengthening of financial sustainability
- Risk control
- Formation of unified standards
- Interaction with the business environment

RESOURCE BASE

PRODUCTION

OIL AND GAS PROCESSING

OIL AND OIL PRODUCT SALES: EXPORT AND DOMESTIC MARKET

VALUE CREATION

UPSTREAM

Ensuring increase in production and replenishment of reserves

- Strengthening the resource base
- Extension of production asset geographic reach
- Development of hard-to-recover, including super viscous (SVO), oil fields

Geographical proximity of the oil production center to the main regions of sales and processing of oil and oil products – the Company has the lowest weighted average rate of oil transport to European markets among major vertically integrated oil companies of Russia.

MACHINE BUILDING

DOWNSTREAM

Strengthening the structure of core assets and increasing the operating efficiency of business segments.
Production of marketable, highly competitive and premium oil and gas products. Development of premium trade channels.

RETAIL TRADE NETWORK

PETROCHEMISTRY

GAS-BASED PETROCHEMICALS

HEAT POWER ENERGY

EXTERNAL IMPACT FACTORS

- Macroeconomics
- Global and domestic prices on oil and oil products
- Global demand for oil and oil products
- Taxation and rate policy
- Redistribution of supply margins
- Inflation rate
- Exchange rates
- Transport rates
- Technological and environmental regulations
- Competitive environment

BANKING SEGMENT

Includes PJSC Bank ZENIT and its subsidiaries (ZENIT Banking Group). ZENIT Banking Group is consolidated into the TATNEFT Group financial statements since the fourth quarter of 2016.

See details on ZENIT Banking Group activities at https://www.zenit.ru/bank/disclosure/ annual-reports/

The company's business model integrates the potential of core diversified assets in the areas of exploration and production, oil processing, petrochemistry, oil and oil product sales, as well as energy, machine building and technology on the basis of a unified strategy, ensuring the creation of value and conditions for long-term sustainable development, taking into account external factors and risk mitigation mechanisms.

The business structure allows the Company to maximize the use of resource assets and production facilities based on project and process management within a single investment policy.

Mission and values of the Company

THE COMPANY'S MISSION is to ensure progressive development in the status of one of the largest vertically integrated Russian producers of oil and gas, oil and gas processing products and petrochemicals based on efficient shareholder asset management, rational use of natural resources and corporate social responsibility.

Strategy-2030

The Company's strategy implementation includes aspects of sustainable growth and provision of favorable economic and social conditions for business development based on the most efficient use of all types of resources and creating value for stakeholders at each stage of activity.

- High-quality organizational structure
- Advanced forms of business process management and organization
- High level of staff competence
- Qualitative asset structure

- Strategic planning
- Efficient investment project management
- High organizational efficiency
- Margin increase in value chain

- Creation of sustainable technological basis
- Digital integration into all production and management processes
- The Company's own scientific and technical complex

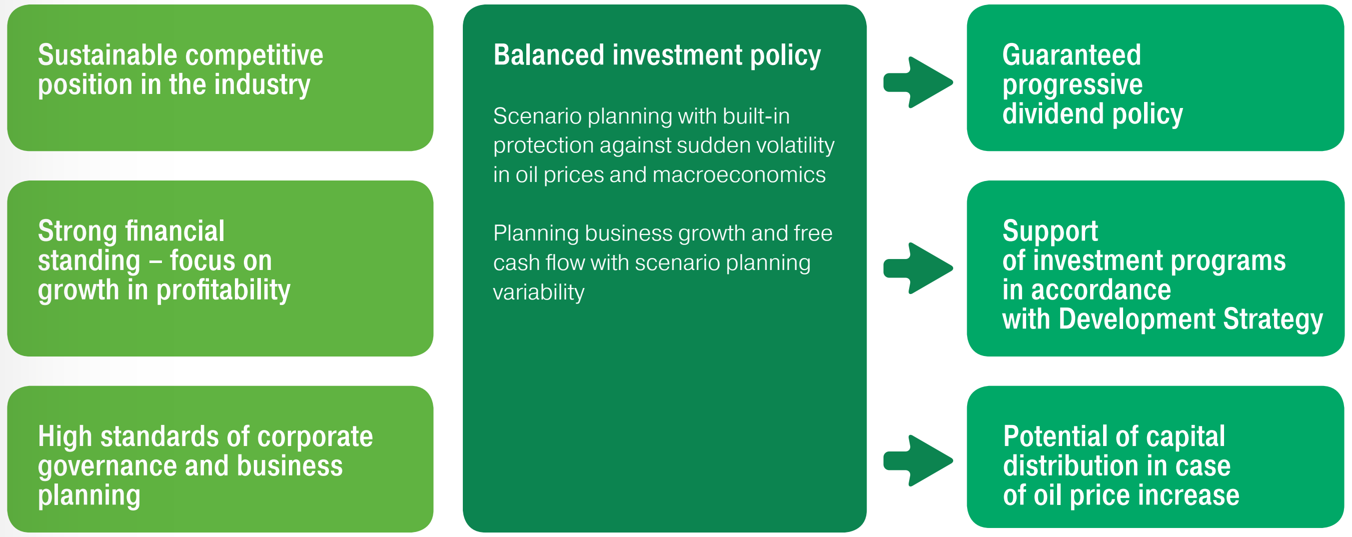
- Commitment to 17 UN Sustainable Development Goals
- Corporate social responsibility
- High environmental responsibility
- Human life and health priority

The Company is aware of its responsibility to shareholders, investors, partners, employees and society as a whole, equal responsibility for operating results, industrial and environmental safety and seeks to maximize its potential for long-term sustainable development.

According to the Company's position, harmonious and efficient business development can be ensured only when a balance between these aspects, high ethical principles and the social partnership development are observed.

The Company's key task is to ensure the most effective monetization of the reserves until 2030 and to channel the profits to create new promising value growth points, to diversify the business, which would contribute to maintaining a stable position and profitability of the Company beyond 2030.

Priority – growth of the shareholder value through increase of free cash flow and payment to shareholders.



The Company's consistent programmatic actions allow to ensure the oil and gas production profitability, maintain a high level of hydrocarbon resource support, efficiently develop its own oil processing and petrochemistry, as well as increase innovative potential and introduce progressive digital solutions to create a reliable technological basis for the Company.

Creating value for stakeholders

Investors and shareholders

MINIMUM
50 %
OF NET PROFITS IS USED TO PAY DIVIDENDS

+72 %
GROWTH OF PROFITS DUE TO THE GROUP SHAREHOLDERS IN 2018

27.5%
RETURN ON CAPITAL E MPLOYED (ROACE)

+56.8 %
GROWTH OF EBITDA

Profit due to the Group shareholders (billion RUB)

Basic and diluted profit in terms of one share (RUB)

Share capital (billion RUB)

Government and society

475 BILLION RUB
THE TOTAL AMOUNT OF ACCRUED TAXES, PAYMENTS AND CONTRIBUTIONS FOR PJSC TATNEFT IN 2018.

TATNEFT is one of the largest taxpayers in the region of its main activity.

Creation of high-performance jobs

OVER
55 000
JOBS

64 000 RUB
MONTHLY SALARY

>33 000
OF THE COMPANY EMPLOYEES WERE TRAINED IN 2018

INCLUDING
>6 000
OF THE COMPANY EMPLOYEES WERE TRAINED AT CORPORATE UNIVERSITY IN 2018

Environmental responsibility

>11 BILLION RUB
TOTAL INVESTMENTS OF THE TATNEFT GROUP AIMED AT ENVIRONMENTAL SAFETY

REDUCTION OF MAN-MADELOAD ON THE ENVIRONMENTTO THE LEVEL WHERE THERE IS A POTENTIALFOR SELF-RECOVERY OF ECOSYSTEMS

Prevention of global climate change

As part of measures to prevent global climate change, TATNEFT Group is developing a system for accounting and managing greenhouse gas emissions, applies emissions capture technologies, develops a direction on the use of low-carbon energy sources such as gas and renewable sources, implements resource-saving and energy efficiency programs, produces and uses environmentally friendly types of fuel.

In 2018 – implementation of a greenhouse gas accounting and inventory system in accordance with the new requirements of the Russian Federation legislation and international standards in the field of climate change.

The Company prevents air emissions

>3 MILLION TONNES (IN CO_2 EQUIVALENT)
GREENHOUSE GAS PER YEAR DUE TO THE HIGH LEVEL OF EFFICIENT USE OF ASSOCIATED PETROLEUM GAS

Social investments

"The company realizes that the long-term sustainable business development is based on the social progress of the society as a whole. We are making a significant contribution to improving the social infrastructure – supporting health, science, education, spiritual heritage, culture and sport.

Coordinated measures with the heads of cities and settlements in the areas of our operation give a successful result in improving the life quality not only of the Company's employees and their families, but of the local population as well."

General Director of PJSC TATNEFT N.U. Maganov

SOCIAL INVESTMENT PROGRAMS COMPREHENSIVELY SUPPORT THE SOCIAL INFRASTRUCTURE DEVELOPMENT IN THE AREAS OF THE COMPANY'S MAIN ACTIVITY AND CONTRIBUTE TO THE IMPROVEMENT OF LIVING CONDITIONS

>5.6 BILLION RUB
SOCIAL INVESTMENT VOLUME IN 2018

>770 MILLION RUB
AIMED AT TARGETED ASSISTANCE UNDER THE MILOSERDIE PROGRAM

>25.7 MILLION RUB
AIMED AT 44 SOCIAL PROJECTS SELECTED ON A GRANT BASIS WITHIN A CHARITABLE FOUNDATION OF TATNEFT

Key fundamentals of the growth strategy

In 2018, the Board of Directors adopted the TATNEFT Group Development Strategy until 2030, accumulating ambitious tasks based on the previously approved Strategy 2025 that already confirmed its effectiveness at the early stages

EXPANSION OF THE GEOGRAPHIC REACH AND THE RESOURCE BASE OUTSIDE THE REPUBLIC OF TATARSTAN AND THE RUSSIAN FEDERATION, including gaining access to oil and gas reserves with the possibility of forming strategic alliances, as well as developing new markets for products.

THE INCREASE IN THE VOLUME OF PROFITABLE OIL AND GAS PRODUCTION FROM THE PRODUCTION STABILIZATION – TO SUSTAINABLE ORGANIC GROWTH, increased oil recovery in the developed license fields and the active development of new fields, including highly viscous and hard-to-recover oil fields in the Republic of Tatarstan while reducing specific operating and investment costs.

STRENGTHENING TECHNOLOGICAL POTENTIAL WITH EFFICIENT INVESTMENT IN THE PRODUCTION BASE DEVELOPMENT AND MODERNIZATION BASED on accumulating digital high-tech solutions, developing new and improving the efficiency of the used equipment and technologies as a new generation unified production management platform at all stages of the value chain.

ENSURING SUSTAINABLE DEVELOPMENT based on a high level of corporate social responsibility, industrial and environmental safety and environmental balance in the process of production and business activities.

INCREASED PRODUCTION AND SALES OF COMPETITIVE FINISHED PRODUCTS WITH HIGH ADDED VALUE that meet the global environmental standards and promising market requirements, the development of the Company's own oil processing facilities, petrochemical production facilities.

IMPROVING THE EFFICIENCY OF THE OIL PRODUCT RETAIL TRADE NETWORK AND DIESEL FUEL REFINERIES of the Company through filling stations and small wholesale; updating the brand concept and unique trade offer with an increase in service standards and the development of related services.

HOLDING THE LEADING POSITION IN THE RUSSIAN TIRE MARKET AND DEVELOPMENT OF NEW MARKET NICHES through the efficient implementation of marketing programs, quality improvement and expansion of the product range.

The corporate strategy is aimed at long-term sustainable development of the Company — ensuring an optimal balance between the oil and gas production and refining volumes and achieving the maximum operating income in all business segments.

Strategy – 2030

High efficiency UPSTREAM

Asset security over 30 years

Reserve replacement ratio > 100%

Production growth to 38.4 million tonnes/year

High-tech facilities DOWNSTREAM

Increase in oil processing capacity to 15.7 million tonnes/year

With a 99% processing depth 89% light oil product yield

Produced oil monetization

Optimal balance of oil and oil product sales

Увеличение выпуска премиальных нефтепродуктов

Development of premium trade channels and logistics optimization of oil product sales

Key performance indicators of 2018

TATNEFT Group hydrocarbon reserves

1.35 BILLION TONNES O.E.,

INCLUDING PROVEN RESERVES

970.9 MILLION TONNES O.E.

(6915.9 MILLION BARRELS O.E.)

+2.1% PRODUCTION GROWTH

29.5 MILLION TONNES / 576.4 THOUSAND BARRELS/DAY

PRODUCTION VOLUME

>40% OIL PRODUCED DUE TO TERTIARY AND HYDRODYNAMIC ENHANCED OIL RECOVERY

>35% CURRENT OIL RECOVERY FACTOR

Current reserve replacement ratios

297.6% OF 1P OIL

200.4% OF 2P OIL

TATNEFT Group production, million tonnes

2017	28.9
2018	29.5

Average daily oil flow rate, thousand barrels/day

2017	564.8
2018	576.4

+9.6% THROUGHPUT GROWTH

9.2 MILLION TONNES / 179 THOUSAND BARRELS/DAY

THROUGHPUT

10.1 MILLION TONNES

PRODUCTION OF OIL AND GAS PRODUCTS

Oil processing, thousand barrels/day

2017	163.3
2018	179.0

Production of oil and gas products, thousand tonnes

Production of oil products	
2017	8.4
2018	8.9
Production of gas products	
2017	1.1
2018	1.2

20.3 MILLION TONNES

CRUDE OIL SOLD

11.3 MILLION TONNES

OIL PRODUCT SOLD

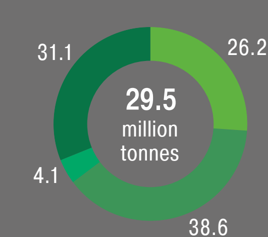
+222.5 BILLION RUB

GROWTH OF REVENUE FROM OIL AND OIL PRODUCT SALES

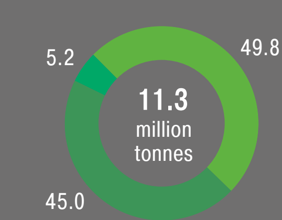
829.4 BILLION RUB

REVENUE FROM OIL AND OIL PRODUCT SALES

Crude oil delivery destinations (%)



Oil products delivery destinations (%)



- Sales to the domestic market
- Sales to the non-CIS countries
- Sales to the CIS countries
- Own oil processing

Strategy 2030

Growth in petrochemical unit profitability

Tire sales growth by 2030 to 18.1 million pcs/year

Retail business efficiency and margin growth

Growth in average daily sales through 1 filling station by 2030 to 13.4 ton/day

The Company's own generating facilities

Ensuring power generation by 2030 of 2.7 billion kW/h per year

Banking segment ZENIT Banking Group

Transition to the most crisis-resistant model of a universal bank

Efficiency of industrial and environmental safety management

The Company strives to achieve leadership positions in the field of industrial safety, occupational safety and environmental friendliness of production, minimizing environmental impact, including climatic aspects.

Ensuring compliance with the last generation international standards ISO 14001:2015 and ISO 45001:2018

Key performance indicators of 2018

14.6 MILLION PCS.
TIRE PRODUCTION

370
COMMODITY ITEMS

20%
SHARE IN THE DOMESTIC MARKET

30%
EXPORT SUPPLIES

50 COUNTRIES
DELIVERY DESTINATIONS

711
FILLING STATIONS, INCLUDING 109 FILLING STATIONS OUTSIDE OF THE RUSSIAN FEDERATION

+ 29.1%
3 455 THOUSAND TONNES
OIL PRODUCT SALES THROUGH RETAIL TRADE NETWORK

+13.8%
9.1 TONNES / DAY
1 FILLIJNG STATION AVERAGE DAILY SALES

Industrial production of motor gasolines AI-92, AI-95, AI 98, AI 100. Sales through the network of the Company's own filling stations.

1.2 BILLION KW/H PER YEAR
POWER GENERATION

Ensuring the reliability of power supply to the Company's own production facilities and enterprises of the Nizhnekamsk industrial hub

500 000
RETAIL CUSTOMERS

20 000
CORPORATE CUSTOMERS

Building profitable Business

The Company implements successive measures in the field of climate conservation.

>96%
EFFICIENT USE OF ASSOCIATED PETROLEUM GAS
One of the highest rates in the industry.

FOR THE PERIOD OF 2016-2018

26 %
REDUCTION OF GROSS EMISSIONS OF POLLUTANT SUBSTANCES INTO ATMOSPHERIC AIR

20 %
REDUCTION OF GROSS EMISSIONS OF GREENHOUSE GASES (CO_2-EQ.) FOR THE PERIOD OF 2016-2018.

> 9000000
GREEN TREES AND SHRUBS PLANTED IN 2013-2018 UNDER THE GREEN INVESTMENT PROGRAM, WHICH IS ABOUT 5 000 HECTARES OF FOREST

>1 BILLION RUB
EXPENDITURES ON OCCUPATIONAL SAFETY BY TATNEFT GROUP

The targeted program activities aimed at preserving life and health, improving the working conditions of employees, reducing accidents, significant production risks, improving the safety of equipment and fire safety of facilities.

50 %
INJURY REDUCTION

0.14
ACCIDENT FREQUENCY RATE

0.08
LTIFR FACTOR WITH A DECLINE TREND

Macroeconomics

Global factors put pressure on the oil market and, in general, change the economy architecture, intensify competition, increase price volatility.

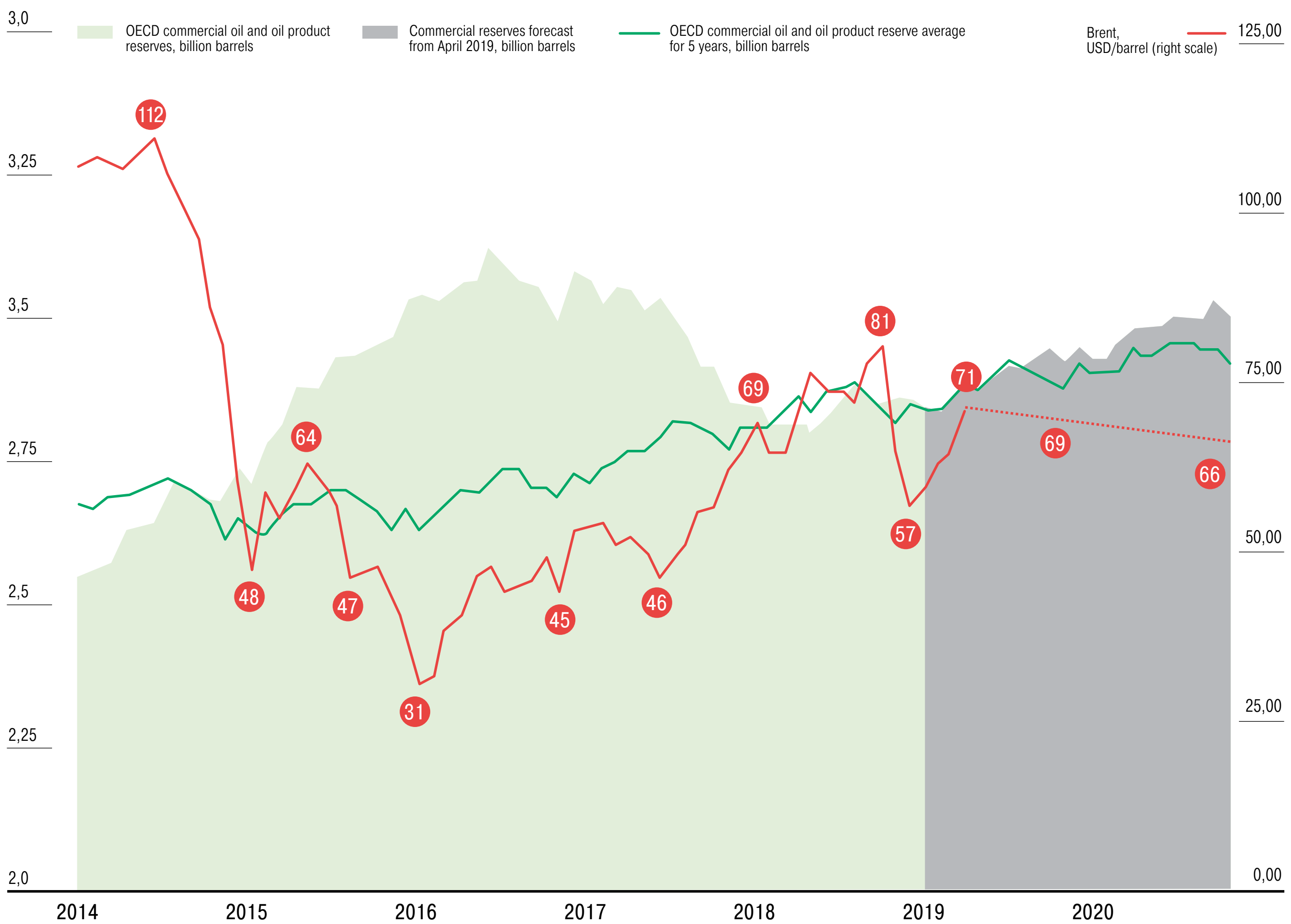
As a baseline oil price forecast to calculate the target indicators of Strategy 2030 , the Ministry of Economic Development of the Russian Federation forecast up to 2024 (valid as of July 2018) was used, it suggests a gradual decrease in the oil price from 71 USD/barrel to 53.5 USD/barrel in 2024. From 2025 it includes an increase in the oil price in accordance with dollar inflation. The baseline scenario assumes more stringent external conditions than forecasts of leading experts on the global oil market development and is generally conservative. This is due to the continuing uncertainty in the global market of liquid hydrocarbons, including forecasts for growth in North American production, as well as the lack of solid consensus among OPEC+ countries on the target level of global oil price.

Oecd oil reserves

According to experts of the OPEC Technical Committee, commercial oil reserves in the member countries of the Organization for Economic Cooperation and Development (OECD) by the end of 2019 will exceed the average for five years by 170 million barrels if the OPEC+ agreement will end in the first half of 2019 and will drop by 50 million barrels below the average for five years if the OPEC+ agreement will be maintained until the end of the year.

OECD oil reserves, billion barrels

SOURCE: U.S. ENERGY INFORMATION ADMINISTRATION, PLATTS



Global oil price dynamics (Brent, Urals)

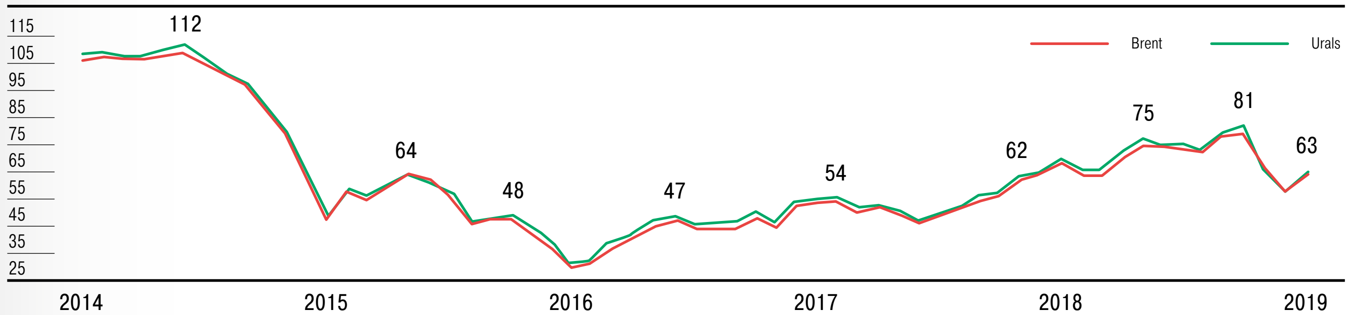
The reduction in oil production in the first half of 2018 supported oil prices – up to October the average monthly price increase was 3%, reaching a peak in October – 81.2 USD/barrel. However, at the end of the year, the oil price volatility increased, the average monthly price for Brent dropped to 57.4 USD/barrel in December. Nevertheless, the price for the year amounted to 71.04 USD/barrel, which is 31% higher than the average annual price in 2017 (54.3 USD/barrel).

The current market vision of the baseline forecast for liquid hydrocarbon (LHC) demand against the backdrop of a predicted slowing but steady growth in global GDP – consumption will reach its peak by 2035. Within the period, additional consumption will grow by another 15% to the current level (15 million barrels/day).

In the next 15 years, drivers of growth in demand for liquid hydrocarbons are expected to change – the leadership in maintaining the growth in demand will shift from motor fuels to petrochemicals (naphtha and LPG), but motor vehicles will remain a key consumer of liquid hydrocarbons.

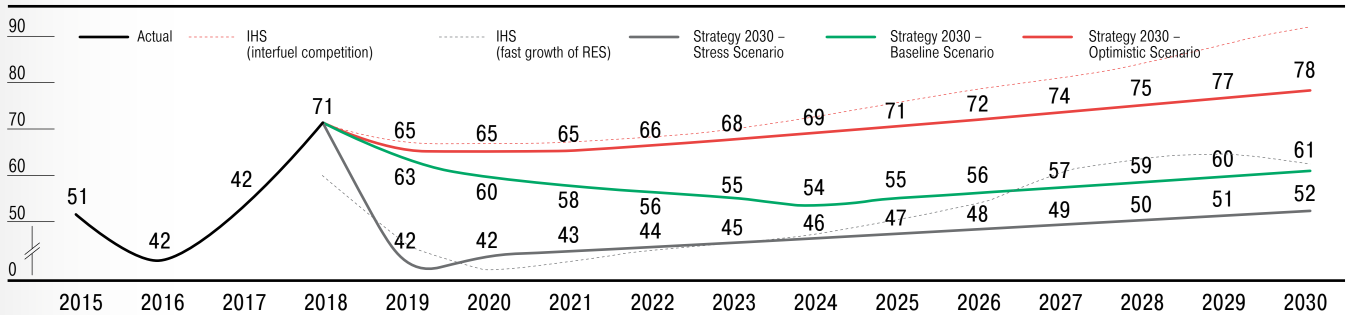
Price for Brent and Urals crude oil in 2014-2018 (USD/barrel)

SOURCE: U.S. ENERGY INFORMATION ADMINISTRATION, PLATTS



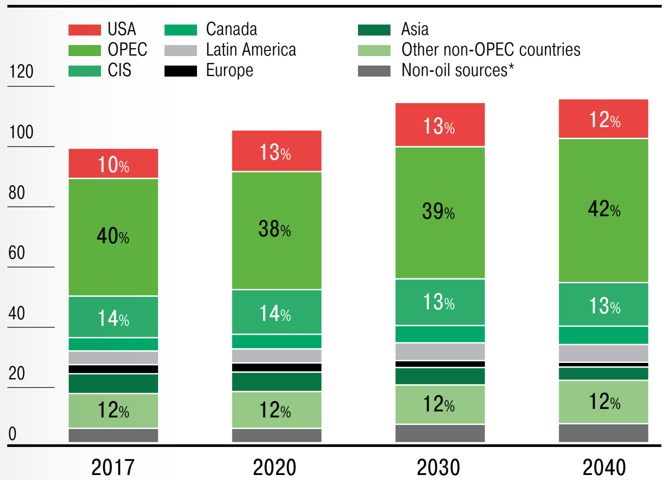
Oil price forecast (USD/barrel)

SOURCES: EIA, CENTRAL BANK OF THE RUSSIAN FEDERATION, MINISTRY OF ECONOMIC DEVELOPMENT OF THE RUSSIAN FEDERATION, IHS, STRATEGIC PLANNING DEPARTMENT



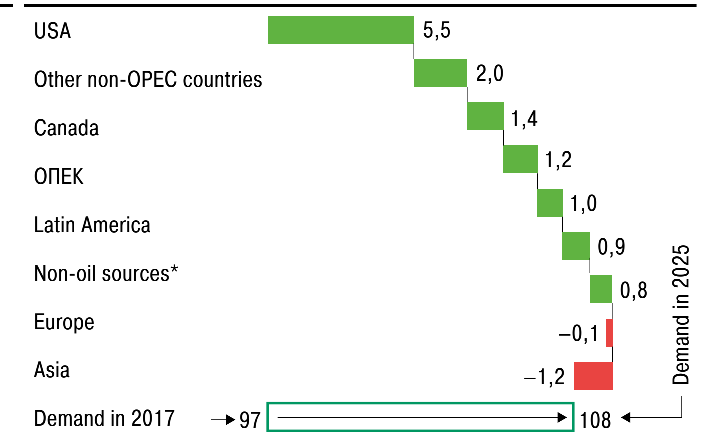
Dynamics of the LHC total production in the world by key players, million barrels/day

SOURCE: IHS



Total increase in LHC supply in the world for the years 2018-2025 by key players, million barrels/day

SOURCE: IHS



Oil demand dynamics by global regions and forecast up to 2019

Despite a slight slowdown in the growth of the world economy, oil consumption in 2018 as a whole and in individual regions maintained high growth rates, overcoming 100 million barrels/day in the second half of the year. The leaders in the steel consumption growth are the Asia countries – the demand growth in the region amounted to approximately 2 million barrels/day, which was supported by the continued high growth rates of the China and India economies. A significant contribution to the global oil demand growth was made by the USA, which increased consumption by 1.3 million barrels/day, while the euro area countries increased their oil consumption by 0.08 million barrels/day.

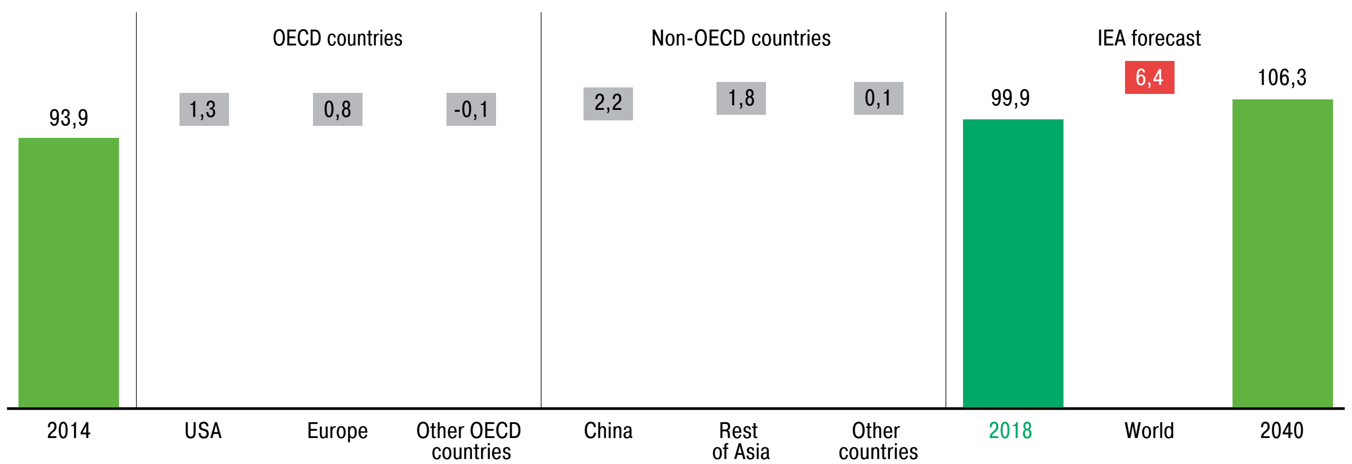
In the medium term, the hydrocarbon market will also be affected by slower economic growth in a number of countries, expansion of sanctions, trade wars, growing involvement in the development of unconventional hydrocarbon reserves, the introduction of restrictions on sulfur content in marine fuels (IMO) planned for 2020, as well as growing attention of investment community to environment and energy saving (quota trading and CO2 emissions systems are being introduced, international initiatives are being developed which, in the short run, will oblige all public companies and investment funds to disclose their carbon footprint and measures to reduce it, as well as plans to enter a low-carbon future).

Due to environmental requirements, international oil companies adjust their strategies – the share of gas assets in portfolios will be from 40% to 62% of the total production of companies in 2030. In general, global gas consumption will increase from 20% to 27% by 2040, which will equalize the oil and gas shares.

IMO (International Maritime Organization) – Международная морская организация

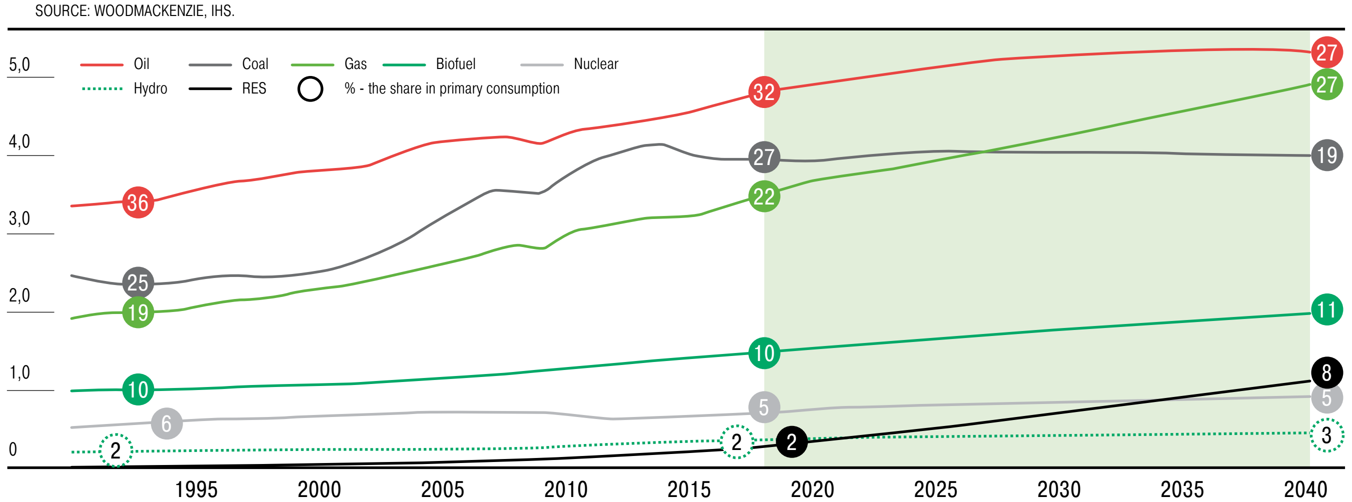
Oil demand dynamics by countries/regions in 2014-2018 And iea forecast up to 2040, million barrels/day

Source: U.S. Energy Information Administration



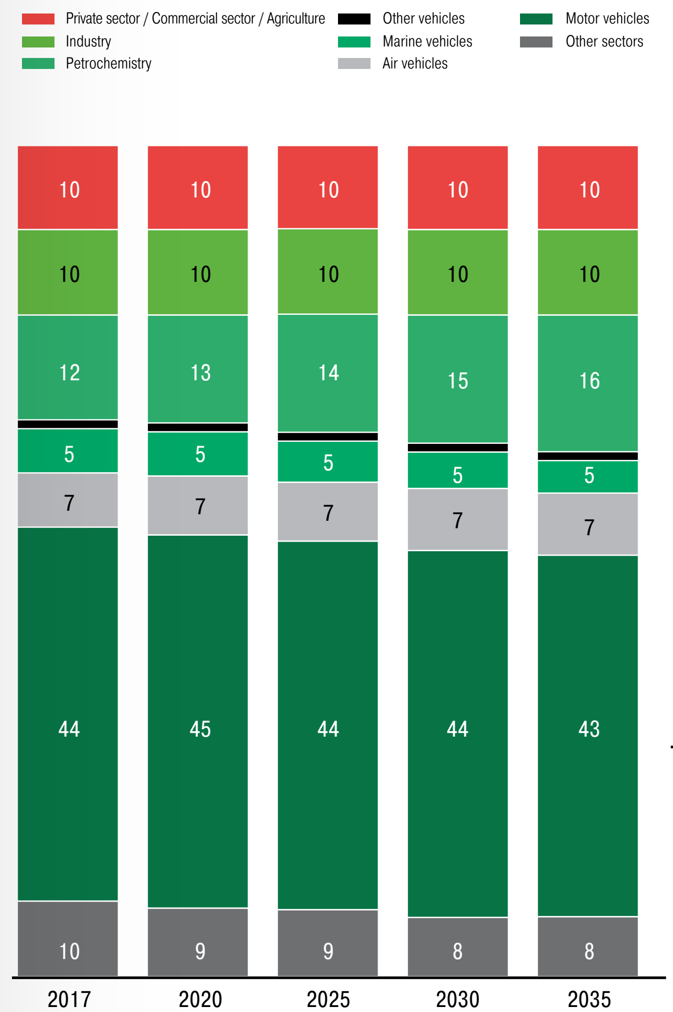
Historical dynamics and forecast of primary consumption* by energy source type (Billion tonnes of fuel equivalent)

SOURCE: WOODMACKENZIE, IHS.



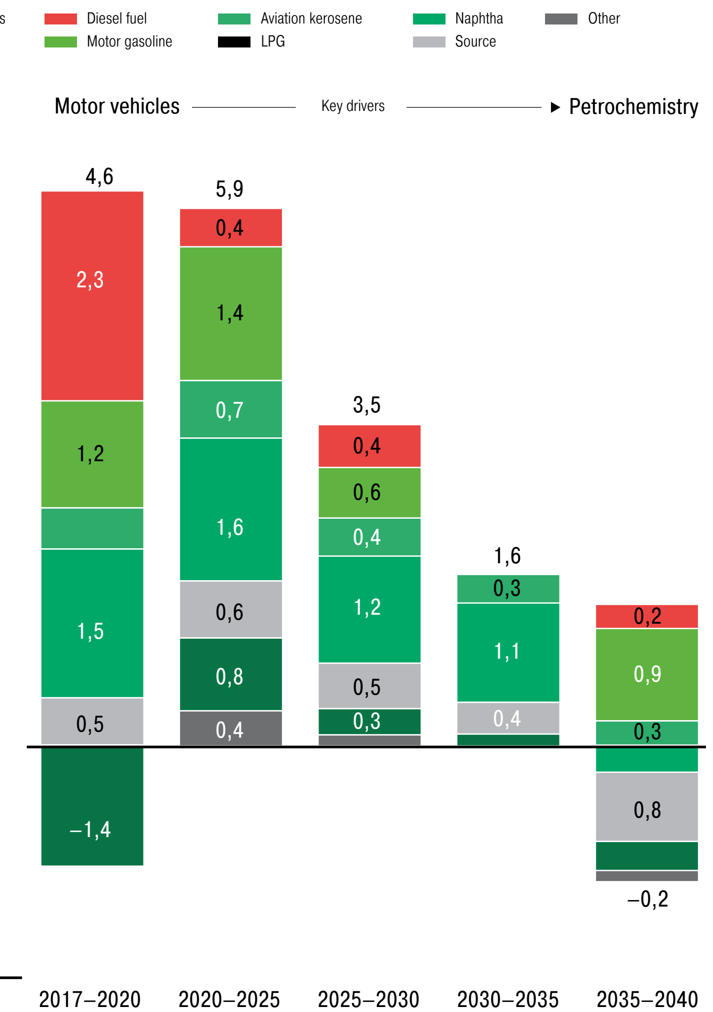
Forecast of the structure of global demand for liquid hydrocarbons by sector, (%)

SOURCE: WOODMACKENZIE, IHS.



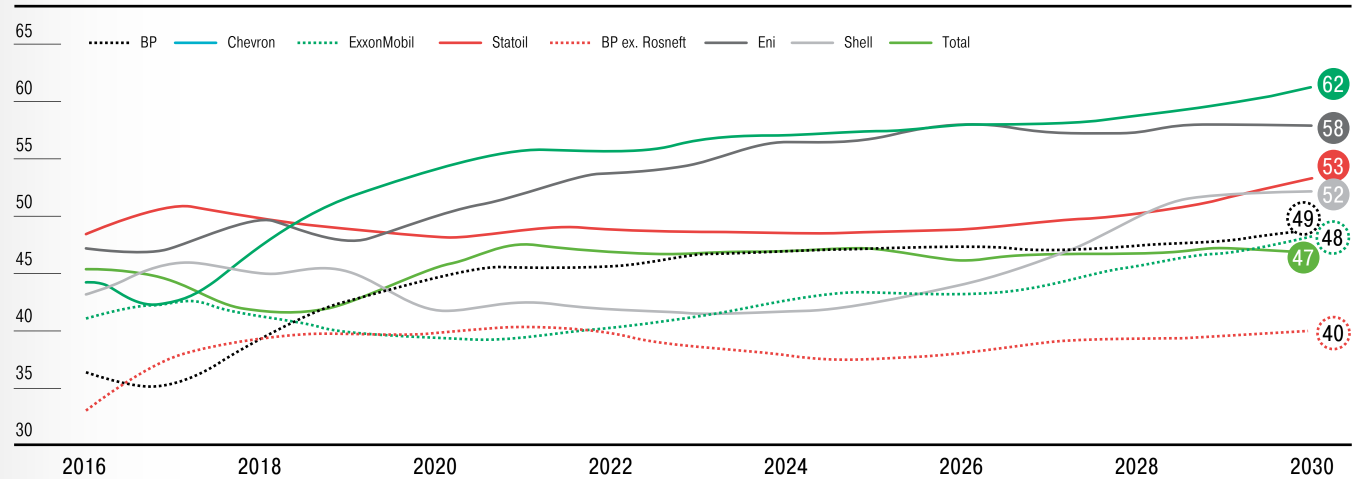
Increase in global consumption by types of oil products (Million barrels/day for corresponding period)

SOURCE: WOODMACKENZIE, IHS.



Predicted gas production share in total hydrocarbon production by majors (%)

SOURCE: WOODMACKENZIE, IHS.



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Dynamics of global oil product manufacturing and consumption (by key regions, including the Russian Federation)

Trade flow (export-import) million barrels/day

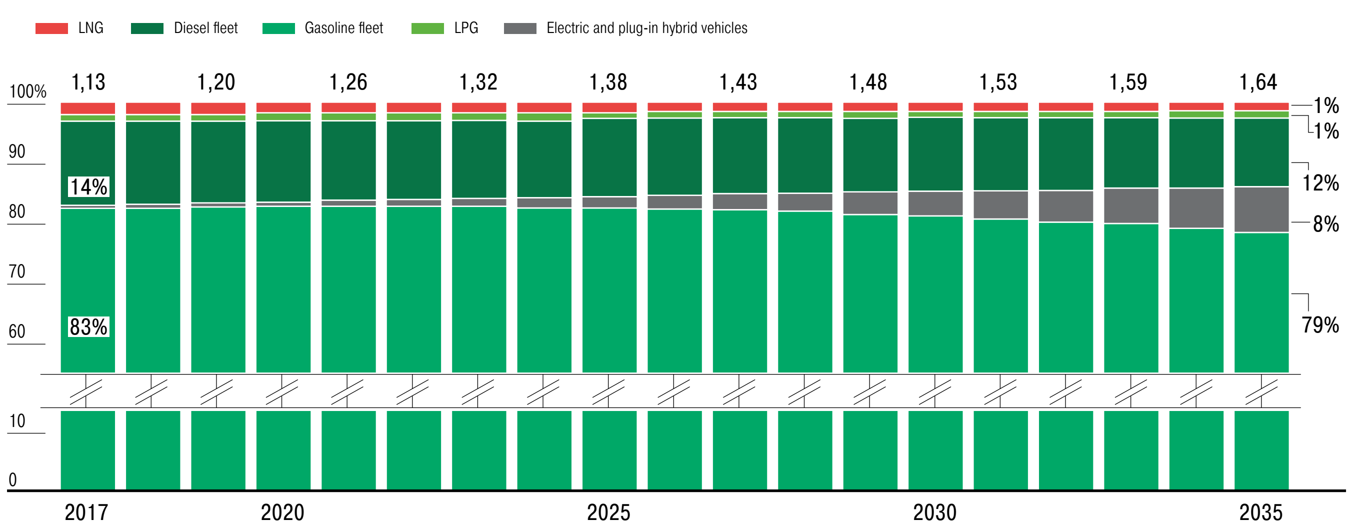
Source: Eikon Thomson Reuters

	2014	2015	2016	2017	2018	FORECAST 2019
MOTOR GASOLINE, CONSUMPTION BY MAJOR REGIONS OF THE WORLD						
North America	60	1 760	5 268	9 846	9 525	10 690
Latin America	(27 637)	(30 632)	(35 239)	(42 441)	(42 419)	(42 468)
Europe	48 920	57 282	57 565	60 019	56 964	54 231
CIS	1 391	3 338	3 695	3 242	6 377	6 844
Africa	(25 817)	(28 531)	(28 284)	(28 919)	(28 498)	(29 436)
Middle East	(14 388)	(13 201)	(10 495)	(11 326)	(11 757)	(9 352)
Asia	10 996	8 089	12 099	9 650	2 456	1 950
DIESEL FUEL, CONSUMPTION BY MAJOR REGIONS OF THE WORLD						
North America	49 503	51 828	54 631	65 183	66 856	66 756
Latin America	(38 587)	(37 770)	(36 696)	(49 872)	(52 085)	(51 055)
Europe	(34 006)	(38 827)	(45 165)	(41 795)	(46 205)	(47 262)
CIS	46 461	52 001	47 298	50 967	56 270	54 078
Africa	(37 715)	(42 149)	(40 952)	(43 205)	(46 016)	(48 353)
Middle East	(847)	14 738	30 138	36 563	28 665	28 614
Asia	31 054	32 111	37 277	37 377	42 462	31 684

By 2035, the global fleet is predicted to grow by 45%, while the gasoline and diesel fuel consumption – only by 11-12%. The main limiting factors are the increase in mileage per liter of fuel, as well as the increase in the share of electric vehicles in the global fleet. The greatest prospects for electric vehicles are in the passenger fleet, so it is expected that, first of all, they will replace the demand for gasoline.

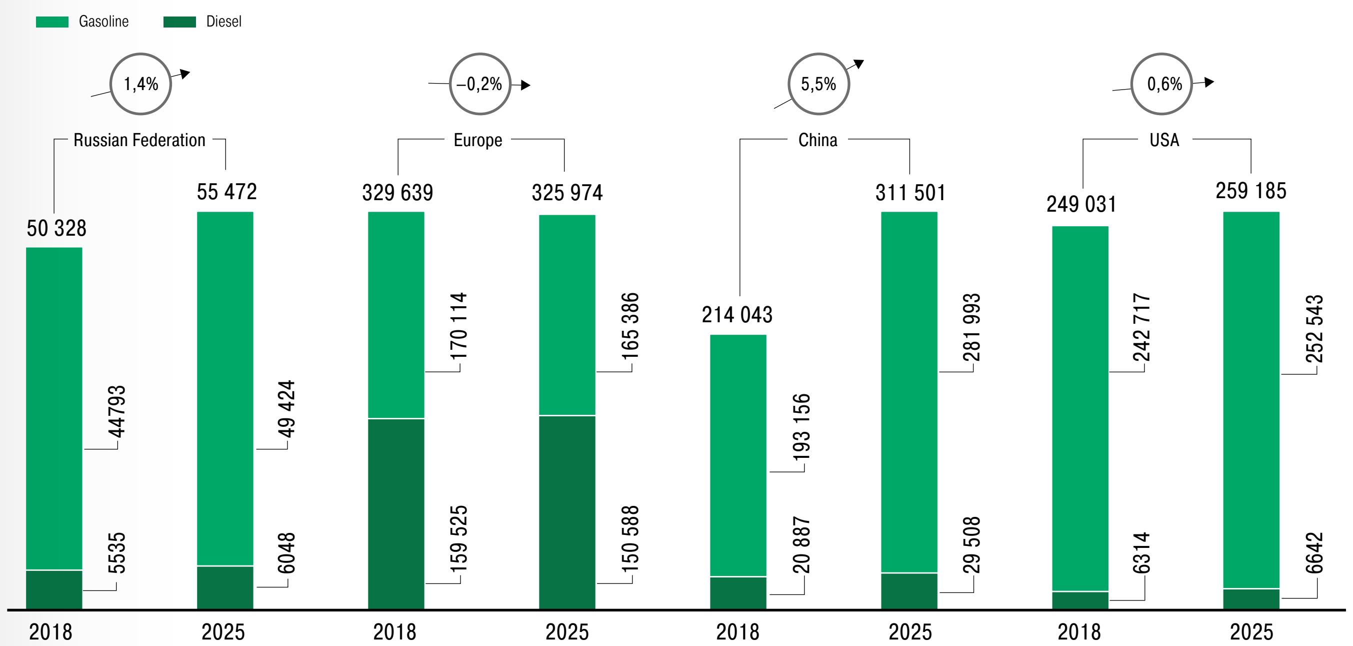
Forecast of changes in the global car fleet structure and the fleet in absolute terms

SOURCE: WOODMACKENZIE, IHS.



Fleet dynamics in terms of consumed oil product types (AI gasoline, diesel fuel) by the regions of the world, thousand pcs.

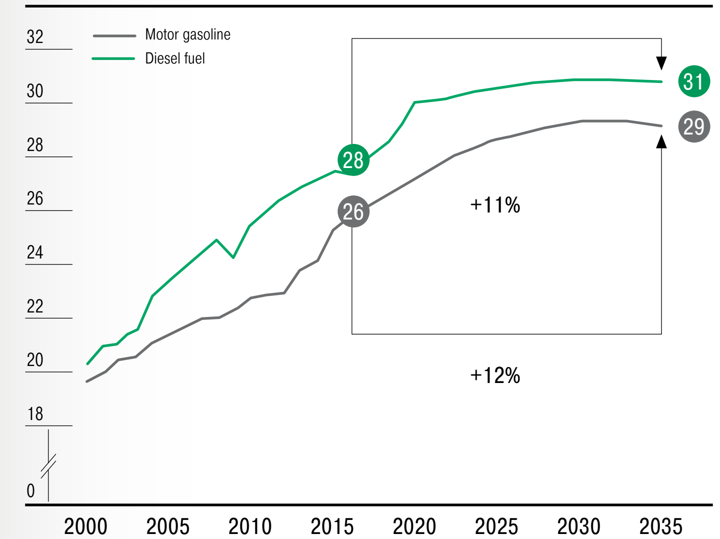
SOURCE: IEA (THOMSON REUTERS).



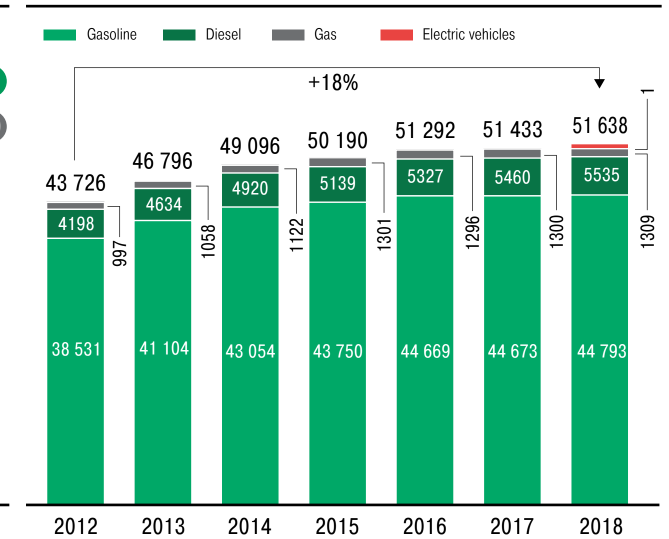
New consumer preferences, technological progress and new energy policies will increasingly transform the global energy landscape and influence the oil market.

Actual and predicted values of global motor fuel consumption (million barrels/day)

SOURCE: WOODMACKENZIE, IHS.



Dynamics of the Russian Federation fleet, thousand pcs.



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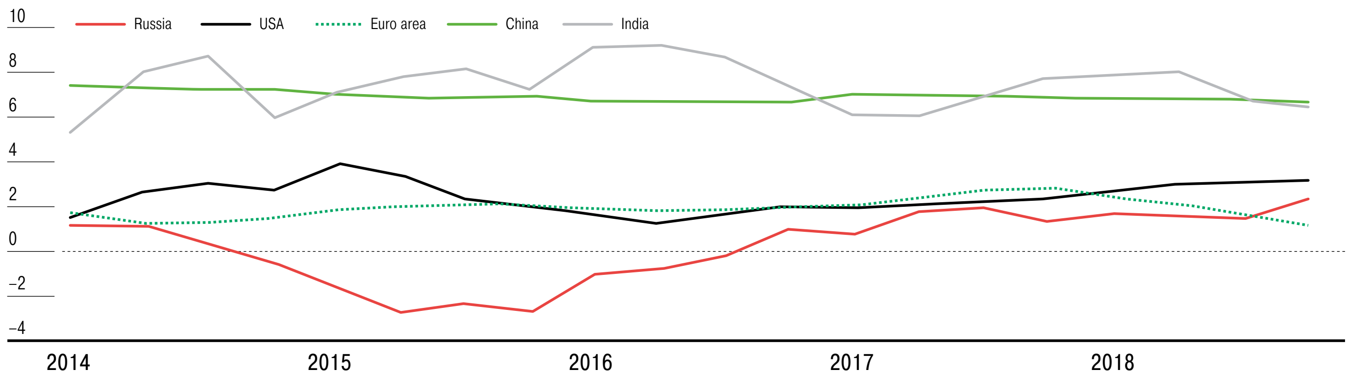
GDP dynamics of key economies

Dynamics of GDP growth, %

SOURCES: BUREAU OF ECONOMIC ANALYSIS, U.S. DEPARTMENT OF COMMERCE; EUROSTAT; NATIONAL BUREAU OF STATISTICS OF CHINA; CENTRAL STATISTICAL ORGANIZATION, INDIA; RUSSIAN FEDERAL STATE STATISTICS SERVICE



In 2018, the Russian economy began to recover: the inflation rate was 4.3%, the country's GDP grew by 2.3%. In September-November, there was some slowdown in economic growth in both developed and developing countries. In the third quarter of 2018, there was a slowdown in the annual GDP growth rates of such trading partners of Russia as the euro area (a decline from 2.2 to 1.7%) and China (6.7 to 6.5%). Among the world's leading economies, growth acceleration in annual terms continued only in the United States, primarily as a result of stimulating fiscal policy. The annual increase in US GDP in the 3rd and 4th quarter of 2018 was 3%. However, already in 2019, as the effect of fiscal stimuli is exhausted, the growth of rates continues and the economic cycle moves to the mature stage, the US economic growth is expected to slow down to 2.5%.

Russia's GDP growth in 2018 accelerated to 2.3% from 1.6% a year earlier, which surpassed all estimates, and was provided by such sectors as the mining industry, transportation and storage, construction, financial and insurance activities. The acceleration of GDP growth is largely due to one-off factors (for example, the growth of oil production in the second half of the year after the OPEC+ June decision) and is not sustainable.

According to the forecast of the Central Bank of the Russian Federation for 2019, economic growth is expected to slow down to 1.2%, according to the IMF estimate – to 1.6%.

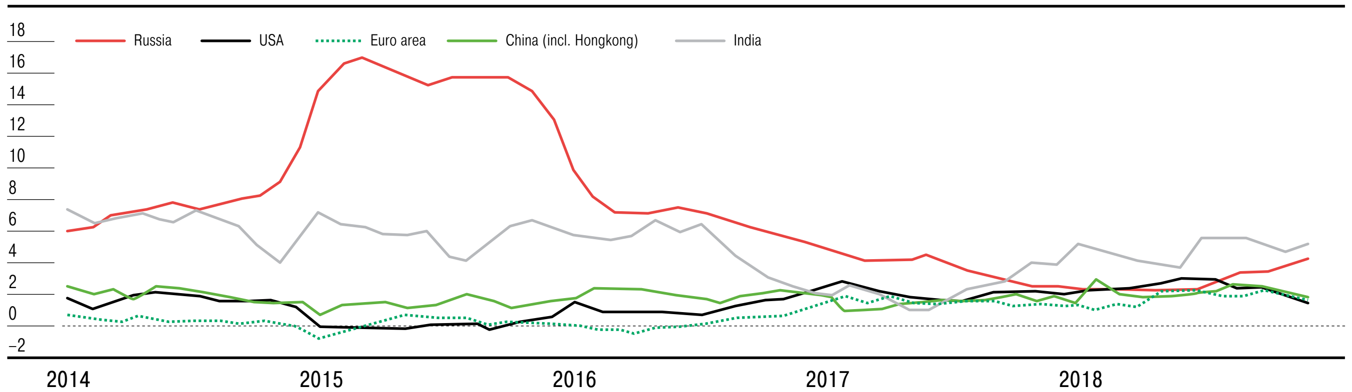
Inflation in 2018 was 4.3%, accelerating from 2.5% in 2017, which forced the Central Bank of the Russian Federation (hereinafter the Bank of Russia, the Central Bank) to tighten monetary policy – to raise the key rate to 7.75% (the Bank of Russia makes decisions on the key rate to achieve the goal of monetary policy – maintaining annual inflation near a given level of 4%). Changes in the external environment, which significantly increased the inflation risks, led the Central Bank to revise the annual inflation forecast in the range of 5–5.5% in 2019 with a return to 4% in 2020. This will create conditions for easing monetary policy at the end of 2019 – early 2020.

At the beginning of 2019, the Central Bank of the Russian Federation retained the key rate at the level of 7.75%.

[2] According to IMF

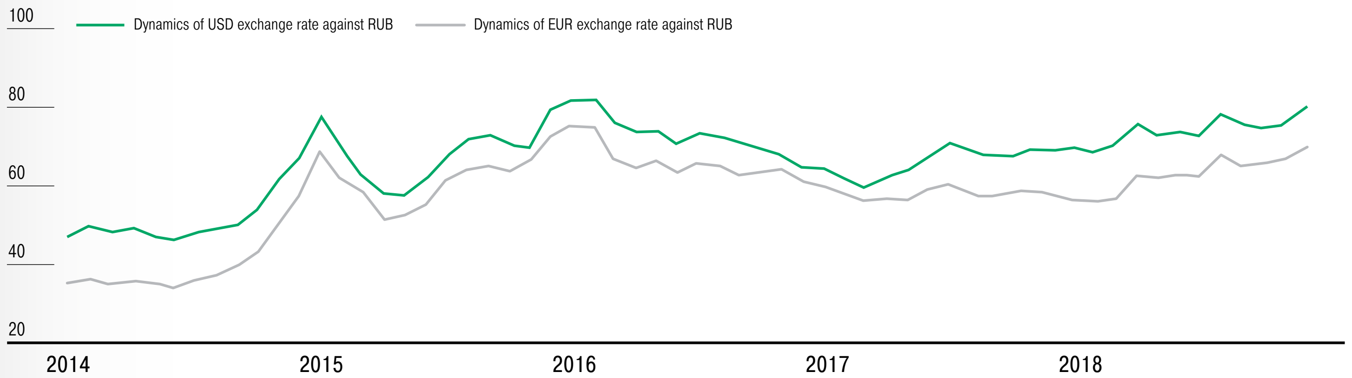
Consumer price growth dynamics of key economies, %

SOURCES: EUROSTAT.



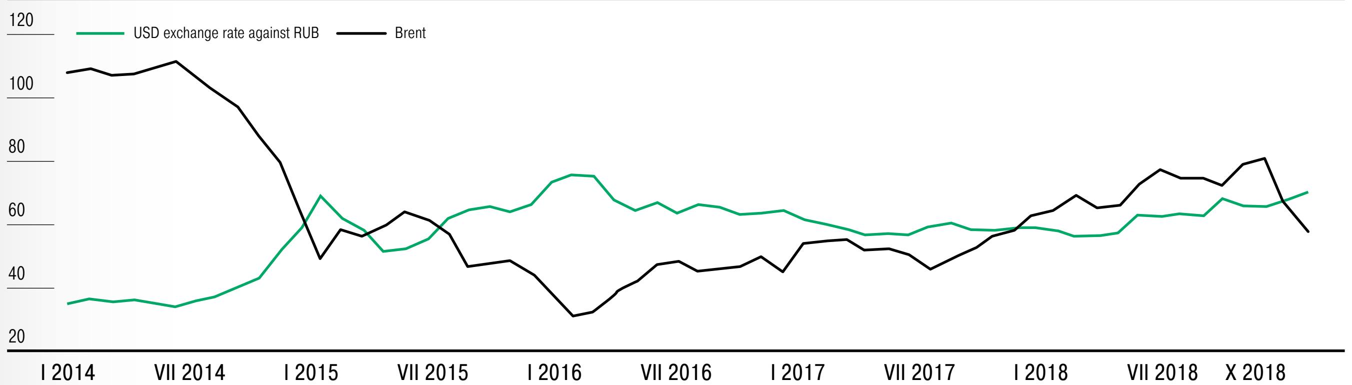
Dynamics of the ruble exchange rate against usd and euro

SOURCE: CENTRAL BANK OF RUSSIA



Dynamics of the ruble exchange rate compared to the dynamics of oil prices, usd/barrel

SOURCE: USD EXCHANGE RATE – CENTRAL BANK OF THE RUSSIAN FEDERATION, BRENT QUOTES – THOMSON REUTERS



Inflation in the Russian Federation in the non-food product segment: price growth accelerated to 4.1% in 2018 compared with 2.8% in 2017. Last year, the prices for tobacco products (+10.1% y/y), diesel fuel (+15.0%) and motor gasoline (+9.4% y/y) rose the most.

Over the past five years, the macroeconomic policy of the Russian Federation has changed significantly – in 2014 the oil price, balancing the budget and the payment balance, exceeded 110 USD/barrel, now it stands at 40 USD/barrel. The economy dependence on oil fluctuations has decreased sharply. The difference became apparent in October-November 2018, when oil prices fell faster than in 2014.

Geopolitical factors again came to the fore in determining market conditions and the economic development of countries and regions. Although the global growth rate in 2018 was close to peak values in the period after the crisis of 2008–2009, it is becoming clear that the rise of the global economy is slowing. According to the International Monetary Fund (IMF), the rise of the global economy slowed down – in 2018, growth was 3.7%, as in the previous year, and in 2019, growth is projected to slow down to 3.5%, in 2020 – 3.6%

Trade and investment are slowing down, industrial production is slowing down, the increase in trade tensions (trade wars) and deterioration of financial conditions are the most important sources for risk of failure to achieve predicted economic growth values. High trade uncertainty will further reduce investment and lead to disruption of global supply chains. The high level of private debt and public sector debt in leading economies of the world lead to stricter financial conditions.

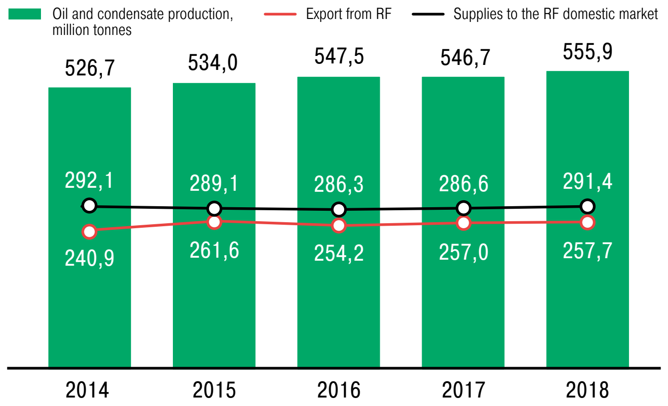
Slowing of the growth in China may occur earlier than previously predicted, especially if trade tensions persist, which could lead to a dumping of assets in financial and commodity markets, as was the case in 2015–2016. In Europe, the dramatic situation with Brexit remains, and costly secondary effects of interrelated sovereign and financial risks remain a threat. In the United States, the continued closure of federal government institutions creates risks of lower growth.

Oil and condensate production in the Russian Federation for the period of 2016-2018

In 2018, in the field of oil and condensate production in Russia, the positive dynamics of recent years was resumed – growth for the year was 1.7% (after falling by 0.1% in 2017) or 9 million tonnes, which amounted to 555.9 million tonnes (546.7 million tonnes in 2017). Of the incremental volume, 5 million tonnes were produced at new fields (greenfields). The main production growth occurred in the second half of the year following the June decision of OPEC+ to increase oil production.

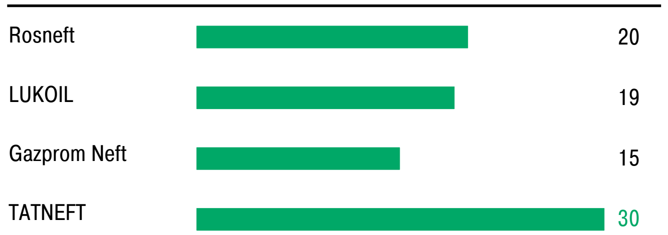
Production growth in 2018 occurred in virtually all VICs with the exception of PJSC Gazprom Neft, whose production remained at the level of 2017, and PJSC Bashneft, whose production decline is observed for the second year in a row – minus 8.1% or -1.7 million tonnes compared to the previous year (in 2017, the decline was 3.6% or 0.8 million tonnes). According to the year results, PJSC Rosneft (+5.5 million tonnes or 3%) and PJSC TATNEFT (+0.6 million tonnes or 2.1%) became the production growth leaders.

Market balance of the Russian Federation, million tons



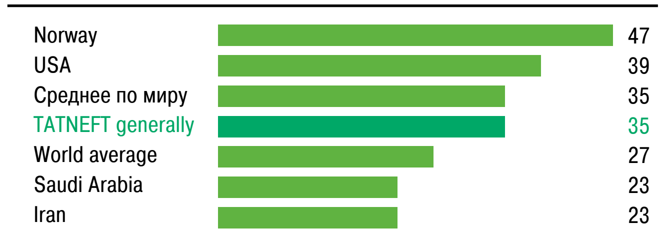
Provision with proven reserves, years

Source: data of the companies

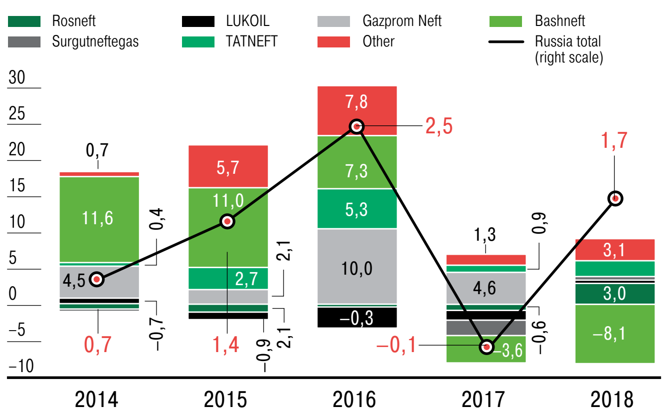


Oil recovery factor (%)

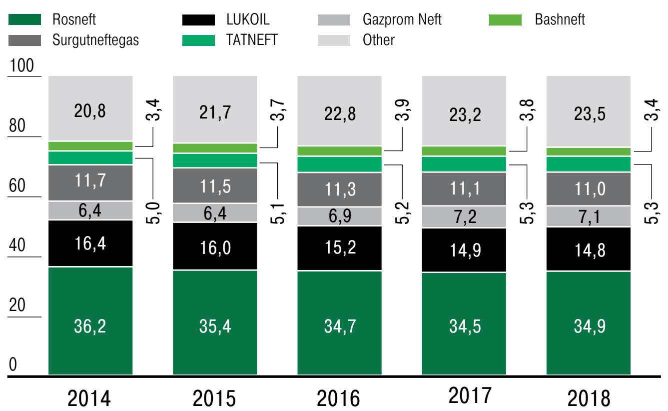
SOURCE: MINISTRY OF ENERGY OF THE RUSSIAN FEDERATION, THE COMPANY DATA



Year-over-year production growth, %



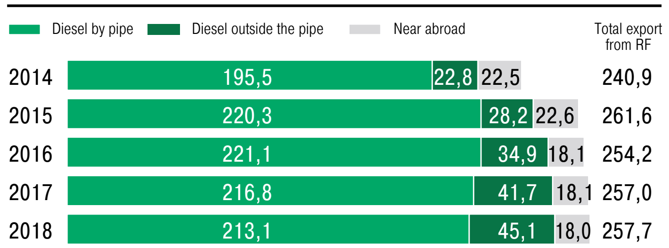
Share of PJSC TATNEFT oil production to the share of total exports from the Russian Federation (%)



Oil export from the Russian Federation for the period of 2016-2018

According to the structure of oil export from the Russian Federation, there is a tendency to increase supplies outside the PJSC TRANSNEFT pipeline system (an increase in 2018 compared to 2016 was 29.4%, the growth is due to a double increase in shipments to the CPC system, as well as from Murmansk and Arkhangelsk) at the total decrease in deliveries via pipe.

Structure of oil export from RF, million tonnes



TATNEFT Group share in the volume of oil and condensate production in the Russian Federation

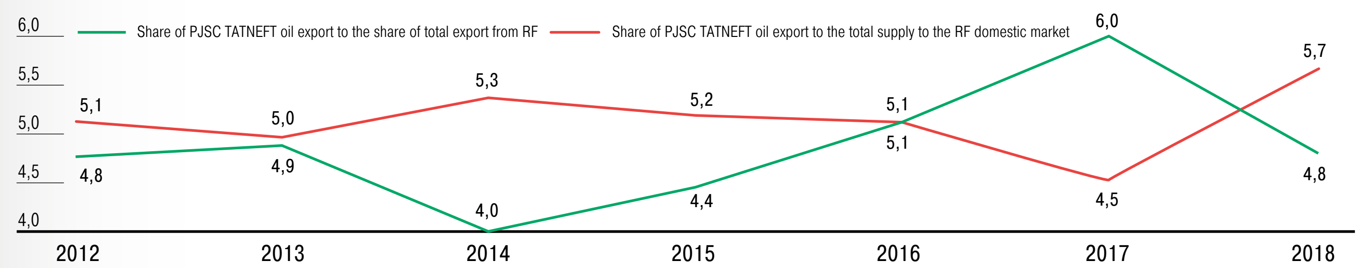
	2012	2013	2014	2015	2016	2017	2018
TATNEFT Group oil and condensate production, million tonnes	26,3	26,4	26,5	27,3	28,7	28,9	29,5
conventional oil	26,2	26,3	26,3	26,9	27,8	27,3	27,6
SVO	0,073	0,15	0,24	0,4	0,8	1,6	1,95
Share of PJSC TATNEFT oil production to the share of total export from the Russian Federation	5,08%	5,05%	5,04%	5,10%	5,24%	5,29%	5,31%

TATNEFT Group share in the volume of oil export from the Russian Federation

	2012	2013	2014	2015	2016	2017	2018
TATNEFT Group oil export from the Russian Federation, million tonnes	12,5	12,5	9,7	11,6	13,0	15,5	12,4
Diesel export		11,4	8,4	10,3	11,9	14,2	11,2
Gasoline export		1,05	1,3	1,3	1,1	1,2	1,2
Share of PJSC TATNEFT oil export to the share of total export from the Russian Federation	4,8%	4,9%	4,0%	4,4%	5,1%	6,0%	4,8%

Shares of TATNEFT oil export and supply to the domestic market to the total RF results (%)

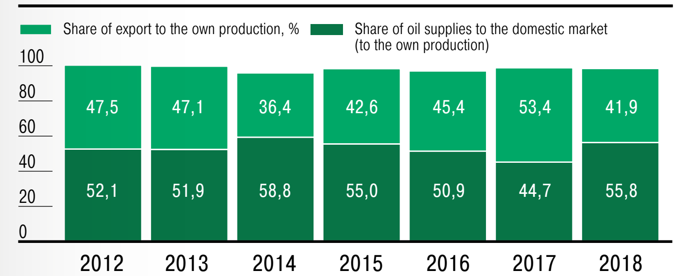
SOURCES: USD EXCHANGE RATE – CENTRAL BANK OF THE RUSSIAN FEDERATION, BRENT QUOTES – THOMSON REUTERS



TATNEFT Group share in the volume of oil shipments to the domestic market of the Russian Federation

	2012	2013	2014	2015	2016	2017	2018
PJSC TATNEFT oil supplies to the domestic market of the Russian Federation (for processing)	13,7	13,71	15,61	15,00	14,59	12,95	16,19
OJSC TAIF-NK	5,8	5,37	6,194	6,241	6,950	4,717	4,852
JSC TANECO	7,5	7,67	8,395	8,621	7,381	7,302	8,601
Other refineries, incl. Kichuy Refinery	0,4	0,67	1,020	0,138	0,260	0,930	3,005
Share of PJSC TATNEFT oil supply to the total supply to the domestic market of the Russian Federation	5,1%	5,0%	5,3%	5,2%	5,1%	4,5%	5,6%

Ratio of oil supplies to the domestic market and for export, %



TATNEFT share in the volume of crude oil export from the Russian Federation in 2018 decreased by 1.2% to 4.8%, while shipments for processing increased.

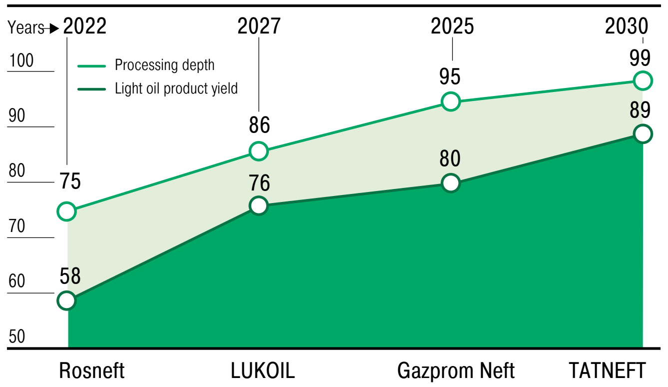
Oil processing

In 2018, the oil processing depth in Russia reached 82.9%, which is 1.6% higher than the 2017 level. The rate growth in 2018 was due to reduction in the fuel oil yield by 6.3% by 2017 and an increase in oil processing by 2.4%. The fuel oil yield reduction in Russia began in 2015, along with a systematic increase in export duties on fuel oil and a large-scale refinery modernization in order to expand the production of light oil products.

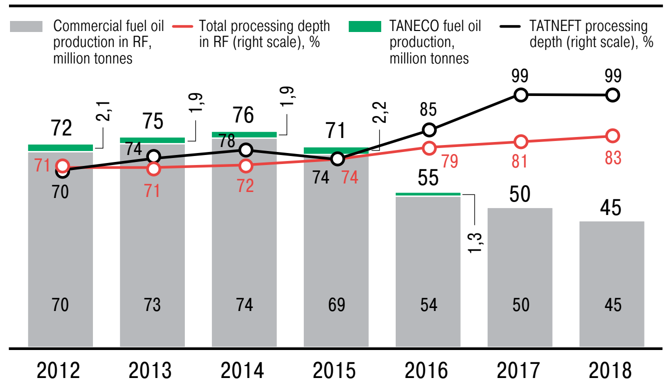
In oil processing, the Company has one of the best indicators in the industry – the processing depth and the light oil product yield with no fuel oil production.

Up to 2030, the Company will maintain the highest rates of processing depth and light oil product yield.

Strategic processing plans: light oil product yield and depth, %



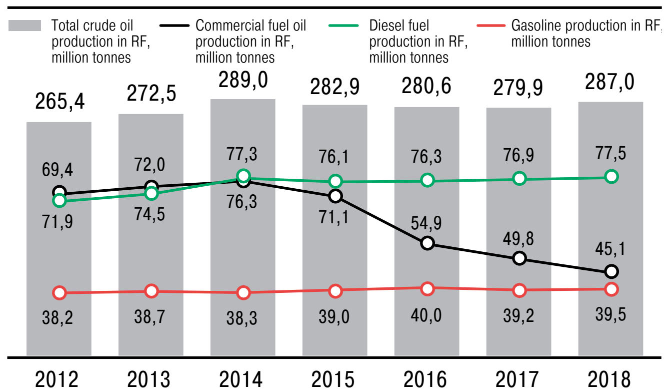
Dynamics of fuel oil production in the RF and TATNEFT, million tonnes, Dynamics of processing depth, %



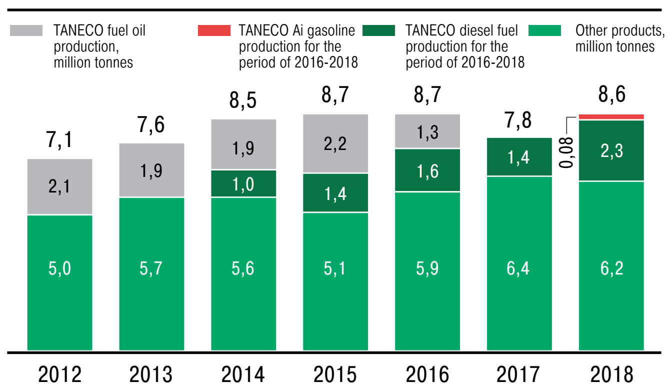
Production and export of oil products (gasoline, diesel, fuel oil) from the Russian Federation for the period of 2016-2018 (including internal consumption)

	2012	2013	2014	2015	2016	2017	2018
Motor gasolines							
Gasoline production in the Russian Federation, million tonnes	38,2	38,7	38,3	39,2	40,0	39,2	39,5
Gasoline export from the Russian Federation for the period	3,6	4,3	4,3	4,7	4,9	4,1	3,8
Supplies to the domestic gasoline market in the Russian Federation	34,3	34,1	33,1	34,6	34,9	35,2	35,6
Diesel fuel							
Diesel fuel production in the Russian Federation, million tonnes	69,4	72,0	77,3	76,1	76,3	76,9	77,5
Diesel fuel export from the Russian Federation, million tonnes	0,0	37,5	44,1	45,1	43,7	43,7	42,0
Diesel fuel supplies to the domestic market in the Russian Federation, million tonnes	0,0	32,3	31,5	31,3	32,5	32,8	35,7
Fuel oil							
Commercial fuel oil production in the Russian Federation, million tonnes	71,9	74,5	76,3	71,1	54,9	49,8	45,1
Fuel oil export from the Russian Federation, million tonnes	56,9	57,3	0,0	53,8	42,0	39,4	32,8
Fuel oil supplies to the domestic market in the Russian Federation, million tonnes	11,4	12,8	0,0	15,3	12,8	10,3	12,3

Oil processing and primary product manufacturing, million tons



TATNEFT Group share in oil product production and export from the Russian Federation for the period of 2016-2018



Oil industry tax regulation in the Russian Federation

In 2018, tax innovations carried out over the past few years were implemented in the Russian Federation. The main legislative amendments are aimed at completing the tax maneuver in the industry (hereinafter referred to as TMC) from January 1, 2019, as well as introducing an alternative tax regime – a tax on additional income from hydrocarbon production (hereinafter referred to as AIT) from January 1, 2019.

On August 3, 2018, Federal Law No. 301-ФЗ amended the Tax Code on TMC in 2019–2024, introduced a "refundable (negative) excise tax" mechanism for crude oil, which is sent to domestic refineries. It implies a gradual waiving of the export duty on oil and oil products in favor of the mineral extraction tax (MET) increase, the elimination of export duties on oil and oil products (by 2024 it is planned to gradually reduce export duties on oil and oil products to zero), at the same time the mineral extraction tax will gradually increase, which will compensate for budget losses from tax revenues through the export channel. It also implies the possibility of using a higher depreciation factor for investments in the Western Siberia fields, a MET reduction factor for companies using tertiary oil recovery methods, and stimulating oil fringes, the development of which is currently unprofitable.

From January 1, 2019 to 2024, a gradual introduction of excise tax on crude oil sent for processing and a tax deduction on this excise tax is planned. The increase in the MET and the decrease in export duties on oil may lead to an increase in its domestic price. Due to the increase in the domestic oil price, the cost of oil product manufacturing will increase, which will put upward pressure on their prices. Also, the tax maneuver implies a reduction in export duties on oil products, which, like in the oil market, will boost the increase in their prices.

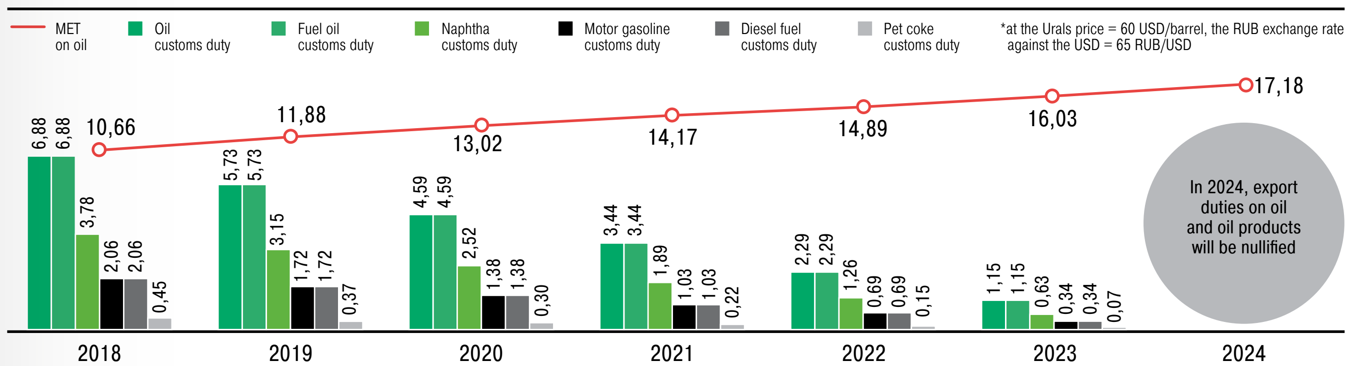
In order to reduce the impact of lower export duties and increase in mineral extraction tax on domestic prices of oil products, the Government of the Russian Federation introduces a refundable (negative) excise tax, which provides for partial compensation to producers of the cost of oil sent for processing. This should partly cover the cost of oil product supply to the domestic market and contribute to decreasing the pressure on their prices. Thus, the tax maneuver will cease the duty subsidies to Russian refineries and replace them with subsidizing the refineries in the same volume by providing them with tax deductions for oil excise. Introduced excise subsidies, unlike the duty ones, will be targeted, that is, not all refineries, but only those that meet certain criteria, are covered. The Government Decree "On agreements on the modernization of oil processing facilities" defines the list of oil recycling facilities that may be the subject of agreements on the modernization of oil processing facilities and approves the form of such agreements.

To smooth out fluctuations in the oil product prices in the domestic market when global oil prices change, in order to preserve the refinery efficiency, a damping component is added to the negative excise tax formula.

In 2019, a pilot AIT project will also be launched, which for the period until 2030 can be expanded to the entire industry. The following PJSC TATNEFT license blocks located in the Nenets Autonomous District are subject to AIT regime: Severo-Khayakhinskoye, Vostochno-Khayakhinskoye, Podveryukskoye, Khosoltinskoye, Tibeyvisskoye, Severo-Tibeyvisskoye and Yambotinsky, the approximate industrial production start is scheduled for 2020-2023.

Transferring the tax burden from customs duties to MET as part of TMC*, thousand RUB/ton

SOURCE: CONSULTANT PLUS



Report of the PJSC TATNEFT Board of Directors on Priority Lines of Business

In 2018, TATNEFT successfully implemented its tasks with a focus on ensuring long-term growth in shareholder value.

High operating and financial results were achieved.

Decisions taken by the Board of Directors and Management actions were aimed at maximizing business efficiency and return on the Company's assets, strengthening the technological base, development of innovative forms of production process management and organization, improving operational efficiency at all stages of value creation maintaining high rates of sustainable development.

Joint address to shareholders, investors and partners

of the President of the Republic of Tatarstan, Chairman of the PJSC TATNEFT Board of Directors R.N. Minnikhanov

General Director, Chairman of the PJSC TATNEFT Management Board N.U. Maganov

Dear shareholders, investors and partners!

In 2018, the Board of Directors adopted the TATNEFT Group Strategy until 2030, accumulating the Company's ambitious goals based on the previously approved Strategy 2025 that already confirmed its effectiveness at the early stages keeping a steady focus on ensuring a long-term growth in shareholder value. The updated goals are aimed at maximizing business efficiency and return on existing assets. Our priorities are to further strengthen the resource and technological potential, develop innovative forms of production process management and organization, improve margins across all business segments, and sustain a strong position of financial stability and growth of the Company.

In the reporting year, TATNEFT reached a new level of performance as one of the leaders among the most expensive Russian public companies by capitalization, maintaining high level of investment attractiveness. Over the year, the Company's capitalization increased by 53.5%, reaching RUB 1.7 trillion (USD 24.2 billion) in December 2018.

The Group shareholder profit grew by 72% and amounted to RUB 211.8 billion. The return on capital employed of approximately 27.5% is one of the highest in the industry environment. We provide the positive free cash flow generation, which increased by 40% compared to the last year level and amounted to RUB 147.8 billion. The Company's high operating efficiency is reflected in a 58.7% increase in EBITDA.

In the conditions of persistent price volatility and uncertainty in the oil market, the achieved results demonstrate the efficiency of the Company's vertically integrated business model and program actions of the management, concentrating its efforts on expanding reserve replacement, ensuring the growth of profitable oil and gas production, developing oil and gas processing, gas chemistry, energy, tire production, machine building, engineering segments, improving the cash flow stability and business process profitability.

The Group total oil production in 2018 amounted to 29.5 million tonnes. Average daily production increased by 2.1% to 576.4 thousand barrels per day. Due to fulfillment of obligations under the OPEC+ agreement, the Company had to restrain its production growth rates, while maintaining the potential for ramping up the oil production amid its high level of reserve availability.

The Company resource base is characterized by a high level of proven reserves and replacement rate over 100%. Efficient bringing of reserves into development and increase in production is achieved through advanced technological solutions and optimization of production processes.

The share of oil produced using tertiary and hydrodynamic EORs exceeds 40%. The hydrocarbon resource potential includes bitumen and unconventional oil reserves. Pilot works are being conducted at the Domanic and Bitum testing sites, from exploration to the field development and operation.

The Company seeks to maximally utilize the existing potential of oil fields, accumulated technological experience and competencies in order to strengthen its position in both the Russian and global energy markets.

We are strengthening our own refining unit with a planned increase in capacity to 15.7 million tons/year, with the industry's highest processing depth of 99.1% and light oil product yield of 84%. The processing volume in the reporting year increased by 10% and amounted to 179 thousand barrels per day. The total volume of oil and gas product output amounted to 10.1 million tonnes. The oil product sales revenue increased by 47% in 2018.

In order to increase profitability, the Company develops premium sales channels and provides oil product logistics optimization.

The main downstream asset of the Company is the TANECO Refinery Complex.

The product range includes TANECO premium diesel fuel, including arctic, fully complying with the Euro-6 engine requirements, and import-substituting products such as API Group III high-quality base oils through 100% and aviation fuel as well.

The year 2018 became an important milestone in the TANECO Complex development. Thus, five high-tech processing plants were commissioned, which will assuredly provide the growth of petroleum refining efficiency as well as ensure the projected volume of petroleum product output nearly on a full scale. The product line includes motor gasolines AI 92, AI 95, and AI 98. In 2019, we launched the production of premium gasoline AI 100 for high-powered engine cars and sports cars.

The Company's strategy includes the synergy of crude oil refining and gas processing, and petrochemical production as part of development of the gas-based petrochemical business segment. This is a promising area that will provide new growth points and market risk reduction in the long term.

In 2018, 711 filling stations operated in the segment of oil product retail sales under the TATNEFT brand, including 109 filling stations outside the Russian Federation. The implemented Strategy in this area aims to increase the filling station network profitability by increasing the oil product sales volume, efficient infrastructure with the development of related services and digital formats.

In the tire business, represented by the KAMA TYRES brand, the production volume increased by 13.2% compared to 2017 to 14.6 million pieces of tires in 370 commodity items. The Company retains approximately 20% of the domestic market. More than 30% of tire products are exported. The Company develops international sales channels, tires are supplied to 50 countries.

The Company's strategy is based on the principles of innovative development, ensuring a reliable technological base and the integration of digital solutions in management and production.

The Company makes significant investments in its own development of technological solutions and equipment.

Implementing capital-intensive business projects, the Company sees the provision of a high level of industrial and occupational safety and environmental protection as a key priority. Consistent activities in this field resulted in the reduction of environmental footprint to the level where there is a potential for self-recovery of ecosystems.

The Company shares the global concern about the climate change and takes into account the fact of formation by energy companies in the process of production activities of a significant amount of greenhouse gas emissions that can adversely affect the climate. Due to the introduction of advanced technologies, increasing the efficiency of accounting and monitoring systems over three years, the Company reduced the total gross emissions of greenhouse gases (CO2-eq.) by 20%, gross emissions of pollutants into the atmospheric air by 26%. To a great extent this is ensured by the efficient use of APG at a level of more than 96%.

We realize that the long-term sustainable business development is based on the human capital development. Staff development programs, professional development, decent wages and social guarantees for employees form a cohesive team of professionals who are committed to the common cause.

Putting into life the principles of high corporate responsibility, the Company makes a large-scale contribution to ensuring favorable living conditions in the territories of its activities, in support of healthcare, science, education, culture and sports.

2018 was a landmark year for our Company. It is the year of the 75th anniversary of the beginning of the oil field development in the Republic of Tatarstan and the 70th anniversary of the discovery of one of the world's largest Romashkinskoye field. The Company participated in the development of these fields from the very beginning. The accumulated potential and new opportunities are a reliable foundation for the Company's long-term development.

We entered 2019 with clear objectives, the achievement of which will be ensured by a high-quality investment program and appropriate resources. On behalf of the Company, we express our gratitude to our shareholders for their confidence and present the Report of the Board of Directors on the results of the TATNEFT Group's development in priority areas of activity in 2018.

R.N. MINNIKHANOV
President of the Republic of Tatarstan,
Chairman of the PJSC TATNEFT Board of Directors

N.U. MAGANOV
General Director,
Chairman of the PJSC TATNEFT Management Board

Strategic goals and priorities

"The main efforts of TATNEFT Group in the next 10-12 years will be focused on accelerated growth of profitable oil and gas production by active implementation of innovative technological solutions with unconditional respect for the environment. In all areas of activity, without exception, it is planned to carry out constant cost control, increase the production process efficiency through the large-scale implementation of IT technologies and the achievement of the widest possible level of digital technology implementation. The cost growth strategy is the basis for the Company's human capital development, the basis for economic development of the Republic of Tatarstan and Russia, a guarantee of ensuring high returns to shareholders."

N.Z. Syubayev
Deputy General Director for Strategic Development
of PJSC TATNEFT

Successful achievement of business goals in the aggregate will increase the Group's capitalization to USD 36 billion in the baseline scenario, ensure a high level of dividends, and maintain leadership in the field of environmental protection and human capital development.

Oil production is a key area of the Company's business. The operating fields in the Republic have significant potential, with more than half of the current recoverable reserves concentrated in carbonate reservoirs and SVO, i.e. considered hard-to-recover.

The Company plans to continue geological exploration in the Republic of Tatarstan. At the same time, significant investments in geological exploration are planned to be directed to the development of production centers in regions outside the Republic of Tatarstan, where TATNEFT is already present – Samara, Nenets Autonomous Area and Orenburg.

The Company plans to reach the target "shelf" of production of 38 million tonnes by 2030 due to the active acquisition of new licenses in the existing operation areas of the Company outside the Republic of Tatarstan in the term after 2025.

Significant growth in oil production will be achieved through the SVO project implementation, the involvement of low-permeability carbonate reservoirs in the Republic of Tatarstan into development as a result of the introduction of new innovative technologies and the industrial commissioning of projects in the Nenets Autonomous Area.

Currently, the Company's main projects outside the Russian Federation are projects in Libya and Syria. After normalization of the situation in these regions, the Company plans to resume work in these countries.

The main drivers of growth in business efficiency will be the involvement of reserves by drilling the infill wells, horizontal wells and sidetracks, improving the hydraulic fracturing technology, including the active introduction of multi-stage hydraulic fracturing, cost control, and the implementation of IT solutions.

The key tasks in the processing field are the timely commissioning of TANECO units within the limits of planned budgets. It is planned to allocate RUB 164 billion of investments to complete the TANECO construction. Key business unit strategy initiatives:

- formation of an effective system of existing unit operational efficiency based on industry benchmarking;
- implementation of IT strategy initiatives.
- In August 2018, the Board of Directors decided to develop a new gas and petrochemical area, which will allow to:
- open up new investment opportunities for the long term;
- provide a higher redistribution of products made by the processing unit enterprises;
- reduce the risks of the Group as a whole by increasing the cash flow stability.

The first phase raw material capacity will be 390 thousand tonnes/year, the investment volume – approximately RUB 70 billion. A targeted long-term concept has been formed for the Company's gas and petrochemical area, which assumes, in its maximum configuration, the processing of petrochemical raw materials in the amount of more than 3 million tonnes/year with the release of 32 products in demand on the market.

The Retail Business area development strategy until 2030 is focused primarily on improving the network's "quality", developing a related product selling business and forming "service centers" for motorists on the basis of filling stations, rather than quantitatively developing the filling station network.

The competitive strategy is based on the renewal of unique fuel and non-fuel supply at TATNEFT filling stations for target customers. The main initiatives for the TATNEFT retail network development are the brand concept renewal and format unification with stores and cafes, introduction of advanced IT tools, including service development in the form of self-service, targeted loyalty programs and demand stimulation.

The main strategic tasks facing the Company's Tire Complex are:

- increasing the market share in the tire market of Russia to 22% due to the growth in sales in the most promising segments, bringing the tire sales volume to 18.1 million pcs. by 2030;
- all-steel (R20+) and Viatti tire position in the more marginal price segment "B" will be strengthened through efficient marketing and service support and introduction of a value proposition for consumers, based on an optimal price-quality ratio, a wide range of products and, of course, convenience of its acquisition. As early as 2021 approximately 50% of tires will be positioned in the "B" segment (the current level is 27%);
- launch of the new all-steel tire brand KAMA PRO;

It is planned to implement three major investment projects: the expansion of the all-steel and Viatti tire production capacities and the launch of the large tire production. All three projects are aimed at growing market segments.

The strategy in the Energy business area provides a set of measures to improve the Nizhnekamsk CHP and Almetyevsk Heating Networks efficiency, also, it is expected that participation in the industrial park "Alabuga-2. Petrochemistry" will allow the Company to receive compensation for the infrastructure construction. The presence of the Company's own generating assets makes it possible to increase the reliability of heat supply to TANECO and other industrial facilities of the Company. To meet the growing TANECO heat demand, it is planned to increase heat production at the Nizhnekamsk CHP by 2 times, taking into account the implementation of petroleum coke burning project, which will allow the station to operate using different types of raw materials and increase its reliability.

The TATNEFT Group machine building business unit development strategy provides for a steady pipe and high-quality equipment supply to the Company's enterprises. Ambitious 3.6 times growth in production and sales is planned by 2030.

Banking business (ZENIT Banking Group) is a new direction in the Company's business portfolio. The Banking Group consists of five banks - 149 service points in 51 cities, 5 thousand employees, 500 thousand retail customers, 20 thousand corporate customers.

The Banking Group main activities are: banking services for corporate and retail customers, investment banking services, personal services for private customers, non-banking financial services - factoring, leasing. The banking business strategy provides for the transition to the most crisis-resistant model – the universal bank model, with the main focus on:

- profit growth to the level of average market indicators and increase of business competitiveness with moderate risk appetite;
- most promising products and segments with the greatest potential for revenue growth and implementation of the development business model;
- integration of the Group banks.

The program for improving efficiency and reducing costs, implemented by the Bank in cooperation with the Company, includes digitalization, development of new business lines in the bank, and obtaining synergies through interaction with the TATNEFT Group enterprises.

The Company's main task is to create a sustainable, market-oriented, profitable business and a liquid asset with a high market value of at least RUB 50 billion on the basis of the ZENIT Banking Group by 2025.

The 2030 Strategy's key task calls for the achievement of maximized reserve monetization, business diversification and creating of new perspective value growth points, that will ensure a high effectiveness and efficiency of the Company as well as a stable current growth of profitability even beyond 2030.

THE COMPANY RATINGS

MOODY'S

Baa2.

Forecast – stable.

The Baa 2 credit rating refers to the investment level and reflects the high credit quality of the Company.

FITCH RATINGS

Long-term Issuer Default Rating (IDR) is BBB-.

Forecast – stable

Short-term Issuer Default Rating is F3.

The rating confirmation reflects, among other things, insignificant amount of the Company's debt, significant oil production and large amount of proven reserves. Adjusted leverage of cash flow from the Company's operating activities (FFO) is approximately 0.1x.

RAEX

Credit rating is ruAAA.

Forecast – stable.

The credit rating is assigned on the Russian national scale and is long-term. The following Company's strengths are noted: the strong business profile of TATNEFT Group, full coverage of debt obligations, investment program, dividend expenses with predicted operating cash flow, and extremely low level of the Group's total debt load, high levels of the Group information transparency and strategic support.

FTSE4GOOD EMERGING INDEX OF RESPONSIBLE INVESTMENT

TATNEFT is part of the FTSE4Good Emerging Index included in the FTSE4Good Index Series.

The FTSE4Good (FTSE Russell) index series is designed to evaluate the performance of companies that demonstrate adherence to best practices in environmental protection, social responsibility and corporate governance (ESG).

Financial performance indicators

Revenue (billion RUB)

2016	580.1
2017	681.2
2018	910.5

Group shareholder profit, (billion RUB)

2016	107.4
2017	123.1
2018	211.8

EBITDA (billion RUB)

2016	165.6
2017	185.3
2018	294.0

Adjusted EBITDA (billion RUB)

2016	174.4
2017	200.8
2018	314.8

ROACE (%)

2016	15.20
2017	16.50
2018	27.50

Free cash flow generation growth (billion RUB)

2016	45.7
2017	105.3
2018	147.8

The Company provides a high-quality balance between production and refining assets, which allows to efficiently generate operating income. By the end of the year, free cash flow increased by 40%, reaching approximately RUB 148 billion.

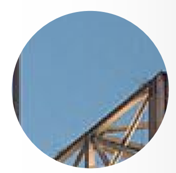
Free cash flow per barrel of oil production (RUB/barrel)

2016	223.6
2017	510.7
2018	702.6

The Company maintains leadership among the largest industry oil companies in terms of net profit per barrel of production.

Ratio between net profit and oil production

	Net profit, RUB billion	Production, million barrels	Specific net profit, RUB/barrel
2016	107.4	204.3	526
2017	123.1	206.1	597
2018	211.8	210.4	1007



+33.7%
REVENUE GROWTH

+72%
GROWTH OF THE GROUP SHAREHOLDER NET PROFIT

+58.7%
EBITDA GROWTH

32%
EBITDA MARGIN

22.3 USD/BARREL
EBITDA PER PRODUCED BARREL

+40.4%
INCREASE IN FREE CASH FLOW

Company's Created Added Value (billion RUB)

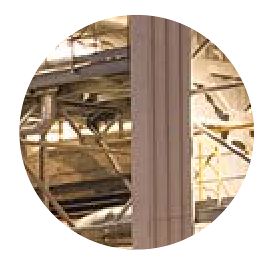
2014	264.2
2015	308.1
2016	329.6
2017	419.4
2018	642.9

+53%
GROWTH OF ADDED VALUE

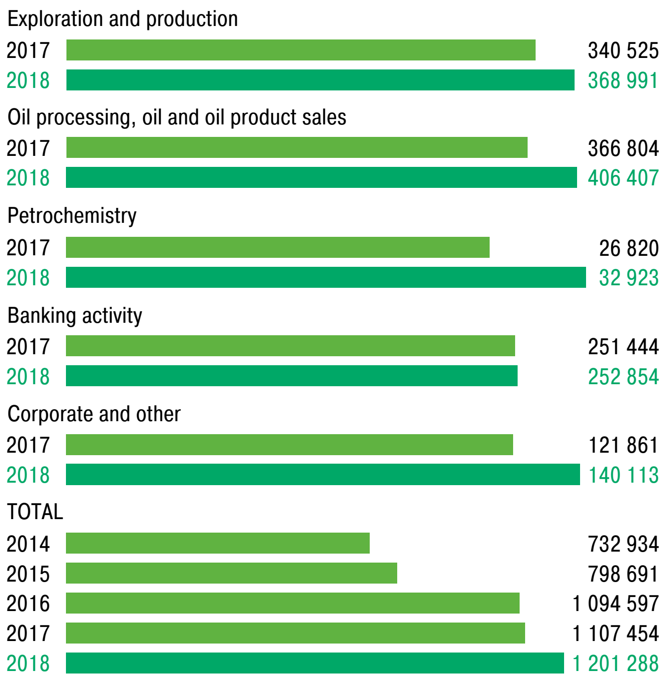
83.6%
SHARE OF ADDED VALUE IN TOTAL PRODUCTION VOLUME

>50%
GROWTH OF LABOR PRODUCTIVITY BY EBITDA

The Company ensures the growth of labor productivity and organizational efficiency through innovative forms in management of production and business processes.



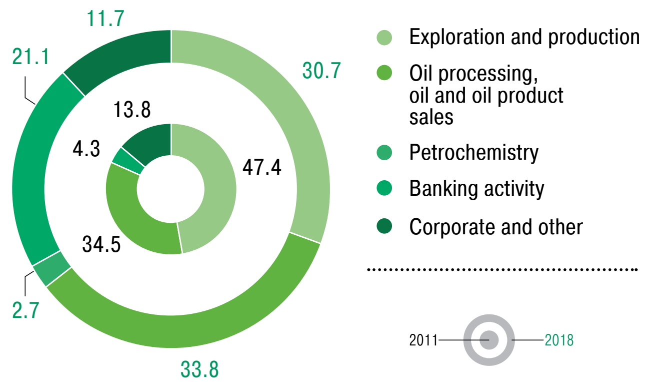
Assets by segments (billion RUB)



93.8 BILLION RUB

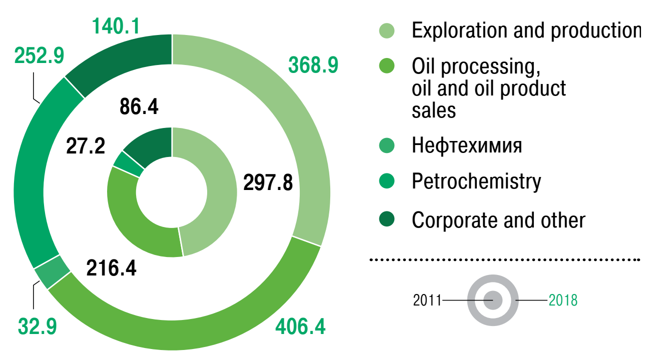
COMPANY'S ASSET VALUE INCREASE IN 2018

Change in the structure of consolidated TATNEFT Group assets for the period of 2011-2018 (%)



The Company's asset structure is balanced in the ratio of "exploration and production" (30.7%) and "oil and oil product processing and sales" (33.8%) segments, which provides the potential for further revenue growth due to the added value produced on the basis of hydrocarbon resource processing.

Cost of tatneft group consolidated assets in 2011 and 2018 (billion RUB)



The comparison of 2018 and 2011 is justified by the oil refining complex commercial commissioning.

Fuel and energy resource consumption

The Company implements a target program to reduce the fuel and energy resource consumption.

11% SAVING OF FUEL AND ENERGY RESOURCE CONSUMPTION

39.7% DECREASE IN FUEL AND ENERGY RESOURCE CONSUMPTION

SINCE THE BEGINNING OF THE TARGET PROGRAM IMPLEMENTATION (2010) FOR THE PERIOD OF 2011-2018

More than 464 thousand tonnes of fuel equivalent were saved. The most efficient saving areas are: oil and gas treatment, processing, transportation, oil and gas production technology, reservoir pressure maintenance.

The cost of fuel and energy resources, saved as a result of the energy saving program implementation in 2011-2018, amounted to RUB 5.1 billion (including: electricity RUB 2.9 billion, heat energy RUB 1 billion, boiler fuel RUB 0.8 billion, combustibles and lubricants RUB 0.4 billion).

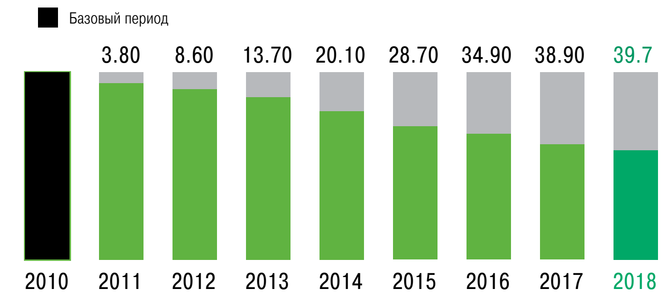
Following the energy saving program implementation in 2018, the TATNEFT Group enterprises saved more than 47.7 thousand tonnes of fuel equivalent, which amounted to RUB 842.5 million and allowed a 0.8% reduction in the Company's need for fuel and energy resources.

The main energy savings were obtained by saving electricity.

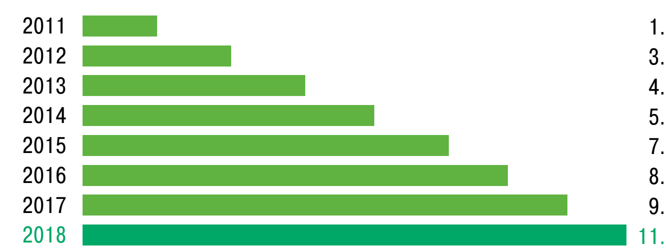
Energy production using renewable energy sources

The main share (99.9%) of energy production from renewable energy sources (RES) in the TATNEFT Group accounts for the heat energy generation by pellet boiler houses, 0.01% - by the solar power plants of the Company's retail trade network, in 2018 the boiler house installed capacity was 1,778 Gcal/hour. The total energy production from RES in 2018 amounted to 2,054.7 tonnes of fuel equivalent or 0.24% of the total TATNEFT Group energy production.

Dynamics of FER consumption decrease (%)



Dynamics of fuel and energy resource saving (%)



The Company fuel and energy resource consumption in 2018

	MEAS. UNITS	CONSUMPTION IN NATURAL UNITS	COSTS, MILLION RUB
Electricity including:	thousand KWh	6 027 682	16 833.077
production consumption	thousand KWh	5 990 446	
Heat energy including:	Gcal	8 596 156	7 924.094
production consumption	Gcal	8 011 715	
Natural gas including:	thousand m³	1 990 178	8 732.258
production consumption	thousand m³	1 989 696	
Gasoline (total)	tonne	3 984	170.64
including:	tonne	194.96	7.80
AI-80	tonne	2 431.3	101.83
AI-92	tonne	1 353.2	60.77
AI-85	tonne	4.54	0.24
AI-98	tonne	4 154.26	169.98
Diesel fuel	tonne	691.7	20.37

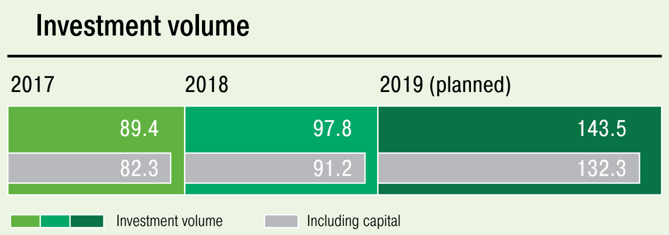
Investment program of the Company

The Company's investment program is aimed at implementing highly efficient projects as part of Strategy 2030. The planned investment volume until 2030 is more than RUB 1.2 trillion. Mainly the Company's investments are concentrated in Russia.

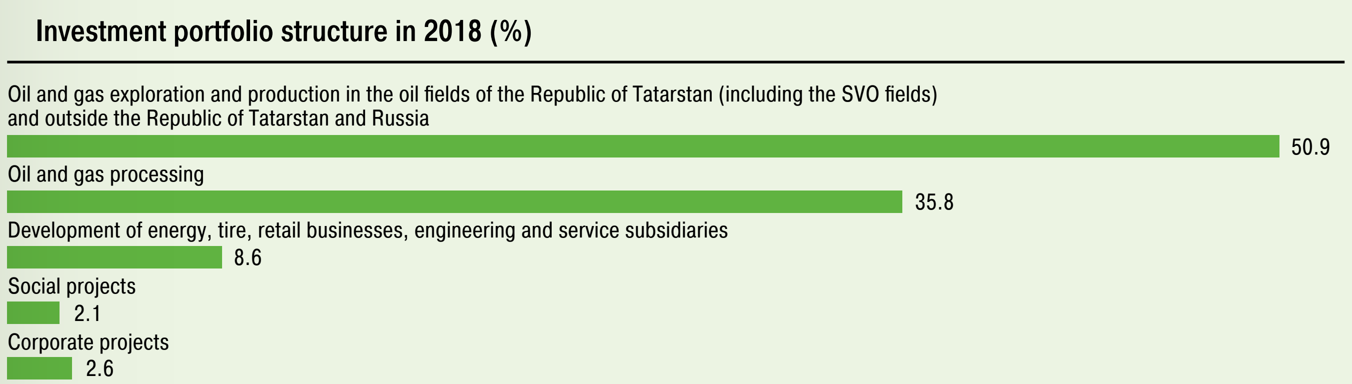
Investment Program 2018

The Company's Investment Program 2018 was reviewed by the PJSC TATNEFT Board of Directors on December 22, 2017 (Minutes No. 8 dated December 22, 2017). Implementation of Investment Program 2018 was reviewed by the Board of Directors on February 27, 2019 (Minutes No. 10 dated February 27, 2019).

The investment portfolio in 2018 (excluding the ZENIT Banking Group) amounted to RUB 97.8 billion, which is RUB 8.5 billion higher than the level of 2017 (+9.5%), the main increase is due to SVO project (+12.4 billion rubles).



In 2019, the planned investments volume is approximately RUB 143.5 billion, including RUB 132.3 billion of capital investments, which is higher than the 2018 level by RUB 45.7 billion (46.7%).



Fund raising. Debt portfolio

In the baseline scenario, the Company plans to implement strategic initiatives without large foreign loans.

Through the use of the most optimal tools for free cash allocation, such as classic bank deposits, corporate bonds, foreign exchange swap, REPO, Moscow Exchange deposits and their combination, a RUB 5 billion income was received for all allocation operations in 2018.

Credit limits are opened and maintained at the 6 largest Russian banks.

The Company applies a conservative approach to long-term lending aimed at minimizing risks and increasing the return on the use of borrowed funds. The main criteria for the long-term borrowing tool selection are: the estimated amount, the term of the loan, the target orientation. In the case of attracting long-term loans directed to the investment program financing, special attention is paid to the compliance of the loan commercial terms with the basic investment parameters of particular project. Primary attention is paid to the possibility of structuring loans that imply their repayment at the expense of additional cash flows generated from the implementation of new investment projects.

The Company conducts regular monitoring of the main factors affecting the lending market and seeks to take appropriate measures for managing market risks, including those associated with rising interest rates. When shaping trends to tighten monetary policy and increase market expectations, taking into account the gradual increase in lending rates, the Company practices the use of hedging instruments.

Currently TATNEFT Group has experience in structuring long-term debt financing:

- as part of the concept of so-called "project financing" (particularly, for TANECO Construction Loan project);
- successful attraction of loans guaranteed by Export Credit Agencies (particularly, SACE, EKF and Euler Hermes);
- attraction of loans from international bank syndicates;
- on placement of classical and exchange bonds, both ruble bonds and Eurobonds.

In 2018, the Group's debt portfolio (excluding the ZENIT Banking Group) consisted mainly of loans guaranteed by Export Credit Agencies (ECA) attracted by JSC TANECO during the oil refining complex construction. As of 31.12.18, the balance of such debt was USD 98.57 million.

In fact, the Group has not attracted significant debt financing (not including constant work with short term debt) since 2011 and has worked all these years repaying previously raised loans.

In 2018, the Company continued to work on improving the financial management procedures of enterprises in the PJSC TATNEFT centralized treasury. In order to improve efficiency, quality, accountability and stability of the serving business functions in the field of PJSC TATNEFT financial management, in 2018 the "Centralization of the PJSC TATNEFT structural subdivision financial functions in the Shared Services Center" project was completed. As part of the project, the functions of financial support for the Company's structural subdivision activities were transferred to the Corporate Finance Center.

In order to efficiently use funds, the finance department carried out a large amount of work to optimize settlements with counterparties. This work will be continued in the future. In order to reduce the diversion of the Company's working capital and speed up settlements with regular counterparties, counter-obligations are repaid through the LOC (Liability Offset Center). The LOC turnover for 2018 amounted to RUB 29.5 billion, which is RUB 0.5 billion more than in 2017.

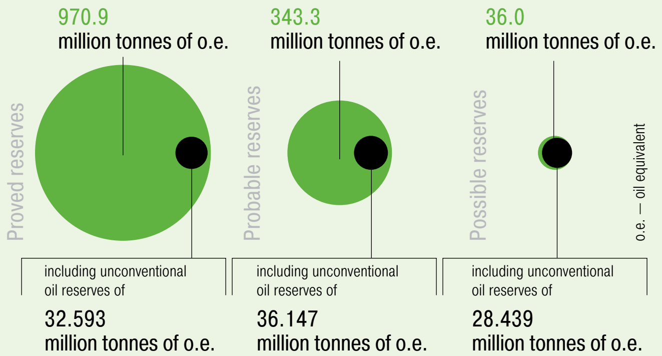
As a result of the best tools used for placing free cash funds, such as classic bank deposits, corporate bonds, foreign exchange swaps, REPO, deposits on the Moscow Exchange and their combination, more than 5 billion rubles were earned for all placement operations in 2018.

The Company's resource potential

As of 31.12.2018, according to an independent assessment of Miller & Lents, Ltd.

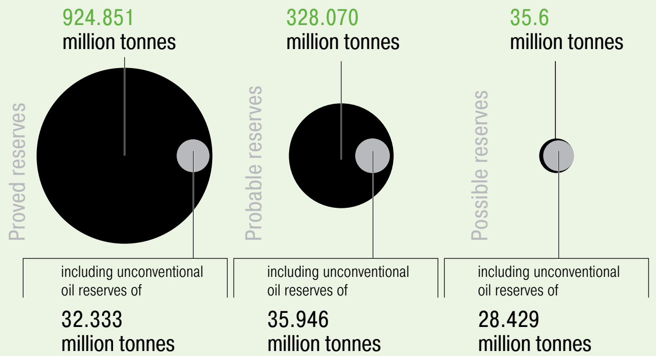
Hydrocarbon reserves – 1.350 billion tonnes of o.e.,

including unconventional oil reserves of 97.179 million tonnes of o.e., including:



Oil reserves of 1.289 billion tonnes,

including unconventional oil reserves of 96.708 million tonnes, including:



TATNEFT GROUP 1P OIL RESERVE REPLACEMENT RATIO IS

297.6%

TATNEFT GROUP 2P OIL RESERVE REPLACEMENT RATIO IS

200.4%

TATNEFT Group Total Net Conditional Resources

	1C RESOURCES	2C RESOURCES	3C RESOURCES
thousand barrels (oil and condensate)	732 725	1 031 904	1 997 725
657 million cubic feet (gas)	293 657	461 411	2 532 638

In the reporting year, the Company carried out an analysis and assessment of the current oil reserve resource base potential, defining the boundaries of business challenges.

The tasks were detailed, additional R&D and pilot work projects were launched for the study of geological structure, selection of efficient technologies for reserve development.

Initiated and implemented:

- Project to increase production rates for Verei sediments to 8%
- Project to optimize the development system for facilities confined to the Tula and Bobrikov horizons
- Project on production intensification through well drilling to the Tournaisian and Bashkir stages.

Work has begun on a project to introduce into the active development the oil reserves of the Kynovian horizon reservoirs with boundary values of porosity and permeability properties.

A favorable economic condition for the Company's field development is the use of differentiated MET rates and privileges on customs duties on oil.

The use of lower rates for export customs duties and a zero MET rate for the super viscous oil horizons (with viscosity of 10,000 MPa*s and more) stimulates the Company's SVO production development.

In 2018, the Company applied a zero MET rate to super viscous oil with a viscosity of 10,000 MPa*s and more (in reservoir conditions), as well as for oil produced

from Domanic deposits. Also, differentiated MET rates were used with a reduction factor for subsoil areas with more than 80% depletion, for small subsoil areas with reserves (initial recoverable reserves, IRR) of less than 5 million tonnes and a 5% or less depletion (according to the National register of mineral reserves as of 01.01.2011), for super viscous oil fields with viscosity of more than 200 and less than 10,000 MPa*s in reservoir conditions, for subsoil areas in Nenets Autonomous Area. In 2018, oil production at these sites amounted to 24.78 million tonnes (including SVO with viscosity of more than 10,000 MPa*s –1,949 thousand tonnes).

The Company achieves savings by reducing the tax rate on super viscous oil in some of its fields and by other specific tax incentives related to the production and sale of super viscous oil.

Due to the nature of the raw material base, the Company remains prioritized the maintenance of incentive tax regimes for depleted and super viscous oil fields.

Migration of proven oil reserves in 2018, thousand tonnes

	AT THE END OF 2018	AT THE END OF 2017	GROWTH TAKING INTO ACCOUNT THE PRODUCTION IN 2018	
Proved drilled developed net oil reserves	499 749	480 097	49 186	10.3%
Proved drilled undeveloped net oil reserves	310 280	306 915	3 365	1.1%
Proved undrilled net oil reserves	114 822	79 477	35 345	44.5%
Proved net oil reserves	924 851	866 489	87 896	10.1%

Geological exploration and production

STRATEGIC TASKS

Production growth to 38.4 Million tonnes by 2030
100% Reserve replacement.

The Company develops its resource potential on the basis of a rational approach to the subsoil development and strict observance of industrial and environmental safety using advanced methods and technologies possessed by the internal and external oilfield services.

- Ensuring the growth of hydrocarbon reserves. Improving the efficiency of geological exploration activities for the successful implementation of the Company's mineral resource base replacement programs.
- Development of new technologies for prospecting and exploration of fields in explored and new areas in various geological and climatic conditions.
- Reduction of terms and improvement of the quality of field preparation for industrial development.
- Fulfillment of the existing resource base potential due to the SVO production growth, the hard-to-recover resource development with a high level of innovative approach application.
- Commercial commissioning of the fields in the Nenets Autonomous Area.
- Reduction of specific operating costs for conventional oil production in the Republic of Tatarstan.
- Implementation of IT projects, widespread use of oil recovery factor enhancement technologies.

In 2018, RUB 2.6 billion were invested in solving the resource base expansion problem. Of these, 81% are for drilling production and exploration wells, approximately 10% for seismic exploration methods and issue-related geological exploration work, 3% for well interventions.

For 2019, it is planned to invest RUB 11 billion in projects for the oil production development outside the Republic of Tatarstan and produce 319 thousand tonnes of oil.

Geological exploration work in the territory of the Republic of Tatarstan

On the territory of the Republic of Tatarstan, the Company was granted 67 licenses, of which 36 licenses for mineral exploration and production, 27 for geological survey including mineral prospecting and evaluation, exploration and production, 4 for geological survey including mineral prospecting and evaluation: 2 for geological survey including mineral prospecting and evaluation and 2 - for geological survey of developed mineral deposit underlying horizons.

The geological exploration volumes envisaged by the license agreements for license blocks are carried out in full.

In 2018, the growth in all categories (A+B1+C1+B2+C2) of recoverable oil reserves in the Republic of Tajikistan amounted to 29.9 million tonnes, including 19.9 million tonne increase in reserves due to geological exploration.

Prospecting and exploration in the territory of the Republic of Tatarstan were conducted within the Cheremshano-Bastryksk, Tlyanchi-Tamak, and Stepnoozersk exploration areas and at the Agbazovskiy, Yersubayinskiy, and Sokolkinskiy subsoil areas.

In 2018, the cost of geological exploration work carried out in the Company's licensed blocks within the Republic of Tatarstan amounted to more than RUB 1.1 billion.

The volume of prospecting and exploration drilling in 2018 – 18.1 thousand meters, including exploration – 4.9 thousand meters, prospecting – 13.2 thousand meters.

Construction of 12 exploration wells is completed, of which 10 are production wells.

Following the seismic exploration work results, 1 structure with prospective resources in the D0 (recoverable) category – 0.183 million tonnes has been prepared for deep drilling.

In 2019, in the Company's fields and exploration areas, in order to replace reserves, it is planned to drill 35 exploration wells in the Republic of Tatarstan with a total penetration of 54.5 thousand meters of rocks, perform seismic exploration using 2D common depth point method (CDPM) in the amount of 280 running km and 3D CDPM in the amount of 558 km^2.

83%

PROSPECTING AND EXPLORATION DRILLING SUCCESS IN TATARSTAN

Geological exploration work outside the Republic of Tatarstan

Outside the territory of the Republic of Tatarstan, the Company was granted 31 licenses, of which 16 licenses for mineral exploration and production, 13 for geological survey including mineral prospecting and evaluation, exploration and production, 2 for geological survey including mineral prospecting and evaluation.

In 2018, geological exploration work was carried out in the territories of the Ulyanovsk, Orenburg, Samara regions, the Nenets Autonomous Area and the Republic of Kalmykia.

In the Republic of Kalmykia, a gas condensate field named after V.E. Bembeev was opened. Recoverable free gas reserves of C1+C2 categories for the field are 4.2 billion m3, condensate reserves of C1+C2 categories – 1.6 million tonnes. The reserve increase cost amounted to 487 RUB/tonne.

In the Samara region, the interim re-estimation of reserves at the Tuarminskoe oil field was carried out; the reserves at the Kanashskoe field changed. The increase in recoverable reserves of A+B1+B2 categories amounted to 0.337 million tonnes.

In 2018, seismic exploration work was carried out in the Republic of Kalmykia and the Samara region using 2D CDPM – a total volume of 550 running km and 3D CDPM – a total volume of 114 km^2.

The exploration drilling volume in 2018 is 8.2 thousand meters. Construction of 3 prospecting and 1 exploration wells completed. The prospecting and exploration drilling success is 100%.

In the Samara region, five structures with D0 category resources (recoverable) of 9.405 million tonnes have been prepared for deep drilling. Following the seismic exploration results, three structures with D0 category resources (recoverable) of 4.099 million tonnes have been prepared for deep exploration drilling..

In 2019, it is planned to drill 9 exploration wells with a total penetration of 34.5 thousand meters of rocks, perform 2D CDP seismic exploration in the amount of 474 running km, 3D CDP - in the amount of 1,238 km^2.

100%

PROSPECTING AND EXPLORATION DRILLING SUCCESS OUTSIDE TATARSTAN

Oil and gas production

The Company endeavours to unlock to the utmost the oil reservoir potentials and deliver on the accumulated technological knowledge and expertise so that we could strengthen our positions on the energy markets in Russia as we as worldwide.

The oil production output across the TATNEFT Group totaled 29.5 mln tonnes in 2018 including 27.6 mln tonnes of conventional oil output and 1.9 mln tonnes of super-viscous oil production. The average daily oil production rate was 2.1 % higher and amounted to 576.4 thousand barrels per day. The Company had to hold down the oil production rates under the OPEC+agreement while keeping its potential to ramp up its oil output in future when the production restrictions.

In order to ensure the sustainable development of the hydrocarbon reserves and the increased oil production profitability the Company applies cutting edge techniques and technologies, and equipment many of which are unique and developed especially taking into account the peculiarities of the resource base possessed by the Company as well as the artificial intellect, high-precision simulation and modeling software.

One of the activity are is creating of digital twin models for producing assets that make it possible to define with high reliability the oil production potential and manage the reservoir development with highest possible efficiency.

The Company anticipates that the digital modeling of all its oil fields will have been finished by 2020.

Moreover, by 2030 the oil production is projected to be increased up to more than 38 million tonnes per year. The strategic plans of the Company are based on the development of already existing licensed assets within the area of the main resource base in the Republic of Tatarstan, the Samara District, the Nenets Autonomous District taking into account the oil production development trends outside Russia.

The sustainable organic growth strategy for oil production is based on the potential:

- bringing the existing reserves into production economically viable manner;
- Technology scaling
- effective and efficient development of new projects;
- improved Oil Recovery Factor;
- Additional gas monetization.

The Company yields a high-margin production.

1 398 RUB PER BARREL
EBIDTA PER BARREL PRODUCTION

>35%
OIL RECOVERY FACTOR

Oil production structure in 2018 (million tonnes)

TATNEFT Group oil production, including	29.5
Conventional oil	27.6
Super viscous oil	1.9

Associated petroleum gas production volume (million m³)

2016	1022.89
2017	1007.28
2018	1009.03

According to the results of 2018, associated gas production amounted to 1,009.279 million m3, which is 1.753 million m³ more than in 2017.

Average daily oil flow rate of existing production wells (tonnes/day)

2016	4.1
2017	4.5
2018	4.2

Drilling volume in 2018, thousand m

Объем эксплуатационного бурения	592.8
Prospecting and exploration drilling volume	13.1




Oil production (million tonnes)

2016	28.7
2017	28.9
2018	29.5

Daily production average (thousand barrels/day)

2016	558.3
2017	564.8
2018	576.4

Use of apg for the company's own needs (million m³)

2016	69.353
2017	69.601
2018	67.331

In order to implement the corporate action program for associated petroleum gas (APG) utilization, construction was completed in the first quarter of 2018 and the gas pipeline system from the NGDU Yamashneft and NGDU Elkhovneft facilities was commissioned. In 2019, it is planned to carry out design and exploration work for the project "Expansion of the gas collection system from the NGDU Yamashneft facilities" and start the construction and installation works.

NGL production * (thousand tonnes)

2016	282.150
2017	274.722
2018	321.829

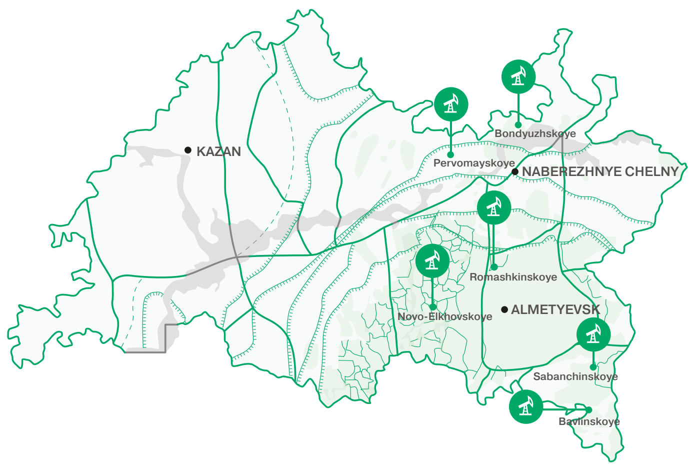
*excluding TANECO NGL

Well stock as of 01.01.2019

Operating production well stock	23 585
Active production well stock	20 986
Inactive production well stock	2 581
Developed production well stock and production well stock expecting development	18
Operating injection well stock	11 318
Active injection well stock	10 285

Oil production by major fields in the territory of the Republic of Tatarstan in 2018

The Company's main production volume is provided by conventional fields located in the Republic of Tatarstan. The main share of the current oil production accounts for 2 unique and 5 large fields: Romashkinskoye, Novo-Elkhovskoye, Bavlinskoe, Sabanchinskoye, Pervomayskoye, Bondyuzhskoye, Arkhangelskoye.



Oil production by major fields in 2018, Thousand tonnes

Fields	2018
Romashkinskoye	15 494
Novo-Elkhovskoye	2 780
Bavlinskoye	1 207
Bondyuzhskoye	239
Pervomayskoye	310
Sabanchinskoye	537
Arkhangelskoye	237

Super viscous oil field development

The Company produces super viscous oil at the Ashalchinskoye field. In 2018, super viscous oil production was 1,949 thousand tonnes. By the end of the year, daily oil production reached 5,675 tonnes. Overall, since the beginning of the development, the total volume of super viscous oil production amounted to 5.4 million tonnes.

18 super viscous oil fields of the Sheshmin horizon are in development. Six SVO fields were commissioned in the reporting year: (Chumachkinskaya, Novo-Chegodayskoye, Verkhneye (deposit III), Averyanovskoye, Studeno-Klyuchevskoye, Yuzhno-Yekaterinovskoye, Vostochno-Sheshminkinskoye), and work has begun on drilling horizontal wells and arranging 6 additional SVO fields (Arkhangelskoye, Gryadinskoye, Moroznoye, Dymnoye 1, Podlesnoye, Yuzhno-Rodnikovskoye).

As of 01.01.2019, the operating well stock at the SVO fields is 803 horizontal wells (including 239 wells drilled in 2018) and 2,275 appraisal wells (including 311 wells drilled in 2018). Active production well stock consists of 258 wells, including 244 well pairs and 14 cyclic steam wells. Active injection well stock consists of 396 wells, including 372 well pairs and 24 cyclic steam wells.

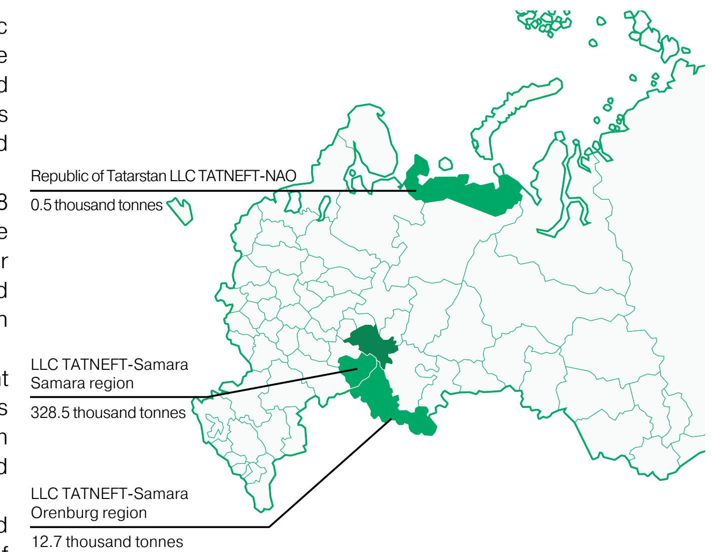
Oil and gas production outside tatarstan

During 2018, 18 oil fields were in operation outside of the Republic of Tatarstan, including 15 fields – the Samara region, 2 fields – the Orenburg Region, 1 field - the Nenets Autonomous Area. At the end of 2018, oil production in the Samara and Orenburg regions was carried out from 128 wells, including 127 wells in the Samara and 1 well in the Orenburg regions.

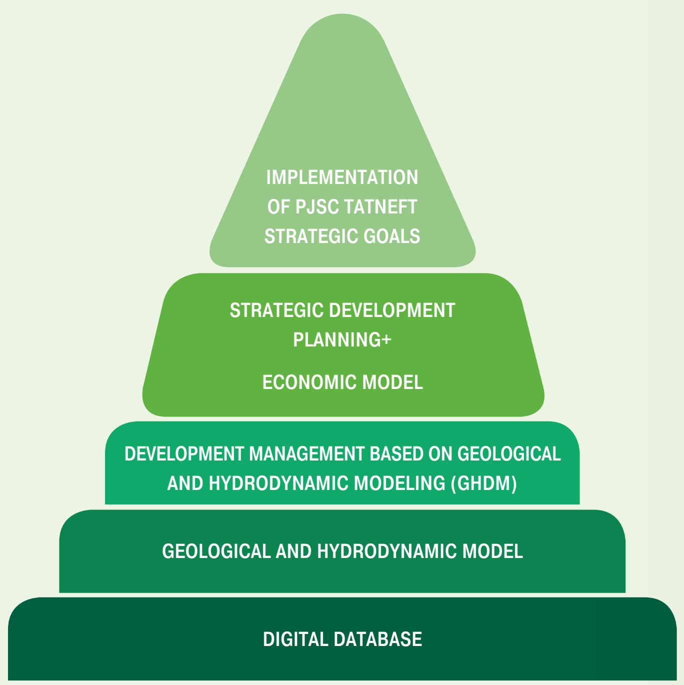
Oil production in 2018 in the Samara region amounted to 328 thousand tonnes, Orenburg region - 13 thousand tonnes. In the Samara region, 11 new production wells were commissioned after drilling and development. Average daily oil flow of new wells drilled in 2018 is 10.5 tonnes/day. Also, 3 prospecting and 1 exploration wells were drilled in the Samara region.

On the territory of the Nenets Autonomous Area, development of 2 exploration wells at Podveryukskoye and Khosoltinskoye fields continued. Also test operation of the Tibeyvisskoye field exploration well was carried out – oil production in the reporting year amounted to 521 tonnes.

The Company's foreign projects in Libya and Syria are suspended due to the difficult military and political situation in the territory of these states. The Company monitors the situation development in order to resume work after stabilization of the situation and obtain guarantees for the safety of personnel working at the fields.



Digitalization of the field development management with geological and hydrodynamic modeling



The main tasks solved by geological and hydrodynamic modeling are reserve localization in mature fields, planning the new/promising site development. The basic principles of GHDM operation:

- optimal well arrangement is determined using GHDM individually for each site, taking into account geological features, recoverable reserve distribution and porosity and permeability properties;
- optimal network may be heterogeneous in area and vary depending on the stage of development, economic constraints and optimization criteria;
- optimization is carried out according to the criteria adopted by the Company (reserve development, profitability index, net present value (NPV), etc.).

Overall, digital transformation opens up levels of new opportunities in production and strategic planning.

Formation of the monthly well intervention plan and well operation modes based on modeling and economic calculations allows to:

- Generate a Well Intervention Pool and rank the interventions by various parameters;
- Promptly make decisions on specific interventions and prevent potential complications during operation.

Monitoring of implemented intervention efficiency using GHDM:

- Potential assessment, selection and recommendation of optimal technologies for the reserve development and production intensification, taking into account economic conditions.
- Timely selection of additional interventions to ensure the production plan.
- Identification of "problem" places in the operation and drilling technology for improvement by clarifying the well potential by the model.

Oil sales

The Company provides the optimal balance in produced oil supply distribution in order to increase operating profitability in the market conditions.

In 2018, the Group exported approximately 62% of all sold crude oil, compared to 73% in 2017, increasing overall revenues from oil sales by 29.9%. At the same time, the Company fully provides its own processing facilities with raw materials.

For the oil transportation for export, the Group uses the services of JSC Transneft (Transneft), the state monopolist and the operator of the Russian trunk oil pipeline system. Approximately 73% of export oil is transported via the Druzhba pipeline (mainly to Poland, the Czech Republic and Slovakia); 3% of export oil was shipped through the Russian ports of the Black Sea (mainly Novorossiysk) and 24% of export oil was shipped through the Russian ports of the Baltic Sea (mainly Primorsk).

Group crude oil sales volumes, thousand tonnes

	2015	2016	2017	2018
Crude oil sales	19 959	22 117	21 830	20 341

Revenue from oil sales, billion RUB

	2015	2016	2017	2018
Revenue from oil sales	269.2	298.1	365.2	474.3

Shares of crude oil sales volumes for the group and by delivery destinations, %

	2015	2016	2017	2018
to the domestic market	38.9	39.1	27.2	38.0
to the CIS countries	6.6	5.1	5.6	6.0
to the far abroad countries	54.5	55.8	67.2	56.0

Shares of revenues from the crude oil sale, excluding export duties by delivery destinations, %

	2015	2016	2017	2018
to the domestic market	33.1	33.9	25.2	35.0
to the CIS countries	7.2	5.5	5.7	6.0
to the far abroad countries	59.7	60.6	69.1	59.0

Oil product sales

The Company's oil products are sold wholesale abroad and in the domestic market, and also delivered to the Company's sales subsidiaries for subsequent sale in Russia.

The Group's total oil product sales in 2018 amounted to 11.4 million tonnes. The share of oil product supplies to the domestic market was 49.8%. At the same time, in order to increase the operating profitability, the Company increased the share of oil product supplies to far abroad countries to 45%.

5.7 million tonnes of oil products were exported compared to 5 million tonnes in 2017.

In 2018, 50.2% of total sold oil products was shipped for export, 49.8% – to the domestic market.

Oil product sales volumes (thousand tonnes)

Revenue from oil product sales (billion RUB)

Overall, the revenue from oil product sales minus export duties and excise taxes in 2018 amounted to RUB 355 billion, it is a 46.9% increase compared to 2017.

The growth is mainly due to rising prices for oil products. 5.65 million tonnes of oil products were supplied to the domestic market.

Shares of oil product sales volumes by delivery destinations, %

	2015	2016	2017	2018
to the domestic market	51.4	55.1	52.2	49.8
to the CIS countries	5.9	2.3	3.8	5.2
for export to the far abroad countries	42.7	42.6	44.0	45.0

Oil and gas processing

STRATEGIC TASKS

Bringing capacities to 15.7 million tonnes of oil processing per year
Maintaining the reputation of reliable producer of high-quality oil products
Increase in production of high-margin products
High level of industrial and environmental safety

The Company has high-quality oil and gas processing facilities, as well as carbon black production facilities, geographically grouped at four sites in close logistic proximity to oil production in Almetyevsk and Nizhnekamsk regions of the Republic of Tatarstan.

Based on the synergy of oil and gas processing, the Company began to develop gas and petrochemical areas, identifying the potential of new growth points and reducing the business strategy market risks.

The integration of oil and gas processing and gas and petrochemical industry, the growth in production volumes of competitive and environmentally friendly products, the development of premium sales channels, optimization of the oil product logistics are key drivers for growth in operating profitability and produced oil monetization.

Range of products made in 2018

1. LPG (NGL);
2. Stable natural gasoline
3. Aviation kerosene
4. Aviation fuel (TS-1/RT/Jet A-1)
5. Diesel fuel, including premium TANECO (summer/winter/arctic)
6. Motor gasoline (AI-80/92/95/98)
7. Base oils (HVI-2, VHVI-4/6);
8. Lubricants (motor, transmission, hydraulic, transformer, special oils)
9. Sulfur (granulated, lump)
10. Coke
11. Middle distillates
12. Industrial solvent
13. Flammable natural gas
14. Hydrocarbon liquefied gases
15. Ethane fraction
16. Propane fraction
17. Isobutane fraction
18. n-Butane fraction
19. Isopentane fraction
20. Commercially pure gaseous nitrogen
21. Commercially pure gaseous oxygen
22. Carbon black (10 active and 4 semi-active grades).

The oil processing quality ensures the Company's leadership in the industry

- 100% motor fuel complies with EURO-5
- 0 % - dark hydrocarbons
- Associated petroleum gas utilization over 96%
- The largest carbon black production (active and semi-active brands)
- Production of import-substituting products: high-quality API Group III base oils through 100% hydrotreatment and lubricants based on them for all industries.
- Production of TANECO premium diesel product, including the arctic one (by the cetane number, it is the best in Russia - 63 units without the addition of cetane-increasing additives; ultra-low content of sulfur and polycyclic aromatic hydrocarbons). This fuel fully complies with the requirements of Euro-6 engines — an environmental standard regulating the harmful substance content in exhaust gases.




For the current period, the Company maintains the ratio between oil processing and production volumes at a level of more than 30%.

+9.6%
GROWTH IN OIL PROCESSING

Oil processing (thousand barrels/day)

2017	163.3
2018	179.0

83.64 %
LIGHT OIL PRODUCT YIELD (TANECO)

10
NELSON COMPLEXITY INDEX (TANECO)

Processing depth* (%)

TANECO	99,05
Average value, Russian Federation	83,40
Average value, Europe	85–90
Average value, OPEC countries	85
Average value, USA	98

*according to the Ministry of Energy of Russia and Central Dispatching Department of Fuel Energy Complex (CDU TEK) http://www.cdu.ru/tek_russia/articles/2/556/

10.1 MILLION TONNES
TOTAL OIL AND GAS PRODUCT YIELD IN 2018 AMOUNTED TO

Production of oil and gas products (Million tonnes)

2017	9.6
2018	10.1

Strengths of the Company's oil refinery business unit

- Use of modern innovative technologies that provide a high volume and wide product range
- Multi-tier integrated architecture of automated control systems – production control is carried out automatically
- Improved environmental performance
- Developed transport and logistics infrastructure
- Import-substituting technologies and equipment

TANECO Complex

Primary production areas

- Crude oil distillation
- Hydrocracking and base oils
- Oil product hydrotreatment and elemental sulfur production
- Heavy residue recycling
- Aromatic hydrocarbons production
- Commodity and raw material production
- Commodity product shipment department
- Industrial wastewater treatment, power supply, water supply, etc.

In the period from 2010 to 2018, more than 60 million tonnes of crude oil were processed at the TANECO Complex.

Putting into commercial operation - 2011. Continuation of construction in order to increase capacity. The development plan of the TANECO Project is envisaged until 2026 and provides for the commissioning of installations to increase the volume of oil refining and the range of products.

Currently, of the ELOU-AVT-6 Plant construction is still underway, which will increase the Complex capacity to 15.3 million tonnes.

On January 25, 2018 President of the Russian Federation V.V. Putin and President of the Republic of Tatarstan R.N. Minnikhanov took part in the naphtha hydrotreating and isomerization unit commissioning ceremony in the video conference format. The unit start-up was the first stage in the implementation of a full-scale motor gasoline production scheme compliant with the Euro-5 environmental class at the Complex.

Naphtha hydrotreating and isomerization units are secondary oil processing units. They sequentially operate in the process flow scheme and allow to obtain a high-octane environmentally friendly motor gasoline component. Also, the naphtha hydrotreating unit produces the raw material for the catalytic reformer, which allows the production of high-octane gasoline component and aromatic hydrocarbons that are in demand in the market.

Kerosene and diesel fuel hydrotreating units were commissioned, which made it possible to increase production. In 2018, complex testing began at the catalytic reformer, which allowed to start premium class gasoline production.

The TANECO product range contains 20 types of high-quality and sought-after products: motor gasolines AI-92, AI-95, AI-98, diesel fuel Euro-5, which is the best in Russia in terms of cetane number; aviation kerosene RT, TS-1, JET A-1, group II and III base oils, etc.

On February 12, 2019 President of the Russian Federation V.V. Putin and President of the Republic of Tatarstan R.N. Minnikhanov took part in the gasoline AI-92, AI-95, AI-98, AI-100 industrial shipment beginning ceremony at TANECO in the video conference format.

The fuel components, obtained by modern naphtha hydrocracking, hydrotreating and isomerization technologies, catalytic reforming, are blended at the gasoline mixing station. The gasoline recipe, selected and controlled online, provides motor fuels with optimal operational and environmental performance.

The TANECO Complex motor gasolines meet the Euro-5 standard and provide easy engine start at any time due to the inclusion of light fractions in the formulation, and reduction in fuel consumption, increasing engine performance due to the involvement of components with high density, octane number, low olefin, benzene and sulfur content.

The rated gasoline production capacity is more than 1.1 million tonnes/year. Up to 3000 tonnes of high-quality fuel are planned to be produced daily.

TANECO Complex Oil Products (thousand tonnes)

Elkhovsk oil processing unit

A large-scale modernization was carried out in the period from 2014 to 2018

The package oil processing unit consists of complete units for

- Atmospheric and vacuum crude oil distillation
- Straight-run gasoline hydrotreating
- Gasoline catalytic reforming
- Commercial gasoline benzene-free component production
- Diesel fuel hydrotreating
- Hydrocarbon gas amine treatment
- Elemental sulfur production
- Paving bitumen production
- Commercial product receipt and storage commodity park
- Regular-92 commercial gasoline production unit

Yelkhosky Oil Refining Plant Oil Products (thousand tonnes)

The main products are nonleaded gasoline Regular-92 (AI-92-K5), nonleaded gasoline Normal-80 (AI-80-K5), diesel fuel, kerosene and gas oil fraction, light vacuum gas oil.

In 2018, 214 thousand tonnes of oil products were produced.

Tataneftegazpererabotka

The complex is designed for processing of associated petroleum gas and a broad fraction of light hydrocarbons (NGL from unified oil processing unit), storage and shipment of finished products. The existing capacities allow to provide the whole complex of gas processing processes:

- gas purification from hydrogen sulfide and carbon dioxide;
- moisture drying; gas separation into individual fractions –ethane,
- propane, isobutane, isopentane, pentane-isopentane fractions,
- normal butane and stable natural gasoline fractions, as well as dry stripped gas and gas sulfur.

Tatneftegazpererabotka Complex Gas Products (thousand tonnes)

The gas processing complex consists of units for gas purification from hydrogen sulfide, petroleum gas and dry stripped gas compression, a cryogenic unit for deep processing of dry stripped gas, units for gas purification and drying, low-temperature condensation and rectification, cascade refrigeration unit, gas fractionation units, flare facilities, warehouse fleet for receiving and storing raw materials and finished products; a loading/unloading rack for sending products by rail.

In 2018, 1120 thousand tonnes of gas products were produced.

Associated petroleum gas is a valuable raw material for the production of a wide range of highest quality gas processing products, which are later used in petrochemistry and energy.

Nizhnekamsktekhuglerod

The Company's carbon black production facilities are among the largest Russian enterprises in this industry. Produced carbon black is a highly competitive counterpart of foreign products.

In 2018, the carbon black production amounted to 134.4 thousand tonnes.

Products correspond to high-quality foreign counterparts, supplied to the domestic market and 29 importing countries.

Carbon black production (thousand tonnes)

Oil and gas chemistry

On 24.08.2018, the TATNEFT Board of Directors made a decision to build gas and petrochemical facilities for the production of engineering plastics and a wide range of other petrochemical products previously not manufactured in Russia. In order to build an effective model for managing the TATNEFT Group gas and petrochemical complex development, a project office for the gas and petrochemical complex development was established.

New growth points in the long-term strategy of the Company

Development of gas-based petrochemical activity in business structure with high potential of profitability increase

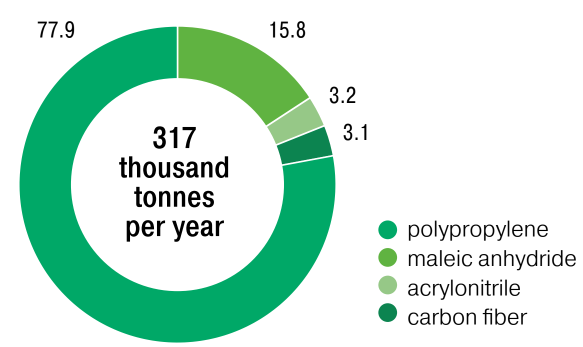
- Ensuring increased profitabilty of the Company thanks to high-margin gas-based petrochemicals produced from its oiwn feedstock
- Import phaseout in the gas-based petrochemical business segment
- Market risk reduction

In the period 2018 - 2023, it is planned to construct and commission the Stage 1 production facilities of the gas and petrochemical complex with a total investment of RUB 70.6 billion.

Development conditions:

- Availability of own petrogaschemical feedstock in the amount sufficient to provide raw materials
- independence from third-party suppliers
- Logistical advantage within the Russian Federation
- Opportunities for cooperation with Tatarstan enterprises
- Relative proximity to export markets

Projected product output (%)



Retail filling station network

STRATEGIC TASKS

Development of the filling station network (modernization of existing filling stations, expansion of the filling station network)
Differentiated pricing
Margin improvement
Development of non-fuel offer at filling stations
Branded fuel sales increase.

The volume of oil product sales through the TATNEFT Group retail trade network in 2018 amounted to 3.5 million tonnes, including commission sales, which is 22% more than in 2017, particularly, retail sales increased by 15%, a positive dynamics is demonstrated in average daily sales per 1 filling station (+12% by 2018). 1,858 thousand tonnes of oil and gas products were sold through a filling station network. Regional business units sold 1,597 thousand tonnes of oil and gas products in small wholesale.

Total sales volume through retail trade network (Thousand tonnes)

	2014	2015	2016	2017	2018
Retail trade network	2 050	2 435	2 575	2 677	3 455
RF	1 970	2 356	2 485	2 580	3 327
outside the Russian Federation	80	79	90	97	128
Filling station network	1 250	1 376	1 505	1 580	1 858
RF	1 193	1 325	1 440	1 503	1 759
outside the Russian Federation	57	51	65	77	99
Small wholesale	800	1 059	1 070	1 096	1 597
RF	776	1 031	1 045	1 077	1 568
outside the Russian Federation	4	28	25	19	29
Average daily sales	6.4	7.0	7.6	8.0	9.1

TATNEFT's retail trade unit companies demonstrate high performance indicators and are leaders in many regional markets of the Russian Federation.

Quality control of retail trade network oil products

Sold products and services comply with applicable regulations and standards. The compliance is confirmed by inspections conducted by supervisory authorities.

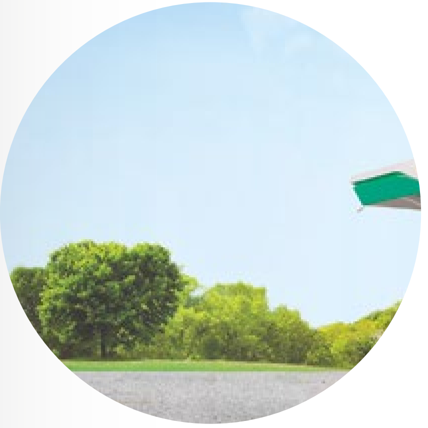
The Company is developing an effective quality control system for sold oil products that meets industry standards and internal regulations.

Quality control is provided by a multi-level control system using modern equipment, advanced technologies, hardware and software systems.

During the year, approximately 18.1 thousand samples of oil products were taken from all filling stations and tank farms, they were analyzed for more than 113.3 thousand indicators in 11 independent specialized laboratories and using 3 mobile laboratory complexes, the equipment of which allows in a short time determine more than 15 indicators for gasoline and 10 indicators for diesel fuel using express methods.

No cases of noncompliance with the regulatory requirements and voluntary codes concerning the impact of products and services on health and safety were registered in reporting year.

One of the priorities inherent in the network development, is the use of advanced energy and resource saving and environmentally friendly technologies.



Filling station network

The filling station network is the fourth largest on the territory of the Russian Federation.

By the end of 2018, the Company's retail network included 711 filling stations (including leased ones), of which 602 in the Russian Federation, 91 in Ukraine and 18 filling stations in the Republic of Belarus.

Considering the current trend of converting cars to gas fuel, gas units are being commissioned at the Company's retail trade network facilities and additional gas dispensers are installed at the filling stations.

For gas fuel, the Company uses its own raw materials produced at Tataneftegazpererabotka facilities. Associated petroleum gas, which has passed through all stages of drying, purification and separation, is an environmentally friendly fuel that allows to increase engine resources and extend the life of many car units with a relatively low cost compared to other motor fuels.

Quality control of oil products, the development of a unique fuel and non-fuel offer at filling stations, updating the brand concept with the unification of formats with shops and cafes, the introduction of advanced IT tools, targeted marketing activities, loyalty programs are key areas for improving the retail business efficiency.

Number of filling stations

	2017	2018
Total, icluding	685	711
RF	574	602
Ukraine	94	91
Belarus	17	18

Gross income for non-fuel business

	MEAS. UNITS	2017	2018
Gross income	million RUB	1 040	1 269
Filling station retail	million RUB	912	1 096
Small wholesale network	million RUB	128	173
Number of filling stations with shops	pcs.	421	452
Cafeterias	pcs.	259	415

Customer informing

Product and service customer informing at filling stations is carried out by placement of the quality certificates for sold oil products and goods at the filling station, the development and placement of information at the filling station with a description of the sold product properties.

Feedback

Filling station customers can:

- Use the hotline
- TATNEFT retail trade network hotline is 8 (800) 5555911, the customer can use it around the clock.
- Write a message on the website www.azs.tatneft.ru and in the Feedback section
- PJSC TATNEFT retail trade network hotline is 8 (800) 104112, the customer can use it around the clock.
- Send a message to e-mail tn@88001004112.ru.
- Write a message on the website http://www.tatneft.ru/goryachaya-liniya/

Received appeals are recorded and classified by categories of appeals.

The main identified problems are:

- fuel charges
- service culture
- equipment malfunction
- related service

All comments and suggestions received through the hotline are analyzed, and on the basis of the results and information obtained in the Company's retail structures, decisions can be made to improve the quality of provided services and eliminate shortcomings in the filling station operation.

The time for processing an appeal (response to call) received through the hotline is 6 working days from the day the appeal was received. If the conduct of official proceedings requires a longer period, it may be extended for up to 20 business days.

The Company has an internal "Regulation on the work with the TATNEFT's retail trade network customer inquiries".

Tire Business

STRATEGIC GOALS BY 2030

Increase production and sales to 18 million tires
Increase the share on the russian tire market by at least 22%

The Company's tire complex is united under a single brand of the KAMA TYRES manufacturer, integrating the tire production business chain from scientific and technical development to final products with a high level of after sales service. The complex has highly efficient production facilities and technologies. The processes of planning, production, sales and after sales service include quality standard control at all stages.

The compact arrangement of the tire complex enterprises provides an efficient infrastructure for the production business chain.

Leadership positions

- Over 45 years on the market
- Full business cycle of production
- 370 Commodity items of car, truck, all steel, agricultural and special tires kama, kama euro, kama pro and viatti
- The company's own scientific and technical developments, advanced technologies and industrial facilities
- High standards and quality control at all stages of product creation
- High level of after sales service
- 20% Share in rf domestic market
- Over 30% of products is sold for export in 50 countries
- Sustainable partnership with the largest russian auto manufacturers and localized foreign auto manufacturers

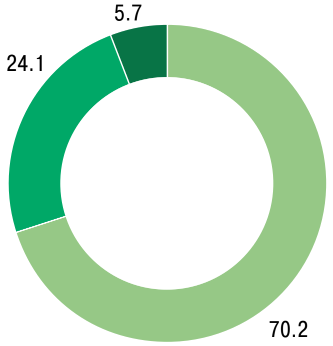
Tire product manufacturing (million pcs.)

2016	11.5
2017	12.9
2018	14.6

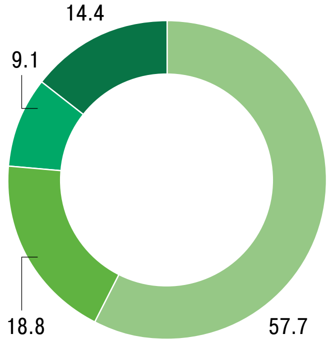
+ 13.2%

GROWTH IN TIRE PRODUCT MANUFACTURING

Tire product structure (%)



Primary tire product brands (%)



Tire complex enterprises

LLC Managing Company TATNEFT-Neftekhim

PJSC Nizhnekamskshina
Manufacture of tires, rubber goods, associated goods.

LLC Nizhnekamsk Truck Tire Factory
Manufacture of tires, rubber goods, associated goods.

LLC Nizhnekamsk Solid Steel Cord Tyre Factory
Manufacture of tires, rubber goods.

JSC Nizhnekamsk Mechanical Plant
Release of machine building products and tire production equipment overhaul.

JSC Yarpolimermash-TATNEFT
Production of tire molds, autoforms, equipment for oil and gas production industry enterprises, cast products.

LLC Scientific & Technical Centre Kama
Research and development.

LLC Trading House KAMA
Motor tire sales.

LLC TATNEFT-Neftekhimsnab
Provision of material and technical resources for petrochemical complex enterprises.

LLC Energoshinservis
Service provision

NIZHNEKAMSKSHINA

The car and light truck tires are produced using the KAMA-EURO stream assembly and vulcanization equipment with capacity of 5.1 million tires/year. The car and light truck tires are assembled on the KAMA stream assembly equipment with capacity of 7.1 million tires; 40, 40.5, 55 inch autoforms are used to manufacture car and light truck tires, industrial tires.

NIZHNEKAMSK TRUCK TIRE FACTORY

Truck and agricultural tires of radial and diagonal design with a profile width from 11 to 18 inches are produced on the first stream with capacity of 0.8 million tires/year. Also, the equipment of the tire factory assembly and stock preparation shops is used to produce semi-finished products of another enterprise.

NIZHNEKAMSK SOLID STEEL CORD TYRE FACTORY

The range of products consists of more than 80 models of tires with sizes from 215/75R17.5 to 12.00R24. The all steel (AS) tire production at the factory is made using a special formulation of rubber mixtures based on natural rubber and silica. The steel-cord carcass of tires provides an increase in running life to 700,000 km with due consideration of a double recovery, as well as high durability and fuel efficiency.

As part of the investment program, the Tire Complex enterprises in 2018 implemented projects aimed at improving the quality and expanding the range of tire products, increasing capacity in accordance with the market demand (AS tires and car and light truck tires Viatti).

Business projects

2018

- Modernization of the stock preparation shop to produce rubber mixes (30,000 tonnes/year) for the Viatti tire production;
- Organization of the special tire production section;
- A new series of KAMA tires with improved performance properties and extended operating temperature range has been launched;
- The first models of the new generation of AS tires were launched under the KAMA PRO brand. It is a pneumatic off-road tire with adjustable pressure;
- The quality management system has confirmed compliance with international standards in the following areas: environmental management; quality management for the automotive industry;
- Tires for the state President limousine as part of the Unified Modular Platform Cortege project.

2019

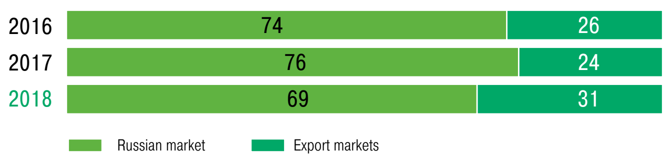
- Increased production of car and light truck tires;
- Increased production of AS tires;
- Development and utilization of a truck tire series under the KAMA PRO brand;
- Online store creation;
- Improvement of the Company's own Tyre&Service retail network. Opening of 2 flagship trade and service centers and a trade and service center using franchisee system;
- Automation of the car and light truck tire spiking process;
- Improvement of the STC testing laboratory: commissioning of test benches for truck tires and laboratory equipment for research and incoming quality control of raw materials
- Construction of new energy efficient cooling towers.

Tire product sales

Tire sales dynamics by sales markets Million pcs. (Including off-take)

	2016	2017	2018
Domestic market	7.7	9.2	8.8
Equipment	1.2	0.7	0.6
Export	3.1	3.2	4.2
TOTAL SALES	12	13.1	13.6

Ratio between supplies to the Russian and export markets (%)



Domestic market

Tires are supplied to the domestic market and for export. The domestic market of the Russian Federation (excluding equipment) is the main market for tire products. Tire products are sold through large and medium distributors for further resale, and to final customers.

The distribution network covers all regions of Russia. In 2018, tire sales volume in the domestic market decreased by 3% due to the aggressive pricing policy of competitors in the price segment "C".

Share of tire complex in the russian tire market

	MEAS. UNITS	2016	2017	2018
PASSENGER CAR TIRES				
Russian market	million pcs.	32.1	39.4	44.0
TC sales	million pcs.	5.7	6.5	6.3
TC market share	%	17.8	16.5	14.0
Main competitors: Nokian, Cordiant, Yokohama, Matador				
LIGHT-TRUCK TIRES				
Russian market	thousand pcs.	4 408	4 379	3911
TC sales	thousand pcs.	1 206	1 183	1064
TC market share	%	27.4	27.0	27.0
Main competitors: Altai Tire Plant, Nokian, Cordiant, Matador				
TRUCK TIRES				
Russian market	million pcs.	2.1	2.1	2.0
TC sales	million pcs.	1.1	1.2	1.0
TC market share	%	50.9	55.4	52.0
Main competitors: Cordiant, Altai Tire Plant				
AS-TIRES				
Russian market	million pcs.	3.4	3.6	3.2
TC sales	million pcs.	0.8	0.9	0.9
TC market share	%	23.0	25.7	28.0
Main competitors: Cordiant, BF Coodrich, Matador, Hankook				
AGRICULTURAL AND INDUSTRIAL TIRES				
Russian market	million pcs.	1.7	1.8	1.7
TC sales	million pcs.	0.1	0.1	0.1
TC market share	%	6.4	5.4	4.0
Main competitors: Voltyre, Altai Tire Plant, Petroshina				

Aftermarket

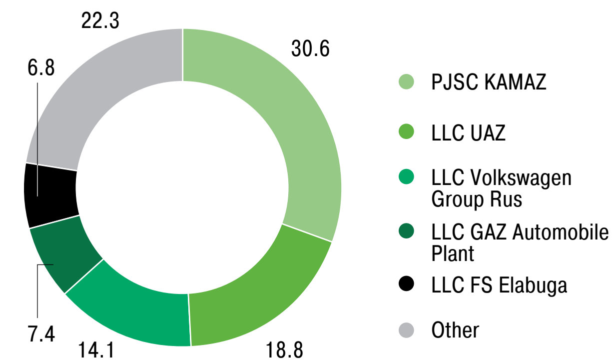
	MEAS. UNITS	2016	2017	2018
Russian tire sales market	million pcs.	43.7	51.3	54.8
TC sales	million pcs.	8.9	9.9	9.4
TC market share	%	20.3	19.2	17.0

Supplies for equipment

The company is a supplier of tires for the new automotive vehicle equipment for the following car assembly plants: KAMAZ, UAZ, GAZ Automobile Plant, Volkswagen Group Rus, FS Elabuga.

In 2018, supplies for equipment decreased by 18% due to a reduction in the total vehicle production by automotive plants, a change in the model structure of the manufactured equipment or the redistribution of orders in favor of competitive products, including a decrease in the volumes for Ford Fiesta and Ford Focus projects related to decommissioning in 2019.

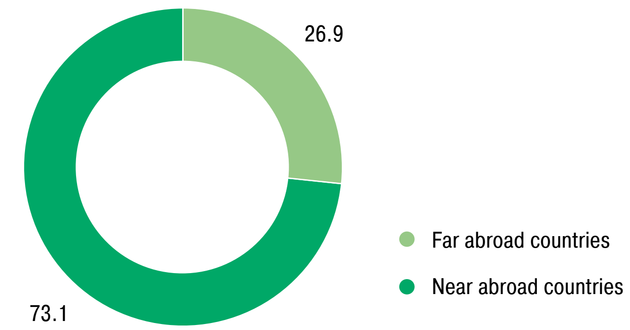
Main equipment market product customers (%)



Export

Over 30 % tire output produced by Tire Complex are exported. The export performance trend demonstrates growth amid higher tire demand. In 2018, export volume increased by 1 million tires in absolute terms and totaled 4.2 tire pieces. Over 70 % export sales go to the near abroad countries. About 90% far abroad country export volumes are delivered to the European countries. In 2018, the supplies to Brazil, the Netherlands, Slovenia, Sudan and Tanzania were resumed or made for the first time.

Export supplies (%)



Tire Manufacturing Qaulity Assurance

All products manufactured by the PJSC TATNEFT TC tire plants meet the requirements of regulatory documents (GOST, TU), as well as the requirements of the UNECE Regulations No. 30, 54 and 117 (international standards).

The quality management system is based on the requirements of the international quality management system standards ISO 9001:2015 and IATF 16949:2016 and is aimed primarily at preventing non-compliences in product quality.

In order to confirm the tire product compliance with the requirements aimed at ensuring its safety for life, health and property of citizens, products are certified for compliance with the requirements of the Technical Regulations "On the safety of wheeled vehicles" and "On the safety of agricultural and forestry tractors and trailers for them".

The tire product quality compliance is confirmed by certificates of quality and certificates of conformity, and an annual audit of finished products.

Product quality improvement is a priority in business planning.

In 2018, a new internal document "Tire Business Quality Policy" was approved, it includes setting target quality indicators for products and processes, planning measures to achieve them, and assessing the efficiency of taken measures.

Quality assurance is carried out at all stages of the product life cycle in accordance with the internal regulatory documents and includes:

- product quality planning at the new tire design and utilization stage using APQP AIAG project management (advanced product quality planning);
- managing the procurement of raw and other materials, including obtaining approval for the supply of new types of raw materials or conventional raw materials from new manufacturers in accordance with the PPAP methodology and requirements of automotive plant customers, concluding contracts with suppliers approved following the assessment result, conducting incoming control and supplier audits;
- quality determination and incoming control of the molds;
- production control of products at all stages of manufacturing, including statistical process control (SPC AIAG), assessment of the equipment manufacturing accuracy, introduction of "error protection" methods (POKA-YOKE), excluding the transfer of nonconforming products for the next operation;
- multi-level quality control of finished products to confirm their compliance with established requirements, including acceptance tests, periodic and requalification tests.

Energy

STRATEGIC GOALS BY 2030

IMPLEMENTATION OF THE PROGRAM ON DIVERSIFICATION OF RAW MATERIAL SOURCES.
FOR NIZHNEKAMSK CHP-2 WITH THE AIM OF INCREASING THE STATION PERFORMANCE AND REDUCING ITS DEPENDENCE ON THE RAW MATERIAL MARKET CONDITIONS

Main facilities

LLC Nizhnekamsk CHP
Heat and power cogeneration

JSC Almetyevsk Heating Networks
Heat energy (in the form of heat carrier) and electricity generation, provision of the SVO boiler house operation services for NGDU Yamashneft

LLC TATNEFT-Energosbyt
The TATNEFT Group's main energy trader in terms of power supply for more than 80 enterprises in the South-East of the Republic of Tatarstan

To meet the growing needs of TANECO in the heat, it is planned to implement a program on raw material source diversification at the Nizhnekamsk CHP in order to improve the plant performance and reduce its dependence on the raw material market conditions. In addition, it is planned to develop and implement a set of measures aimed at reducing the unit cost of electricity and heat production.

The generating enterprises of the Company's energy sector are taking measures to increase the reliability and efficiency of heat and electricity production and reduce losses and energy costs.

Programs are being developed and implemented to diversify raw material (natural gas, fuel oil, pet coke) sources for the Nizhnekamsk CHP, which will improve the plant performance by choosing the optimal type of fuel depending on market conditions and reduce the risk of power and heat supply failure.

The total power generation by the Company's enterprises in 2018 amounted to 1.23 billion kWh. In 2018, 1.23 billion kWh of electricity was released, including by LLC Nizhnekamsk CHP, -1.167 billion kWh, and by JSC Almetyevsk Heating Networks - 0.06 billion kWh. The 15.6% decrease in supply by 2017 is related to the choice of the most cost efficient and optimal operation mode for the LLC Nizhnekamsk CHP equipment.

Heat energy was generated in the amount of 4,384,379 Gcal, which is 6% more than in 2017.

In 2018, heat was supplied to the TATNEFT Group enterprises in the amount of 1,782,488 Gcal (42% of the total supply), to external consumers - 2,479,863 Gcal (58% of the total supply). The increase in heat supply to the TATNEFT Group enterprises in 2018 by 48.6% is related to the commissioning of new JSC TANECO facilities. The decrease in supply to external consumers by 12.1% is related to the repair works at the facilities of PJSC Nizhnekamskneftekhim.

Machine building

Bugulma Mechanical Plant (BMP) is a plant with more than half a century history, specializing in the manufacturing of products for oil and gas production, oil and gas processing, petrochemical, energy and other industries. The plant satisfies the needs of the oil industry in Tatarstan and Russia. The products are supplied for export.

The equipment to be used for the production of the Company is manufactured at the facilities of the BMZ plant. Also, manufactured products are supplied to both the domestic and export markets as well.

In 2018, the volume of production of goods, works and services amounted to 4,810 million rubles, the target plan was fulfilled for 100%, the growth rate was 101% relative to the previous year. Sales revenue growth was 170%. The cost of one-ruble of marketable products decreased by 2% and amounted to 0.97 rubles.

Volume of production, works and services (million RUB)

Main types of products

- Air coolers
- Heat exchangers
- Internal and external anti-corrosion pipe coating

Key competitive advantages

- Over 50 years of unique industry experience
- Competitive price offer
- Unique technologies
- Convenient logistics

The product customers are industry companies Rosneft, LUKOIL, Novatek, TAIF, Irkutsk Oil Company, SIBUR Holding, Transneft, etc.

Innovation Potential

The most important basis for the dynamic development of the Company is to ensure a reliable technological base and the integration of digital solutions in production management.

The company makes significant investments in its own development, testing and implementation of innovative technological solutions and equipment, interacting with leading industry research centers. In 2018, more than 1 billion rubles were invested in R&D and pilot test operations.

Investments of 1.7 billion rubles are planned for 2019.Today, almost all production stages in the Company are provided with modern information systems, starting from the level of work crew, oil field office and finishing with corporate systems for top management, which are integrated into a single information space.

Production operations are equipped with high-precision electronic control systems, while using artificial intelligence and robotics.

The company maintains leadership in the industry in terms of its innovative technological potential and supplies the market with advanced certified production technologies and information products, many of which have no analogues.

Details on the innovation policy and technology base of the Company are disclosed in the Integrated Annual Report, taking into account aspects of sustainable development (ESG), which the Company publishes annually

Corporate Governance

The Company follows the principle of constructive interaction between the Board of Directors and the Management Board in the interests of shareholders by making strategically balanced decisions and achieving high performance simultaneously maintaining a favorable environment and developing human capital.

Ensuring the confidence of shareholders and investors in the effectiveness of their investments, long-term and steady growth in shareholder value is the key aspect of the corporate practice of TATNEFT Company.

Corporate governance system

The Company's corporate governance system is aimed at creating and maintaining reliable and trusting relationships with the investor and shareholder community, achieving high operational and financial performance indicators, increasing the investment attractiveness, and strengthening the competitiveness of the Company.

Corporate governance of the Company corresponds to the Bank of Russia Code by 91%, and subject to partial compliance with the requirements of the Code by 96%.

The results of the assessment of compliance with the recommendations of the Bank of Russia Code are set out in Annex 4 to the Annual Report.

Basic principles of corporate governance

- Respect and protect the legal rights of shareholders
- Decision making based on consistency and collegiality
- High professionalism of the Board of Directors
- Forward-looking and transparent dividend policy
- Leadership
- Innovative technology
- Informational openness and transparency
- Compliance with ethical standards and respect of human rights
- No tolerance for corruption in all its forms
- Sustainable development
- Interaction with stakeholders
- Corporate responsibility

Basic internal documents establishing the corporate governance system

- Articles of Association of PJSC TATNEFT
- Regulations on the General Meeting of Shareholders of PJSC TATNEFT
- Regulations on the Board of Directors of PJSC TATNEFT
- Regulations on the Audit Committee of the Board of Directors of PJSC TATNEFT
- Regulations on the HR and Remuneration Committee of the Board of Directors of PJSC TATNEFT
- Regulations on the Corporate Governance Committee of the Board of Directors of PJSC TATNEFT
- Regulations on the General Director of PJSC TATNEFT
- Regulations on the Management Board of PJSC TATNEFT
- Regulations on the Audit Commission of PJSC TATNEFT
- Regulations on the Corporate Secretary of PJSC TATNEFT
- Regulations on the Internal Audit Department of PJSC TATNEFT
- Code of Corporate Governance of PJSC TATNEFT
- Regulations on the Dividend Policy of PJSC TATNEFT
- Regulations on the Information Policy of PJSC TATNEFT
- Regulations on Disclosure to Shareholders of PJSC TATNEFT
- Regulations on the procedure for access to insider information of PJSC TATNEFT, the rules for protecting its confidentiality and monitoring compliance with the requirements of the legislation of the Russian Federation and the European Union and internal documents adopted thereunder.
- Internal documents establishing the distribution of powers and responsibilities of managers and employees of the executive office by lines of business
- Regulations on compensation to members of the Board of Directors of PJSC TATNEFT
- Regulations on compensation to members of the Audit Commission of PJSC TATNEFT
- Compensation policy for members of the management bodies of PJSC TATNEFT

For basic internal documents of the Company, please, visit the Company's website.

Strategic priorities of corporate governance

The Company builds corporate governance on the integration of key priorities that form a single platform for managing the Company's shareholder value and maximizing return on assets.

Increasing the investment attractiveness and shareholder value of the Company based on long-term sustainable development with the integration of ESG factors.

Constructive interaction of shareholders and investors with the Board of Directors and executive bodies for the joint setting of tasks and making effective decisions.

Professional and ethical responsibility of members of the Board of Directors and executive management, officers and employees of the Company.

Building an efficient process of strategic and investment planning, implementation of production and business plans and operational performance.

An integrated system to ensure a high level of staff competence, effective incentive mechanisms and KPI system.

Securing and improving the quality and structure of assets.

Development of an integrated risk management and internal control system.

Prevention and settlement of corporate conflicts.

Maintaining goodwill of the Company.

Integration of social aspects, industrial and environmental safety issues into the Strategy and day-to-day activities of the Company.

Providing high-quality products and services.

Transparency and informational openness of the Company.

The Company undertakes appropriate procedures in order to increase the level of the collective knowledge of the Board of Directors in connection with economic, environmental and social issues.

In the reporting year, the Company continued its work on improving corporate governance focusing on international best practices and the principles of socially aware investing (SAI).

2018 Focus

- Development Strategy of TATNEFT Group.
- Distribution of areas of responsibility of managers and key employees.
- Development of the KPI system.
- Development of risk management and internal control system in the Company (RMS).
- Development of a corporate support system for subsidiaries.
- Amendments to the internal documents of the Company.
- Improving the management of sustainable development.

THE BOARD OF DIRECTORS OF PJSC TATNEFT PLAYS A KEY ROLE IN THE PROCESS OF IMPROVING THE SYSTEM OF CORPORATE GOVERNANCE PRACTICES BASED ON THE PRINCIPLE OF CONTINUITY AND ADVANCED INTERNATIONAL STANDARDS

2019 Focus

- Development Strategy of TATNEFT Group.
- Increasing the role of independent directors in the activities of the Board of Directors.
- Further development of the KPI system.
- Development of the system and improvement of risk management and internal control mechanisms in the Company (RMS).
- Formulation of sustainable development policies in accordance with 17 UN Sustainable Development Goals; development of ESG governance mechanisms
- Development of the Health, Safety, and Environment Management System.
- Development of a policy and a target program in the field of climate conservation.
- Further development of the corporate support system for subsidiaries.
- Improving the mechanisms for performance evaluation of corporate practices.
- Amendments to the internal documents of the Company.

Company management structure

A well-functioning corporate governance system is an important factor for sustainable development and successful implementation of the strategy in order to increase the shareholder value of the Company.

The Company's corporate governance system is aimed at ensuring the legitimate rights and interests of shareholders and other stakeholders, efficient asset management and increasing equity capital, increasing capitalization and dividend yield, maintaining long-term economic growth through effective management of corporate resources and risk control.

The Company has the status of the Group. PJSC TATNEFT is the corporate center of the Group coordinating the activities of the enterprises that form the Company's business areas and business segments. The organizational structure provides all levels of interaction between management and operational units with information coverage throughout the Group's perimeter. In order to ensure uniform principles of management and business transparency of subsidiaries, the Company has appropriate mechanisms and a system of uniform corporate standards.

The Company has a two-tier model of governing bodies, involving the separation of management functions between the Board of Directors and executive bodies.

The chief executive officer of the Company is the General Director of PJSC TATNEFT. The collegial executive body of the Company is the Management Board headed by the General Director.

The General Director and the Management Board report to the Board of Directors and the General Meeting of Shareholders. General supervision over the financial and economic activities of the Company is carried out by the Audit Commission.

Planning of financial and operational indicators is integrated into a single corporate governance system of the Group in accordance with the Development Strategy and key resolutions adopted by the Board of Directors, including taking into account aspects of sustainable development. The authority to implement the production plans, economic, environmental and social goals and objectives is delegated to the management of the Company with the provision of supervision at the level of the Board of Directors and its Committees, the Management Board, and the General Director.

Management of sustainable development is based on the coherence of the Company's actions with the basic principles and goals of the UN on sustainable development, global trends of sustainable development and priorities of national and regional development.

Responsibility for the strategic planning and operational activities of the Company is distributed between the Board of Directors, the General Director and the Management Board, as well as at the level of authority of officials in business lines with performance monitoring and incentive mechanisms based on the KPI system.

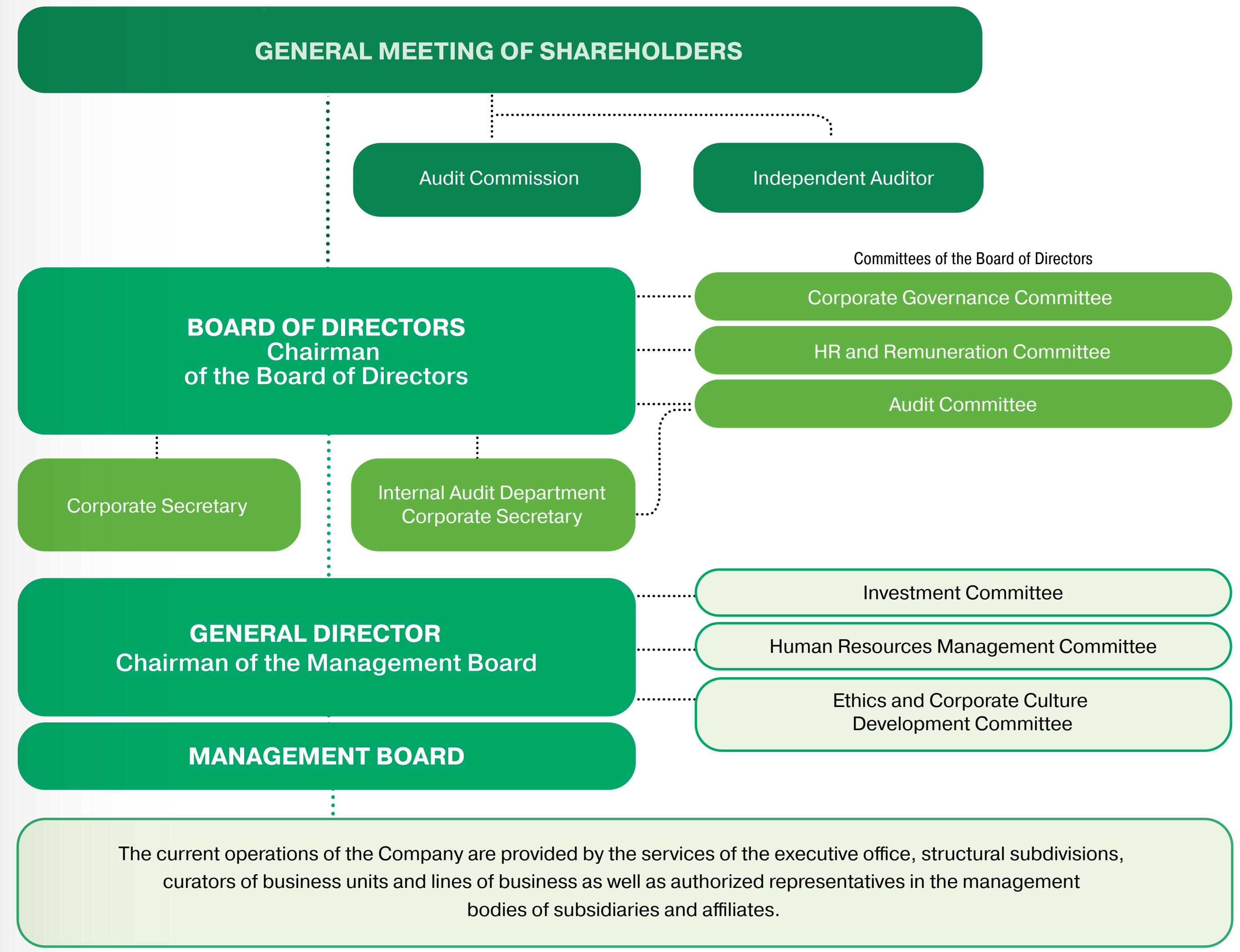
Key Performance Indicator System

In order to improve the effectiveness and efficiency of operations and ensure the achievement of business goals, the Company develops a KPI system. In 2018, the strategic goals were decomposed into annual measurable indicators, which allowed for a transparent assessment of the impact of top management and key employees on the implementation of business plans and helped to identify inefficient elements in management processes to further improve the approaches to the development of the KPI system, including innovation, IT, HR, corporate governance, HSE, environmental performance.

In 2019, the Company moved to the next stage of development of the KPI system, i.e expanding the coverage in the main lines of business and business units with the inclusion of ESG aspects.

Insurance of liability risks of members of management bodies

The Company insures liability risks of members of the Company's management bodies, including abroad, under the terms and in the amounts that are consistent with the insurance market for such risks in the Russian Federation. During 2018, SOGAZ JSC was the insurer of such risks of the Company.



Prevention of possible conflicts of interests

The Board of Directors applies procedures aimed at preventing and monitoring conflicts of interest. The Company provides disclosure of information on conflicts of interest (cross-membership on several Boards of Directors, cross-ownership of shares with suppliers and other stakeholders; the existence of a controlling shareholder and affiliates).

The Company's corporate governance system includes a set of rules and procedures aimed at eliminating conflicts of interest between the Company's management bodies and its shareholders, as well as between shareholders, if the conflict affects the interests of the Company; identifying and resolving all possible common and specific problems related to shareholders' rights.

In the event of a conflict, mechanisms are provided for taking the necessary measures to settle it in full and create conditions that preclude conflict in the future.

This is done within the interaction of the authorized subdivision with the committees of the Board of Directors, the Internal Audit Department and other competent subdivisions of the Company.

The issues of preventing and minimizing possible conflicts of interest among members of the Board of Directors are in the area of particular attention of the Company. To prevent possible conflicts of interest, the Company imposes certain restrictions and requirements on members of the Board of Directors. In accordance with the Regulations on the Board of Directors of PJSC TATNEFT, a member of the Board of Directors shall refrain from actions that would or may lead to a conflict of interest.

In the reporting year, there were no conflicts of interest among members of the Board of Directors.

Control over compliance with the mechanism for preventing conflicts of interest of members of the Board of Directors is exercised by the Corporate Secretary.

General meeting of shareholders

The General Meeting of Shareholders is the supreme governing body of PJSC TATNEFT and operates in accordance with the regulations of the Russian Federation, the Articles of Association and the internal policies of the Company.

The General Meeting of Shareholders delegates overall management of the Company to the Board of Directors. The procedure for holding the General Meeting of Shareholders fully ensures that the rights of shareholders are respected. The procedure for preparing, convening, conducting and summarizing the results of the General Meeting of Shareholders of the Company is determined by the Regulations on the General Meeting of Shareholders of PJSC TATNEFT.

The Company holds the Annual General Meeting of Shareholders once a year, not earlier than two and no later than six months after the end of the fiscal year. In addition to the Annual General Meeting, extraordinary meetings of shareholders may be convened. Shareholders are provided with information on the agenda items of the General Meeting of Shareholders in the amount and within the period that allows them to choose a reasonable position on the issues under consideration, as well as make decisions on participation in the meeting and the method of such participation.

The Annual General Meeting considers the election of members of the Board of Directors and the Audit Commission, approval of the auditor, approval of the annual report, annual accounting (financial) statements, distribution of profits, including dividend payments (declarations), and losses based on the results of the reporting year, and approval of internal documents regulating the activities of the Company's bodies. Shareholders make decisions on the most important aspects of the Company's activities. The full list of reserved matters of the General Meeting is established by the requirements of the Federal Law No. 208-FZ "On Joint Stock Companies" dated December 26, 1995. When electing the Board of Directors, the Company provides shareholders with detailed information on the background, experience, and skills of each candidate, and also seeks to ensure the personal presence of candidates at the General Meeting of Shareholders.

Each shareholder has the right to participate in the meeting in person or by proxy. At the General Meeting, shareholders receive a detailed and reliable report on the ongoing corporate policy and production and business activities of the Company from the Board of Directors and executive bodies. The Board of Directors of the Company prepares reports for shareholders on each agenda item, presenting its position, as well as minority reports of members of the Board of Directors, if any.

Decisions on matters on the agenda of the General Meeting of Shareholders are made by poll voting in the manner prescribed by current legislation and the Company's Articles of Association. When formulating decisions of the meeting, it is necessary to indicate by what majority of votes decisions were made and special opinions are introduced. The minutes are signed by the Chairman and the secretary of the meeting. During the preparation and holding of the General Meeting, shareholders of the Company have the opportunity to freely and timely receive information about the meeting and materials thereto, ask questions to the executive bodies and members of the Board of Directors of the Company, communicate with each other.

General Meetings of Shareholders held in 2018

Annual General Meeting of Shareholders
June 22, 2018

RESOLUTIONS ADOPTED BY THE ANNUAL GENERAL MEETING OF SHAREHOLDERS:

1. Approve PJSC TATNEFT named after V.D. Shashin Annual Report 2017.
2. Approve PJSC TATNEFT named after V.D. Shashin Annual Accounting (Financial) Statements 2017.
3. Approve the distribution of profits (including the payment (declaration) of dividends) of PJSC TATNEFT named after V.D. Shashin according to the results of the reporting year.
   Pay dividends for 2017, taking into account dividends previously paid according to the results of nine months:
   a) attributable to preferred shares in the amount of 3,994% of the share par value;
   b) attributable to ordinary shares in the amount of 3,994% of the share par value.
   Establish July 6, 2018, as the record date. Pay dividends in cash.
4. Elect the Board of Directors of PJSC TATNEFT named after V.D. Shashin
5. Elect the members of the Company's Audit Commission.
6. Approve PricewaterhouseCoopers Audit Joint Stock Company (PwC Audit JSC) as the auditor of PJSC TATNEFT named after V.D. Shashin for a period of one year for the implementation of a mandatory audit of the annual financial statements for 2018, prepared in accordance with Russian and international accounting standards.

Extraordinary General Meeting of Shareholders
(in the form of absentee voting)
September 28, 2018

DECISIONS MADE BY THE EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS:

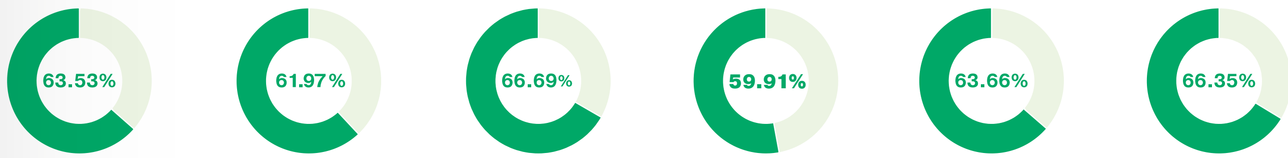
1. Pay dividends according to the results of 6 months of 2018:
   a) attributable to preferred shares of PJSC TATNEFT in the amount of 3,027% of the share par value;
   b) attributable to ordinary shares of PJSC TATNEFT in the amount of 3,027% of the share par value.
2. Establish October 12, 2018, as the record date. Pay dividends in cash.

Extraordinary General Meeting of Shareholders
(in the form of absentee voting)
December 21, 2018

DECISIONS MADE BY THE EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS:

1. Pay dividends for the first 9 months of 2018, including dividends previously paid for the first 6 months of 2018:
   a) attributable to preferred shares of PJSC TATNEFT in the amount of 5,253% of the share par value;
   b) attributable to ordinary shares of PJSC TATNEFT in the amount of 5,253% of the share par value.
2. Establish January 9, 2019, as the record date. Pay dividends in cash.

The quorum of General Meetings of Shareholders for 2016-2018



Annual General Meeting of Shareholders June 24, 2016 | Annual General Meeting of Shareholders June 23, 2017 | Extraordinary General Meeting of Shareholders December 12, 2017 | Annual General Meeting of Shareholders June 22, 2018 | Extraordinary General Meeting of Shareholders September 28, 2018 | Extraordinary General Meeting of Shareholders December 21, 2018

Board of Directors

The role of the Board of Directors and top executives is crucial in developing, approving and updating the wording of the Company's objectives, its values and mission, as well as strategies, policies, and tasks in relation to economic, environmental, and social impacts.

The Board of Directors carries out general management of the Company's activities, determines the priority areas, development strategy, and policy of the Company, coordinates and approves the strategic long-term and medium-term plans and development programs of TATNEFT Group, including in the areas of investment, borrowing, and asset management, basic principles and approaches to organization of the internal control and risk management system, is responsible for managing the Company's key risks affecting the achievement of its strategic goals, makes decisions on key projects and major transactions, monitors the achievement of strategic tasks, the implementation of plans and targeted programs of the Company, assists in ensuring the timely disclosure of complete and reliable information on activities. When considering the Company's strategy, preparing and approving plans, budgets and investment programs, the Board of Directors takes into account aspects of sustainable development and goals in the field of industrial and environmental safety, social policy, human resources management.

One of the key functions of the Board of Directors is to form effective executive bodies and ensure control over their activities. The reserved matters of the Board of Directors include:

- election of executive bodies, termination of their powers and incentives for executive bodies;
- supervision of the Company's business based on regular reports of the executive bodies on the implementation of the Strategy and business plans:
- improving the system and practices of corporate governance in the Company.

The Board of Directors has a key role in ensuring the transparency of the Company's work, timeliness and completeness of information disclosure, easy access of shareholders to the Company's documents.

The Company ensures the procedure for nomination and selection of candidates to the Board of Directors and its Committees based on the criteria of diversity, independence, professional qualifications and experience.

The Board of Directors conducts work on the basis of approved plans, including summing up the results of activities, determining the priority areas of the Company's business, preparing general meetings of shareholders, deciding whether to enter into transactions or subsequently approving interested-party transactions and other transactions in accordance with the Articles of Association.

The Company implements comprehensive actions to ensure the efficient work of the Board of Directors::

- Information and technical resources with a secure corporate communication channel for prompt remote delivery of information materials of meetings of the Board of Directors;
- Software for holding meetings of the Board of Directors and Committees of the Board of Directors through video conferencing;
- Storing archive of meeting minutes;
- Ensuring that the members of the Board of Directors are familiar with the internal documentation and operational activities of the Company, including production, economic, environmental and social aspects;
- Procedures for reporting to the Board of Directors, including about critical issues if they occur.

The formation procedure, status, composition, functions, goals, and tasks, competencies, powers of the Board of Directors, its operation, and interaction with other management bodies of the Company are established by the Articles of Association and the Regulations on the Board of Directors of PJSC TATNEFT and are clearly delimited from the competence of the executive management bodies of the Company, managing its current operations.

The members of the Board of Directors in the amount of 14 people are elected by the General Meeting of Shareholders by cumulative voting (the candidates who receive the largest number of votes are considered to be elected). One member of the Board of Directors is appointed on the basis of a special right. The Company is obliged to include the election of members of the Board of Directors on the agenda of the Annual General Meeting of Shareholders.

The Company provides a transparent procedure for electing members of the Board of Directors and discloses information in advance about the current composition of the Board of Directors and candidates for the Board of Directors. When nominating members of the Board of Directors and its committees, criteria and factors of professional qualifications and experience are taken into account, including in the areas of economic, environmental, and social issues.

At the first meeting after the formation of the Board of Directors, the Chairman of the Board of Directors of PJSC TATNEFT is elected, whose powers are established by the Regulations on the Board of Directors, and the committees of the Board of Directors are formed.

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Board of Directors' Committees

In order to improve the effectiveness and efficiency of the decisions made by the Board of Directors there are three Board Committees in place in the Company that preliminary consider the most important agenda items for the Board meetings as well as set the relevant guidelines within their competences. These are as follows: Audit Committee, HR and Remuneration Committee and Corporate Governance Committee.

The Committees are fully accountable to the Board of Directors. The members of the Committees are approved by the PJSC TATNEFT Board of Directors taking into account of their related expertise, qualification and experience of each nominee of the committee. The company provide the Board with the detailed information with regard to CV, background, expertise, knowledge and skills of each nominee to be elected to any of the committees. The membership of the Audit Committee and the HR and Remuneration Committee is predominated by the Independent Directors.

Chairman of the Board of Directors

The Chairman of the Board of Directors of the Company is elected by the members of the Board of Directors from among them by a majority of votes from the total number of members of the Board of Directors and performs its functions in accordance with the Articles of Association, the Regulations on the Board of Directors and the Code of Corporate Governance. The Chairman of the Board of Directors arranges its work, convenes meetings of the Board of Directors and presides at them, organizes minutes keeping at meetings, and presides at the General Meeting of Shareholders. In the absence of the Chairman of the Board of Directors of the Company, his functions are performed by one of the members of the Board of Directors by the decision of the Board of Directors of the Company.

Main functions of the Chairman of the Board of Directors:

- Organization of work of the Board of Directors.
- Convening meetings, presiding over them.
- Preparation of proposals for the distribution of tasks among members of the Board of Directors and Committees of the Board of Directors.
- Ensuring open discussion of agenda items and taking into account the views of all members of the Board of Directors.
- Identification of key issues to be considered by the Board of Directors, and selection of the optimal meeting form for discussing issues.
- Representation of the Board of Directors in relations with shareholders, management, and other stakeholders.

The Company ensures the procedure of nominating and selecting of the candidate member to the Board and its Committees based on the criteria of diversity, independency, and professional qualification and experience. The Board of Directors operates based on the approved plans particularly to define priorities for the Company to develop its business activities and strategy, review the performance results, and prepare for general shareholders' meetings, as well as makes the decisions to authorize or further ratify any non-arm's length transactions or any other transactions under the Article of the Association.

Composition of the Board of Directors of PJSC TATNEFT

The Board of Directors in the number of 15 people was elected by the Annual General Meeting of Shareholders on June 22, 2018. In 2018, there were no changes in the composition of the Board of Directors.

At the first meeting of the Board of Directors of PJSC TATNEFT after the Annual General Meeting of Shareholders on June 22, 2018, R.N. Minnikhanov was elected Chairman of the Board of Directors unanimously by all members of the Board of Directors, as the most authoritative member of the Board of Directors, having professionalism and knowledge, significant experience in senior positions, impeccable business and personal reputation.

The Chairman of the Board of Directors is a Nonexecutive Director. The Chairman of the Board of Directors is not a member of any committee of the Board of Directors.

Minnikhanov Rustam Nurgalievich

Chairman of the Board of Directors of PJSC TATNEFT

Nonexecutive Director

Born in 1957.

In 1978, graduated from the Kazan Agricultural Institute

In 1986, graduated from the Soviet Trade Institute

1996-1998, Minister of Finance of the Republic of Tatarstan

From July 1998 to March 2010, worked as the Prime Minister of the Republic of Tatarstan

President of the Republic of Tatarstan since March 2010.

Share in the authorized capital of the Company, %	**no**
Holding of ordinary shares of the Company, %	**no**

Maganov Nail Ulfatovich

General Director of the PJSC TATNEFT
Member of the Board of Directors of PJSC TATNEFT
Chairman of the Management Board of PJSC TATNEFT
Chairman of the Corporate Governance Committee of the Board of Directors of PJSC TATNEFT

Executive Director

Born in 1958.

In 1983, graduated from the Moscow Institute of Petrochemical and Gas Industry named after academician I.M. Gubkin

From July 2000 to November 2013, First Deputy General Director – Head of Crude Oil and Petroleum Products Sales Department of PJSC TATNEFT

From November 2013 to the present, General Director of PJSC TATNEFT

Share in the authorized capital of the Company, %	**0.000176**
Holding of ordinary shares of the Company, %	**no**

Gaizatullin Radik Raufovich

Member of the Board of Directors of PJSC TATNEFT
Member of the Audit Committee of the Board of Directors of PJSC TATNEFT

Nonexecutive Director

Born in 1964

In 1985, graduated from the Kazan Agricultural Institute

Head of the Ministry of Finance of the Republic of Tatarstan since June 2002

Share in the authorized capital of the Company, %	**no**
Holding of ordinary shares of the Company, %	**no**

Gerech Laszlo

Member of the Board of Directors of PJSC TATNEFT
Member of the Audit Committee of the Board of Directors of PJSC TATNEFT
Member of the HR and Remuneration Committee of the Board of Directors of PJSC TATNEFT

Independent Director

Born in 1953

In 1977, graduated from the Moscow Institute of Petrochemical and Gas Industry named after academician I.M. Gubkin

In 1995, graduated from Oxford Business University

From 2015 to January 1, 2017, Managing Director of MOL Oman Limited, Oman Branch

From January 1, 2017, to the present, Managing Director of G Petroconsulting Ltd

Share in the authorized capital of the Company, %	**no**
Holding of ordinary shares of the Company, %	**no**

Ibragimov Nail Gabdulbarievich

Member of the Board of Directors of PJSC TATNEFT
First Deputy General Director for Operations – Chief Engineer PJSC TATNEFT
Member of the Management Board of PJSC TATNEFT

Executive Director

Born in 1955

In 1977, graduated from the Moscow Institute of Petrochemical and Gas Industry named after academician I.M. Gubkin

From 2000 to the present, First Deputy General Director for Operations – Chief Engineer of PJSC TATNEFT

Share in the authorized capital of the Company, %	0.019831
Holding of ordinary shares of the Company, %	0.020873

Levin Yuri Lvovich

Member of the Board of Directors of PJSC TATNEFT
Chairman of the Audit Committee of the Board of Directors of PJSC TATNEFT
Member of the HR and Remuneration Committee of the Board of Directors of PJSC TATNEFT

Independent Director

Born in 1953

In 1975, graduated from the Moscow Finance Institute

In 1979, post-graduate studies at the Institute of World Economy and International Relations

Since 2001, Managing Partner of BVM Capital Partners Ltd.

Share in the authorized capital of the Company, %	no
Holding of ordinary shares of the Company, %	no

Muslimov Renat Khaliullovich

Member of the Board of Directors of PJSC TATNEFT

Nonexecutive Director

Born in 1934

In 1957, graduated from the Kazan State University

From June 2007 to the present, Adviser to the President of the Republic of Tatarstan on development of crude oil and gas fields, Professor of the Crude Oil and Gas Geology Department of Kazan State University

Share in the authorized capital of the Company, %	0.047618
Holding of ordinary shares of the Company, %	0.050282

Sabirov Rinat Kasimovich

Member of the Board of Directors of PJSC TATNEFT
Member of the Corporate Governance Committee of the Board of Directors of PJSC TATNEFT
Member of the HR and Remuneration Committee of the Board of Directors of PJSC TATNEFT

Nonexecutive Director

Born in 1967

In 1991, graduated from the Kazan State University

In 1994, graduated from the postgraduate course of the Kazan State Technological University

In 1998, completed a course within the frames of the President Program of Management Training

In 2012, training under the Master Business Administration program of the State University of Colorado (USA)

From 2006 to June 2010, Head of Petrochemical Complex Department of the Office of the Cabinet of Ministers of the Republic of Tatarstan

From June 2010 to the present, Assistant to the President of the Republic of Tatarstan

Share in the authorized capital of the Company, %	no
Holding of ordinary shares of the Company, %	no

Sorokin Valery Yurievich

Member of the Board of Directors of PJSC TATNEFT

Nonexecutive Director

Born in 1964

In 1986, graduated from the Kazan State University

Since 2003, General Director of PJSC Svyazinvestneftekhim

Share in the authorized capital of the Company, %	no
Holding of ordinary shares of the Company, %	no

Takhautdinov Shafagat Fakhrazovich

Member of the Board of Directors of PJSC TATNEFT
Advisor to the Chairman of the Board of Directors of PJSC TATNEFT

Nonexecutive Director

Born in 1946

In 1971, graduated from the Moscow Institute of Petrochemical and Gas Industry named after academician I.M. Gubkin

From 1999 to November 2013, General Director of PJSC TATNEFT.

From November 2013 to the present, Assistant to the President of the Republic of Tatarstan on oil industry issues, Advisor to the Chairman of the Board of Directors of PJSC TATNEFT

Share in the authorized capital of the Company, %	0.116503
Holding of ordinary shares of the Company, %	0.123914

Khalimov Rustam Khamisovich

Member of the Board of Directors of PJSC TATNEFT
First Deputy General Director for Oil and Gas Exploration and Production of PJSC TATNEFT

Executive Director

Born in 1965

In 1987, graduated from the Moscow Institute of Petrochemical and Gas Industry named after academician I.M. Gubkin

From 2010 to 2011, Director of the Branch of PJSC TATNEFT in Libya

From 2011 to 2015, Head of NGDU Elkhovneft of PJSC TATNEFT

From 2015 to May 20, 2018, Deputy General Director for Oil and Gas Development and Production of PJSC TATNEFT

From May 21, 2018, to the present, First Deputy General Director for Oil and Gas Exploration and Production

Share in the authorized capital of the Company, %	**0.000056**
Holding of ordinary shares of the Company, %	**no**

Khamaev Azat Kiyamovich

Member of the Board of Directors of PJSC TATNEFT

Nonexecutive Director

Born in 1956

In 1978, graduated from the Kazan Aviation Institute

In 2000, graduated from Kazan State University, Law Faculty

In December 2008, was appointed First Deputy Minister of Land and Property Relations of the Republic of Tatarstan

From March 2009 to the present, Head of the Ministry of Land and Property Relations of the Republic of Tatarstan

Share in the authorized capital of the Company, %	**no**
Holding of ordinary shares of the Company, %	**no**

Khisamov Rais Salikhovich

Member of the Board of Directors of PJSC TATNEFT
Deputy General Director – Chief Geologist of PJSC TATNEFT

Executive Director

Born in 1950

In 1978, graduated from the Moscow Institute of Petrochemical and Gas Industry named after academician I.M. Gubkin

From October 1997 to the present, Deputy General Director – Chief Geologist of PJSC TATNEFT

Share in the authorized capital of the Company, %	**0.01876**
Holding of ordinary shares of the Company, %	**0.019746**

Steiner René Frederick

Member of the Board of Directors of PJSC TATNEFT
Chairman of the HR and Remuneration Committee of PJSC TATNEFT
Member of the Audit Committee of the Board of Directors of PJSC TATNEFT

Independent Director

Born in 1964

In 1989, graduated from Technical High School in Zurich.

Bachelor of Swiss Banking, Zurich

Since 2011, co-founder, Program Director of Direct Private Investments of FIDES Business Partner AG, Switzerland

Share in the authorized capital of the Company, %	**no**
Holding of ordinary shares of the Company, %	**no**

Nurmukhametov Rafail Saitovich

Member of the Board of Directors of PJSC TATNEFT
Head of NGDU Leninogorskneft of PJSC TATNEFT

Executive Director

Born in 1949

In 1974, graduated from Ufa Petroleum Institute

From January 30, 1998, to the present, Head of NGDU Leninogorskneft

Share in the authorized capital of the Company, %	**0.010465**
Holding of ordinary shares of the Company, %	**0.010107**

Information on the composition of the Board of Directors and its activities is disclosed on the official website of the Company.

Balanced composition of the Board of Directors

The composition of the Board of Directors of the Company is based on the balance of key knowledge, skills, and experience required for effective work.

The members of the Board of Directors of PJSC TATNEFT have competences, knowledge, and experience in strategic management, in financial activities, risk management, accounting, and auditing, as well as in the Company's industry lines of business, sufficient for making balanced and objective decisions in the interests of the Company and the shareholders.

The Board of Directors is composed of 15 directors, including

7 Nonexecutive Directors

46.7% of the total number of the Board of Directors

- Minnikhanov Rustam Nurgalievich,
- Gaizatullin Radik Raufovich
- Muslimov Renat Khaliullovich
- Sabirov Rinat Kasimovich
- Sorokin Valery Yurievich
- Takhautdinov Shafagat Fakhrazovich
- Khamaev Azat Kiyamovich

5 Executive Directors

33.3% of the total number of the Board of Directors

- Maganov Nail Ulfatovich
- Ibragimov Nail Gabdulbarievich
- Nurmukhametov Rafail Saitovich
- Khalimov Rustam Khamisovich
- Khisamov Rais Salikhovich

3 Independent Directors

20% of the total number of the Board of Directors

- Gerech Laszlo
- Levin Yuri Lvovich*
- Steiner René Frederick

The composition of the Board of Directors is balanced by the participation of independent, nonexecutive, and executive directors. According to the Company, three independent directors are enough to significantly influence the decision-making process and ensure objectivity when considering issues, the independence of the judgments of these directors increases the efficiency of the Board of Directors, and also contributes to the improvement of the Company's corporate governance system. The participation of five executive directors ensures the deep integration of the work of the Board of Directors and the executive bodies.

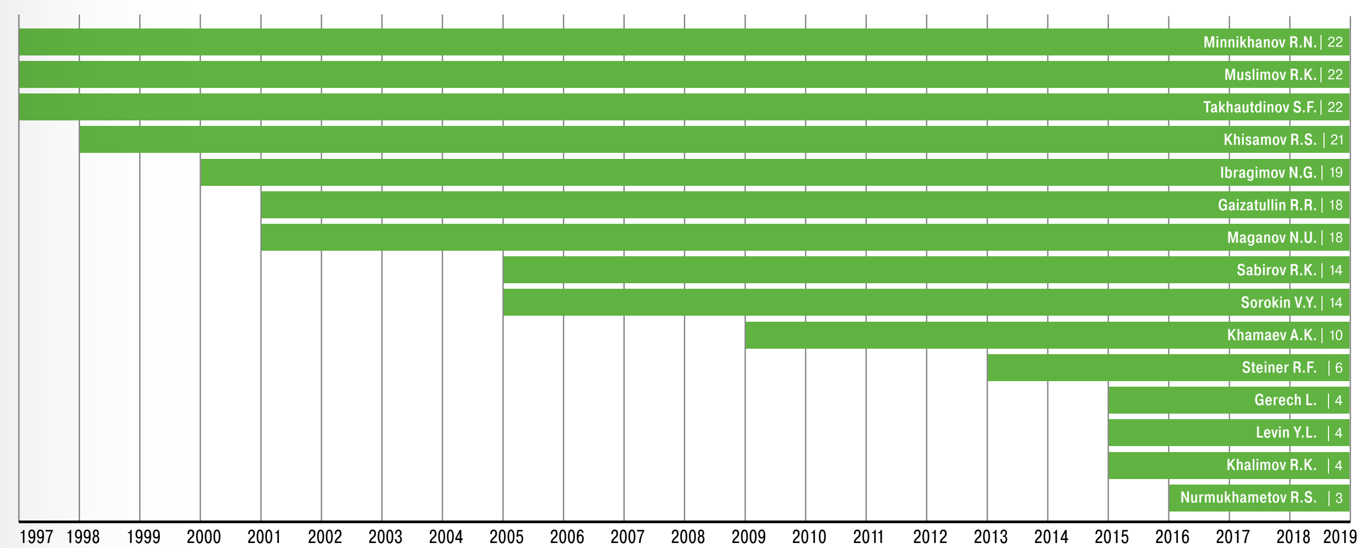
Participation in the work of the Board of Directors of three independent and seven nonexecutive directors ensures the maintenance of a balance between the interests of various groups of shareholders, which contributes to the objectivity of decisions made, enhancing the confidence of investors and shareholders in the Company as well as other stakeholders.

All members of the Board of Directors have considerable experience in the Company, a high professional reputation and, in the performance of their powers, interact with the management and executives of the Company, its main subdivisions, as well as with the registrar and auditor

*Yu.L. Levin was recognized as an Independent Director by a unanimous decision of the Board of Directors due to a formal affiliation with a significant counterparty (Minutes No. 2 of PJSC TATNEFT the Board of Directors meeting dated June 22, 2018).

The Board of Directors evaluates compliance with the independence criteria of members of the Board of Directors operating as independent members. As a result of such an assessment, it was revealed that one of the criteria for the independence of a member of the Board of Directors, Mr. Yu.L. Levin was violated in connection with financial operations for the short-term placement of the Company's funds in PJSC Ak Bars Bank, the member of the Board of Directors of which Mr. Yu.L. Levin is (affiliation with a significant counterparty). Having considered all the parties, the Board of Directors expressed the opinion that the affiliation of Mr. Yu.L. Levin with a significant counterparty (PJSC Ak Bars Bank) is of a formal nature, whereas many years of experience, high professional training, and personal responsibility of Mr. Yu.L. Levin allow him to make objective decisions independently of any other persons, fully meeting the interests of PJSC TATNEFT and its shareholders, on the grounds of which the Board of Directors made the unanimous decision to recognize Mr. Yu.L. Levin as an Independent Director of the Board of Directors of PJSC TATNEFT for the current corporate year.

Duration of work in the Board of Directors



Instatement

For operational inclusion in the work of the Board of Directors and effective use of the professional skills of its members, the Company provides a procedure for instatement of newly elected directors – familiarization with the current operations of the Company, its strategy, corporate and organizational structure, and corporate management practices. In order to effectively exercise their powers, members of the Board of Directors are provided with explanations on observing confidentiality and protecting insider information and participating in meetings of the Board of Directors and its committees.

The Company has mechanisms for providing members of the Board of Directors with information in the amount and within the time required for making weighted and objective decisions on agenda items.

Succession Planning in the Board of Directors

The Company follows the principles of maintaining the balance of qualifications, the experience of directors, continuity and consistent renewal of the composition of the Board of Directors in order to ensure maximum efficiency of the Board of Directors.

Activity of the Board of Directors in 2018

The key stage in planning the Company's activities was TATNEFT Group Development Strategy - 2030 adopted by the Board of Directors in 2018, accumulating ambitious objectives based on Strategy 2025 that was previously approved and confirmed its effectiveness at the early stages.

The agenda of the reporting year of the Board of Directors is focused on reviewing the long-term and medium-term development plans and programs of TATNEFT Group, monitoring their implementation, including in the areas of investment, financial condition, production, management of subsidiaries, making decisions on significant transactions. Close attention was paid to strengthening the technological basis of the Company, switching to innovative forms of managing and organizing business processes, industrial and environmental safety, and increasing margins in the value chain.

In 2018, 15 meetings of the Board of Directors were held, including twelve in-person and three in absentia. In total, more than 80 issues were considered. At the same time, during in-person meetings, issues relating to corporate governance, the Company's strategy, approval of interested-party transactions, decision-making in preparation for the annual and extraordinary general meeting of shareholders of the Company, production issues were discussed.

In the reporting year, the Board of Directors approved the new versions of the internal documents of PJSC TATNEFT:

1. List of information relating to insider information of PJSC TATNEFT named after V.D. Shashin (Minutes No. 12 dated April 24, 2018).
2. Regulations on access to insider information of PJSC TATNEFT named after V.D. Shashin, the rules for the protection of its confidentiality and compliance monitoring with the Legislation of the Russian Federation and the European Union and adopted in accordance with its internal documents. (Minutes No. 12 dated April 24, 2018).).
3. Regulations on disclosure to shareholders of PJSC TATNEFT named after V.D. Shashin (Minutes No. 9 dated January 30, 2018).
4. Regulations on the Dividend Policy of PJSC TATNEFT named after V.D. Shashin (under Minutes No. 9 dated January 30, 2018).

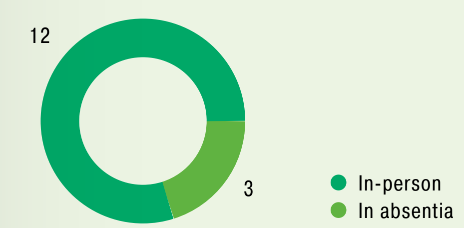
Participation of members of the Board of Directors in meetings of the Board of Directors in 2018

		30.01.2018	26.02.2018	22.03.2018	24.04.2018	21.05.2018 in absentia	30.05.2018	22.06.2018	20.07. 2018	13.08.2018 in absentia	24.08.2018	26.09.2018	25.10.2018	13.11. 2018 in absentia	27.11. 2018	26.12.2018
Minnikhanov Rustam Nurgalievich	15/15	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Maganov Nail Ulfatovich	14/15		●	●	●	●	●	●	●	●	●	●	●	●	●	●
Ibragimov Nail Gabdulbarievich	13/15	●		●	●	●	●	●	●	●		●	●	●	●	●
Levin Yuri Lvovich	14/15	●	●	●	●	●	●	●	●	●		●	●	●	●	●
Gaizatullin Radik Raufovich	13/15	●	●	●	●	●	●	●	●	●	●		●	●		●
Gerech Laszlo	15/15	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Muslimov Renat Khaliullovich	14/15	●	●		●	●	●	●	●	●	●	●	●	●	●	●
Sabirov Rinat Kasimovich	15/15	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Sorokin Valery Yurievich	15/15	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Nurmukhametov Rafail Saitovich	15/15	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Takhautdinov Shafagat Fakhrazovich	14/15	●	●	●	●	●	●	●	●	●	●		●	●	●	●
Khamaev Azat Kiyamovich	14/15	●	●	●		●	●	●	●	●	●	●	●	●	●	●
Khisamov Rais Salikhovich	13/15	●		●	●	●	●	●	●	●	●	●	●	●		●
Khalimov Rustam Khamisovich	13/15	●		●	●	●	●	●	●	●	●	●		●	●	●
Steiner René Frederick	15/15	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●

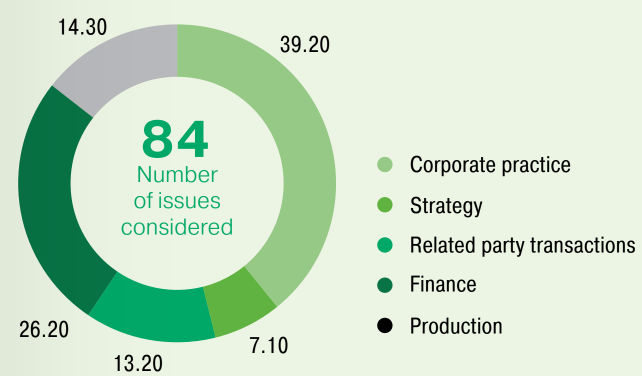
Key Issues Considered by the Board of Directors in 2018

- On the work plan of the Board of Directors of PJSC TATNEFT.
- On the General Director of PJSC TATNEFT.
- On the formation of Committees under the Board of Directors of PJSC TATNEFT.
- Reports of the Committees of the Board of Directors of PJSC TATNEFT.
- On the main areas of work of the Audit Committee of the Board of Directors of PJSC TATNEFT.
- Report of the Internal Audit Department on the results for 2017 and the plan of the internal audit for 2018 and the time budget of the internal audit department.
- On the composition of the Management Board of PJSC TATNEFT.
- Approval of the budget.
- On the results of the budget implementation of PJSC TATNEFT.
- On giving consent to the participation of the General Director and members of the Management Board of PJSC TATNEFT in the management bodies of other companies.
- On the official of PJSC TATNEFT in monitoring compliance with the requirements of the legislation of the Russian Federation on countering the unlawful use of insider information and market manipulation.
- On the Development Strategy of TATNEFT Group until 2030.
- Oil production development plan.
- On the international exploration and production activities.
- Studies on obtaining road bitumens from extra-viscous oil.
- On the plans of oil production, geological and technical measures for 2019.
- Implementation of the project to improve the efficiency of wells maintenance, due to the centralization of underground wells repair shops in PJSC TATNEFT.
- On the implementation of the TANECO Project Strategy, the construction of facilities for the 2nd stage of the TANECO Complex.
- On the implementation of development programs for enterprises of the petrochemical unit of TATNEFT Group.
- On the development strategy of the gas chemical complex of the Company and the market prospects for the development of this area.
- On the Personnel Management Strategy of TATNEFT Group.
- Innovation management: the process of innovation and a systematic approach to identifying and implementing future trends and new technologies (in development and production), skills and competencies.
- Analysis of the implementation of the project "Reconstruction of LLC Nizhnekamsk CHP with the installation of low-grade steam turbines."
- Investor Relations Management: overview of responsibilities and authority, key objectives and results, main problems/effects and opportunities, potential for improvement.
- On the investments of PJSC TATNEFT in the financial sector.
- On the investment risk management system in TATNEFT Group.
- On the effectiveness of cash flow management and temporarily free cash.
- Management of relations with creditors: review of duties and authorities, key goals and results of work, main problems and effects, potential for improvement, management of loan conditions based on operational activities.
- On the organization of the KPI system in TATNEFT Group.
- On the results of the activities of subsidiaries of PJSC TATNEFT.
- Development of functions in the field of industrial, environmental safety and labor protection (HSE) in TATNEFT Group.
- On the further development of material and technical support.
- On the single system for managing social projects and programs of TATNEFT Group.
- On the outcome of the financial and economic activities.
- On the results of the internal assessment (self-assessment) of the quality of work of the Board of Directors of PJSC TATNEFT and committees of the Board of Directors.
- On the report of the Board of Directors on the results of work for 2017, the annual report, the annual accounting (financial) statements, including the distribution of profits of PJSC TATNEFT named after V.D. Shashin.
- On the consolidated financial statements under IFRS.
- On the results of the audit of the financial and economic activities of PJSC TATNEFT for 2017 by the Audit Commission of the Company and the auditing company PricewaterhouseCoopers Audit JSC.
- On the annual general meeting of shareholders of PJSC TATNEFT following the results of 2017, candidates for the Board of Directors, the Audit Commission of the Company and proposals for the agenda of the annual general meeting of shareholders on the results of work for 2017.
- About dividends following the results of work for 2017.
- On convening an extraordinary general meeting of shareholders of PJSC TATNEFT in the form of absentee voting. On recommendations to the extraordinary general meeting of shareholders on the amount of dividends for the first 9 months of 2018 and the procedure for their payment.
- On recommendations to the annual general meeting of shareholders of PJSC TATNEFT for an audit firm to audit PJSC TATNEFT's financial statements under IFRS and RAS for 2018.
- On the procedure for approving interested-party transactions
- On related party transactions.
- On the statement of the Board of Directors of PJSC TATNEFT regarding independent directors.
- Approval of internal documents.

Number of meetings held



Structure of the main issues considered by the Board of Directors in 2018



Committees of the Board of Directors
Audit Committee

The Committee prepares recommendations for the Board of Directors on control over the completeness, accuracy and reliability of the Company's accounting (financial) reports in accordance with IFRS and RAS standards, as well as regarding the independence of the external auditor, the performance of the internal audit function and its independence from the Company's executive bodies, reliability and efficiency of internal control and risk management.

Composition of the Committee

Chairman

Levin Yuri Lvovich – Member of the Board of Directors of PJSC TATNEFT

Independent Director

Managing Partner of BVM Capital Partners Ltd

Member of the HR and Remuneration Committee of the Board of Directors of PJSC TATNEFT

Committee members:

Gaizatullin Radik Raufovich – Member of the Board of Directors of PJSC TATNEFT

Nonexecutive Director

Minister of Finance of the Republic of Tatarstan

Gerech Laszlo – Member of the Board of Directors of PJSC TATNEFT

Independent Director

Managing Director of G Petroconsulting Ltd

Member of the HR and Remuneration Committee of the Board of Directors of PJSC TATNEFT

Steiner René Frederik – Member of the Board of Directors of PJSC TATNEFT

Independent Director

Program Director of Direct Private Investments of FIDES Business Partner AG.

Chairman of the HR and Remuneration Committee of the Board of Directors of PJSC TATNEFT

There were no changes in the composition of the Audit Committee during the corporate year.

The Audit Committee consists of three independent directors. Chairman of the Committee Yu.L. Levin (recognized by the Board of Directors of PJSC TATNEFT as an independent) has experience and knowledge in the field of preparation, analysis, evaluation, and audit of accounting (financial) statements. The members of the Committee possess the necessary knowledge and competencies for the preliminary consideration of issues related to the control over the financial and economic activities of the Company. The Board of Directors have decided to increase the composition of the Committee by including an additional one nonexecutive director who also has experience and knowledge in the preparation, analysis, evaluation, and audit of the accounting (financial) statements (R.R. Gaizatullin).

Main functions

- Control over ensuring the completeness, accuracy, and reliability of the accounting (financial) statements of PJSC TATNEFT, including the preparation of the consolidated financial statements of PJSC TATNEFT Group with the integration of the financial statements of ZENIT Bank into it.
- Coordination of the work of external auditors and the internal audit department, as well as regular review of their reports.
- Organization of an independent assessment of the performance of the internal audit function and making suggestions for improving the work of the internal audit department.
- Check of the independence of the external auditor.
- Consideration and analysis of the quarterly, semi-annual and annual financial statements of PJSC TATNEFT, including the results of inspections by its external auditor.
- Assessment of candidates for auditors and submission of recommendations to the Board of Directors on the election of independent auditors of the financial statements of PJSC TATNEFT in accordance with IFRS and RAS.
- Assistance to the Board of Directors in exercising control over the work of the internal control and risk management systems of PJSC TATNEFT.
- Preliminary consideration of interested-party transactions
- and transactions with parties related to PJSC TATNEFT that are submitted for approval by the Board of Directors of PJSC TATNEFT.

Work of the Audit Committee in the reporting year

In 2018, 7 meetings of the Audit Committee were held in person, 46 issues were considered.

Key issues considered by the Committee in 2018:

	NUMBER OF ISSUES
Review of the consolidated financial statements with the participation of external auditors	14
Issues related to the selection of external auditors and confirmation of the independence of external auditors	3
Issues related to the work of the Internal Audit Department (IAD)	15
Issues related to a preliminary consideration of interested-party transactions and transactions with parties related to PJSC TATNEFT that are submitted for approval by the Board of Directors of PJSC TATNEFT	4
Other	10

Participation in Audit Committee meetings

		27.02.2018	14.03.2018	23.04.2018	30.05.2018	19.07.2018	25.09.2018	26.11.2018
Yu.L. Levin	7/7							
L. Gerech	7/7							
R.F. Steiner	7/7							
R.R. Gaizatullin	7/7							

Corporate Governance Committee

The Committee assists the Board of Directors in improving corporate governance in the Company, improving the efficiency of corporate practice in accordance with protecting the interests of shareholders, ensuring the sustainable development of the Company, strengthening the risk management and internal control systems, ensuring compliance of the Company's activities with the requirements of corporate legislation, stock market regulators, and international best practices applicable to public Companies.

Composition of the Committee

Chairman

Nail Ulfatovich Maganov – Member of the Board of Directors of PJSC TATNEFT General Director, Chairman of the Management Board of PJSC TATNEFT

Committee members:

Nuriya Zufarovna Valeyeva – Head of Technical and Economic Information and Best Practices Department of PJSC TATNEFT

Damir Maratovich Gamirov – Acting Corporate Secretary – Deputy Head of the Office of the Corporate Secretary of PJSC TATNEFT

Natalia Evgenievna Dorpeko – Corporate Consultant to the General Director of PJSC TATNEFT

Valery Dmitrievich Ershov – Member of the Management Board, Head of Legal Department of PJSC TATNEFT until 18.09.2018

Vasiliy Aleksandrovich Mozgovoi – Assistant to the Director General for Corporate Finance of PJSC TATNEFT

Rinat Kasimovich Sabirov – Member of the Board of Directors, Assistant to the President of the Republic of Tatarstan; Member of the HR and Remuneration Committee of the Board of Directors of PJSC TATNEFT

Nurislam Zinatulovich Syubaev – Member of the Management Board, Deputy General Director for Strategic Development of PJSC TATNEFT

Evgeny Aleksandrovich Tikhturov – Head of the Finance Department, Member of the Management Board of PJSC TATNEFT

В составе Комитета по корпоративному управлению в течение корпоративного года произошли изменения: прекращены полномочия Ершова В.Д. в связи с выходом на пенсию.

The committee members possess relevant knowledge, experience, and competencies in the field of corporate law, requirements of stock market regulators to issuers, advanced standards of corporate governance and sustainable development, strategy issues.

Committee activity in the reporting year

In 2018, four meetings of the committee were held.

Key issues considered by the Committee

- on the election of the chairman of the committee for the protection of insider information;
- on the new version of the Regulations on the access to insider information of PJSC TATNEFT, the rules for protecting its confidentiality, monitoring compliance with the requirements of the legislation of the Russian Federation and the European Union and internal documents adopted thereunder and the List of information relating to the insider information of PJSC TATNEFT;
- information on the Regulations on the use of insider information and the procedure for informing on transactions with PJSC TATNEFT securities, approved by the Board of Directors on October 27, 2006, Procedure for access to insider information of PJSC TATNEFT named after V.D. Shashin and the rules for protecting its confidentiality, approved by the Board of Directors on December 28, 2011, the Rules for monitoring compliance with the requirements of the legislation of the Russian Federation on combating the misuse of insider information and market manipulation, approved by the Board of Directors on 29.12.2012;
- on changes in the Company's internal documents due to changes in the current legislation and effective corporate governance practices;
- on the procedure for self-assessment of members of the Board of Directors;
- proposals for improvements in corporate governance;
- on the progress of work on the redesign and reorganization of the Company's official website;
- disclosure of information on the environmental and social activities of the Company;
- on the expediency of joining the UN Global Compact;
- on informing the Company's employees on the requirements of the legislation on the protection of insider information;
- on the organization of work with investors;
- recommendations on increasing the Company's value and increasing liquidity;
- on the disclosure of reporting information on profitability and liquidity.

Participation in the meetings of Corporate Governance Committee

N.U. Maganov	4/4	16.04.2018, 26.09.2018, 27.11.2018, 04.04.2019
N.Z. Valeyeva	4/4	16.04.2018, 26.09.2018, 27.11.2018, 04.04.2019
D.M. Gamirov	4/4	16.04.2018, 26.09.2018, 27.11.2018, 04.04.2019
N.E. Dorpeko	4/4	16.04.2018, 26.09.2018, 27.11.2018, 04.04.2019
V.A. Mozgovoi	4/4	16.04.2018, 26.09.2018, 27.11.2018, 04.04.2019
R.K. Sabirov	4/4	16.04.2018, 26.09.2018, 27.11.2018, 04.04.2019
N.Z. Syubaev	4/4	16.04.2018, 26.09.2018, 27.11.2018, 04.04.2019
E.A. Tikhurov	4/4	16.04.2018, 26.09.2018, 27.11.2018, 04.04.2019
*V.D. Ershov *untill18.09.2018"	1/4	16.04.2018

CORPORATE GOVERNANCE

HR and remuneration Committee

The committee forms recommendations for the Board of Directors on effectiveness of HR policy, the system of appointments and remuneration, evaluation of candidates to the Board of Directors and the Company's management, compliance by independent directors with the criteria for independence as well as efficiency of activities of the Board of Directors, executive bodies and top managers of the Company. The Committee combines the functions in terms of the performance of HR (nominations) and remuneration functions.

Composition of the committee

Chairman

René Steiner –
Member of the Board of Directors of PJSC TATNEFT Independent Director
Program Director of Direct Private Investments, FIDES Business Partner AG
Member of the Audit Committee of the Board of Directors of PJSC TATNEFT

Committee members:

Gerech Laszlo –
Member of the Board of Directors of PJSC TATNEFT
Independent Director
Managing Director of G Petroconsulting Ltd
Member of the Audit Committee of the Board of Directors of PJSC TATNEFT

Rinat Kasimovich Sabirov –
Member of the Board of Directors of PJSC TATNEFT
Assistant to the President of the Republic of Tatarstan, Member of the Corporate Governance Committee of the Board of Directors of PJSC TATNEFT

Yuri Lvovich Levin – Member of the Board of Directors of PJSC TATNEFT
Independent Director
Managing Partner of BVM Capital Partners Ltd
Chairman of the Audit Committee of the Board of Directors of PJSC TATNEFT

There were no changes in the composition of the HR and Remuneration Committee during the corporate year.

The HR and Remuneration Committee of the Board of Directors of PJSC TATNEFT includes three independent directors. René Steiner, Independent Director, is the Chairman of the Committee. Due to the fact that the Committee combines the tasks of the Remuneration Committee and the Nominations (Appointments, Staff) Committee, the Board of Directors decided to increase the composition of the Committee by including an additional nonexecutive director (R.K. Sabirov). All members of the Committee have the relevant knowledge, competence, and experience for the tasks of the Committee.

Work of the HR and remuneration Committee in the reporting year

In 2018, there were 2 in-person meetings of the HR and Remuneration Committee.

The key issues considered by the Committee:

- The Committee's Action Plan
- HR Policy
- Key HR Management projects
- Rem policy
- Analysis of pay level across industry

Participation in hr and remuneration committee meetings

		25.09.2018	28.11.2018
Steiner R. F.	2/2	●	●
Sabirov R. K.	2/2	●	●
Levin Yu. L.	2/2	●	●
Gerech L.	2/2	●	●

Performance Evaluation of the Board of Directors and Committees of the Board of Directors

The Company adopted the practice of evaluating the work of the Board of Directors as a whole, members of the Board of Directors and Committees of the Board of Directors. Evaluation is carried out on a regular basis at least once a year in the form of a self-assessment procedure.

The assessment includes 50 criteria for 5 key components: competencies and powers of the Board of Directors; composition of the Board of Directors; Committees of the Board of Directors; procedure of work of the Board of Directors; the Annual General Meeting of shareholders.

Assessment methodology - a questionnaire survey of members of the Board of Directors on the activities during their term of office in the status of members of the Board of Directors of PJSC TATNEFT since their election in the reporting corporate year. The questionnaire is based on the RAEX rating scale. (RAEX is included in the register of credit rating agencies of the Bank of Russia, RAEX ratings are included in the list of official requirements for issuers and are used by the Central Bank of Russia, the Moscow Exchange, and professional experts.)

In 2019, the self-assessment of the work of the Board of Directors was conducted for the reporting corporate year. The results of the self-assessment and its analysis were reviewed at the in-person meeting of the Board of Directors. (Minutes No. 12 dated 24.04.2019)

Based on the results of the self-assessment, a positive conclusion was made on the work of the Board of Directors in the reporting corporate year. At the same time, in the process of self-assessment, the members of the Board of Directors presented an opinion on the further improvement of the mechanisms of work of the Board of Directors and the development of corporate practice. Generalized comments on the activities of the Board of Directors were submitted to the Corporate Governance Committee and the HR and Remuneration Committee.

Assessing the quality of work of the Board of Directors is aimed at determining the effectiveness of the work of the Board of Directors, committees and members of the Board of Directors, matching their work with the development needs of the Company, enhancing the work of the Board of Directors and identifying areas in which their work can be improved.

Distribution of average ratings by key components

NAME OF THE CRITERION	EVALUATION
Competencies and powers of the Board of Directors	4.17
Composition of the Board of Directors	4.21
Committees of the Board of Directors	4.00
Procedure of the Board of Directors	4.24
Annual General Meeting of Shareholders	4.54

Sole executive body

General Director

The General Director is appointed by the Board of Directors.

The General Director is the Chairman of the Management Board of PJSC TATNEFT.

From November 2013 to the present, Nail Ulfatovich Maganov is the General Director of PJSC TATNEFT.

Maganov Nail Ulfatovich

General Director of the PJSC TATNEFT
Member of the Board of Directors of PJSC TATNEFT
Chairman of the Management Board of PJSC TATNEFT

The powers of the General Director are defined by the Company's Articles of Association and the Provision on the General Director of PJSC TATNEFT.

The General Director manages the current operations of the Company, determines the organizational structure of the Company, controls the safety of the Company's assets and their effective use, resolves the organizational issues of managing the business structure of the Company, ensuring industrial safety, occupational health, and protection of the environment, developing human resources and social guarantees for employees as well as issues of sustainable development and corporate responsibility.

The General Director has the right to entrust the resolution of certain issues within his competence to his deputies, heads of subdivisions. The General Director is personally responsible for the state of affairs and the Company's activities.

The distribution of responsibilities between the General Director and the deputies of the General Director is determined by internal organizational and administrative documents of the Company. The deputy general directors arrange the work and are responsible for the relevant activities.

Management Board

The Management Board is a collegial executive body responsible for the day-to-day management of TATNEFT, the development and implementation of a common development strategy for the Company's subsidiaries.

The Management Board is guided in its activities by the current legislation, PJSC TATNEFT Articles of Association. The procedure for forming the composition of the Management Board, the rights, duties, and responsibilities of members of the Management Board, the regulations for the activities of the Management Board are established by the Regulations on the Management Board of PJSC TATNEFT. The rights and obligations of members of the Management Board are also determined by contracts concluded on behalf of the Company by the Chairman of the Board of Directors with each member of the Management Board.

The Management Board is represented by the heads of the main business and corporate areas of the Company. The Management Board includes executives of the Company and its subsidiaries with the necessary professional qualifications and leadership experience in the field of the Company's activities.

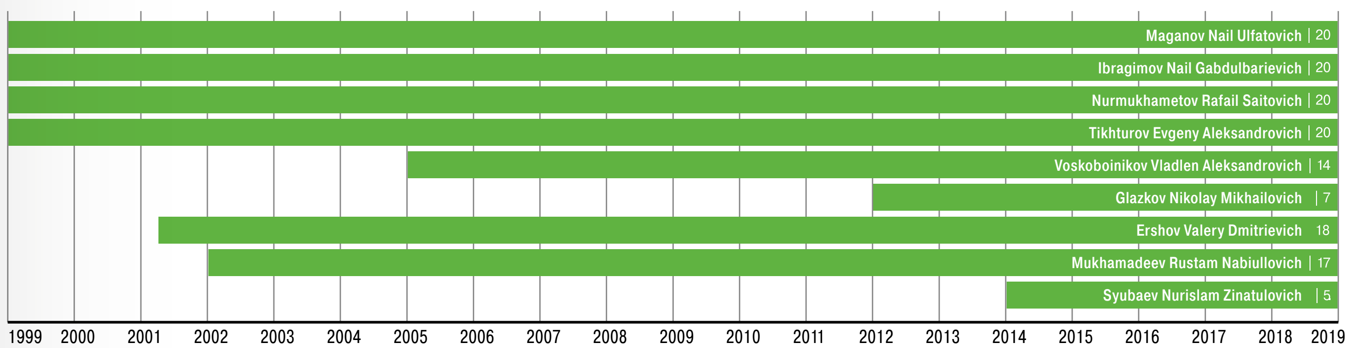
Meetings of the Management Board are held according to the work plan of the Board. The quantitative composition of the Management Board is determined by the Board of Directors.

Changes in the composition of the Management Board of PJSC TATNEFT in 2018

In 2018, changes were made to the composition of the Company's Management Board.

Until 18.09.2018, it consisted of 9 persons. By the decision of the Board of Directors on the grounds of Article 2 of the Regulations on the Management Board of PJSC TATNEFT, the authority of Valery Dmitrievich Ershov, Member of the Management Board of PJSC TATNEFT, was terminated due to the dismissal of the Head of the Legal Department of PJSC TATNEFT.

Duration of work in the Management Board



Composition of the Management Board of PJSC TATNEFT in 2018

Maganov Nail Ulfatovich

General Director of the PJSC TATNEFT
Member of the Board of Directors of PJSC TATNEFT
Chairman of the Management Board of PJSC TATNEFT

Born in 1958.

In 1983, graduated from the Moscow Institute of Petrochemical and Gas Industry named after academician I.M. Gubkin

From July 2000 to November 2013, First Deputy General Director – Head of Crude Oil and Petroleum Products Sales Department of PJSC TATNEFT

From November 2013 to the present, General Director of PJSC TATNEFT

Share in the authorized capital of the Company, %	**0.000176**
Holding of ordinary shares of the Company, %	**no**

Voskoboinikov Vladlen Aleksandrovich

Head of the Consolidated Financial Statements Department of PJSC TATNEFT

Born in 1965

In 1993, graduated from the Technical Institute of Southern Alberta in Calgary

From 2005 to the present - Head of the Consolidated Financial Statements Department of PJSC TATNEFT

Share in the authorized capital of the Company, %	**no**
Holding of ordinary shares of the Company, %	**no**

Glazkov Nikolay Mikhailovich

Deputy General Director for Capital Construction of PJSC TATNEFT

Born in 1960

In 1988, graduated from Kazan Institute of Civil Engineering

From 2008 to 2010, Head of the Capital Construction Department of PJSC TATNEFT

From 2010 to the present, Deputy General Director for Capital Construction of PJSC TATNEFT

Share in the authorized capital of the Company, %	**no**
Holding of ordinary shares of the Company, %	**no**

Ershov Valery Dmitrievich

Head of Legal Department of PJSC TATNEFT
Member of the Corporate Governance Committee of the Board of Directors of PJSC TATNEFT
Member of the Management Board until 18.09.2018

Born in 1949

In 1978, graduated from Kazan State University named after V.I. Ulyanov-Lenin

From 2002 to 18.09.2018, Head of the Legal Department of PJSC TATNEFT

Share in the authorized capital of the Company, %	**no**
Holding of ordinary shares of the Company, %	**no**

Ibragimov Nail Gabdulbarievich

First Deputy General Director for Operations – Chief Engineer of PJSC TATNEFT
Member of the Board of Directors of PJSC TATNEFT

Born in 1955

In 1977, graduated from the Moscow Institute of Petrochemical and Gas Industry named after academician I.M. Gubkin

From 2000 to the present, First Deputy General Director for Operations – Chief Engineer of PJSC TATNEFT

Share in the authorized capital of the Company, %	**0.019831**
Holding of ordinary shares of the Company, %	**0.020873**

Mukhamadeev Rustam Nabiullovich

Deputy General Director for General issues of PJSC TATNEFT

Born in 1952.

In 1977, graduated from the Moscow Institute of Petrochemical and Gas Industry named after academician I.M. Gubkin

From 2001 to 04.12.2017, Deputy General Director for HR and Social Development of PJSC TATNEFT

From December 4, 2017, to the present, Deputy General Director for General Issues of PJSC TATNEFT

Share in the authorized capital of the Company, %	**0.004204**
Holding of ordinary shares of the Company, %	**0.004264**

Nurmukhametov Rafail Saitovich

Head of NGDU Leninogorskneft of PJSC TATNEFT

Born in 1949

In 1974, graduated from Ufa Petroleum Institute

From 1989 to the present, Head of NGDU Leninogorskneft of PJSC TATNEFT

Share in the authorized capital of the Company, %	**0.010465**
Holding of ordinary shares of the Company, %	**0.010107**

Syubaev Nurislam Zinatulovich

Deputy General Director for Strategic Development of PJSC TATNEFT
Member of the Corporate Governance Committee of the Board of Directors of PJSC TATNEFT

Born in 1960

In 1982, graduated from the Moscow Institute of National Economy named after G.V. Plekhanov

2013 to 17.07.2016, Head of the Strategic Planning Department – Advisor to the General Director for Foreign Economic Affairs and Financial and Banking Issues

From July 18, 2016 to the present, Deputy General Director for Strategic Development of PJSC TATNEFT

Share in the authorized capital of the Company, %	**no**
Holding of ordinary shares of the Company, %	**no**

Tikhturov Evgeny Aleksandrovich

Head of the Finance Department of PJSC TATNEFT
Member of the Corporate Governance Committee of the Board of Directors of PJSC TATNEFT

Born in 1960

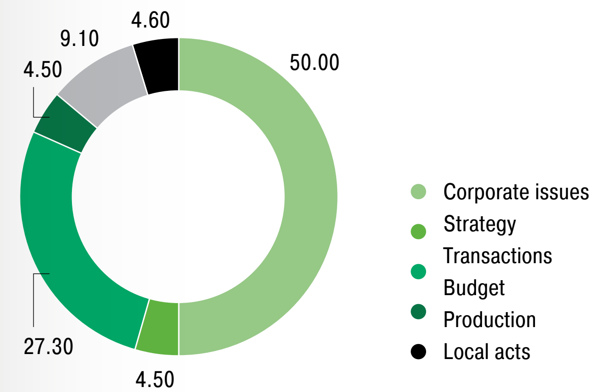
In 1992, graduated from S. Ordzhonikidze Moscow Institute of Management.

From 1999 to the present, Head of the Finance Department of PJSC TATNEFT

Share in the authorized capital of the Company, %	**no**
Holding of ordinary shares of the Company, %	**no**

Activities of the Management board in 2018

Structure of issues considered by the Management Board in 2018



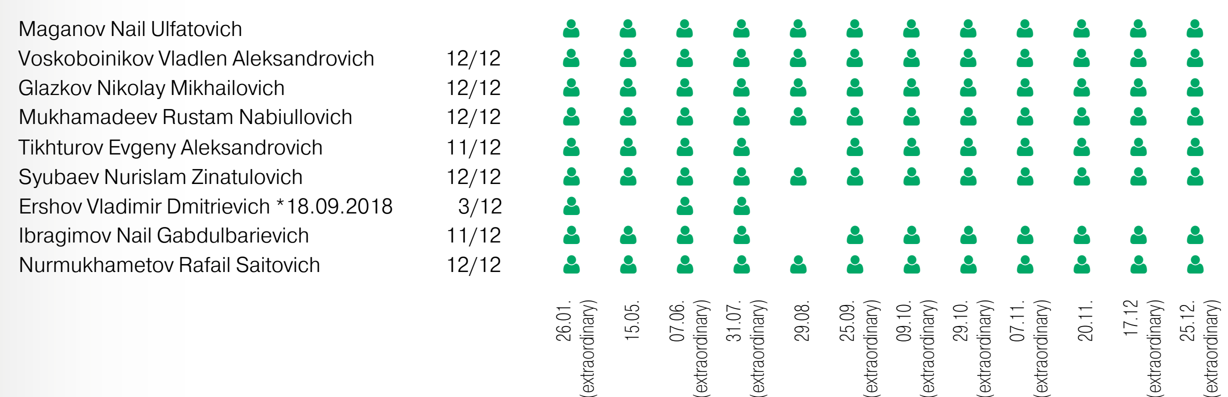
12 NUMBER OF MEETINGS HELD

22 NUMBER OF ISSUES CONSIDERED

Decisions made on the following issues:

- The development strategy of ZENIT Banking Group until 2020;
- Approval of the Company's participation in organizations;
- On the acquisition of shares in 3 companies;
- On termination of PJSC TATNEFT's participation in 4 companies as part of the optimization of the corporate structure of the Company;
- On the approval of the conclusion of transactions for the transfer to lease of property assets and the sale of land plots;
- On the reorganization of subsidiaries;
- On the establishment of the state registration of a subsidiary with a 100% participation of PJSC TATNEFT named after V.D. Shashin in Uzbekistan;
- On approval of transactions for concluding contracts for short-term rental of real estate;
- On the implementation of the project on the deployment of a process control system to optimize the cost estimates in the business units;
- On summing up the results of declaring the execution of the directive, regulatory, planned financial performance indicators of the structural subdivisions of PJSC TATNEFT for 2017;
- On the amount of voluntary contributions from the state fund under the Social Mortgage Housing Construction Program for 2018;
- On the implementation of the quality control mechanism for the work of personnel in the project groups of the corporate social network;
- On approval of transactions for the sale of vehicles.

Participation of members of the Management Board in meetings of the Management Board in 2018



Remuneration of members of the Management bodies

The Board of Directors determines the Company's policy on remuneration and/or reimbursement of expenses (compensations) to members of the Board of Directors, executive bodies and other key executives of the Company.

The policy of incentives for the Company's management personnel is aimed at forming a single remuneration system with its variable part linked to key performance indicators presenting the success of achieving the Company's strategic goals.

The remuneration of members of the executive bodies and other key managers of the Company is determined in such a way as to ensure a reasonable and grounded ratio of the fixed part of the remuneration and the variable part of the remuneration, depending on the performance of the Company and the personal (individual) contribution of the employee to the final result.

For the preliminary consideration of issues related to the formation of the effective and transparent practice of remuneration, a Remuneration Committee was established, consisting of independent directors and headed by an independent director who is not the chairman of the Board of Directors.

When forming the remuneration system and determining the specific remuneration to members of the Company's management bodies, it is assumed that the level of remuneration payable should be sufficient to attract, motivate and retain persons with the necessary competence and qualifications for the Company.

The remuneration system is based on the principles and recommendations of the Corporate Governance Code, taking into account the Company's remuneration and compensation practices.

The Company seeks to establish remuneration for members of the Board of Directors, taking into account the contribution they make to the development of the Company. Adequate remuneration contributes to attracting highly qualified candidates and implies the provision of compensation for the time and effort spent on preparing and participating in meetings of the Board of Directors.

The remuneration system for management personnel is formed taking into account the strategic goals of the Company 2030.

Remuneration of the members of the Board of Directors of PJSC TATNEFT

Remuneration to members of the Board of Directors of PJSC TATNEFT is paid on the basis of the "Provision on the payment of monetary remuneration to members of the Board of Directors and the Audit Commission of PJSC TATNEFT." Formed from constant and variable parts.

The permanent part of the remuneration is established by the Regulations and is indexed simultaneously with the change in tariffs and salaries of PJSC TATNEFT employees.

The variable part of the remuneration of members of the Board of Directors is formed depending on the fulfillment of the following key indicators:

- the ratio of the Company's capitalization level for the year compared with the previous year;
- the ratio of expenses for dividends to net profit (as compared with the previous year);
- the size of additional profitability in relation to the basic profitability.

The amounts of remuneration to members of the Board of Directors are established by a decision of the General Meeting of Shareholders and provide for, among other things:

- remuneration for performing the duties of a member of the Board of Directors;
- remuneration for performing the functions of the Chairman of the Committee of the Board of Directors.

In 2018, the total amount of remuneration to members of the Board of Directors of the Company amounted to 153,970,828.32 rubles, including remuneration for participation in the work of the Board of Directors, salary, bonuses and other types of remuneration. Compensation to members of the Board of Directors of the Company amounted to 7,444,125.08 rubles.

RUBLES

Remuneration for participation in the management body	112 007 358.00
Salary	19 729 183.28
Awards	22 089 746.14
Commission	0
Other types of rewards	144 540.90
TOTAL	**153 970 828.32**
Compensation	7 444 125.08

Remuneration of members of the Management board

Payments to members of the Management Board are made in accordance with the main terms of the contracts for fulfilling the duties of a member of the Management Board, including the implementation of decisions of the General Meeting of Shareholders, the Board of Directors, participation in the elaboration of development plans for the Company, improving the performance of the Company and its subdivisions.

In 2018, the total amount of remuneration to members of the Company's Management Board amounted to 139,442,565.97 rubles, including remuneration for participation in the work of the Management Board, salaries, bonuses, and other types of remuneration. Compensations to members of the Company's Management Board amounted to 646,939.98 rubles.

RUBLES

Remuneration for participation in the management body	7 324 133.00
Salary	81 733 758.67
Awards	48 607 858.21
Other types of rewards	1 776 816.09
Total	**139 442 565.97**
Compensation	646 939.98

Corporate secretary

Ensures that the Company's management bodies comply with the requirements of the legislation, the Articles of Association and internal documents guaranteeing the protection of the rights and legal interests of shareholders. Organizes the work of the Board of Directors and effective communication between shareholders, management, control and executives of the Company.

Damir Maratovich Gamirov

Acting Corporate Secretary – Deputy Head of the Office of the Corporate Secretary of PJSC TATNEFT

Member of the Corporate Governance Committee of the Board of Directors of PJSC TATNEFT

Born in 1980.

In 2003, graduated from Ufa State Petroleum Technical University

From 2013 to 16.04.2017, Economist at the Securities Section of the Property Management Department of PJSC TATNEFT

From April 17, 2017 to the present, Deputy Head of the Office of the Corporate Secretary of PJSC TATNEFT.

Duties of the acting corporate secretary are entrusted to Damir Maratovich Gamirov by the decision of the Board of Directors dated 06.11.2017.

The Corporate Secretary is sufficiently independent of the executive bodies of the Company and has the powers and resources required to fulfill the tasks assigned to him.

The Corporate Secretary acts in accordance with the Company's Articles of Association and the Regulations on the Corporate Secretary of PJSC TATNEFT, which takes into account all the requirements of the Moscow Exchange PJSC and the recommendations of the Bank of Russia Code regarding the activities of the Corporate Secretary.

Key functions of the corporate secretary

- Ensuring the effectiveness of the mechanisms for implementation by the Company, subsidiaries, and affiliates of corporate procedures related to the exercise of the rights of shareholders and other participants of the Company's corporate relations.
- Ensuring the preparation and holding of General Meetings of Shareholders and meetings of the Board of Directors, including the preparation of materials for meetings of the Board of Directors in accordance with the internal documents of the Company.
- Ensuring the work of committees of the Board of Directors of the Company, coordination of their activities.
- Ensuring the interaction of the Company with the organizers of the auction, the registrar, depositories, with government bodies authorized to regulate corporate relations and the securities market, as well as with other professional participants of the securities market within the authority assigned to the corporate secretary.
- Ensuring compliance with the requirements for disclosure of information, provision of documents and information at the request of shareholders, monitoring the effectiveness of corporate mechanisms for disclosing information, ensuring proper storage of corporate documents of the Company.
- Formation of a list of information attributable to the insider, working with insiders, ensuring control over the execution of transactions with the Company's securities by insiders.
- Ensuring the Company's interaction with its shareholders and participation in the prevention of corporate conflicts.
- Monitoring the Company's compliance with the requirements of corporate legislation, the provisions of the Company's internal documents and shareholders' rights in the part related to the competence of the Corporate Secretary, taking the necessary measures to eliminate such violations, minimize the consequences of such violations.

Office of the Corporate Secretary

The competences of the Office of the Corporate Secretary include maintaining an effective system of interaction between all participants of corporate relations, including subsidiaries and affiliates, monitoring the implementation by the Company, subsidiaries, and affiliates of corporate procedures relating to the exercise of the rights of shareholders and other participants in corporate relations, ensuring the Company's interaction with a specialized registrar, depositories, with government bodies authorized to regulate corporate relations and the securities market as well as with other participants of the securities market.

The Office of the Corporate Secretary ensures the organization and control of compliance with the requirements of legislation on public disclosure of information, including the preparation and disclosure of information in the form of an annual report, issuer's quarterly reports, material facts, as well as documents and information related to the issuance and circulation of securities for organized stock market, provision of documents and information requested by shareholders, proper storage of corporate documents of the Company. As part of improving corporate practice, the Office of the Corporate Secretary monitors the effectiveness of the Company's current procedures and ensures that an annual report to the Board of Directors on the state of corporate governance in the Company and its development prospects is prepared.

Audit

Internal audit

Performs assessment of the reliability and efficiency of the Company's business processes, provides for the identification of internal reserves to improve the efficiency of the financial and economic activities of PJSC TATNEFT, including the Group Companies.

Internal audit is carried out in accordance with the plan approved by the Board of Directors.

As part of the audit, a system of internal control over the operational efficiency of processes, compliance with the legislation, and safety of property is considered.

The audit is conducted on a risk-based approach. The report on the results of the internal audit is sent to the management of the Company and the Audit Committee. Subsequently, the Internal Audit Department monitors the implementation of measures and informs the management of the Company and the Audit Committee of the Board of Directors on the progress of elimination of the identified deficiencies.

Control inspections

	2018	2017	2016
Total	33	21	41
Scheduled	9	9	9
Unscheduled	24	12	32
Monitoring	Execution of action plans following the results of the audit 2017-2018.	Execution of action plans for 2016-2017.	Execution of action plans for 2015-2016.
Note	Unscheduled inspections on the instructions of the Company's management on various issues of financial and economic activities	Unscheduled inspections on the instructions of the Company's management on various issues of financial and economic activities	Unscheduled inspections on the instructions of the Company's management on various issues of financial and economic activities

The quality assessment of the internal audit function implemented by the Internal Audit Department of PJSC TATNEFT was successfully conducted. According to the results of the evaluation by experts of CJSC Deloitte & Touche CIS, it was concluded that the management activities generally comply with the International Professional Standards of Internal Audit and the Code of Ethics of the Institute of Internal Auditors.

Independent auditor

In order to independently assess the reliability of the accounting (financial) statements, the Company annually engages an external auditor to conduct an audit of statements prepared under IFRS and RAS. The external auditor is approved by the General Meeting of Shareholders on the recommendation of the Board of Directors of the Company, adopted on the basis of an assessment carried out by the Audit Committee.

PricewaterhouseCoopers Audit was approved as an auditor for compulsory audit of the annual financial accounting statements for 2018 prepared in accordance with Russian and international accounting standards by the decision of the Annual General Meeting of Shareholders (Minutes No. 26 dated June 27, 2018, of the General Meeting of Shareholders).

Audit commission

Supervises the financial and economic activities of the Company and its management bodies, officials, subdivisions and services, branches and representative offices. The Audit Commission is a permanently elected body of the Company.

The Audit Commission is elected by the General Meeting of Shareholders and is accountable to it. Members of the Audit Commission may not simultaneously be members of the Board of Directors of the Company, as well as occupy other positions in the management bodies of the Company. The activities of the Audit Commission are governed by the Company's Articles of Association.

The Audit Commission is elected as a body of nine members by the General Meeting of Shareholders for a term until the next Annual General Meeting of Shareholders. A member of the Company and any person proposed by a shareholder may be a member of the Audit Commission.

The object of the audit performed by the Audit Commission is the Company's activities, including the identification and assessment of risks arising from the results and in the process of financial and economic activities.

The Audit Commission audits the Company's financial and economic activities, confirms the accuracy of the data included in the annual report of PJSC TATNEFT and the annual accounting (financial) statements of the Company, and also confirms the accuracy of the data contained in the report on interested-party transactions made in the reporting year.

The Audit Commission submits to the Board of Directors no later than forty days before the annual meeting the conclusion on the results of the annual audit in accordance with the rules and procedures for maintaining financial statements and accounting.

During the work of the Audit Commission of the Company in 2019, the reliability of the data contained in the annual accounting (financial) statements and the Company's Annual Report for 2018, as well as the data contained in the Report on the interested-party transactions concluded by PJSC TATNEFT in 2018, was confirmed.

Composition of the commission

On June 22, 2018, by the decision of the General Meeting of Shareholders of PJSC TATNEFT, for the reporting corporate year, the following Audit Commission was elected:

Chairwoman of the Audit Commission

Ranilya Ramilevna Gizatova
Year of birth: 1972
In 1994, graduated from the Bashkir State Pedagogical Institute
In 2005, graduated from Almetyevsk State Oil Institute
From 2001 to 01.11.2018, Head of the Investment Department of NGDU Elkhovneft
From 01.11.2018 to the present, Lead Economist in the Planning and Performance Management Section of the Production Processes of the Exploration and Production Department

Members of the Audit Commission

Ksenia Gennadievna Borzunova
Year of birth: 1980
In 2003, graduated from Kazan State Financial and Economic Institute
From 2006 to the present, Head of the Economics Department of the Ministry of Land and Property Relations of the Republic of Tatarstan

Guzal Rafisovna Gilfanova
Year of birth: 1967
In 1993, graduated from Saint Petersburg State University
In 2005, graduated from the Kursk Regional Financial and Economic Institute.
Since 2011, has been working in the Office of PJSC TATNEFT as an economist, currently Deputy Head of the Control and Auditing Department

Salavat Galiaskarovich Zalyaev
Year of birth: 1975
In 1999, graduated from the Moscow Military Institute of the Federal Border Service of the Russian Federation
From 2002 to the present, Leading Legal Counsel of the Corporate and Legal Section of the Legal Department in PJSC TATNEFT
*From 22.06.2018

Venera Gibadullovna Kuzmina
Year of birth: 1946
In 1972, graduated from the Moscow Institute of Petrochemical and Gas Industry named after Academician I.M. Gubkin
From 2002 to 2017, Economist at NIS PJSC TATNEFT
(veteran of labor)
Organization: individual (retired)

Taskirya Gaptenurovna Nurkhametova
Year of birth: 1962
Education: Kazan Financial and Economic Institute
Organization: LLC Management Company System - Service
Position: Chief Accountant
*until 22.06.2018

Liliya Rafaelovna Rakhimzyanova
Year of birth: 1967
In 1988, graduated from Kazan Financial and Economic Institute
From 2010 to August 2012, Head of the Oil and Gas Production Section of the Hydrocarbons Department
Since August 2012, Head of the Oil Production and Refining Department of the Ministry of Industry and Trade of the Republic of Tatarstan

Nazilya Rafisovna Farhutdinova
Year of birth: 1963
In 1985, graduated from Kazan Financial and Economic Institute
From 2010 to present, Deputy Director for Economics and Finance of LLC TagraS-RemService

Ravil Anasovich Sharifullin
Year of birth: 1961
In 1990, graduated from Kazan Financial and Economic Institute
From 2009 to 2012, Chief Accountant of NGDU Yamashneft
From 2012 to the present, Head of the Control and Audit Department of PJSC TATNEFT named after V.D. Shashin

Sariya Kashibulkhakovna Yusupova
Year of birth: 1965
In 1986, graduated from Kazan Financial and Economic Institute
Since 1991, Deputy Head of the Department of the Ministry of Finance of the Republic of Tatarstan

In 2018, changes were made to the Audit Commission by the decision of the Annual General Meeting of Shareholders (Minutes No. 26 dated 27.06.2018), the powers of the member of the Audit Commission of PJSC TATNEFT T.G.Nurkhametova were terminated, and S.G. Zalyatov was elected to the Audit Commission.

Remuneration of the members of the Audit commission

In 2018, the total amount of remuneration to the members of the Company's Audit Commission was 10,077,724.40 rubles, including remuneration for participation in the work of the Audit Commission, salaries, bonuses, and other types of remuneration. Compensations to members of the amounted to 0.00 rubles.

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Remuneration for participation in the management body	2 177 921.00
Salary	3 211 310.45
Awards	4 666 232.66
Other types of rewards	22 260.29
Total	**10 077 724.40**
Compensation	0

Information policy

The Company follows the principles of information transparency, guarantees the timely provision of essential information to its shareholders, the investment community and all interested parties based on:

- Regularity and sequence of disclosure of information on the main activities;
- Efficiency of disclosing relevant information on material events and facts in the Company's activities;
- Guarantee of the accuracy and completeness of the disclosed information about the Company and legal entities controlled by it, which are of substantial importance to it within the framework of the TATNEFT Group;
- Ensuring the availability of information for stakeholders and equal access to information for the same categories of stakeholders;
- Ensuring compliance and consistency of information disclosed in different ways and/or in different forms, as well as the possibility of comparing the disclosed indicators for different periods of time;
- The independence of the provision of financial and other information on the interests of any persons or their groups.

The Company discloses material information about its activities and avoids a formal approach to information disclosure. At the same time, the Company does not evade from disclosing negative information about itself, if such information is essential for shareholders, investors and other stakeholders. The Company seeks to provide simultaneous and equivalent disclosure of material information in the Russian Federation and abroad in accordance with the circulation of the Company's securities in overseas organized securities markets, including in the form of foreign depositary receipts. The equivalence of information disclosure means that if it is disclosed in an organized market in one country, the same content should be disclosed in other countries where the Company's securities circulate in organized markets.

Disclosure, dissemination, and provision of information are carried out in the volume, manner, and within the time limits established by applicable Russian and applicable foreign law in the field of information disclosure by issuers of securities.

In the field of information disclosure, PJSC TATNEFT is guided by the Federal Law "On the Securities Market," the Federal Law "On Joint Stock Companies," Bank of Russia Regulations No. 454-P "On Information Disclosure by Issuers of Equity Securities," and is also guided by the requirements of PJSC Moscow Exchange and London Stock Exchange, recommendations of the Code of the Bank of Russia.

Information subject to mandatory disclosure in accordance with the legislation of the Russian Federation is disclosed in the information and telecommunication network on the Company's official website (tatneft.ru) in Russian and English as well as in the news feed and on the website of the information agency (JSC Screen) authorized to carry out actions to disclose information of the Company.

In 2018, 197 press-releases on the Company's activities were posted on the Tatneft official website.

The Company provides shareholders with easily accessible communication tools such as a "hot line" service as well as e-mail, allowing shareholders to ask questions about the ownership of their shares, how to receive dividends or provide feedbacks and send questions regarding the agenda in the process of preparing for Shareholders' General Meeting.

Data on disclosure of information subject to mandatory disclosure

		QUANTITY
1.	List of affiliates	4
2.	Annual Report	1
3.	Quarterly Report	4
4.	RAS Reporting	4
5.	IFRS reporting	4
6.	On holding a meeting of the Board of Directors and its agenda	15
7.	Individual decisions made by the Board of Directors	15
8.	On convening and holding a General Meeting of Shareholders	3
9.	About decisions of General Meetings	3
10.	About accrued income on equity securities	3
11.	About income paid on equity securities	3
12.	On the issuer's failure to fulfill its obligations to holders of issued securities	1
11.	On assigning or changing the rating to the issuer by the rating agency on the grounds of the concluded agreement	1
12.	On changing the participation share of a member of the issuer's governing body in the issuer's authorized capital	1
13.	On the acquisition by a person of the right to dispose of a certain number of votes attributable to voting shares constituting the authorized capital of an individual organization	2
14.	On the date on which the persons entitled to exercise rights under the issuer's equity securities are determined, including the date on which the list of persons entitled to participate in the general meeting of shareholders of the issuer	5
15.	Information sent outside the Russian Federation for its disclosure to foreign investors in connection with the placement or circulation of the issuer's equity securities outside the Russian Federation	2
16.	Articles of Association	1
17.	Internal documents regulating the activities of the Company's management bodies	13

Data on voluntary disclosure of information

		QUANTITY
1.	Information on decisions made by the Board of Directors (in the form of a press release)	15
2.	Presentations for investors	4
3.	Messages and presentations on IFRS (statements) (in the form of a press release)	4
4.	Production performance of the Company (in the form of a press release)	11
5.	Recommendations of the Board of Directors on the payment of dividends (in the form of a press release)	3
6.	Announcement of the Annual General Meeting (in the form of a press release)	1
7.	Press release and presentation on the Development Strategy for the period until 2030	1
8.	Report on the conference of the labor collective of PJSC TATNEFT	1
9.	News (in the form of a press release)	197

Disclosure of reporting

TATNEFT discloses annual consolidated financial statements together with an auditor's report and consolidated interim condensed financial statements along with a review inspection report of the consolidated interim condensed financial statements. As well as annual financial statements along with the auditor's report and interim financial statements.

Transparency of financial statements is one of the main elements of corporate governance. 28.03.2018 The Company has published audited annual financial statements according to RAS for 2017 and on 29.03.2018 - audited consolidated annual financial statements under IFRS for 2017.

Protection of insider information Procedures and regulations

PJSC TATNEFT, whose securities circulate on organized markets not only in Russia but also in the UK pays special attention to measures aimed at preventing and controlling the inadmissibility of the unlawful use of insider information.

In its activities, the Company is guided by Federal Law No. 224-FZ "On Countering the Inappropriate Use of Insider Information and Market Manipulation and on Amendments to Certain Legislative Acts of the Russian Federation" dated 27.07.2010, other legislation of the Russian Federation, and Regulation (EC) 596/2014 of the European Parliament and of the Council "On Market Abuse" dated April 16, 2014.

The Company provides all the necessary procedures for the protection of insider information with relevant internal regulatory documents: The Company has Regulations on the procedure for access to insider information of PJSC TATNEFT, the rules for protecting its confidentiality and monitoring compliance with the requirements of the legislation of the Russian Federation and the European Union and internal documents adopted thereunder, as well as a number of other local regulations governing the procedure for:

- circulation of insider information within the Company;
- access to insider information;
- disclosure of insider information;
- making transactions with the Company's securities, including the procedure for informing the Company by insiders about such transactions.

In accordance with the requirements of the EU Regulation On Market Abuse, a special procedure applies to the implementation of transactions with the Company's securities by members of the Board of Directors and the Management Board. Members of the Company's governing bodies are informed of the requirements for handling insider information, procedure and deadlines for notifying the regulatory authorities and the Company of securities transactions; a ban on transactions with the Company's securities in closed periods.

In accordance with international best practices, insiders who are not members of the Company's governing bodies also establish restrictions on carrying out transactions with securities in the so-called closed periods.

The Company annually develops a Calendar of periods available to the insider for transactions with the Company's securities and their derivative securities in accordance with Regulation (EU) 596/2014 of the European Parliament and the Council "On Market Abuse" dated April 16, 2014. The Company's website contains the Insider Calendar.

On an ongoing basis, explanatory work is being conducted on the requirements of the applicable legislation.

Informing the Company's employees who have access to insider information, including via the corporate website of the Company.

The Board of Directors decided to appoint Damir Maratovich Gamirov, Acting Corporate Secretary – Deputy Chief of the Office of the Corporate Secretary, as an official of PJSC TATNEFT to monitor compliance with the requirements of the legislation of the Russian Federation on countering the unlawful use of insider information and market manipulation.

By the decision of the Committee for the Protection of Insider Information (Minutes No. 1/2018 dated April 16, 2018), D. Gamirov was appointed the Chairman of the Committee.

Composition of the Committee for the protection of insider information in 2018

Chairman

Damir Maratovich Gamirov – Acting Corporate Secretary - Deputy Head of the Office of the Corporate Secretary, the responsible person for monitoring compliance with the Law on Countering the Misuse of Insider Information.

Committee members

Alexey Petrovich Bespalov – Chief Expert of the Business Service Center of PJSC TATNEFT

Petr Andreevich Glushkov – Advisor to the General Director for International Legal Issues of PJSC TATNEFT

Valery Dmitrievich Ershov – Member of the Management Board, Head of Legal Department of PJSC TATNEFT until 18.09.2018

Vasiliy Aleksandrovich Mozgovoy – Assistant Director General for Corporate Finance of PJSC TATNEFT

Ildar Asylgaraevich Rakhmatullin – Head of the Internal Audit Department of PJSC TATNEFT

Rifdar Rifkatovich Khamadyarov – Deputy Head of the Corporate Culture Development Department of PJSC TATNEFT

Anti-corruption policy

The anti-corruption policy of the Company was adopted by the Board of Directors. On its basis, an appropriate corporate standard has been approved, in which the basic principles aimed at preventing corruption are formulated.

The Anti-corruption Policy Standard applies to all areas of the Company's business.

The Company's position in the field of anti-corruption is public.

Responsibility for the implementation of the Company's anti-corruption policy and combating corruption in all areas of the Company's business is ensured by the Economic Security, Information Protection, Civil Defense and Emergency Situations Department of PJSC TATNEFT.

Regular risk assessment of engaging in corrupt activities

The Company identifies, evaluates and periodically re-assesses corruption risks characteristic of its potentially vulnerable business processes. When identifying and assessing risks, the Company takes into account the fullness of information on activities and plans, including investment and strategic ones, available at the time of the assessment and reassessment.

Results of anti-corruption programs implementation

In the reporting year, the Company held events to identify and assess corruption risks in conjunction with the Internal Audit and the HR Departments. As a result of the measures taken, certain facts of violations were revealed and appropriate measures were taken.

Compliance with anti-monopoly policy

The Company operates in strict accordance with the anti-monopoly state regulation, legislation, recommendations of the Federal Antimonopoly Service (FAS Russia), and the best international practices. The Company follows the principles of competitive business conduct and provides for rules of conduct for employees aimed at preventing violations of anti-monopoly legislation.

The Company is constantly improving its internal procedures aimed at preventing violations of current anti-monopoly legislation, including the training of employees in anti-monopoly regulation.

The Company has a hotline information system

Telephone: 8 800 100 4112
E-mail: tn@88001004112.ru

The Company effectively operates a special confidential channel, through which an employee or an outsider can report facts of various violations related to the Company's activities – professional activities, corporate governance, and corporate ethics issues, respect for human rights, work schedule, social aspects, industrial and environmental safety, labor protection, quality of products and services, other issues, including those of a corruption nature – the "Hotline." Receiving calls is carried out by an independent operator.

In 2018, 702 appeals were received and processed. Appeals were received on various topics and areas: labor and wage management issues, implementation of tender activities, proposals for improvement, assistance to veterans and employees, signals of possible embezzlement and abuse. Appropriate measures have been taken, including at the level of introducing new standards and regulations into corporate practice aimed at reducing the risks of violations in production and business activities, as well as at increasing the labor discipline and responsibility of employees. Additional control measures have been introduced to prevent previously identified violations in the future.

Risk management and internal control

The Company's key priority in risk management and internal control is to ensure reasonable confidence in achieving strategic and operational goals, safeguarding assets, complying with legal and regulatory requirements, compliance with information disclosure procedures, and security in all areas of work.

The Company's risk management and internal control policy includes the goals, tasks, and basic principles of risk management, the functions of participants in the corporate risk management system, as well as the interrelation of the risk management process with the processes of strategic and investment planning, operational planning, human resource management, and labor relations, supply chain, aspects of industrial safety, environmental and social activities.

The Company develops an Integrated Risk Management System (RMS) based on the analysis and assessment of possible factors that can affect the performance of production and financial and economic activities as well as directly or indirectly affect the current work and/or strategic plans of the Company.

Risk management is aimed at identifying, evaluating, and monitoring all significant risks as well as at taking measures to reduce the level of risks that may have a negative impact on current results and long-term work.

The principal approach of the Company is to assess the likelihood of a risk event occurring and the priority of preventive measures over reactive ones.

The Company adheres to the precautionary principle, which is one of the basic in the system of strategic and current planning of activities in all areas.

This principle defines a risk control mechanism to prevent the occurrence of risk or its minimization in circumstances beyond the control of the Company.

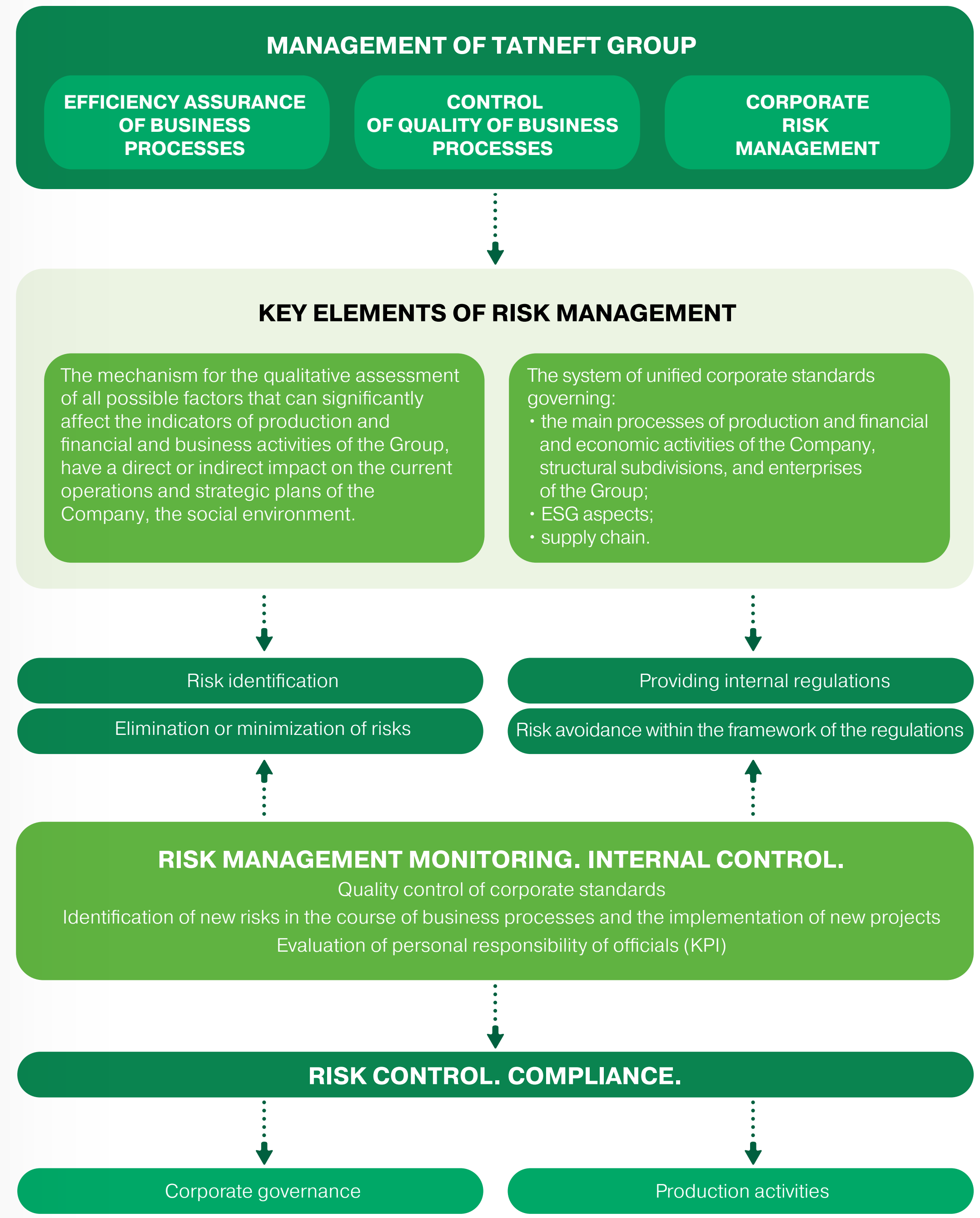
Key principle of the risk management system – Precaution principle

Target FOCUS:

- Development of a risk management system based on the integration of identifying and controlling risks in the processes of strategic planning, the formation and implementation of an investment program, operational and financial activities, and the identification of economic, environmental and social risks.
- Interaction with stakeholders to identify financial, industrial, technological, legal, economic, environmental, and social impacts that can generate risks and effective opportunities in risk management.
- Analysis of the effectiveness of risk management methods used.

Information on the main risks is provided in Annex 5 to this Annual Report "Main Risks."

Risk management system (RMS)



Approaches in risk assessment:

- Risk identification
- Risk reduction planning
- Risk monitoring and control of risk reduction measures.

In order to ensure the sustainable development of the Company, risk management is integrated into the decision-making mechanisms and management system in all areas of activity:

- Corporate governance
- Industrial safety
- Occupational health and safety
- Environmental protection
- Anti-corruption

- Strategy and planning
- Compliance with legal requirements
- Corporate governance
- Safety and efficiency of assets
- Information technology
- HR issues

- Corporate governance
- Investment policy
- Production processes
- Technology and intangible assets
- Financial results
- Quality of products and services
- Information security

The corporate risk management system is aimed at identifying potential risks and the possibility of taking timely measures to eliminate them or initiate them, which makes it possible to adjust the business planning, investment plans and social policy of the Company.

Taking into account the dynamic development of the business environment, the constant change in the composition, quality, and intensity of factors that can affect the Company's operations, the risk management system is constantly being improved to ensure prompt response to such processes.

When analyzing potential risks, external and internal factors are considered.

- External factors: market, industry, socio-economic, political, financial, market and other conditions of the Company and its subsidiaries and affiliates.
- Internal corporate factors: managerial, production, personnel, social, environmental and others.

Based on the processing of large data arrays, more advanced forecasting tools are being developed, which allow taking measures aimed at eliminating or minimizing potential risks. The corporate planning system uses, in particular, various development scenarios that enable it to quickly respond to changes related to factors affecting the Company's operations. The Company plans to improve its risk management system.

An important component of the risk management system is ensuring the implementation of uniform corporate standards governing the main processes of production and financial and business activities of PJSC TATNEFT and the Group's enterprises.

The Company's management system includes the relationship of KPI management with objectives in the field of risk management and internal corporate control.

Internal control

The Company is working to identify risks of business processes and introduce control procedures, which contributes to improving the efficiency and manageability of business processes, ensuring the accuracy of financial reporting, compliance with the legislation and internal regulatory documents of the Company.

Internal control contributes to the executive bodies in improving the efficiency of the management of the Company, the implementation of financial and economic activities. The function of corporate control is in the methodological support of the management apparatus, structural subdivisions of the companies of TATNEFT Group in terms of compliance with tax and accounting legislation. This function helps to ensure compliance with legislative norms and reduce tax and financial risks in the Company.

Principles of risk management

Uniformity of the Company's methodological base: The risk management system is based on uniform approaches and standards for all structural subdivisions and subsidiaries of the Company.

Continuity:
The risk management system operates on an ongoing basis.

Integrity:
The risk management system covers all lines of the Company's business and all types of risks arising within their framework. Control procedures exist in all business processes of the Group at all levels of management.

Accountability:
The risk management system defines the competence for decision-making and control in the field of risk management at all levels of the TATNEFT Group.

Awareness and timeliness of the message:
The risk management process is accompanied by the availability of objective, reliable, and relevant information.

Rationality:
The Company makes rational use of resources to implement risk management measures.

Reasonable confidence:
The risk management system can provide only reasonable guarantees for the achievement of the Company's goals but cannot provide an absolute guarantee due to the inherent limitations of the external and internal environment.

Adaptability:
The risk management system is regularly improved to identify all possible risks of activities and maximize the use of risk control and management methods

Strict regulation:
All operations are conducted in accordance with the procedure for their implementation, established by internal regulatory documents.

Active management involvement:
The management of the Company and its subsidiaries and affiliates actively participates and provides support in the implementation and improvement of the risk management system of TATNEFT Group.

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Risk management system infrastructure

The Company develops a set of components and mechanisms that provide the foundations, organizational measures, and structure for the implementation of the risk management and internal control process across the Group.

A unified register of risks and control procedures is being formed, quantitative models are being developed to assess the key risks of the Company. On an ongoing basis, development, implementation, and unification of control procedures in the Company's business processes are underway.

To minimize the possible negative impact on the results of financial and economic activities, the Company develops and implements appropriate compensating measures. To keep risks at an acceptable level, some of the risks are insured.

The Company plans to improve its risk management system.

Current targets

Improving implementation processes and improving the risk management system:

- Formation of corporate risk reporting procedures – common for all organizations of TATNEFT Group.
- Development of communication mechanisms of the KPI management system with the objectives in the field of risk management and internal corporate control.
- Development of a unified corporate culture of risk management in the Company to ensure that management and employees have a common understanding of the basic principles and approaches to risk management.
- Further enhancement of the effectiveness of the system approach to identifying and assessing risks inherent both in the Company's activities as a whole and in certain areas of its activities.
- Integrating risk management and internal control systems into the supply chain.
- Implementation of the risk management standards of international system ISO 31000:2018.

Information on the main risks is provided in Annex 5 to this Annual Report "Main Risks."

Interaction with shareholders and investors

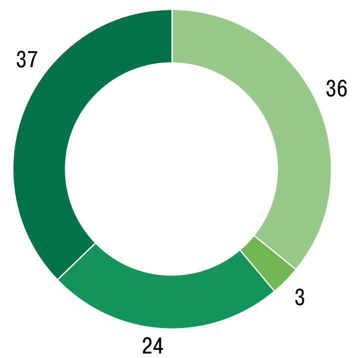
Ensuring the confidence of shareholders and investors in the effectiveness of their investments, long-term and steady growth in shareholder value is the key aspect of the corporate practice of TATNEFT.

Share capital

2 326 199 200
RUBLES

Authorized capital of PJSC TATNEFT

Share capital structure (ordinary shares)



* legal entities under the control of the Republic of Tatarstan

As of December 31, 2018, 40,801 shareholders are registered in the share register of PJSC TATNEFT. Of these, the largest owners (nominee shareholders) of the Company's shares are:

Full name of the legal entity	Type of registered person	In % of the authorized capital	In % of voting (ordinary) shares
Joint Stock Company Central Depository of the Republic of Tatarstan	Nominal holder	26.139806	27.905221
Joint Stock Company Svyazinvestneftekhim	Owner, is in the nominal holding of Joint Stock Company Central Depository of the Republic of Tatarstan and share register	27.232389	29.071778
Nonbank Credit Organization Joint Stock Company National Settlement Depository	Central Depository	59.739154	58.637917
The Bank of New York Mellon	Depositary Programs Account is located in the Central Depository nonbank Credit Organization Joint Stock Company National Settlement Depository	22.845478	24.392234

The Company has no information on the existence of shares of ownership in excess of 5%, other than those disclosed in this table.

Information About Each Category (Type) Of Shares

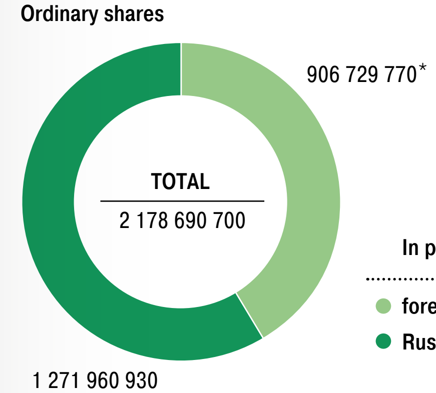
FULL NAME OF THE SECURITIES (TYPE AND KIND)	ORDINARY REGISTERED SHARES	PREFERRED REGISTERED SHARES
Security issue form	Uncertificated	Uncertificated
Volume of production, pcs.	2,178,690,700	147,508,500
Par value of one (1) security (in rubles)	1, 000	1,000
State registration number of the issue of securities	1-03-00161-A	2-03-00161-A
State registration date	26.10.2001	26.10.2001
ISIN code	RU0009033591	RU0006944147
Exchange and trading code	Moscow Exchange, TATN	Moscow Exchange, TATNP

In accordance with the depositary agreement between PJSC TATNEFT named after V.D. Shashin and The Bank of New York Mellon, depositary receipts (ADRs) for the Company's ordinary shares, 6 ordinary shares in one receipt, with the ISIN code US8766292051 are issued and circulate in foreign markets. The main trading platform where the Company's ADRs are used is the London Stock Exchange (trade code is ATAD).

The Company does not have information on the possible acquisition by certain shareholders of the degree of control disproportionate to their participation in the Company's authorized capital, including on the grounds of shareholder agreements or other means.

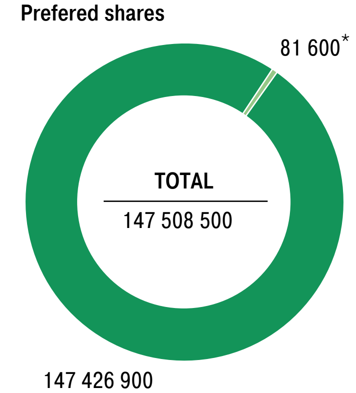
Total number of shares, of them:

Ordinary shares



In possession of:
- foreign persons
- Russian persons

Prefered shares

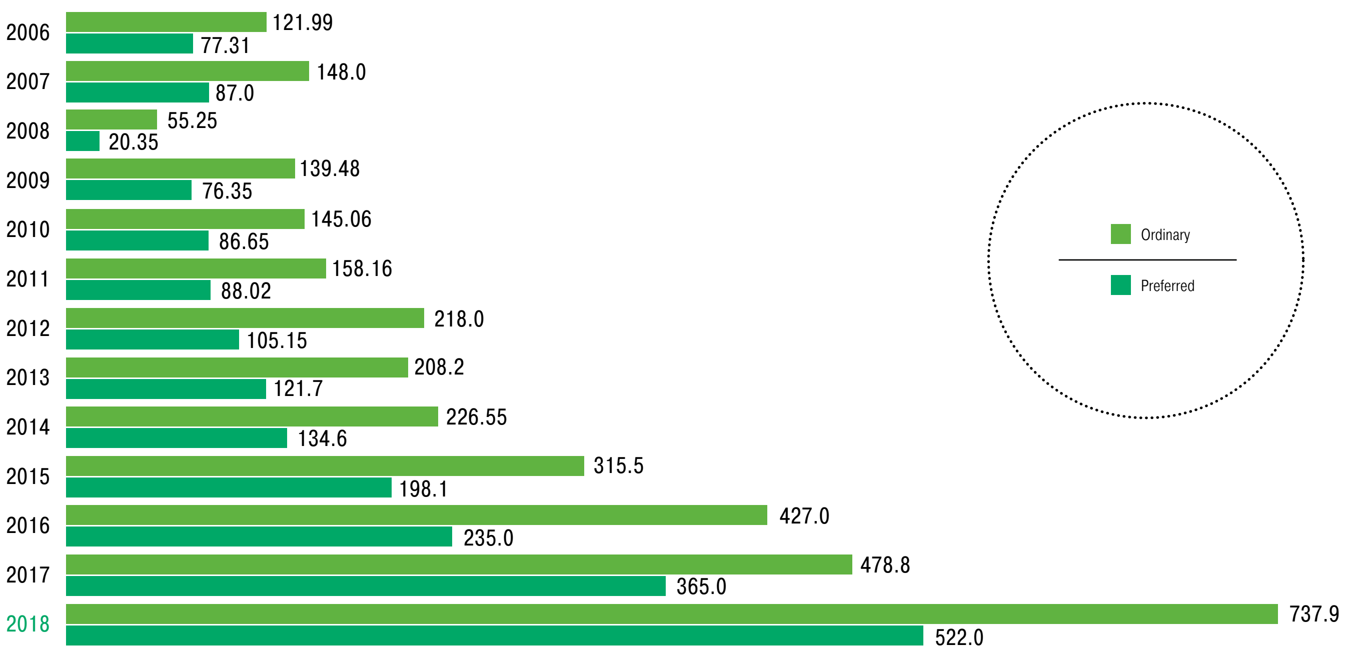


*without ownership through Russian nominees

CORPORATE GOVERNANCE

Investment potential of securities

Value of shares of PJSC TATNEFT, rubles



Securities of PJSC TATNEFT have been circulating on the Russian and international stock markets for more than 20 years. The Company's shares are traded on PJSC Moscow Exchange (first level quotation list), on the London Stock Exchange in the form of American Depositary Receipts (ADRs).

Shares of PJSC TATNEFT are included in many stock indices, including indices of the Moscow Exchange and MSCI Russia.

TATNEFT **ordinary shares** are included in the following key indices: MOEXBC Moscow Exchange blue chips, Moscow Exchange Broad Market Indices IMOEX and RTSI, MSCI Russia, MSCI Russia 10/40, MSCI Emerging Markets, Moscow Industrial Exchange MOEXOG/RTSOG and MSCI EM Energy. TATNEFT ADRs are included in the MSCI Russia ADR/GDR Index, BNY Mellon ADR EM Index, and others.

Preferred shares are included in key indices: IMOEX, RTSI, and MOEXOG/RTSOG.

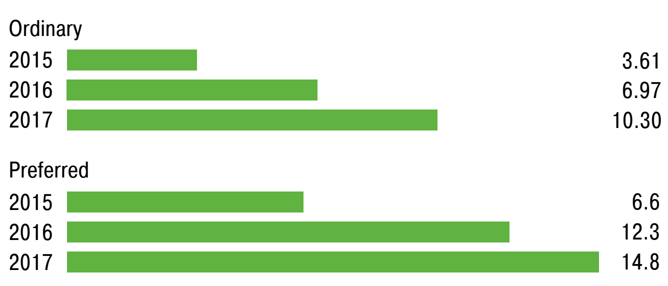
Based on the results of trading on the Moscow Exchange at the end of 2018, the value of one ordinary share of PJSC TATNEFT amounted to 737.90 rubles (10.61 U.S. dollars), one preferred share - 522 rubles (7.51 U.S. dollars). Based on the results for the year, TATNEFT shares became the growth leader among the largest Russian oil companies.

TATNEFT American depositary receipts on the basis of trading on the London Stock Exchange rose in price by 27.4% for the year. The cost of one ADR of the Company as of December 31, 2018, was 63 U.S. dollars. During the same period, the key MSCI Emerging Markets (emerging markets) and S&P 500 (largest US companies) indices lost 17% and 6%, respectively, while the MSCI EM Energy index grew by 1%, respectively.

Turnover during the main trading in ADRs on the London Stock Exchange amounted to 3.8 billion U.S. dollars (average daily turnover of 14.8 million U.S. dollars), and taking into account over-the-counter transactions - 5 billion U.S. dollars (average daily turnover of 19.6 million U.S. dollars).

In 2018, over 2.5 million transactions with TATNEFT ordinary and preferred shares were concluded on the Moscow Exchange during the main trading session. The total volume of transactions concluded on the Moscow Exchange during the main trading with the Company's ordinary shares during 2018 exceeded 254.5 billion rubles, and together with over-the-counter transactions totaled 307.5 billion rubles. The average daily trading volume of ordinary shares on the Moscow Exchange in the reporting period exceeded 1 billion rubles. The total volume of transactions with preferred shares of the Company during the main trading on the Moscow Exchange in 2018 amounted to 31.5 billion rubles, exceeding 36 billion rubles, including over-the-counter transactions. The average daily volume of core trading in preferred shares was 124 million rubles.

Dividend stock returns, %



Dividend policy

The Company adheres to progressive dividend policy, recognizing dividends as one of the key indicators of investment attractiveness for shareholders, and seeks to increase the value of dividends on the basis of consistent profit growth.

The Board of Directors of the Company determines the amount of dividends recommended by the General Meeting of Shareholders based on an economically sound approach to the distribution of profits and respect for the balance of short-term (income) and long-term (development of the Company) shareholders' interests.

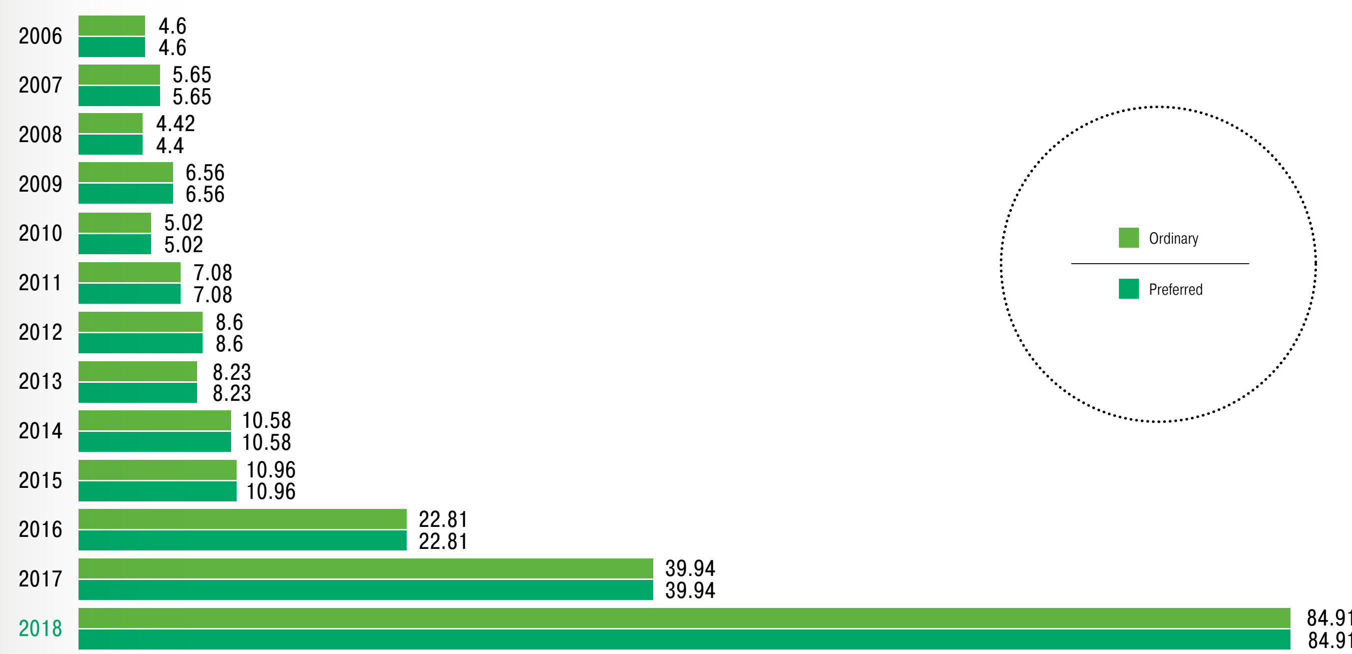
The principles and conditions for making decisions on the payment (declaration) of dividends, the procedure for determining the amount and payment of dividends are determined by the Regulations on the Dividend Policy of PJSC TATNEFT approved by the Board of Directors of the Company (Minutes No. 9, Decision No. 7 dated January 30, 2018). The Regulations are based on the observance of shareholders' rights, as provided for by the legislation of the Russian Federation and best corporate governance practices.

The Board of Directors of the Company, when determining the dividend size (calculated per share) recommended to the General Meeting of Shareholders, proceeds from the amount of the Company's net profit and the fact that the amount of funds allocated for paying dividends is at least 50% of the net profit determined in Russian Accounting Standards (RAS) or IFRS, whichever is greater. At the same time, the Board of Directors takes into account, on the basis of information from the executive bodies, the obligations and the investment program of the Company, the need for working capital and the reserves required for normal activities, and proceeds from the fact that the available funds that are formed after financing the specified investment program, execution of obligations and other needs of the Company can be distributed in the form of dividends.

In June 2018, dividends were approved at 75% of net income under IFRS (at the end of 2017), and at the end of 6 and 9 months of 2018, the level of dividend payments amounted to 75% of net profit under RAS.

In accordance with the decision of the meeting of shareholders, 92.908 billion rubles were allocated for the payment of dividends for 2017, including payments for the first 9 months of 2017, and 122.195 billion rubles for 6 and 9 months of 2018.

Dividends per share, rubles



* taking into account dividends proposed for approval by the Annual General Meeting of Shareholders

The Company provides one of the highest dividend yield levels.

In 2018, TATNEFT entered the TOP 10 of the best oil and gas companies in the world in terms of profitability for shareholders of the world rating of The Boston Consulting Group (BCG) for value increase for shareholders (TSR). The Company has been in the TOP-10 of this rating since 2016.

It is proposed to send 197.518 billion rubles to pay dividends for 2018 – 100% of the net profit received under RAS (including rounding to two decimal places of dividends per share). The Company's cash flow makes it possible to pay out this amount of dividends without creating a source deficit for the implementation of the investment program, operating activities and the fulfillment of existing obligations.

Following the results of 2018, the Board of Directors recommends the annual general meeting of shareholders of PJSC TATNEFT to decide on paying dividends on preferred and ordinary shares, taking into account previously paid dividends based on the results of 6 and 9 months, of 8491% of the par value of preferred and ordinary shares. Taking into account that following the results of 9 months of 2018, in accordance with the decision of the shareholders' meetings, interim dividends in the amount of 122.195 billion rubles were accrued in PJSC TATNEFT, the additional accrual of dividends in 2018 will be 75.322 billion rubles.

BCG publishes annual rankings of the best companies in terms of value added, based on the total shareholder return (TSR) for the previous five years (from 2013 to 2017). At the end of 2017, 2425 companies were analyzed worldwide.

TSR (Total Shareholder Return), a weighted average total return on shareholders, allows measuring the growth of stock prices and dividend income on Company shares over a certain period of time. It is considered the most complete measure of effectiveness in creating shareholder value.

The average annual total shareholder return is the size of the TSR, which the Company, on average, brings in each year from the analyzed five-year period.

History of dividend payments for five last finished financial years

	FOR 2014	FOR 2015	FOR 2016	FOR THE 9 MONTHS OF 2017	BASED ON THE RESULTS OF 2017 Q4 FOR 2017	TOTAL: FOR 2017	TOTAL: FOR 6 MONTHS OF 2018	TOTAL: FOR 9 MONTHS OF 2018	TOTAL: FOR 2018
Total amount of accrued dividends (billion rubles)	24.611	25.495	53.061	64.622	28.287	92.908	70.414	51.781	
Total amount of dividends paid (billion rubles)	24.587	25. 477	53.006	64.561	28.26	92.821	70.342	51.725	
Ordinary shares (% of par value)	1058%	1096%	2281%	2778%	1216%	3994%	3027%	2226%	8491%
Ordinary shares (Dividends amount)	10.58	10.96	22.81	27.78	12.16	39.94	30.27	22.26	84.91
Preferred shares (% of par value)	1058%	1096%	2281%	2778%	1216%	3994%	3027%	2226%	8491%
Preferred shares (Dividends amount)	10.58	10.96	22.81	27.78	12.16	39.94	30.27	22.26	84.91
Dividends (% of net profit)	30%	30%	50,6%	75%	75%	75%	75%	75%	100%
Date of the decision to pay dividends	Annual General Meeting of Shareholders at the end of 2014, which was held on 26.06.2015, Minutes No. 22 dated 30.07.2015	Annual General Meeting of Shareholders at the end of 2015, which was held on 24.06.2016, Minutes No. 23 dated 29.06.2016	Annual General Meeting of Shareholders based on the results of 2016, which was held on 23.06.2017, Minutes No. 24 dated 28.06.2017	Extraordinary General Meeting of Shareholders based on the results of 9 months of 2017, which took place on 12.12.2017, Minutes No. 25 dated 14.12.2017		Annual General Meeting of Shareholders at the end of 2017, which was held on 22.06.2018, Minutes No. 26 dated 27.06.2018	Extraordinary General Meeting of Shareholders based on 6 months of 2018, which took place on 28.09.2018, Minutes No. 27 dated 29.09.2018	Extraordinary General Meeting of Shareholders based on the results of 9 months of 2018, which took place on 21.12.2018, Minutes No. 28 dated 24.12.2018	Annual General Meeting of Shareholders for 2018
Date on which the persons having the right to receive dividends are determined)	15.07.2015	08.07.2016	07.07.2017	23.12.2017		06.07. 2018	12.10.2018	09.01. 2019	05.07.2019
Date of actual payment	To nominal holder – 29.07.2015 To shareholders registered in the register of shareholders – 19.08.2015	To nominal holder – 22.07.2016. Shareholders registered in the register of shareholders – 12.08.2016	To nominal holder – 21.07.2017 To shareholders registered in the register of shareholders – 11.08.2017	To nominal holder – 15.01.2018 To shareholders registered in the register of shareholders – 5.02.2018		To nominal holder – 20.07.2018 To shareholders registered in the register of shareholders – 10.08.2018	To nominal holder – 26.10.2018 To shareholders registered in the register of shareholders – 20.11.2018	To nominal holder – 23.01.2019 To shareholders registered in the register of shareholders – 13.02.2019	To nominal holder – 19.07.2019 To shareholders registered in the register of shareholders – 09.08.2019

* The Board of Directors of PJSC TATNEFT decided to recommend to the General Meeting of Shareholders to approve the payment of dividends for 2018 on preferred and ordinary shares in the amount of 8,491% (taking into account previously paid dividends for 6 and 9 months) of the par value (Minutes No. 12 dated 26.04.2019).

Protection and enforcement of the rights of shareholders

The Company has established a multi-level system for protecting the rights of shareholders of the Company.

GUARANTEES OF THE RIGHTS OF SHAREHOLDERS, PROVIDED BY LEGISLATION AND LISTING RULES

In accordance with the legislation of the Russian Federation, shareholders of the Company are entitled to:

- vote at the General Shareholders' Meeting on the principle of "one share - one vote" in voting on issues in respect of which they have the right to vote;
- submit issues to the agenda of the General Meeting of Shareholders and candidates for members of the Board of Directors (if shareholders have at least 2% of voting shares);
- exercise preemptive rights when placing shares and issued securities convertible into shares;
- receive dividends declared by the Company in proportion to the number of shares owned by the shareholder;
- get acquainted with the information and materials provided in preparation for the General Meeting of Shareholders;
- obtain information on the Company's activities upon request and in accordance with the conditions established by the legislation of the Russian Federation;
- freely dispose of shares;
- exercise other rights established by the legislation of the Russian Federation.

THE COMPANY PROVIDES ALL THE TERMS FOR THE SHAREHOLDERS TO IMPLEMENT THEIR RIGHTS

- The right to participate in the management of the Company by voting at the general meeting of shareholders of PJSC TATNEFT.
- The right to participate in the formation of the Board of Directors of PJSC TATNEFT in accordance with the conditions stipulated by the legislation of the Russian Federation.
- The right to receive part of the Company's profits in the form of dividends.
- The right to receive the necessary information about the Company on a timely and regular basis.
- The right to free and unhindered disposal of shares, reliable methods of recording rights to shares.

Protection of rights on shares

The Company provides reliable and secure methods of recording rights to shares, attracting a professional registrar to keep records.

Company's registrar

The organization that registers the rights to equity securities of PJSC TATNEFT is limited liability Company Eurasian Registrar, which has been conducting professional activities on the Russian securities market as a specialized registrar for more than 20 years.

Eurasian Registrar is in the top 10 largest Russian registrars and maintains registers of more than 600 issuers, the rights to shares of which are recorded on 169,844 personal accounts of securities owners. Shareholder service centers and transfer-agent points are open in 52 regions of the greatest presence of the Company's shareholders: this is the central office, 6 branches, 50 transfer-agent points in partner registrars.

The Registrar is a member of the self-regulatory organization Professional Association of Registrars, Transfer Agents, and Depositories (SRO PARTAD).

The high degree of reliability and security of maintaining electronic databases is ensured by the use of the Zenit registry management system, which has the certificate of SRO PARTAD. The software and hardware capacity of the Registrar allows servicing over 1 million personal accounts of the owners of securities.

Guarantees to customers are provided by Ingosstrakh comprehensive insurance policy for the compensation of property damage as a result of the registration activity.

Information about the registrar, the procedure for transferring the rights to the shares of PJSC TATNEFT, obtaining extracts from the register of shareholders and performing other actions is available at http://erd.ru

The Company together with the Registrar regularly informs shareholders about the need to update the information on shareholders contained in the register of shareholders of PJSC TATNEFT.

Key principles of interaction with company shareholders

Guaranteed equal provision and observance of the legal rights and interests of all shareholders of the Company, regardless of the size of the block of shares they own, established by the current legislation of the Russian Federation, requirements and recommendations of stock market regulators in which the Company's shares circulate.

Constant interaction of the Company's management with all shareholders in order to effectively manage the Company and ensure its sustainable and dynamic development.

Constant improvement of existing and development of new mechanisms and forms of interaction with shareholders, increasing the efficiency and quality of interaction, taking into account the emergence of new shareholders, setting new tasks by shareholders.

Identification and resolution of all possible general and specific problems associated with the exercise of shareholder rights.

Taking all necessary and possible measures in the event of a conflict between the bodies of the Company and its shareholders (shareholder), as well as between shareholders, if the conflict affects the interests of the Company, to fully resolve the conflict, as well as creating conditions that preclude future conflict.

The Company has Regulations on providing information to shareholders. The Regulation establishes the procedure and deadlines for providing shareholders and persons exercising rights to shares, as well as their representatives, documents and copies of such documents.

Materials for shareholders and investors, including press releases, presentations, the Annual Report and the integrated report taking into account aspects of the Company's sustainable development, essential facts about decisions of the Board of Directors of the Company, are posted on the corporate website www.tatneft.ru.

In 2018, 197 press releases on the Company's activities were published on the official website of TATNEFT.

In order to achieve the highest possible quality of interaction with shareholders, the Company strives to use the most reliable methods and forms of communication, including advanced information technologies.

The Company's interaction with shareholders and investors is based on the availability of responsible executives and key employees of the Company to communicate with shareholders, investors and analysts of the stock market, as well as consultants to institutional investors in voting, discussing development plans and results of the Company's operations.
The Company's interaction with shareholders and investors is provided through telephone conferences, group and individual meetings, including investment conferences, Company visits and special trips ("road shows") of authorized representatives of the Company to major international financial centers.

Interaction with shareholders

The key priority of the Company's interaction with shareholders and the investment community as a whole is building a dialogue and effective feedback from investors and analysts, reviewing and discussing their opinions about the Company and its investment history by responsible managers, making appropriate decisions.

In order to ensure the implementation of corporate rights, as well as effective interaction with shareholders in the Company, several communication channels are operated:

- Round-the-clock "Hotline" for shareholders of PJSC TATNEFT via phone 8 800 100 4 112.
- Multichannel phone for receiving and processing oral requests 8 (8553) 37-37-71; 8 (8553) 37-37-39.
- Postal address for receiving written requests: 75 Lenina Str., Almetyevsk, 423450, the Republic of Tatarstan Russia
- E-mail for sending electronic messages: ocb@tatneft.ru.
- Fax: 8 (8553) 37-35-08

In 2018, the Office of the Corporate Secretary of PJSC TATNEFT processed 3,101 appeals from shareholders.

Dynamics of shareholders' appeals in 2016-2018

	2016 NUMBER OF REQUESTS	2017 NUMBER OF REQUESTS	2018 NUMBER OF REQUESTS
Updating personal data	203	228	317
Registration of inheritance rights	150	169	228
Selling and redemption of shares	57	70	92
Dividend payment	1 265	1 466	2 008
Providing certificate under 2-NDFL form	103	119	158
Issues related to the General Meeting of Shareholders	43	50	71
Requests of a notary, court	61	69	96
Other issues	83	96	131
TOTAL	1 965	2 266	3 101

Structure of shareholders appeals in 2018, %

Updating personal data	10.2%
Registration of inheritance rights	7.4%
Selling and redemption of shares	3%
Dividend payment	64.8%
Providing certificate under 2-NDFL form	5.1%
Issues related to the General Meeting of Shareholders	2.3%
Requests of a notary, court	3.1%
Other issues	4.1%

> 3000

SHAREHOLDERS' APPEALS

Interaction with institutional investors

TATNEFT shares are one of the most attractive investment instruments among Russian issuers. The Company's international institutional shareholders are located in the main centers of business and financial activity, including New York, London, Frankfurt, and Singapore.

Meetings allow investors, analysts, representatives of international rating agencies to receive information on the strategic vector of the Company's development, production activities and financial resources management directly from the Company's management.

During 2018, meetings were held with shareholders, investors, and analysts in accordance with the plan of measures approved by the General Director of PJSC TATNEFT and in the course of the current work of the departments and employees responsible for investor relations (IR).

Meetings with institutional investors in the "one on one" format in 2018:

Frankfurt, Germany	February
Boston and New York, USA	April
London, Great Britain	May

Meetings with institutional investors within the framework of conferences and trips of investors in the Russian Federation in 2018:

Investment Conference "Sberbank CIB" in Moscow	May
A trip to the Russian Federation of investors in oil and gas companies, organized by Credit Suisse Bank, Moscow	June
Institutional Investors Trip, organized by Citi Bank, Moscow	September
Annual Investment Conference "VTB Capital. Russia is calling!" Moscow	November

In May 2018, a meeting of a group of international institutional investors and analysts of Goldman Sachs Bank was held with the general director N.U. Maganov and the Company's management in Kazan.

During 2018, more than 60 individual meetings and telephone calls with investors and analysts were held, and constant work was carried out to provide answers to inquiries from investors and analysts of the stock market.

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MEETINGS WITH INVESTORS AND ANALYSTS

The structure of questions of investors and analysts,%

Results and plans of the Company (Strategy, corporate governance, operations, financial results)	65%
Macro conditions of the Company's activity	- about 35%

The main topics of interest to investors and analysts are related to the implementation of the Company's strategy, dividend policy, changes in the taxation of the industry, and the Company's initiatives in the field of sustainable development.

The main topics of questions:

- Company dividend policy and dividend payment plans.
- Corporate governance.
- Opportunities for the implementation of Strategy 2030 in the context of OPEC+ restrictions.
- Plans for oil production and production of petroleum products by the Company.
- Prospects for diversification on the basis of core business (development of the petrochemical industry, others).
- Development of the refining segment, the timing of the introduction of new facilities at the TANECO complex.
- Development of petrochemical direction.
- The main channels and markets for the sale of oil and oil products.
- Participation in the banking segment.
- Strategy for noncore assets (land, banking, etc.).
- Taxation of the industry (the completion of a large tax maneuver, the introduction of VAT).
- Cost control, optimization of production processes.
- Capital optimization
- Initiatives of the Company in the field of sustainable development, aspects of environmental protection, climate, social sphere (ESG).

The Company has organized the process of prompt preparation of responses to investors' requests in various areas of activity. Answers are provided in written and oral form with mandatory disclosure and publication of any information that is material and may affect the value of the Company's securities.

Comments received from investors on a regular basis are reported to the management of the Company.

The Company holds quarterly conference calls for investors with detailed coverage of the results of activities for the reporting period. During 2018, 4 presentations for investors were prepared and published on the Company's website:

- Presentation of TATNEFT Group for investors (incl. 2017 IFRS results), April 2018.
- Presentation with a review of indicators under IFRS for Q1 2018, June 2018.
- Presentation with a review of indicators under IFRS for Q2 and 1st half of 2018, August 2018.
- Presentation of the Strategy of TATNEFT Group until 2030, September 2018.

Sustainable development

The Company's strategy implementation includes aspects of sustainable growth and provision of favorable economic and social conditions for business development based on the most efficient use of all types of resources and creating value for stakeholders at each stage of activities.

Recognition of human rights to safe working conditions, favorable environment, and living conditions is a fundamental principle in planning, setting, and solving business tasks at the level of all production processes of the Company.

Global Business Challenges and New Opportunities

Challenge	Company's Response	
VOLATILITY OF MACROECONOMIC PARAMETERS AND WORLD PRICES OF OIL AND OIL PRODUCTS	The Company's strategy takes into account various scenarios of macroeconomics development; planning is carried out on the basis of the scenario approach. Balanced investment policy and built-in protection against low oil prices. Focus on high operational efficiency and profitability at all business levels.	STRONG FINANCIAL STANDING
HIGHLY-COMPETITIVE INDUSTRY ENVIRONMENT	Calibrated production targets based on the analysis of industry factors. Reliable pool of financial and economic sustainability and technological potential. Focus on leadership.	SUSTAINABLE COMPETITIVE POSITION
DYNAMIC GROWTH OF HIGH-TECH SOLUTIONS IN THE OIL INDUSTRY	Introduction of advanced technologies. Development of targeted technological solutions for the in-house production, including fields at the late stage of development, on the basis of the corporate scientific base and strategic partnership with the leading centers of the industry, including import-substituting technologies and equipment. Extensive investment in R&D.	CUTTING-EDGE RELIABLE TECHNOLOGICAL BASIS
DIGITAL TRANSFORMATION (INDUSTRY 4.0) IN BUSINESS PROCESSES AND PRODUCTION ACTIVITIES	Integration of digital solutions in management and production activities at all stages of planning, implementation, control, and reporting. Digital modeling of production base and processes. Application of unique information solutions and artificial intelligence in production activities.	FORMATION OF THE COMPANY'S SINGLE INTEGRATED PLATFORM
GROWING ENVIRONMENTAL AND SOCIAL RESPONSIBILITY	Control over the environmental impact of production activities and environmental safety at an acceptable level. High level of industrial and occupational safety. Target programs and investment in social infrastructure development. Resource saving programs, renewable energy sources.	REDUCTION OF ENVIRONMENTAL FOOTPRINT TO THE LEVEL WHERE THERE IS A POTENTIAL FOR SELF-RECOVERY OF ECOSYSTEMS FAVORABLE LIVING CONDITIONS IN THE TERRITORIES OF THE COMPANY'S OPERATION
INCREASE IN REQUIREMENTS TO THE LEVEL OF PROFESSIONAL COMPETENCIES OF AND INCENTIVES FOR PERSONNEL	Hiring highly-qualified employees. Professional development and personal growth programs for personnel. Corporate University. Decent labor remuneration and social guarantees. Incentive system and KPIs.	HIGH LEVEL OF COMPETENCE AND EMPLOYEE ENGAGEMENT

Aims of sustainable development

The Company takes into account global trends in sustainable development, adheres to the Principles of the UN Global Compact, UN Initiatives on the Principles of Responsible Investment (UNPRI), the G20/OECD Principles of Corporate Governance, the provisions of the Social Charter of Russian Business, approaches of the Russian Union of Industrialists and Entrepreneurs (RUIE) to the formation of the indices of corporate sustainability, responsibility, and openness for sustainable development.

The UN action program Transforming our world: the 2030 Agenda for Sustainable Development adopted in 2015 and including recommendations on the coordination of actions of authorities and business in the field of sustainable development is a significant benchmark for the Company.

The Company adheres to the principle of consistent continuous improvement of indicators of the current and planned activities, products, and services impact on personnel, population, and the environment.

Employees of the Company, including services related to personnel management and security activities, are involved in human rights procedures on an ongoing basis and undergo appropriate training on a regular basis. The principal areas of monitoring in the field of human rights include the following: compliance with legal requirements; internal audit in terms of compliance with corporate procedures and standards by lines of the Company's business; procedures for assessing the environmental impact of production activities and the efficiency of industrial and occupational safety measures; interaction with the Trade Union and monitoring the Collective Agreement implementation; analysis of feedback, including that within the hotline .

ECONOMIC ASPECT

Compliance with the goals of the UN:

- Participation in the development of the national fuel and energy complex infrastructure.
- Job creation.
- Creation of added value.
- Assistance to local economies.
- Introduction of innovations.
- Ensuring financial and economic stability of the Group's enterprises.
- Development of the in-house research and production base integrated with leading industry research centers.

INNOVATIONS

Compliance with the goals of the UN:

The Company's Strategy is based on the principles of innovative development.

The target focus is the technologies required to implement the Strategy and to overcome the challenges hindering it.

The Company consistently develops and implements the most cutting-edge solutions, many of which are unique in the industry and in the technology supply market. Interaction with the national and foreign leading scientific, technical, and technological centers allows for the integration of production tasks and extensive experience with innovative scientific potential in all areas of the Company's operation.

SOCIAL ASPECT

Compliance with the goals of the UN:

- Legal compliance.
- Respect for human rights.
- Positive public opinion.
- Quality management.
- Provision of high-quality goods and services.
- Continuous improvement of product quality.
- Strive to follow the changing demands of consumers.
- Provision of reliable information about the Company's products.
- Assistance in the social and economic development of the regions of the Company's operation.
- Support of local communities in the areas of presence.
- Development of human capital in the territories of the Company's operation.
- Addressing socially significant issues in the territories of the Company's operation through cooperation with local communities.
- Promotion of education, culture, and sports.
- Support for socially vulnerable groups.
- Ensuring competitive compensation and a set of social benefits for employees.
- Development and training of personnel, the formation of personnel reserve.
- Good working conditions.
- Development of effective corporate communication with all stakeholders.
- Implementation of best social practices.

ECOLOGY ASPECT

Compliance with the goals of the UN:

- Environment protection.
- Use of recyclable materials.
- Use of environment-friendly energy sources.
- Energy saving.
- Recycling.
- Ensuring safe working conditions, protecting the health of the personnel and the population living in the areas of the Company's operation.
- Reduction of environmental footprint and prevention of environmental damage from economic activities.
- Rational use of natural resources.
- Implementation of a set of measures to maintain the environment in the regions of the Company's operation at the standard admissible level corresponding to the natural ecosystems' potential for self-recovery.
- Increasing the level of industrial and occupational safety, reducing injuries, accidents, occupational diseases.
- Reduction of environmental footprint and maintenance of the natural environment and human habitat in a favorable state.
- Rational use, restoration, and protection of natural resources, biodiversity preservation.
- Combating climate change.
- Implementation of the world's best practices in the field of environmental safety.

Human rights

The Company recognizes the importance of respecting and observing the fundamental human rights proclaimed by the UN Universal Declaration of Human Rights.

As an international company conducting business projects in countries with different political systems and cultural traditions, TATNEFT presumes that everyone should have all the rights and freedoms set forth therein without distinction of any kind, such as race, color, sex, age, language, religion, political or other convictions, national or social origin, property, birth, or other status, including the right to work, the right to a favorable environment, the rights of indigenous minorities and special population groups, etc.

- The Company strives to adhere to the basic principles in the field of labor relations and environmental protection enshrined in the conventions of the UN and the International Labor Organization (ILO).
- The Company does not tolerate any form of harassment or discrimination.
- The Company respects the rights of each employee to collective representation, including labor unions, while excluding any possibility of an atmosphere that is hostile, humiliating, or insulting for human dignity.
- The Company assumes the obligations in respect of rights to a healthy environment and safe work and intends to implement all the available and feasible measures to prevent occupational injuries and diseases of personnel, accidents and to mitigate any consequences thereof.
- The Company supports the preservation of the national and cultural identity of the people living in regions of the Company's operation.
- The company recognizes and respects the rights of trade unions, including those enshrined in the ILO core conventions:
- the right of each employee to be represented by a trade union organization of his/her own choice and the fundamental trade union rights relating to the freedom of association and the right of employees to organize trade unions as well as the right to collective bargaining
- exclusion of any form of forced or compulsory labor;
- actual exclusion of child labor;
- promoting and ensuring equal opportunities and treatment for the employees, including equal compensation for women and men for work of equal value, and nondiscrimination in employment and occupation.

Respect for human rights in the Company

Evaluation of the Company's human rights activities is carried out in the process of analyzing aspects and preparing a report on sustainable development. The main guidelines for monitoring the observance of human rights:

- compliance with legal requirements;
- internal audit in terms of compliance with corporate procedures and standards for areas of activity;
- carrying out procedures for assessing the environmental impact of production activities and the impact of industrial safety and labor protection measures;
- interaction with the Trade Union Organization and monitoring the implementation of the Collective Agreement;
- feedback analysis including that as part of the hotline.

Employees of the Company, including the services related to the personnel and security management activities, are continuously involved in procedures regarding human rights aspects of and take appropriate training on a regular basis.

Interaction with stakeholders

Key principles of interaction with stakeholders

Safety

Consumer health and safety protection includes the provision of products and services that are safe and do not pose an unacceptable risk of harm when used or consumed. The Company strictly controls compliance with all regulatory requirements governing the quality of products and services. At all life-cycle stages of the offered products and services, the Company assesses their impact on health and safety in order to identify opportunities for improvement. No cases of noncompliance with the regulatory requirements concerning the impact of products and services on health and safety were registered in 2018.

Obtaining information

The Company provides consumers with access to complete, accurate, and comprehensible information that enables them to make informed decisions according to their individual expectations.

Contracts for the supply of products are set out in clear, unambiguous, and comprehensible language, do not contain unfair contractual obligations, provide clear and sufficient information about the price, features of the product, and the terms and conditions of the contract.

No cases of noncompliance with the regulatory requirements in respect of informing consumers about the properties of products and services were registered in 2018.

Fair and responsible marketing practices

The Company uses only fair marketing practices and protects consumers from unfair or misleading advertising or labeling. The Company's activities in the field of promotion of products and services, advertising, and marketing comply with the legislation of the Russian Federation.

In 2018, no cases of noncompliance of the Company's activities with the legislation in the field of promotion of products and services, advertising, and marketing were registered. In the reporting year, the Company was not charged with fines for noncompliance with the legislation and regulatory requirements relating to the provision and use of products.

Compensation for damage

The Company has clear mechanisms in place to resolve claims and disputes with consumers as well as measures to prevent the same.

All cases of receipt of consumer claims are recorded, the causes are analyzed and in the case of identification of justified claims, the relevant measures are undertaken.

The Company takes preventive measures to avoid damage to the interests of consumers.

Privacy

The Company ensures respect for privacy and protection of personal data through the use of reliable and secure systems for the collection and protection of consumer data. Information about consumers is collected only in legal ways. The collection of personal data of consumers of the Company's products and services is limited to the information that is required for the provision of products or services or is provided on a voluntary basis with the consumer's consent.

Protection of the collected personal data of consumers is ensured with the use of effective security measures.

In 2018, there were no complaints regarding violations of consumer privacy and loss of consumer data.

Health, safety, and environment

The occupational health, safety, and environment (HSE) measures at the facilities and territories of operation of all the TATNEFT Group organizations are ensured on the basis of a systematic approach and effective interaction with stakeholders.

Special attention is paid to the development and implementation of environmentally effective innovative technologies that contribute to the reproduction and rational use of natural resources, prevention of the negative impact of production processes on the environment as well as the restoration of natural ecosystems, conservation of biological, landscape diversity and climate.

Important aspects of the Company's production process management are the issues of reducing the carbon footprint, ensuring environmentally safe waste management, the development of renewable energy sources and energy saving.

Fundamental priorities

- To recognize the right of people to safe working conditions, a healthy environment, and favorable living conditions.
- To ensure the occupational and environmental safety of production processes as an integral part of national security.
- To preserve and restore the favorable environment, natural ecosystems, natural landscapes, natural complexes, and biological diversity of systems in the regions of operation of TATEFT Group organizations.
- To ensure the rational use of natural resources involved in the production by TATNEFT Group organizations through the introduction of resource-saving and energy-efficient technologies, the use of environmentally friendly and alternative energy sources, waste processing, and the use of recyclable materials.
- To reduce consistently the negative impact on the environment and prevent environmental damage from the economic activities of TATNEFT Group organizations, to minimize the impact on climate change through the introduction of the best available technologies, equipment, materials, digital solutions for technological process control.
- To adhere to the risk-based approach to HSE.

The Company adheres to the principle of "consistent procedures," which means that further measures are formed on the basis of data obtained as a result of the previous level procedure

Currently, the Company is implementing an integrated management system in accordance with the latest-generation international standards ISO 45001:2018 and ISO 14001:2018 standards.

Basic internal documents defining the industrial and occupational safety management system

- TATNEFT Policy in the Field of Occupational Health, Safety, and Environment.
- Regulations on the Industrial Safety Management System.
- Regulations on the Occupational Safety Management System of TATNEFT Group.
- Regulations on Industrial Control over the Compliance with the Industrial Safety Requirements at Hazardous Production Facilities.
- System for Ensuring Production Safety.

The number of personnel trained in HSE

	2017	2018
Industrial safety (including radiation and energy safety)	901	639
Occupational health and safety	2 354	2 473
Fire safety	11 753	16 510

Industrial safety

The Company has a multi-level industrial safety management system (ISMS) in place and functioning. The Group's enterprises annually develop and implement plans of measures to ensure industrial safety and programs of industrial environmental control with the identification of persons exercising industrial control. To strengthen labor and industrial discipline, involve personnel in the processes of ensuring industrial and occupational safety, Self-Declaration Control Sheets have been developed for the Oil and Gas Field Operating Division shops and services on the self-declaration basis.

Production safety is ensured by regular preventive inspections of the technical condition of equipment and routine maintenance of equipment as well as the equipment preventing emergencies.

To ensure readiness for localization and response to accidents, the plans of measures for localization and response to accidents are updated on a regular basis. Annually, competitions among irregular emergency response units and fire relays are held among the teams of voluntary fire-prevention units of the Company.

Safety level assessment at hazardous industrial facilities

For an objective and comprehensive assessment of the safety level at hazardous production facilities, the method for automated calculation of the occupational safety coefficient (OSC) comprising over 30 indicators is applied.

Oil spill emergency prevention and response system

System of prevention and response to emergencies, which result from oil spills, and the protection of people and the environment from their harmful impact is implemented at TATNEFT in two focus areas: a set of engineering and organizational measures aimed at enhancing production equipment reliability, timely oil spill detection, and minimizing the resulting damages as well as a set of measures to respond immediately to this type of emergency.

The irreducible material stocks have been secured, including for the elimination of oil spills in water bodies. 2,225 meters of booms, 17 skimmers, and 7 tonnes of sorbent are available.

Contingency accident response units, which are authorized to perform operations for the localization and elimination of oil spills and gas-hazard operations, have been established in oil and gas producing divisions of the Company and certified by the industry certification commission.

To prevent the pollution of surface watercourses (rivers) and water bodies (reservoirs) with oil, 528 stationary oil recovery units (ORU), booms, and bioponds are maintained in operating condition.

In 2018, no emergencies related to oil and oil product spills were registered at the facilities of TATNEFT Group.

Fire safety

In 2018, the Plan of Organizational and Technical Measures to Strengthen the Fire Safety of the Company's Facilities was implemented.

In 2018, there were no fires at the Company's facilities.

Radiation safety

In order to control and ensure radiation safety in 2018, a number of activities were carried out, such as a planned radiometric survey of oil treatment facilities; individual dosimetric control of personnel; selective radiometric surveys of production premises as well as verification of compliance with radiation safety requirements during the quality control of welded joints, etc.

According to the Department of the Federal Service for Supervision on Consumer Rights Protection and Human Wellbeing in the Republic of Tatarstan, the state of radiation safety of the Company is assessed as satisfactory.

Ensuring energy security

ЭThe efficiency of the power supply system is characterized by the level of shutdowns and energy security. The Company is implementing a program to improve the reliability of the power supply system (introduction of the advanced and safe equipment), introducing elements of network digitalization (installation of microprocessor protection units, implementation of automatic reserve input, automatic restart).

In terms of energy security, the energy management system is under reorganization. The result of this work is a reduction of failures in the power supply system by 15.9%.

To maintain an open dialogue with all stakeholders on the environmental activities of the Company, an open information environment has been created. Mass media provide coverage of the technological processes and environmental issues in a comprehensible form. Environmental initiatives of TATNEFT become the subject of discussion at the Roundtables with the participation of experts, government officials, the general public, and the media.

Occupational health and safety

The Company consistently implements targeted program activities aimed at preserving life and health as well as improving the working conditions of employees, reducing accidents, significant production risks, improving the safety of equipment and fire safety of its facilities.

The amount of more than 1 billion rubles has been allocated for occupational safety measures in 2018. Average costs per 1 employee amounted to about 24 thousand rubles. The dynamics of occupational safety expenditures for TATNEFT Group, in particular, per employee, shows a positive trend.

The main tool for assessing working conditions is the procedure regulated by the Russian legislation, i.e. the Special Assessment of Working Conditions (SAWC).

As of January 1, 2019, at the enterprises of TATNEFT Group, 94% of workplaces were covered by the SAWC procedure conducted during 2014-2018.

0.08

COEFFICIENT LTIFR

14.4 thousand workplaces with acceptable working conditions and 11.8 thousand workplaces with hazardous working conditions were identified. The category of employees of TATNEFT Group, associated with a high risk of injury, includes employees engaged in the production and processing of oil and gas, underground well repair, exploration, assembly, repair, and construction works, maintenance of oil and gas facilities.

Following the SAWC, TATNEFT Group structural subdivisions are developing measures to improve working conditions in the workplace. The share of the Company's employees occupied in hazardous working conditions has been steadily declining in recent years.

Dynamics of the number of days of temporary incapacity for work, resulting from occupational accidents throughout TATNEFT Group has shown a 3-fold decrease over the past five years. Over the past 5 years, 2 cases of occupational diseases have been registered in TATNEFT Group.

Occupational safety expenditures in TATNEFT Group, in particular, per employee, thousand rubles

	2016	2017	2018
Funds spent on occupational safety measures	972 030.99	981 449.29	1 060 052.66
Funds spent on occupational safety measures per employee	22.1	22.3	23.9

Dynamics of the number of days of temporary incapacity to work

	2016	2017	2018
	1 378	692	499

Dynamics of occupational injuries

	2016	2017	2018
Total number,	12	8	6
including fatal	2	1	1

Dynamics of occupational injuries of contractors' employees at the facilities of TATNEFT

	2016	2017	2018
Total number,	14	10	9
including fatal	3	2	3

In 2018, the Lost Time Injury Frequency Rate (LTIFR) (the number of cases of the lost working time to the total working time in the organization for the reporting year and standardized per 1 million man-hours) amounted to 0.08.

In 2018, there were 6 accidents involving employees of the Company, one of which was fatal, and 9 accidents with employees of contractors, 3 of which were fatal.

The Company assumes responsibility for the preservation of life and health of people, regardless of whether they are employed with the Company or the contractors. In each case, a thorough investigation of the circumstances was conducted and prompt measures were taken to increase control over the prevention of such incidents in the future.

The Company has established the Occupational Safety Requirements Compliance Committee, which is composed of the representatives of the Company (employer) and the trade union committee. Its principal tasks are monitoring of working conditions and occupational safety in workplaces, providing workers with means of individual protection, assessment of the existing risk for the employees' health, and the development of measures to prevent industrial injuries and occupational diseases.

Interaction with contractors

The Company establishes uniform requirements in the field of HSE for the employees of TATNEFT Group and for contractors in respect of works performed at the Company's facilities and/or for the benefit of the Company, including obligations to be guided by the applicable international law, the requirements of the applicable legislation, and the Company's requirements in the field of HSE, prevention of negative impact for natural objects, including animals and plants, in the area of implementation of the Company's projects when planning and carrying out their activities.

It is mandatory that the corresponding provisions be incorporated into the contracts for works and services, concluded with contractors. The contractor organizations are subject to the obligation for the employees working at the Company's facilities to undergo training, mandatory introductory briefing, comply with the requirements for personal protective equipment, the operated transport, in the field of environmental protection, and other obligations determined by the relevant standards.

Environmental activities

The main priority of the Company is to ensure the ecological and economic balance between the production and environmental safety and continuous improvement of indicators.

Priorities of 2018

- To reduce harmful emissions into the atmosphere, discharges of pollutants into underground and surface water bodies, soil, and subsoil and to ensure compliance with the established norms of permissible impact on the environment.
- Maintaining the technical condition of oilfield equipment at the appropriate level, the introduction of advanced and innovative environmental technologies.

Industrial monitoring for environment protection

The Company's industrial environmental monitoring (IEM) system is implemented in the following principal areas:

- Taking measurements and samples related to protection of the environment;
- Maintenance of databases of environmental impact sources and state of environment, processing and analysis of the data obtained;
- Determination of the impact source compliance with the environmental requirements;
- Analysis and forecast of the environment state in the regions of operations;
- Development of the IEM system in the new territories of operation.

The scientific and methodological support of the Company's environmental activities is provided by the TatNIPIneft Institute and a number of other scientific and research organizations and higher educational institutions in Tatarstan and the Russian Federation.

The Company implements the Environmental Program developed for the period up to 2020, which aims to maintain the state of the environment in the region of the Company's operation at the standard admissible level corresponding to the natural ecosystems' potential for self-recovery.

11 BILLION RUBLES

TOTAL INVESTMENTS OF TATNEFT GROUP IN ENVIRONMENTAL SAFETY

Environmental safety measures

- Application of the technology of light hydrocarbon vapor recovery (LHVR), which are released from storage tank equipment;
- Reducing the volume of flared associated petroleum gas;
- Associated petroleum gas cleaning at desulphurization units;
- Repair and replacement of tanks and other storage tank equipment, application of the anticorrosive coating, and equipping the tanks with electrochemical protection means;
- Overhaul and replacement of commercial oil and gas pipelines;
- Reconstruction of oil treatment facilities with the optimization of the technological process and product streams;
- Construction of stormwater drains at industrial facilities for the collection and disposal of wastewater;
- Mud pit lining and equipping rigs with waterproof circulating systems;
- Overhaul and replacement of oil pipelines and their sacrificial and inhibitory protection;
- Provision of well-servicing and improvement crews with special equipment to prevent fluid spills;
- Monitoring production casings of wells for integrity and behind-casing overflows;
- Sealing of production casings up to the rise of cement behind the surface and production casings;
- Running in additional (intermediate) casings;
- Increase in the lifetime of well equipment using protective coatings, packers, sacrificial protection, corrosion inhibitors, and the cathodic protection of casing wells.




Biodiversity preservation and natural areas conservation

The Company implements the Biodiversity Preservation Program. The program has been developed taking into account legislative and other applicable requirements for biodiversity preservation and is aimed at the conservation of rare species of animals by supporting existing specially protected natural areas and reduced-impact (rational) nature management in the habitats of rare species.

In 2018, the activities were organized to stock the Kama with fish. 1.7 tonnes of carp juveniles were released into the Kama waters. The event was held within the framework of the Federal long-term program for stream sanitation of the Volga and its feeders.

Protection and sustainable use of land and forest resources

The Company addresses the issues of the sustainable use of land resources and soil pollution prevention with the utmost care. The land protection measures include equipping the modular rigs with tank circulation systems with three-stage mud cleaning systems. This helps to prevent liquid spillage on the land surface and eliminate the construction of earth pits as well as provide for the reliable protection of fertile lands on fertile areas against contamination from drilling fluids and formation waters.

Water resources

According to the results of laboratory studies, the water quality in the major rivers in the territory of the Company's operation was stable in 2018. The content of chlorides, crude oil, and petroleum products in a dissolved and emulsified state in major rivers and in the vast majority of springs did not exceed the maximum permissible concentrations (MPC) of harmful substances.

Within the territory of the Company's operations, over 500 springs were cleared, captured, and architecturally completed with the resources of the Company's divisions.

A unique industrial waste landfill has been commissioned at the TANECO Complex, having a reliable impervious screen at its base, which eliminates the possibility of biological and chemical contamination of adjacent territories and groundwater and ensures the collection of leachate for its subsequent transportation to the treatment facilities of oil refining and petrochemical complex.

Accounting for the generation of waste, which is considered hazardous under the Basel Convention, is carried out at JSC TANECO. In addition, JSC Nizhnekamskshina accounts for the ash generated at the thermal waste decontamination unit, which is considered hazardous waste pursuant to the Basel Convention Annex.

Production and consumption waste handling activities

One of the environmental priorities of TATNEFT Group is the reduction of environmental footprint through the reduced waste generation. The Company has established a complex system of selective accumulation, collection, and disposal of production and consumption wastes and using them as a raw material to produce marketable products.

In 2018, TATNEFT Group generated 101 thousand tonnes of waste (156 thousand tonnes in 2017), including 25 thousand tonnes of oil sludge (131.8 thousand tonnes in 2017). 13.7 thousand tonnes of waste was reused (14 thousand tonnes in 2017), 4.3 thousand tonnes were disposed of at the production facilities of TATNEFT Group, including oil sludge in the of amount 0.095 thousand tonnes (0.16 thousand tonnes in 2017). 95.7 thousand tonnes of waste, including 25 thousand tonnes of oil sludge (31.7 thousand tonnes in 2017), was transferred to third-party enterprises.

Enterprises of TATNEFT Group operate 3 landfills. Industrial environmental control revealed no violations of the established permissible impact standards.

To ensure environmentally safe management and treatment of production and consumption waste, employees of TATNEFT Group undergo training under the following programs: Professional Training for the Right to Work with Hazardous Waste, Ensuring Environmental Safety by Managers and Specialists of General Economic Management Systems, Ensuring Environmental Safety by Managers and Specialists of Environmental Services and Environmental Monitoring Systems.

To create a favorable environment within its operating area and increase the greenhouse gas absorption, starting from 2000, Tatneft has annually realized special activity programs for planting greenery in by-road lanes along highways and oilfield roads in the oil-producing regions of Tatarstan.

In its activities, TATNEFT adheres to the 15th principle of taking precautionary measures of the UN Declaration on Environment and Development adopted in Rio de Janeiro on June 3-4, 1992.

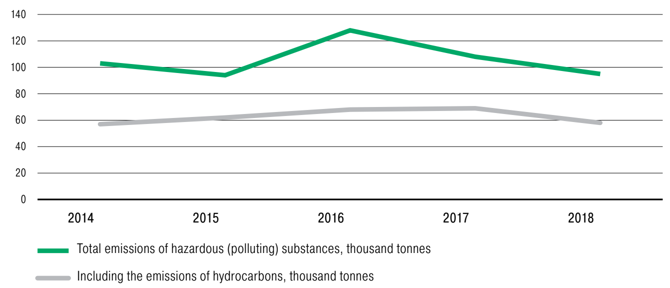
Atmospheric air protection

To monitor compliance with the sanitary norms and regulations for air protection in populated areas located within the area of the Company's operations, 136 points in populated areas and 271 points on the border of the sanitary buffer zones of the production facilities were under control. 6,424 measurements of physical factors, 27,691 tests to determine the current state of atmospheric air were conducted. The air basin was analyzed for 33 ingredients (hydrocarbons, hydrogen sulfide, nitrogen dioxide, carbon monoxide, etc.) with simultaneous meteorological observations through measuring wind speed and direction, temperature, and relative humidity.

The gross emission of harmful substances into the air in 2018 for TATNEFT Group was reduced by 13,606 thousand tonnes and amounted to 94,036 thousand tonnes. As a result of the air protection measures implemented by the Company for the period from 2016, the total emissions of pollutants into the air from stationary sources or TATNEFT Group were reduced by 26.5%, i.e. 1.36-fold.

Application of the technology of light hydrocarbon vapor recovery (LHVR) allowed reducing carbon emissions by more than 3.8 times as compared with emissions in 1991. Currently, the facilities of PJSC TATNEFT operate 44 LHVRs. The amount of hydrocarbons captured by the LHVRs in 2018 amounted to 24.7 thousand tonnes.

Gross emissions of polluting substances for TATNEFT Group, thousand tons



Total emissions of hazardous (polluting) substances Into the atmospheric air, tonnes

2014	2015	2016	2017	2018
102 687	93 093	127 930	107 642	94 036

Project on the automatic control of industrial emissions of polluting substances into the atmosphere

Agreement on cooperation between the Federal Service for Supervision of Natural Resources, the Ministry of Digital Development, Communications, and Mass Media of the Russian Federation, and JSC TANECO.

In 2018, in collaboration with Rosprirodnadzor and the Ministry of Digital Development, Communications, and Mass Media of Russia, the Company launched a pilot project on automatic control of industrial emissions of pollutants into the air at the sources of pollution with the measurement of industrial emissions, within which a tripartite Agreement on Cooperation between the Federal Service for Supervision of Natural Resources, the Ministry of Digital Development, Communications, and Mass Media of the Russian Federation, and JSC TANECO was signed. To ensure the monitoring, data transfer from automatic control systems of industrial emissions of the TANECO Complex to the database of the State Register of Facilities Having a Negative Impact on the Environment (Moscow) was organized.

The results of the pilot tests were taken into account in the development of the regulations. In March 2019, the Rules for the Creation and Operation of an Automatic Control System for Emissions of Pollutants and/or Discharges of Pollutants (approved by Resolution No. 262 of the Government of the Russian Federation dated 13.03.2009) were approved. The document outlined the requirements for the programs of creation of the system of automatic control over the environmental impact at the enterprises and the conditions for inclusion of the stationary sources of emissions (discharges) into such program.

Measures to prevent global climate change

The Company shares the global concern about the climate change, is aware of the possible threats of natural disasters, risks to human life and health, ecosystem damage, significant damage to biodiversity of the animals and plants of the planet, and other consequences of climate change.

The Company takes into account the fact of formation by energy companies in the course of their production activities of a significant amount of greenhouse gas emissions that can affect the climate and create climate risks.

As part of measures to prevent global climate change, the Company implements the following consistent actions:

- Targeted measures aimed at the rational use of associated petroleum gas (APG), reducing the volume of its flaring, and systematic reduction of emissions of pollutants into the atmosphere, increasing the disposal of associated petroleum gas and its targeted use for economic purposes.
- Development of the corporate system for accounting and management of greenhouse gas emissions.
- Energy efficiency as well as energy and resource saving programs.
- Development of renewable and alternative energy sources.
- Programs of the woods and greenery recharge.

In 2018, gross emissions of greenhouse gases (GHGs) into the air (CO_2-EQ.) for TATNEFT Group amounted to 2,950,862 tonnes.

The bulk of emissions into the atmosphere are attributed to the upstream segment (80%). Therefore, the measures are aimed primarily at the rational use of associated petroleum gas (APG) and reducing the volume of its flaring.

In 2018, the level of the APG effective utilization throughout TATNEFT Group was at 96.24%. This allowed reducing emissions of pollutants and greenhouse gases from APG flaring and dispersion.

The main activities for APG disposal are processing at the production facilities of the Company and further products delivery to the consumers. For the purpose of APG disposal and reduction of negative impact on atmospheric air, TATNEFT Group ensures the following:

- construction of facilities intended for the use of associated petroleum gas as well as their technical reequipping, reconstruction, and modernization;
- reduction of losses of hydrocarbon raw materials, growth of processing volumes thereof, increasing the energy efficiency of production;
- implementation of measures to reduce hydrocarbon emissions from oil storage and treatment tanks;
- carrying out performance-and-commissioning works on the fuel-burning equipment;
- monitoring the efficiency of gas treatment plants operation, current and preventive maintenance thereof;
- implementation of measures to control emissions during adverse weather conditions;
- gas fuel conversion of vehicles.

In 2018, major overhaul of 24,263 km of gas pipelines was carried out; in order to increase gas collecting, 32,164 km of gas pipelines were constructed; the reconstruction of the flare systems at the facilities of Oil and Gas Field Operating Division was continued, which will allow for sootless flaring; construction continued on the all-factory flare system of the Minnibayevo Gas Processing Plant of UTNGP of PJSC TATNEFT.

In order to create a favorable environment and increased greenhouse gas trapping in its zone of influence, the Tatneft Group enterprises, starting from 2000, annually implement special programs for landscaping the lanes along motorways and field roads in the oil regions of Tatarstan.

Staff and social guarantees

The HR management policy of the Company is based on the importance of human resources, the involvement of professional employees and the creation of favorable conditions for their sustainable motivation to achieve maximum effectiveness and professional and personal growth, covering all enterprises of TATNEFT Group. The high level of social guarantees defined by Collective Agreements of the Group's enterprises reflects the responsibility of the Company as a conscientious employer.

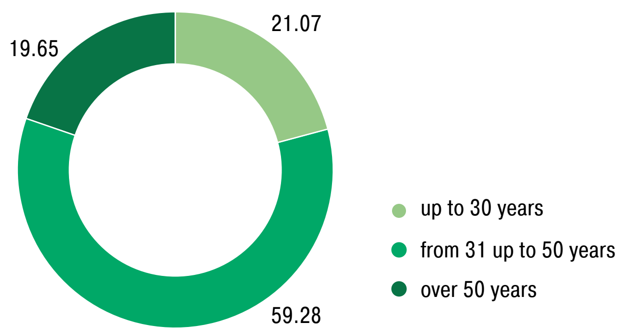
The increase in the number of personnel is associated with solving the Company's business tasks. Employees' basic income is formed from the salary and a social package. Salary includes a tariff-based (fixed) part, according to the unified tariff table, and bonuses (variable). The social package provides employees with a relevant scope of medical benefits and other social guarantees.

The average number of employees of the Company* persons

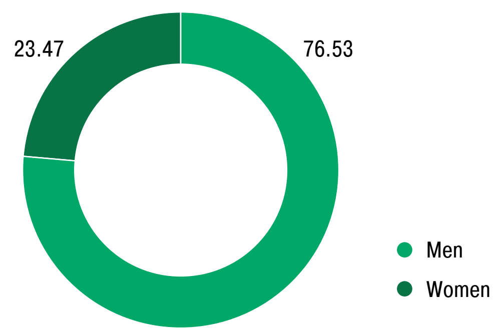
2016	2017	2018
45 574	46 467	48 078

*Headcount indicators for 2016-2018 were formed in accordance with the perimeter of the Group companies under operational control.

Company's personnel structure by age in 2018 (%)



Men and women proportion in the Company's management in 2018



Payroll Fund

The Company has an integrated HR management system aimed at maintaining a high level of proficiency of workers and specialists engaged in all areas of TATNEFT Group operation.

The Company has been successfully carrying out activities on standardization of positions. Based on the results of 2018, the Company took the 3rd place in the nomination "The Best Industrial Enterprise on the Implementation of Professional Standards" of the Competition on Implementation of Professional Standards in the Activities of Organizations held among 352 organizations of 46 constituent entities of the Russian Federation.

Labor and organizational effectiveness

Improving labor efficiency is one of the key priorities of the Company. Within the framework of the business planning, measures to increase labor productivity in the Company and internal corporate methods of calculating labor productivity indicators for the Company as a whole, for the principal business units and segment-forming Companies of the Group, are determined. The target value of the labor productivity indicator as a whole for the Company at the end of 2018 was achieved.

Sociological surveys and opinion polls are regularly held among employees of the Company to determine job satisfaction score with regard to arrangement of work and safety conditions.

Key performance indicators system

In 2017, for the effective implementation of the Company's development Strategy, the transformation of the Company's incentive system based on key performance indicators (KPIs) was launched, which allowed for the move to the new principles and procedure of the annual bonus payments, which are applied to the top managers of the Company, business-line leaders, and heads of all subdivisions from 2017.

The incentive system includes personalization of indicators of managers' bonuses in the area of responsibility; changing the variable part of salaries in terms of compensation for the results of work for the year to increase the importance of individual KPIs; revision of the monthly bonus-payment system with reference to the current functional activities.

The principles of the incentive system are enshrined in the Regulations on the Formation of Payroll Fund and Material Incentives for Managers and Staff of Structural Subdivisions and Subsidiaries of PJSC TATNEFT.

The Organization of the KPI System in TATNEFT Group (principles and rules in the field of managing and improving the efficiency of interaction between lines of business) was adopted and approved by the Board of Directors of the Company (Resolution No. 3 dated 26.09.2018).

The KPI system in the Company is a model for managing the implementation of the strategic goals and allows focusing on priority targets in all areas of TATNEFT activities. Each specific KPI is a marker of the quality of operational management, which characterizes the effectiveness of implementing the strategic goals and business processes. The total number of KPIs for TATNEFT Group in all business segments, business units, and functional lines is about 500 indicators, which includes 190 unique KPIs. The number of participants in the program as at the end of the reporting year is over 400 persons.

In 2018, TATNEFT moved to the next stage of development and expansion of the KPI system perimeter coverage. The transition from the main business lines to the lower levels was supplemented with cross-functional lines – innovation activities, IT, HR.

> 500

KPIS

Training and development programs. Forming the personnel reserve

Extensive attention is paid in TATNEFT Group to the system of personnel search and selection. The vacancies are filled mainly from among the current staff of enterprises. In 2018, the enterprises of TATNEFT Group and the executive office of PJSC TATNEFT have submitted 95 applications for the search of 287 staff units.

To ensure effective implementation of the HR policy, a new concept of personnel reserve formation has been approved; to ensure the structured approach to the HR management system, all positions in TATNEFT group are divided into three levels: TOP 100 (TOP management), TOP 300 (operational management), TOP 1000 (production unit management). For the purpose of the prompt and high-quality formation of the personnel reserve of the Company, the Regulations on Holding a Competition for Inclusion in the Personnel Reserve of TATNEFT Group and the Regulations on the HR Committee of TATNEFT Group were approved and put into effect, and the Standard of the Overall Assessment of TATNEFT Group Employees was updated. In 2018, 1,083 employees of TATNEFT Group took part in the Personnel Reserve competition.

Active work is performed to form an external personnel reserve.

Basically, the search for external candidates and the formation of the personnel reserve is carried out by the Company itself, in particular among university graduates, by posting information about the external personnel reserve on the Company's website, in professional social networks (Professionals, Linkedin), and on recruitment websites.

In addition, the Company accepts employees proposed by employment centers for the quota jobs. Employment assistance is provided to citizens who are in particular need of social protection and who have difficulties in finding permanent or temporary work. In 2018, 46 persons were employed.

1083

EMPLOYEES TOOK PART IN THE PERSONNEL RESERVE COMPETITION

Management training

With the aim of developing the managerial competencies of existing managers and personnel reserve of the Company, the Targeted Educational EMBA Program for the TOP 100 Employee Reserve and the Targeted Educational MBA Program for the TOP 300 Personnel Reserve are being implemented. As of this date, more than 80 managers of different levels have been trained under these programs.

> 33 000

EMPLOYEES ARE REGISTERED IN THE SINGLE PLATFORM FOR EMPLOYEE TRAINING AND DEVELOPMENT OF TATNEFT GROUP

30

CORPORATE TRAINING PROGRAMS

Employee training and development. Corporate university

The single corporate system of employee development, training, and personal growth covers all business lines and categories of employees of the Company, including corporate policies and procedures, legislative requirements, cutting-edge practices of Russia and foreign states. The training programs are aimed at developing effective work skills, expanding professional knowledge and practical experience. Teachers of leading universities, reputable training, and consulting companies are engaged in the training.

In 2018, professional development of the Company's specialists was carried out in accordance with the approved plan, taking into account the requests of the heads of functional lines, and over 30 corporate programs were organized. The average annual number of hours of training per 1 trained employee is 63.

In 2018, the Corporate University trained 4,709 persons (167 groups) in 34 courses. In addition, training was organized by external providers for 847 persons. As a result, the total plan for full-time training was exceeded by 40%.

In 2019, it is planned to implement the Development of E-Learning System in TATNEFT Group project, which will allow employees to study remotely.

Large-scale work is underway to introduce a culture of self-learning organization. Currently, 33,000 users, more than 30 courses, 40 tests, and over 120 webinars have been launched in the virtual environment Mirapolis – the Single Platform for Employee Training and Development of TATNEFT Group. The electronic corporate library My book has 1,200 registered users.

Corporate pension policy

The pension program of the Company is based on the principle of social partnership, according to which the Company and its employees form the future corporate pension by joint efforts on a parity basis.

The number of employees of PJSC TATNEFT participating in the corporate program of nonstate support is 8,241 person. The actual expenses of PJSC TATNEFT for nonstate pension support in 2018 amounted to 106,810 thousand rubles. The number of pensioners of PJSC TATNEFT, receiving nonstate pensions is 9,260 persons. In TATNEFT Group – 17,135. The nonstate pension payments to pensioners of PJSC TATNEFT through JSC National Nonstate Pension Fund (NNPF) for 2018 amounted to 311,306 thousand.

In accordance with the Collective Agreement of PJSC TATNEFT, nonworking pensioners who retired before the establishment of JSC NNPF receive quarterly financial assistance. The total amount of the financial assistance granted to nonworking pensioners of PJSC TATNEFT who retired before the establishment of JSC NNPF amounted to 20,807 thousand rubles in 2018. The number of nonworking pensioners of PJSC TATNEFT receiving such financial assistance amounted to 3.5 thousand persons.

17 135

PERSONS RECEIVE CORPORATE PENSION

Social partnership. Collective agreement

The Company provides employees with a package of social benefits and guarantees. Obligations for their provision are stated in the Collective Agreement annually concluded between PJSC TATNEFT and the workforce and covering all employees and nonworking pensioners of the Company. The Collective Agreement provides for the following: benefits and guarantees to employees; social protection of young employees; support of veterans and pensioners. The structure of social benefits and guarantees is defined by the Standard of the Collective Agreement of the Company. In 2018, changes were introduced and the amount of social benefits was increased.

Youth policy

The youth organization at TATNEFT Group has more than 25,000 young workers, of which 7,250 are employed with the structural divisions, 7,818 are employed with the subsidiaries, 10,089 are employed with the service organizations.

In 2018, the Youth Organization implemented a number of projects aimed at increasing the effectiveness of work with young people, reducing inefficient spending, and increasing the involvement of young people in scientific, creative, and innovatory work.

More than 4,500 innovative proposals were submitted by young employees in 2018, and more than 40 patents were granted. The total expected economic effect of their implementation will exceed 1.2 billion rubles.

In collaboration with the Almetyevsk State Oil Institute, with the support of the management of PJSC TATNEFT, the ambitious, in terms of its scale, international Science and Innovation Forum was organized. The forum was held in order to get acquainted with the priority areas of research, to address urgent issues, business and technological challenges of fuel and energy and mineral resource sectors, to share experience in the use and implementation of innovative oil and gas technologies, to discuss issues related to the trends in the development of the global and Russian oil and gas sector.

The program of the Forum included 40 platforms; the Forum was attended by over 700 persons from eight countries and more than a dozen regions of Russia.

Young specialists of the Company became absolute winners of the VI International Engineering Championship CASE-IN in the League of Young Specialists. The winners received their awards from Aleksandr Novak, the Minister of Energy of the Russian Federation.

In 2018, the Company became the best in the nomination "Interaction with Youth Industry Organizations" in the competition for the best socially oriented company in the oil and gas industry, which is held by the Ministry of Energy of the Russian Federation. As part of the VIII Saint Petersburg International Gas Forum, the Company was encouraged by a gratitude letter from the Federal Agency for Youth Affairs of the Russian Federation for assistance in the implementation of the state youth policy and for a significant contribution to the development of the professional path of young professionals.

The team spirit among young employees is formed through sports events: Youth Olympics of the Company in seven sports, annual tourism festivals, hiking and rafting on mountain rivers. In 2018, young employees of TATNEFT Group were able to climb Elbrus, the highest mount in Europe, for the fourth time.

The Company traditionally pays great attention to addressing social issues of young people. In 2018, 416 young employees were provided with apartments under the mortgage lending system, 1,006 families of young employees were granted loans for furniture and essential goods totaling over 100 million rubles.

The amount of 56.6 million rubles was allocated for the implementation of the youth program of PJSC TATNEFT in 2018.

Social investments

Enterprises of TATNEFT Group are city-forming enterprises in most localities regions of operation. Following the principles of corporate social responsibility, the Company, in collaboration with municipal authorities, implements projects for the improvement of cities and towns of the regions of its operation, takes part in the construction of socially important facilities, assists in the promotion of education, health, culture, and sports.

"The implementation of social programs is an essential condition of sustainable and successful development of the Company, which has traditionally paid great attention to social issues. We implement social programs for both our employees and the society as a whole. The programs are implemented in the territory of the Company's principal operation, are systematic and targeted, aimed at both ensuring decent working conditions, professional growth, maintaining a high standard of living of our employees, and the external environment – in order to maintain stability in the Company. We strive to make these programs even more open, systematic, and effective."

Rustam Mukhamadeev
Deputy General Director
for General issues of PJSC TATNEFT

Principal social programs of the company

- Facilitating the development of infrastructure in cities and towns
- Promotion of mass sports and healthy lifestyle
- Facilitating the development of children's and youth hockey
- Support for education
- Support for culture
- Spiritual renovation
- Support for healthcare
- Maternity and childhood support program
- Care for the health of employees and residents of the region
- Social targeted assistance to groups in need of support
- Job creation

The Company was awarded a special as an expression of high regard of the fuel and energy complex of the Ministry of Energy of the Russian Federation and a diploma for the active implementation of social policy in the Competition for the Best Socially-Oriented Company in the Oil and Gas Industry, organized by the Ministry of Energy of the Russian Federation in 2018.

The Company was recognized as the best in the following categories: "Promotion of the Social Partnership Principles, Development of New Forms of Social Partnership"; "Charitable Activities of the Organization"; "Development of Social Issues of the Territories of the Organization's Presence".

Details of corporate social programs are disclosed in the Integrated Annual Report, taking into account the aspects of sustainable development (ESG), which the Company publishes annually.

Charitable activities

Charity plays an important role in the implementation of social programs of TATNEFT. With the purpose of increasing the efficiency of social investment management in 2018, the decision was made to unite the charities within a single Charitable Foundation of TATNEFT. All the main long-term programs, including Miloserdie (Mercy), Odarennye Deti (Gifted Children), Rukhiyat, Tazalyk, are fully preserved.

The foundations were established in different periods for the implementation of social projects of the Company related to the support of education, culture, scientific creativity, sports, provision of material assistance to various categories of the population. The charitable program of the Company for a year is approved by the Board of the Foundation chaired by General Director of PJSC TATNEFT.

Within the framework of the Odarennye Deti program, the Foundation supports talented children, provides financial assistance to participants of republican, national, and international academic competitions, scientific and technical contests. Every year the Company holds research and training conference "Pupils for Science in the 21st Century," Master Class Winter School, and the Meeting of winners of the Foundation program.

The Rukhiyat program is dedicated to Support for talented children in the field of culture and art, preservation of cultural and historical heritage. This includes the organization of festivals of children's talents Country of the Singing Nightingale, competitions in the field of literature and art, revealing young talents and promoting their creative growth, publishing books, etc.

In 2018, major cultural and educational projects were implemented in collaboration with the V. Spivakov Foundation The Third Academy of V. Spivakov Foundation. Children for Children. Tatarstan, and the New Names Foundation, the President of which is Denis Matsuev, the People's Artist of Russia, piano virtuoso. In the course of the projects, master classes were organized for children by leading teachers of the country in various fields of culture and art (playing musical instruments, choreography, painting, etc.).

In 2018, Valery Gergiev, Vladimir Spivakov, Denis Matsuev, Igor Butman, Aida Garifullina, and Hibla Gerzmava visited Almetyevsk with concert programs.

Under the Miloserdie program, targeted assistance is provided to veterans and disabled people, low-income families, foster children, orphan students, and citizens who encountered a difficult situation. The Company supports non-profit organizations.

IN TOTAL, CHARITABLE ASSISTANCE WAS RENDERED TO MORE THAN 40,000 INDIVIDUALS AND 300 LEGAL ENTITIES AMOUNTING TO OVER 777 MILLION RUBLES.

The Tazalyk program is dedicated to the development and support of sports, promotion of healthy lifestyles. In addition, traditionally, support was provided for the implementation of Green Fitness projects throughout the year, and assistance was rendered to sports federations.

A new activity of the Foundation was the street theater Light Wings project in Almetyevsk. In 2018, the theater was provided with its own house, so the rehearsal process became year-round. To systematize the work, a nonprofit organization was created under the aegis of the Foundation. Today, more than 80 persons are engaged in theater activities, and theatrical performances are very popular among the citizens.

With the support of TATNEFT and the charitable foundation, Tatneft KVN Team became the vice-champion of the First League of the KVN International Union, and according to the results of the Festival in Sochi, it achieved the right to participate in the Major League of the KVN International Union, the games of which are broadcast on Channel One.

To improve the efficiency of social initiatives, since 2016, TATNEFT has introduced a Grant System, which allows selecting and supporting the best social projects in the region on a competitive basis. In 2018, the Grant Committee considered projects from different regions of Tatarstan, the Russian Federation, in the categories of Social Sphere, Citizenship and Patriotism, Culture and Art, Ecology, Education, and Science.

44 SOCIAL PROJECTS

RECEIVED FINANCIAL SUPPORT FROM TATNEFT ON A GRANT BASIS FOR A TOTAL AMOUNT OF

25.7 MILLION RUBLES

770 MILLION RUBLES

TARGETED HELP UNDER THE MERCY PROGRAM

Supply chain

Interaction with suppliers is based on the principles of full transparency of decisions, market and formula pricing, long-term relationships under framework contracts.

The Company purchases and sells a significant amount of products and services. The selection of suppliers of the Company is carried out according to uniform rules on the basis of open electronic tender procedure only. Each potential supplier has the opportunity to participate in the tender procedure with the obligatory confirmation of compliance with the established criteria.

For potential suppliers, a comprehensive assessment of compliance with corporate requirements is carried out (the checklist has been approved and is applied).

Following the principles of corporate responsibility, the Company considers potential suppliers for compliance of their activities with environmental and social responsibility. If the tender subject provides for the need to check the state of the HSE system of the potential supplier, the Company's specialists conduct an appropriate expert assessment, which may include a request for confirmation of the presence of the required production facilities and technologies, relevant qualifications of specialists, licenses, certificates, including in the field of ISO, technical audit opinions. In addition, within the framework of tender procedures, the Company provides for the request of information related to the social aspects of the potential supplier's activities, including respect for human rights, observance of working hours and social guarantees of employees.

In case any discrepancies of applicants to the established criteria are revealed, they are not allowed to participate in tenders.

According to the Company Policy in the field of HSE, all suppliers and contractors must adhere to the Company's principles in this field as well as comply with legal and corporate standards in the fulfillment of contractual obligations to the Company. The Company monitors the activities of its contractors to comply with these requirements.

Trade and procurement platform

39 thousand active suppliers are registered in the trading and procurement platform, of which 6 thousand suppliers were registered and 9.4 thousand suppliers participated in tenders for the supply of goods in 2018.

As part of the improvement of the procurement system, the Company introduces mechanisms for categorizing procurement, delegation of authority, and personalization of responsibility; the Company has created and published a library of technical requirements and conditions for the goods, and a parametric classifier has been developed to systematize the selection of similar goods from the stocks in the E-store.

In 2018, about 8 thousand contracts were concluded with 1,000 suppliers for 32 billion rubles (without VAT). 50% of all orders were placed with the enterprises of the Republic of Tatarstan, import contracts amounted to 0.2%. The low share of import contracts indicates a steady decrease in the import dependence of the Company.

The principal share in the procurement structure accounts for the supply under the price books: framework and long-term contracts for an open amount, which allows for procurement without loss of time and resources as well as improves the efficiency of estimating the cost of facilities under construction and budget planning. As of this date, there are over 600 price books covering about 150 thousand stock-list items, which accounted for 78% of the total procurement in 2018 (79% in 2017).

Procurement structure by categories, %

Pipe products	35
Oilfield equipment	21
Instrumentation, control, automation, and electric equipment	17
Rolled stock and metalwork	8
Chemical products	8
Construction materials	3
Isolating devices	3
Other	5

Company's membership in associations, national and international organizations

The Company participates in the work and interacts with industry and socially oriented associations, unions, and other organizations in order to address issues that are important for the Company, the industry, and the society as well as to express its position on the topical issues.

- Since 1994, the Company is a member of the Union of Oil and Gas Producers of Russia (SNP). N.U. Maganov, General Director of the PJSC TATNEFT, is a member of the Board. The SNP Board makes proposals to the State Duma and the Government of the Russian Federation on reforming the industry, strengthening state regulation in the fuel and energy sector, amending the legislation, and preparing government decisions.
- Since 2003, the Company cooperates with NPP Miners of Russia. General Director of PJSC TATNEFT is a member of the Supreme Mining Council. The issues discussed at congresses and conferences held by Non-Profit Partnership Miners of Russia are related to overcoming the consequences of the financial and economic crisis, strengthening the potential of innovative and technological development of the industry, legislative support for the mineral and resource sector of the state economy, and several other issues.
- Since 2003, the Company has been cooperating with the Russian Union of Industrialists and Entrepreneurs (RSPP). N.U. Maganov, General Director of PJSC TATNEFT, is a member of the Management Board of RSSP; representatives of the Company are members of the following RSPP committees: Energy Policy and Energy Efficiency Committee, Labor Market and Social Partnership Committee, Industrial Safety Committee. Every year, high-level state conferences are held on topical economic issues with the participation of representatives of the Russian and foreign business community as well as heads of federal authorities. The results of these forums are decisions made at the state level in the field of entrepreneurship and business in Russia.
- Since 2011, the Company's representatives are members of the Working Group established under the Ministry of Energy of the Russian Federation to monitor the situation related to the production and consumption of petroleum products in the Russian Federation in order to prevent uncontrolled growth of prices for petroleum products and ensure stable and consistent supply of petroleum products to the domestic market.
- Since 2015, the Company's representatives are members of the Working Group established under the Ministry of Energy of the Russian Federation to monitor the quality of oil transported through the system of oil trunk pipelines created to stabilize the quality of oil in the system of oil trunk pipelines and prevent deterioration of the quality of oil supplied to the Russian plants. The active position of TATNEFT in the framework of the Working Group yielded several positive results, including increasing the limit values for the sulfur content in the export lines within the regular traffic scheme.
- In 2011, Tatneft signed a 4-party agreement with the Federal Antimonopoly Service of Russia, Rostekhnadzor, and Rostekhregulirovanie, aimed at improving the quality of petroleum products supplied to commodity markets of the Russian Federation and ensuring the efficient refinery modernization. The Company fulfils its obligations under the agreement ahead of schedule.
- Since 2014, the Company is an active participant in the work of the Council of Consumers on the Activity of Natural Monopolies in Transportation of Oil and Oil Products via Trunk Pipelines, which functions as a communication platform for PJSC Transneft and the consumers of its services. Within the framework of this organization, issues of tariff formation of PJSC Transneft, its investment program, and financial results are discussed. TATNEFT makes relevant proposals and collaborates on the initiatives discussed at the Consumer Council.
- In 2017, the Company joined ATIEL (Technical Association of the European Lubricants Industry).
- The Company, in collaboration with the trade union organization, cooperates with the All-Russian Industry Association of Employers of the Oil and Gas Industry (OOOR NGP). The Company is currently considering the conclusion of an industry agreement.
- Since 1998, TATNEFT has been a member of the founders of the Russian National Committee of the World Oil Council for the Organization and Holding of World Oil Congresses (RNA MNK).
- Since 2011, the Company has been cooperating with the Chamber of Commerce and Industry of the Russian Federation (CCI).
- In 2018, N.U. Maganov, General Director of PJSC TATNEFT, became a member of the Organizing Committee of the Russian National Committee of the World Energy Council (RNC WEC) for the preparation and holding of the 25th anniversary World Energy Congress in Saint Petersburg in 2022. The Company is not a member of the RNC WEC.
- Since 2017, A. F. Yagafarov, Deputy General Director of TATNEFT, has been a member of the Presidium of the Caspian Science and Innovation Council. In 2018, Caspian Dialogue – 2018 was held on the basis of MGIMO University in Moscow, on the topic: "Potential for Development of International Cooperation on the Basis of the Signed Convention on the Legal Status of the Caspian Sea," which was attended by employees of the Company (Representative Office of PJSC TATNEFT in Moscow).

The Company also cooperates with the National Council for Corporate Governance (NCCG), the Russian Institute of Directors (RID), and other organizations, public councils, and associations.

Annexes

Annex 1. IFRS Consolidated Financial Statements with Independent Auditor's Report as of and for the year ended December 31, 2018.

Annex 2. Financial statements of PJSC TATNEFT and independent Auditor's Report

Annex 3. Report on PJSC Tatneft's Non-arm's Length Transactions in 2018.

Annex 4. Report on PJSC Tatneft compliance with the principles and recommendations of the Corporate Governance Code.

Annex 5. Principal risks.

Annex 6. On the annual report and the underlying regulatory documents constituting the framework for the current annual report.

Annex 1

IFRS Consolidated Financial Statements with Independent Auditor’s Report as of and for the year ended December 31, 2018.

Auditor’s report

Independent Auditor’s Report

To the Shareholders and Board of Directors of PJSC Tatneft:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PJSC Tatneft and its subsidiaries (together – the “Group”) as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group’s consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor’s Professional Ethics Code and Auditor’s Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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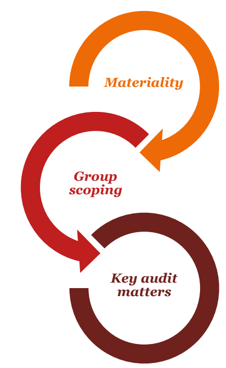
Our audit approach

Overview



Overall Group materiality: Russian Roubles (“RUB”) 12,900 million, which represents 4.7% of profit before tax.

- We conducted audit work at 4 significant reporting entities.
- The Group engagement team visited Group’s operations in Almetievsk, Nizhnekamsk and Moscow.
- Our audit scope addressed 95% of the Group’s revenues and 94% of the Group’s absolute value of underlying profit before tax.

Key audit matter

- Net impairment losses on financial assets.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Auditor's report (continued)

Overall Group materiality	RUB 12,900 million
How we determined it	4.7% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 4.7% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this industry sector and prior year approach.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Net impairment losses on financial assets *Refer to Notes 7, 9 to the consolidated financial statements* At of 31 December 2018, as part of financial assets the Group recognises short-term and long-term loans issued (within Other short-term financial assets and Other long-term financial assets of the Consolidated Statement of Financial Position), and short-term and long-term accounts receivable. In accordance with IFRS 9 "Financial Instruments", starting from 1 January 2018 the Group management assesses expected credit losses in relation to other financial assets and accounts receivables prospectively and recognises an allowance for credit losses at each reporting date. The estimate of expected credit losses represents an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, and reflects all reasonable and supportable information that is available at each reporting date about past events, current conditions and forecasts of future economic conditions.	We performed the following procedures to assess the appropriateness of valuation methods and methodology used in estimating recoverable values: • examination, on a sample basis, of the models and calculations used for the assessment of credit losses on a collective or individual basis; • analysis of key assumptions used by the Group's management when estimating the current market value of property provided as collateral under loan agreements. We engaged our valuation experts to review the valuation of the current market value of property pledged as collateral with the Group for the loans issued; • verification of the mathematical accuracy of discounted cash flow models (if applicable) and evaluation of the key assumptions used by the Group's management in these models.

Key audit matter	How our audit addressed the key audit matter
Where applicable, the Group evaluates information about each debtor's solvency, obtains experts' opinions on market values of property provided as collateral under loan agreements, prepares discounted cash flow models, and analyses additional relevant information. For the year ended 31 December 2018, the Group recognised net impairment losses on financial assets of RUB 14,955 million (Line "Net impairment losses on financial assets" in the Consolidated statement of profit or loss and other comprehensive income). We focused on this matter because of the materiality of the impairment and the significance of judgements and estimates involved in its calculation.	

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls and the industry in which the Group operates.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at reporting units by us, as the group engagement team, or component teams operating under our instruction. Where the work was performed by the component team of ZENIT Banking Group, we determined the level of involvement we needed to have in the audit work at this reporting unit to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group's consolidated financial statements as a whole.

We identified the following significant reporting units where we performed full-scope audit procedures: PJSC Tatneft (parent holding company, corporate centre is located in Almetievsk), JSC TANECO (oil refinery subsidiary is located in Nizhnekamsk), PJSC Nizhnekamskshina (tires producing subsidiary is located in Nizhnekamsk) and ZENIT Banking Group (banking subsidiaries, corporate centre is located in Moscow). In addition, we performed specified audit procedures over selected financial information at a number of less significant reporting units in order to increase the level of audit comfort.

Other information

Management is responsible for the other information. The other information comprises "Management's discussion and analysis of financial condition and results of operations for the three months and the year ended 31 December 2018" (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and PJSC Tatneft Annual Report 2018 and Quarterly Report of the Equity Securities Issuer for the 1st quarter 2019, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

Auditor's report (continued)

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the PJSC Tatneft Annual Report 2018 and Quarterly Report of the Equity Securities Issuer for the 1st quarter 2019, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's

report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report is Maxim E. Timchenko.

AO PricewaterhouseCoopers Audit

29 March 2019

Moscow, Russian Federation

M.E. Timchenko, certified auditor (licence no. 01-000267), AO PricewaterhouseCoopers Audit

Audited entity: PJSC Tatneft

Record made in the Unified State Register of Legal Entities on [illegible] July 2002 under State Registration Number [illegible]

423450, Russian Federation, Republic of Tatarstan, Almetievsk, Lenin Street, 75

Independent auditor: AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber on 28 February 1992 under No. 008.890

Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number [illegible]

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – [illegible]

ANNEXES

Consolidated financial statements

Consolidated Statement of Financial Position

(In millions of Russian Rubles)

	NOTE	31 DECEMBER 2018	31 DECEMBER 2017
ASSETS			
Cash and cash equivalents	6	65 489	42 797
Banking: Mandatory reserve deposits with CB RF		1 875	1 916
Accounts receivable, net	7	80 762	61 598
Banking: Loans to customers	8	53 797	44 495
Other short-term financial assets	9	32 901	68 925
Inventories	10	50 606	39 318
Prepaid expenses and other current assets	11	23 090	23 123
Prepaid income tax		852	1 027
Banking: Non-current assets held for sale		2 360	2 182
Total current assets		**311 732**	**285 381**
Long-term accounts receivable, net	7	2 930	3 439
Banking: Loans to customers	8	92 508	106 488
Other long-term financial assets	9	81 513	52 364
Investments in associates and joint ventures		637	658
Property, plant and equipment, net	12	701 922	651 460
Deferred income tax assets	13	3 548	1 502
Other long-term assets		6 498	6 162
Total non-current assets		**889 556**	**822 073**
TOTAL ASSETS		**1 201 288**	**1 107 454**

	NOTE	31 DECEMBER 2018	31 DECEMBER 2017
LIABILITIES AND SHAREHOLDERS' EQUITY			
Short-term debt and current portion of long-term debt	14	11 953	39 916
Accounts payable and accrued liabilities	15	42 989	41 529
Dividends payable	19	50 711	6 032
Banking: Other financial liabilities at fair value through profit and loss		1 190	-
Banking: Due to banks and CB RF	16	13 765	27 971
Banking: Customer accounts	17	183 654	158 436
Taxes payable	13	38 771	27 806
Income tax payable		3 254	3 563
Other short-term liabilities		533	1 043
Total current liabilities		**346 820**	**306 296**
Long-term debt, net of current portion	14	3 084	6 896
Banking: Due to banks and CB RF	16	4 660	5 669
Banking: Customer accounts	17	682	478
Decommissioning provision, net of current portion	12	34 338	38 017
Deferred income tax liability	13	31 486	27 323
Other long-term liabilities	18	3 437	4 046
Total non-current liabilities		**77 687**	**82 429**
TOTAL LIABILITIES		**424 507**	**388 725**
SHAREHOLDERS' EQUITY			
Preferred shares (authorised and issued at 31 December 2018 and 2017 – 147,508,500 shares; nominal value at 31 December 2018 and 2017 – RR1.00)	19	746	746
Common shares (authorised and issued at 31 December 2018 and 2017 – 2,178,690,700 shares; nominal value at 31 December 2018 and 2017 – RR1.00)	19	11 021	11 021
Additional paid-in capital		84 437	84 437
Accumulated other comprehensive income		1 804	1 652
Retained earnings		683 508	624 254
Less: Common shares held in treasury, at cost (75,483,000 shares at 31 December 2018 and 2017)		(10 251)	(10 251)
Total Group shareholders' equity		**771 265**	**711 859**
Non-controlling interest		5 516	6 870
TOTAL SHAREHOLDERS' EQUITY		**776 781**	**718 729**
TOTAL LIABILITIES AND EQUITY		**1 201 288**	**1 107 454**

Consolidated Statement of Profit or Loss and Other Comprehensive Income

(In millions of Russian Rubles)

	NOTE	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Sales and other operating revenues on non-banking activities	**24**	**910 534**	**681 159**
COSTS AND OTHER DEDUCTIONS ON NON-BANKING ACTIVITIES			
Operating expenses		(132 215)	(123 517)
Purchased oil and refined products		(76 080)	(70 984)
Exploration	12	(688)	(1 143)
Transportation		(36 952)	(35 925)
Selling, general and administrative		(49 700)	(48 327)
Depreciation, depletion and amortization	12,24	(30 520)	(24 885)
Net impairment losses on financial assets	5,7,9	(14 955)	(15 156)
Net impairment losses on property, plant and equipment and other non-financial assets	12	(5 874)	(356)
Taxes other than income taxes	13	(293 162)	(194 316)
Maintenance of social infrastructure and transfer of social assets	12	(5 613)	(5 427)
Total costs and other deductions on non-banking activities		**(645 759)**	**(520 036)**
(Loss)/gain on disposals of interests in subsidiaries and associates, net		(1 842)	109
Other operating gains, net		488	1 343
Operating profit on non-banking activities		**263 421**	**162 575**
NET INTEREST, FEE AND COMMISSION AND OTHER OPERATING INCOME/(EXPENSES) AND GAINS/(LOSSES) ON BANKING ACTIVITIES			
Interest, fee and commission income	22,23,24	23 259	30 964
Interest, fee and commission expense	22,23	(11 132)	(14 342)
Credit loss allowance	8	(1 310)	(8 685)
Operating expenses		(10 019)	(7 498)
Loss arising from dealing in foreign currencies, net		(205)	(27)
Other operating expense, net		(36)	(1 220)
Total net interest, fee and commission and other operating income/(expenses) and gains/(losses) on banking activities		**557**	**(808)**
OTHER INCOME/(EXPENSES)			
Foreign exchange gain/(loss), net	28	7 936	(1 618)
Interest income on non-banking activities	21	5 497	6 494
Interest expense on non-banking activities, net of amounts capitalised	21	(3 590)	(3 095)
Share of results of associates and joint ventures		(32)	(10)
Total other income, net	**24**	**9 811**	**1 771**
PROFIT BEFORE INCOME TAX		**273 789**	**163 538**
INCOME TAX			
Current income tax expense		(58 015)	(34 227)
Deferred income tax expense		(4 226)	(5 419)
Total income tax expense	**13**	**(62 241)**	**(39 646)**
PROFIT FOR THE PERIOD		**211 548**	**123 892**

	NOTE	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
OTHER COMPREHENSIVE INCOME/(LOSS) NET OF INCOME TAX:			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustments		(76)	476
Gain on debt financial assets at fair value through other comprehensive income, net		44	-
Unrealised holding gain on available-for-sale securities (for comparatives only)		-	133
Items that will not be reclassified to profit or loss:			
Loss on investments in equity financial assets at fair value through other comprehensive income, net		(150)	-
Actuarial gain/(loss) on employee benefit plans		334	(250)
Other comprehensive income		**152**	**359**
Total comprehensive income for the year		**211 700**	**124 251**
Profit/(loss) attributable to:			
- Group shareholders		211 812	123 139
- Non-controlling interest		(264)	753
		211 548	**123 892**
Total comprehensive income/(loss) attributable to:			
- Group shareholders		211 964	123 498
- Non-controlling interest		(264)	753
		211 700	**124 251**
Basic and diluted earnings per share (RR)			
Common	19	94,11	54,73
Preferred		93,89	54,32
Weighted average shares outstanding (millions of shares)			
Common	19	2 103	2 103
Preferred		148	148

Consolidated Statement of Changes in Equity

(In millions of Russian Rubles)

	Attributable to Group shareholders											
	Number of shares (thousands)	Share capital	Additional paid-in capital	Treasury shares	Actuarial (loss)/gain on employee benefit plans	Foreign currency translation adjustments	Unrealised holding gains/(losses) on available-for-sale securities (for comparatives only)	Gain/(loss) on financial assets at fair value through other compre-hensive income, net	Retained earnings	Total shareholders' equity	Non-controlling interest	Total equity
BALANCE AT 1 JANUARY 2017	**2 250 718**	**11 767**	**85 224**	**(10 250)**	**(1 621)**	**1 201**	**1 713**	**-**	**615 477**	**703 511**	**5 393**	**708 904**
Profit for the year	-	-	-	-	-	-	-	-	123 139	123 139	753	123 892
Other comprehensive (loss)/income for the year	-	-	-	-	(250)	476	133	-	-	359	-	359
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**-**	**(250)**	**476**	**133**	**-**	**123 139**	**123 498**	**753**	**124 251**
Treasury shares	(2)	-	-	(1)	-	-	-	-	-	(1)	-	(1)
Acquisitions	(92)	-	-	(32)	-	-	-	-	-	(32)	-	(32)
Disposals	90	-	-	31	-	-	-		-	31	-	31
Business combinations	-	-	-	-	-	-	-	-	-	-	97	97
Acquisition of non-controlling interest in subsidiaries	-	-	(787)	-	-	-	-	-	-	(787)	787	-
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	-	(145)	(145)
Dividends declared (Note 19)	-	-	-	-	-	-	-	-	(114 362)	(114 362)	(15)	(114 377)
BALANCE AT 31 DECEMBER 2017	**2 250 716**	**11 767**	**84 437**	**(10 251)**	**(1 871)**	**1 677**	**1 846**		**624 254**	**711 859**	**6 870**	**718 729**
Effect of initial application of IFRS 9 (Note 5)	-	-	-	-	-	-	(1 846)	1 846	(6 959)	(6 959)	(2 048)	(9 007)
RESTATED BALANCE AT 1 JANUARY 2018	**2 250 716**	**11 767**	**84 437**	**(10 251)**	**(1 871)**	**1 677**	**-**	**1 846**	**617 295**	**704 900**	**4 822**	**709 722**
Profit/(loss) for the year	-	-	-	-	-	-	-	-	211 812	211 812	(264)	211 548
Other comprehensive income/(loss) for the year	-	-	-	-	334	(76)	-	(106)	-	152	-	152
Total comprehensive income/(loss) for the year	**-**	**-**	**-**	**-**	**334**	**(76)**	**-**	**(106)**	**211 812**	**211 964**	**(264)**	**211 700**
Acquisition of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	-	(48)	(48)
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	-	1 052	1 052
Dividends declared (Note 19)	-	-	-	-	-	-	-	-	(145 599)	(145 599)	(46)	(145 645)
BALANCE AT 31 DECEMBER 2018	**2 250 716**	**11 767**	**84 437**	**(10 251)**	**(1 537)**	**1 601**	**-**	**1 740**	**683 508**	**771 265**	**5 516**	**776 781**

Consolidated Statement of Cash Flows

(In millions of Russian Rubles)

	NOTE	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
OPERATING ACTIVITIES			
Profit for the year		211 548	123 892
Adjustments:			
Net interest, fee and commission and other operating (income)/expenses and (gains)/losses on banking activities		(557)	808
Depreciation, depletion and amortization		30 520	24 885
Income tax expense		62 241	39 646
Net impairment losses on financial assets	5,7,9	14 955	15 047
Net impairment losses on property, plant and equipment and other non-financial assets	12	5 874	356
Loss on disposals of interests in subsidiaries and associates, net		1 842	-
Effects of foreign exchange		1 445	(504)
Equity investments gain net of dividends received		32	10
Change in provision for impairment of financial assets (for comparatives only)		-	3 462
Interest income on non-banking activities		(5 497)	(6 494)
Interest expense on non-banking activities, net of amounts capitalised		3 590	3 095
Other		807	(559)
Changes in operational working capital, excluding cash:			
Accounts receivable		(27 786)	1 245
Inventories		(11 015)	(5 997)
Prepaid expenses and other current assets		132	66
Securities at fair value through profit or loss		504	(106)
Accounts payable and accrued liabilities		4 011	(6 265)
Taxes payable		10 939	4 071
Other non-current assets		73	375
Net cash provided by non-banking operating activities before income tax and interest		**303 658**	**197 033**
Net interest, fee and commission and other operating income/(expenses) and gains/(losses) on banking activities		557	(808)
Adjustments:			
Provision for loan impairment		1 310	8 685
Provision for losses on credit related commitments		(551)	-
Change in fair value of financial assets		917	-
Other		165	(1 842)
Changes in operational working capital on banking activities, excluding cash:			
Mandatory reserve deposits with Central Bank of Russian Federation		41	72
Due from banks		(589)	8 371
Banking loans to customers		(11 107)	15 861
Due to banks and Central Bank of Russian Federation		(16 149)	15 181
Banking customers accounts		18 413	(18 961)
Debt securities issued		(2 298)	(1 098)
Financial assets at fair value through profit or loss		4 989	(534)
Other assets and liabilities		-	(2 620)
Net cash (used)/provided by banking operating activities before income tax		**(4 302)**	**22 307**

	NOTE	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Income taxes paid		(58 150)	(35 144)
Interest paid on non-banking activities		(846)	(160)
Interest received on non-banking activities		5 396	6 236
Net cash provided by operating activities		**245 756**	**190 272**
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(97 945)	(84 986)
Proceeds from disposal of property, plant and equipment		1 693	1 744
Net cash outflow on acquisition of subsidiaries		(173)	(3 300)
Cash inflow from disposal of subsidiaries and associates, net of disposed cash		20	-
Purchase of available-for-sale financial assets (for comparatives only)		-	(32 399)
Purchase of financial assets at fair value through other comprehensive income		(35 086)	-
Purchase of held to maturity investments (for comparatives only)		-	(59 038)
Purchase of financial assets at amortised cost		(20 965)	-
Proceeds from disposal of available-for-sale financial assets (for comparatives only)		-	19 379
Proceeds from disposal of financial assets at fair value through other comprehensive income		36 574	-
Proceeds from redemption of held to maturity investments (for comparatives only)		-	13 680
Proceeds from redemption of financial assets at amortised cost		43 658	-
(Purchase)/proceeds from sale of non-current assets held for sale		170	901
Proceeds from/(Purchase of) investments in associates and joint ventures		10	(738)
Proceeds from redemption of bank deposits		21 314	33 399
Placement of bank deposits		(21 053)	(994)
Proceeds from redemption of loans and notes receivable	9	4 282	1 343
Issuance of loans and notes receivable	9	(24 068)	(1 316)
Change in restricted cash		-	3
Net cash used in investing activities		**(91 569)**	**(112 322)**

Consolidated Statement of Cash Flows (continued)

(In millions of Russian Rubles)

	NOTE	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
FINANCING ACTIVITIES			
Proceeds from issuance of debt from non-banking activities	28	25 920	25 107
Repayment of debt from non-banking activities	28	(49 466)	(5 434)
Issuance of bonds	28	-	2 365
Redemption of bonds	28	(6 979)	(25 740)
Proceeds from subordinated debt		-	194
Repayment of subordinated debt		(1 359)	-
Dividends paid to shareholders	19	(100 920)	(108 479)
Dividends paid to non-controlling shareholders	19	(46)	(15)
Purchase of treasury shares		-	(32)
Proceeds from sale of treasury shares		-	31
Proceeds from issuance of shares by subsidiaries		-	18
Net cash used in financing activities		**(132 850)**	**(111 985)**
Net change in cash and cash equivalents		**21 337**	**(34 035)**
Effect of foreign exchange on cash and cash equivalents		1 355	(274)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**42 797**	**77 106**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**65 489**	**42 797**

Notes to the Consolidated Financial Statements

Note 1: Organisation

PJSC Tatneft (the "Company") and its subsidiaries (jointly referred to as "the Group") are engaged in crude oil exploration, development and production principally in the Republic of Tatarstan ("Tatarstan"), a republic within the Russian Federation. The Group also engages in refining and marketing of crude oil, refined products as well as production and marketing of petrochemicals and since October 2016, with acquisition of the controlling interest in ZENIT Banking Group (Bank ZENIT) the Group is also engaged in banking activities (Note 27).

The Company was incorporated as an open joint stock company effective 1 January 1994 (the "privatization date") pursuant to the approval of the State Property Management Committee of the Republic of Tatarstan (the "Government"). All assets and liabilities previously managed by the production association Tatneft, Bugulminsky Mechanical Plant, Menzelinsky Exploratory Drilling Department and Bavlinsky Drilling Department were transferred to the Company at their book value at the privatization date in accordance with Decree No. 1403 on Privatization and Restructuring of Enterprises and Corporations into Joint-Stock Companies. Such transfers were considered transfers between entities under common control at the privatization date, and were recorded at book value.

The Group does not have an ultimate controlling party.

As of 31 December 2018 and 2017 the government of Tatarstan controls about 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 Tatarstan government also controls or exercises significant influence over a number of the Group's suppliers and contractors.

The Company is domiciled in the Russian Federation. The address of its registered office is Lenina St., 75, Almetyevsk, Republic of Tatarstan, Russian Federation.

Note 2: Basis of preparation

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements have been prepared on a historical cost basis, except for initial recognition of financial instruments based on fair value, revaluation of financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI").

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 accompanying consolidated financial statements have been prepared from these accounting records and adjusted as necessary to comply with IFRS. 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) share based payment; (7) accounting for oil and gas properties; (8) recognition and disclosure of guarantees, contingencies and commitments; (9) accounting for decommissioning provision; (10) pensions and other post-retirement benefits and (11) business combinations and goodwill.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Note 3: Summary of significant accounting policies

FUNCTIONAL AND PRESENTATION CURRENCY

The presentation currency of the Group is the Russian Ruble.

Management has determined the functional currency for the Company and each consolidated subsidiary of the Group, except for subsidiaries located outside of the Russian Federation, is the Russian Ruble because the majority of Group revenues, costs, property and equipment purchased, debt and trade liabilities are either priced, incurred, payable or otherwise measured in Russian Rubles. Accordingly, transactions and balances not measured in Russian Rubles (primarily US Dollars) have been re-measured into Russian Rubles in accordance with the relevant provisions of IAS 21 "The Effects of Changes in Foreign Exchange Rates".

For operations of major subsidiaries located outside of the Russian Federation, that primarily use US Dollar as the functional currency, adjustments resulting from translating foreign functional currency assets and liabilities into Russian Rubles are recorded in other comprehensive income and separate component of shareholders' equity entitled foreign currency translation adjustments. Revenues, expenses and cash flows are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).

The official rate of exchange, as published by the Central Bank of Russian Federation ("CB RF"), of the Russian Ruble ("RR") to the US Dollar ("US $") at 31 December 2018 and 2017 was RR 69.47 and RR 57.60 to US $, respectively. Average rate of exchange for the years ended 31 December 2018 and 2017 were RR 62.71 and RR 58.35 per US $, respectively.

CONSOLIDATION

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group has the power to direct relevant activities of the investee that significantly affect their returns, exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis at the non-controlling interest's proportionate share of the acquiree's net assets or at fair value.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded within non-current assets. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary, the difference is recognised directly in the profit and loss for the year.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the cost cannot be recovered.

ASSOCIATES AND JOINT VENTURES

Associates and joint ventures are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates and joint ventures reduce the carrying value of the investment in associates and joint ventures. Other post-acquisition changes in Group's share of net assets of an associate and joint ventures are recognised as follows: (i) the Group's share of profits or losses of associates or joint ventures is recorded in the consolidated profit or loss for the year as share of result of associates or joint ventures, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates or joint ventures are recognised in profit or loss within the share of result of associates or joint ventures.

However, when the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture. Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group reviews equity method investments for impairment on an annual basis, and records impairment when circumstances indicate that the carrying value exceeds the recoverable amount.

FINANCIAL INSTRUMENTS – KEY MEASUREMENT TERMS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the Group. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 28.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses ("ECL"). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

FINANCIAL INSTRUMENTS – INITIAL RECOGNITION

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

FINANCIAL ASSETS – CLASSIFICATION AND SUBSEQUENT MEASUREMENT – MEASUREMENT CATEGORIES

The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

FINANCIAL ASSETS – CLASSIFICATION AND SUBSEQUENT MEASUREMENT – BUSINESS MODEL.

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 4 for critical judgements applied by the Group in determining the business models for its financial assets.

FINANCIAL ASSETS – CLASSIFICATION AND SUBSEQUENT MEASUREMENT – CASH FLOW CHARACTERISTICS

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 4 for critical judgements applied by the Group in performing the SPPI test for its financial assets.

FINANCIAL ASSETS – RECLASSIFICATION

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The entity did not change its business model during the current and comparative period and did not make any reclassifications.

FINANCIAL ASSETS IMPAIRMENT – CREDIT LOSS ALLOWANCE FOR ECL

The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts, for contract assets. The Group measures ECL and recognises Net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC and contract assets are presented in the consolidated statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the consolidated statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 28 for a description of how the Group determines when a SICR has occurred. If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Group's definition of credit impaired assets and definition of default is explained in Note 28. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 28 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. The Group calculates expected credit losses on trade receivables based on historical data assuming reasonable approximation of current losses rates adjusted on forward-looking information.

FINANCIAL ASSETS – WRITE-OFF

Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

FINANCIAL ASSETS – DERECOGNITION

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

FINANCIAL ASSETS – MODIFICATION

The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (e.g. profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Group also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

FINANCIAL LIABILITIES – MEASUREMENT CATEGORIES

Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

FINANCIAL LIABILITIES – DERECOGNITION

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified loan.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

FINANCIAL LIABILITIES DESIGNATED AT FVTPL

The Group may designate certain liabilities at FVTPL at initial recognition. Gains and losses on such liabilities are presented in profit or loss except for the amount of change in the fair value that is attributable to changes in the credit risk of that liability (determined as the amount that is not attributable to changes in market conditions that give rise to market risk), which is recorded in OCI and is not subsequently reclassified to profit or loss. This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in credit risk of the liability are also presented in profit or loss.

OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

CASH AND CASH EQUIVALENTS

Cash represents cash on hand and in bank accounts and CB RF, other than mandatory reserves deposits with CB RF, which can be effectively withdrawn at any time without prior notice. Cash equivalents include highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or less from the date of purchase. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

MANDATORY RESERVE DEPOSITS WITH THE CB RF

Mandatory cash balances with the CBRF are carried at AC and represent non-interest bearing mandatory reserve deposits, which are not available to finance the Group's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

DUE FROM BANKS

Amounts due from banks other than those that are part of the Group are recorded when the Group advances money to counterparty banks due on fixed or determinable dates. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Due from banks that mature within three months or less from the date of placement are included in cash and cash equivalents.

INVESTMENTS IN DEBT SECURITIES

Based on the business model and the cash flow characteristics, the Group classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch. Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL.

Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Group may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

INVESTMENTS IN EQUITY SECURITIES

Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Group. Investments in equity securities are measured at FVTPL, except where the Group elects at initial recognition to irrevocably designate an equity investments at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns. When the FVOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Group's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers are recorded when the Group advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Group classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Note 28 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

LOAN COMMITMENTS

The Group issues commitments to provide loans in the course of its banking activities. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts.

The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Group cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

FINANCIAL GUARANTEES

Financial guarantees require the Group in the course of its banking activities to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

SALE AND REPURCHASE AGREEMENTS AND LENDING OF SECURITIES

Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. Securities sold under repo agreements are presented as other financial assets carried at FVTPL, FVOCI, AC. The corresponding liability is presented within amounts "Due to other banks and CB RF" or "Customer accounts".

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as "Due from other banks" or "Banking loans and advances to customers", as appropriate. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

NOTES RECEIVABLE

Notes receivable are included in "Other financial assets" and are carried at AC if: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at fair value and are subsequently carried at AC using the effective interest method.

TRADE AND OTHER PAYABLES

Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at AC using the effective interest method.

DUE TO OTHER BANKS AND CB RF

Amounts due to other banks and CB RF are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at AC. If the Group purchases its own debt, the liability is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

CUSTOMER ACCOUNTS

Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at AC.

SUBORDINATED DEBT

Subordinated debt can only be paid in the event of a liquidation after the claims of other higher priority creditors have been met. Subordinated debt is carried at AC.

DEBT SECURITIES AND BONDS ISSUED

Debt securities issued include promissory notes and certificates of deposit issued by the Group to its customers in the course of its banking activities. Bonds issued represent securities issued by the Bank that are traded and quoted in the open market. Promissory notes carry a fixed date of repayment. These may be issued against cash deposits or as a payment instrument, which the customer can sell at a discount in the over-the-counter market. Debt securities and bonds issued are carried at AC. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount and the amount paid is recognised as a gain or loss on redemption of debt.

NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Non-current assets are classified in the statement of financial position as "Non-current assets held for sale" if their carrying amount will be recovered principally through a sale transaction within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs of disposal. If the fair value less costs of disposal of an asset held for sale is lower than its carrying amount, an impairment loss is recognised in the consolidated statement of profit or loss and other comprehensive income as other operating income/expense. Any subsequent increase in an asset's fair value less costs of disposal is recognised to the extent of the cumulative impairment loss that was previously recognised in relation to that specific asset.

PRECIOUS METALS

The Group has a practice of taking delivery of precious metals and selling them within a short period after delivery, for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Precious metals are carried at purchase price from CB RF and are subsequently measured at fair value based on London precious metals exchange.

INVENTORIES

Inventories of crude oil, refined oil products, materials and supplies, finished goods and other inventories are valued at the lower of cost or net realizable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. The Group uses the weighted-average-cost method. Costs include both direct and indirect expenditures incurred in bringing an item or product to its existing condition and location.

PREPAID EXPENSES

Prepaid expenses include advances for purchases of products and services, insurance fees, prepayments for export duties, VAT and other taxes. Prepayments are carried at cost less provision for impairment.

Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Prepayments for services such as insurance, transportation and others are written off to profit or loss when the goods or services relating to the prepayments are received.

If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the profit or loss for the year.

MINERAL EXTRACTION TAX

Mineral extraction tax (MET) on crude oil is defined monthly as an amount of volume produced per fixed tax rate (RR 919 per ton in 2018 and 2017, respectively) adjusted depending on the monthly average market prices of the Urals blend and the RR/US $ average exchange rate for the preceding month, taking into account the features of oil production. MET liabilities are lower for fields whose depletion rate exceeds 80% of their proved reserves as per the Russian classification of reserves and resources, as a result of using a reduction factor that depends on the level of depletion. The Company saves 3.5% at a field for each percent of depletion above the 80% threshold. In addition, lower MET is envisaged for small fields via application of a factor that characterises the volume of reserves. The amount of tax relief for depleted and small fields is calculated using the base MET rate of RR 559 per tonne (in 2017 - RR 559 per tonne).

Furthermore, the zero MET tax rate is applied to the production of highly viscous crude oil (with viscosity of 10,000 Megapascal second in reservoir conditions) and oil produced from Domanic productive sediments. In addition, another relief in the form of a lower MET is available for production of highly viscous oil with viscosity in the range from 200 to 10,000 Megapascal second (in reservoir conditions) and for production of oil in the Nenets Autonomous Okrug (via application of Kkan ratio that characterises the production area and oil properties. The saving in these circumstances is calculated using the base MET tax rate of RR 559 per tonne (in 2017 - RR 559 per tonne).

MET is recorded within Taxes other than income tax in the consolidated statements of profit or loss and other comprehensive income.

VALUE ADDED TAX

Value added tax (VAT) at a standard rate of 18% (starting from 1 January 2019 – 20%) is payable on the difference between output VAT on sales of goods and services and recoverable input VAT charged by suppliers. Output VAT is charged on the earliest of the dates: either the date of the shipment of goods (works, services) or the date of advance payment by the buyer. Input VAT can be recovered when purchased goods (works, services) are accounted for and other necessary requirements provided by the tax legislation are met. Where provision has been made for the ECL of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Export of goods and rendering certain services related to exported goods are subject to 0% VAT rate upon the submission of confirmation documents to the tax authorities.

VAT related to sales and purchases is recognised in the Consolidated Statements of Financial Position on a gross basis and disclosed separately as Prepaid expenses and other current assets and Taxes payable.

OIL AND GAS EXPLORATION AND DEVELOPMENT COST

Oil and gas exploration and development activities are accounted for using the successful efforts method whereby costs of acquiring unproved and proved oil and gas property as well as costs of drilling and equipping productive wells and related production facilities are capitalised.

Other exploration expenses, including geological and geophysical expenses and the costs of carrying and retaining undeveloped properties, are expensed as incurred. The costs of exploratory wells that find oil and gas reserves are capitalised as exploration and evaluation assets on a "field by field" basis pending determination of whether proved reserves have been found.

Exploration and evaluation costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When indicators of impairment are present, resulting impairment loss is measured.

If subsequently commercial reserves are discovered, the carrying value, less losses from impairment of respective exploration and evaluation assets, is classified as development assets. However, if no commercial reserves are discovered, such costs are expensed after exploration and evaluation activities have been completed.

OPROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at historical cost of acquisition or construction less accumulated depreciation, depletion, amortization and impairment.

Proved oil and gas properties include the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. The cost of maintenance, repairs and replacement of minor items of property are expensed when incurred within operating expenses; renewals and improvements of assets are capitalised and depreciated during the remaining useful life. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Advances made on property, plant and equipment and construction in progress are accounted for within Construction in progress.

Long-lived assets, including proved oil and gas properties at a field level, are assessed for possible impairment in accordance with IAS 36 Impairment of assets, which requires long-lived assets with recorded values that are not expected to be recovered through future cash flows to be written down to their recoverable amount which is the higher of fair value less costs of disposal and value-in-use.

Individual assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets - generally on a field-by-field basis for exploration and production assets, at an entire complex level for refining assets or at a site level for petrol stations. Impairment losses are recognised in the profit or loss for the year.

Impairments are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed. The reversal of impairment would be limited to the original carrying value less depreciation which would have been otherwise charged had the impairment not been recorded.

Long-lived assets committed by management for disposal within one year, and meet the other criteria for held for sale, are accounted for at the lower of amortised cost or fair value, less cost of disposal. Costs of unproved oil and gas properties are evaluated periodically and any impairment assessed is charged to expense.

The Group calculates depreciation expense for oil and gas proved properties using the units-of-production method for each field based upon proved developed oil and gas reserves, except in the case of significant asset components whose useful life differs from the lifetime of the field, in which case the straight-line method is applied.

Oil and gas licenses for exploration of unproved reserves are capitalised within property, plant and equipment; they are depreciated on the straight-line basis over the period of each license validity.

Depreciation of all other property, plant and equipment is determined on the straight-line method based on estimated useful lives which are as follows:

	YEARS
Buildings and constructions	30-50
Machinery and equipment	10-35

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds, if any, with the carrying amount. Gains and losses are recorded in other income and expenses in the consolidated statement of profit or loss and other comprehensive income.

DEBT

Debt is recognised initially at fair value, net of transaction costs incurred and is subsequently carried at AC using the effective interest method.

INTEREST INCOME ON NON-BANKING ACTIVITIES

Interest income on non-banking activities is recognised on a time-proportion basis using the effective interest method. This method defers, as part of interest income, all fee received between the parties to the contract that are an integral part of the effective interest rate, all other premiums.

Fees integral to the effective interest rate include origination fees received by the Group relating to the creation or acquisition of a financial asset.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

EMPLOYEE BENEFITS, POST-EMPLOYMENT AND OTHER LONG-TERM BENEFITS

Wages, salaries, contributions to the social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has various pension plans covering substantially all eligible employees and members of management. The pension liabilities are measured at the present value of the estimated future cash outflows using interest rates of government securities, which have the same currency and terms to maturity approximating the terms of the related liability. Pension costs are recognised using the projected unit credit method.

The cost of providing pensions is accrued and charged to staff expense within operating expenses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income reflecting the cost of benefits as they are earned over the service lives of employees.

Remeasurements of the net defined benefit liability arises as the actuarial gains or losses from changes in assumptions and from experience adjustments with regard to post employment benefit plans are recognised immediately in other comprehensive income. Actuarial gains and losses related to other long-term benefits are recognised immediately in the profit or loss for the year.

Past service costs are recognised as an expense immediately.

Plan assets are measured at fair value and are subject to certain limitations. Fair value of plan assets is based on market prices. When no market price is available the fair value of plan assets is estimated by different valuation techniques, including discounted expected future cash flow using a discount rate that reflects both the risk associated with the plan assets and maturity or expected disposal date of these assets.

In the normal course of business the Group contributes to the Russian Federation State Pension Fund on behalf of its employees. Mandatory contributions to the Fund are expensed when incurred and are included within staff costs in operating expenses.

DECOMMISSIONING PROVISIONS

The Group recognizes a liability for the fair value of legally required or constructive decommissioning provisions associated with long-lived assets in the period in which the retirement obligations are incurred. The Group has numerous asset removal obligations that it is required to perform under law or contract once an asset is permanently taken out of service. The Group's field exploration, development, and production activities include assets related to: well bores and related equipment and operating sites, gathering and oil processing systems, oil storage facilities and gathering pipelines. Generally, the Group's licenses and other operating permits require certain actions to be taken by the Group in the abandonment of these operations. Such actions include well abandonment activities, equipment dismantlement and other reclamation activities. The Group's estimates of future abandonment costs consider present regulatory or license requirements, as well as actual dismantling and other related costs. These liabilities are measured by the Group using the present value of the estimated future costs of decommissioning of these assets. The discount rate is reviewed at each reporting date and reflects current market assessments of the time value of money and the risks specific to the liability. Most of these costs are not expected to be incurred until several years, or decades, in the future and will be funded from general Group resources at the time of removal.

The Group capitalizes the associated decommissioning costs as part of the carrying amount of the long-lived assets. Changes in obligation, reassessed regularly, related to new circumstances or changes in law or technology, or in the estimated amount of the obligation, or in the pre-tax discount rates, are recognised as an increase or decrease of the cost of the relevant asset.

The Group's petrochemical, refining and marketing and distribution operations are carried out at large manufacturing facilities and fuel outlets. The nature of these operations is such that the ultimate date of decommissioning of any sites or facilities is unclear. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obligations related to decommissioning or other disposal of these assets.

INCOME TAXES

Effective 1 January 2012, the Company has established the Consolidated Taxpayer Group which currently includes 5 companies of the Group. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the Consolidated Taxpayer Group or individual companies of the Group.

Income tax penalties expense and income tax penalties payable are included in Taxes other than income tax in the consolidated statement of profit or loss and other comprehensive income and taxes payable in the consolidated statement of financial position, respectively. Income tax interest expense and payable are included in interest expense in the consolidated statements of profit or loss and other comprehensive income and other accounts payable and accrued expenses in the consolidated statement of financial position, respectively.

SHARE CAPITAL

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity.

Dividends paid to shareholders are determined by the Board of directors and approved at the annual or extraordinary shareholders' meeting. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved.

TREASURY SHARES

Common shares of the Company owned by the Group at the reporting date are designated as treasury shares and are recorded at cost using the weighted-average method. Gains on resale of treasury shares are credited to additional paid-in capital whereas losses are charged to additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.

EARNINGS PER SHARE

Preference shares are not redeemable and are considered to be participating shares.

Basic and diluted earnings per share are calculated by dividing profit or loss attributable to ordinary and preference share holders by the weighted average number of ordinary and preferred shares outstanding during the period. Profit or loss attributed to equity holders is reduced by the amount of dividends declared in the current period for each class of shares. The remaining profit or loss is allocated to common and preferred shares to the extent that each class may share in earnings if all the earnings for the period had been distributed. Treasury shares are excluded from calculations. The total earnings allocated to each class of shares are determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenues represent the fair value of consideration received or receivable for the sale of goods and services in the normal course of business, net of discounts, export duties, value-added tax and excise.

The Group's business activities include sales of crude oil and refined products, sales of tires and petrochemical raw materials. Revenues are recognized at a point in time when control over such products has transferred to a customer, which refers to ability to direct the use of, and obtain substantially all of the remaining benefits from the products. Transfer occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied.

The Group considers indicators that customer has obtained control of an asset, which include, but are not limited to the following: the Group has a present right to payment for the products; the Group has transferred physical possession of the products; the customer has legal title to the products; the customer has the significant risks and rewards of ownership of the products; the customer has accepted the products. Not all of the indicators need to be met for management to conclude that control has transferred and revenue could be recognized. Management uses judgement to determine whether factors collectively indicate that the customer has obtained control.

When the consideration includes a variable amount, minimum amounts must be recognized that are not at significant risk of reversal. The sales price is determined on a provisional basis, and the fair value of the final sales price adjustment is re-estimated continuously with changes in fair value recognized as an adjustment to revenue.

The group operates a chain of own petrol (gas) stations selling refined products. Revenue from the sale of products is recognized when a group entity sells a product to the customer. Payment of the transaction price is due immediately when the customer purchases the fuel. Since no right of return, no refund liability recognized.

Revenues from providing services are recognized in the period in which the services are rendered.

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. No significant element of financing is deemed present as the sales are made with short-term credit terms consistent with market practice. As a consequence, the group does not adjust any of the transaction prices for the time value of money.

RECOGNITION OF INTEREST, FEE AND COMMISSION INCOME AND EXPENSE ON BANKING ACTIVITIES

Interest income and expense are recognised on an accrual basis calculated using the effective interest method. . This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at FVTPL.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group's performance. Such income includes recurring fees for account maintenance, account servicing fees, account subscription fees, premium service package fees, portfolio and other asset management advisory and service fees, wealth management and financial planning services, or fees for servicing loans on behalf of third parties, etc. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Other fee and commission income is recognised at a point in time when the Group satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, fees for cash settlements, collection or cash disbursements, as well as, commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses.

TRANSPORTATION EXPENSES

Transportation expenses recognised in the consolidated statements of profit or loss and other comprehensive income represent all expenses incurred by the Group to transport crude oil and refined products to end customers (they may include pipeline tariffs and any additional railroad costs, handling costs, port fees, sea freight and other costs). Compounding fees are included in selling, general and administrative expenses.

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9 and IFRS 15, are as follows.

FINANCIAL ASSETS

All financial assets are initially recognised when an entity becomes a party to the contract, they are recognised at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group's financial assets include cash and cash equivalents, restricted cash, mandatory reserve deposits with CB RF, banking customer loans, deposits, due from banks, securities, derivatives, precious metals, trade and other receivables, loans issued.

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets at fair value through profit or loss; (d) held to maturity investments. The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The Group derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

LOANS AND RECEIVABLES

Loans and receivables is a category of financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. The accrued interest is included in the profit and losses for the year. The allowance for impairment of loans and receivables is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the loans and receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the financial asset's original effective interest rate at the date of origination of the loan or receivable. The losses arising from impairment are recognised as selling, general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

DUE FROM BANKS

Amounts due from banks other than those that are part of the Group are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost. Deposits, placed in the course of banking activities in other banks having maturity exceeding one working day from the balance sheet date are treated as amounts due from banks. Due from banks that mature within three months or less from the date of placement are included in cash and cash equivalents. Due from banks are initially recognised at fair value. These balances are subsequently re-measured at amortised cost at the effective interest method and are carried net of any allowance for impairment.

LOANS TO CUSTOMERS

Loans issued in the course of banking activities that have fixed or determinable payments that are not quoted in an active market are classified as loans to customers. Loans to customers are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

A financial asset is classified at fair value through profit or loss category if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit and loss for the year. Coupon and interest earned on financial assets at fair value through profit or loss are reflected as interest, fee and commission income. Dividends received, all other elements of the changes in the fair value and gains or losses on derecognition are recorded in other operating income/(expenses) in the consolidated statement of profit or loss and other comprehensive income in the period in which they arise.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets include investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity. Unquoted equity instruments whose fair value cannot be measured reliably are carried at cost less any impairment losses. When an investment is derecognised the cumulative gain or loss in equity is also reclassified to profit and loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. Foreign exchange gains/losses on available-for-sale debt securities are reflected in profit or loss for the year. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the other comprehensive income) is recognised in the profit and loss for the year as a reclassification adjustment from other comprehensive income.

HELD TO MATURITY INVESTMENTS

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Held to maturity investments are measured at amortised cost using the effective interest method less any impairment.

If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

IMPAIRMENT OF FINANCIAL ASSETS CARRIED AT AMORTISED COST

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

REPURCHASE AGREEMENTS

Repurchase agreements ("REPO") are used by the Group as an element of its treasury management and trading business in a course of its banking activities and are treated as secured financing transactions.

A REPO is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest.

Financial assets sold under REPO are included into financial assets at fair value through profit or loss, available-for-sale financial assets or held to maturity investments and funds received under these agreements are accounted for as amounts due to banks and CB RF and customer accounts as appropriate. Financial assets purchased under agreements to resell ("reverse repurchase") are recorded as amounts due from banks or loans to customers as appropriate. Gain/loss on the sale of the above instruments is recognised as interest income or expense on banking activities in the consolidated statement of profit or loss and other comprehensive income based on the difference between the repurchase price accreted to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse REPO/REPO is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognised using the effective interest method.

FINANCIAL LIABILITIES

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, due to banks and CB RF, banking customer accounts, debt securities and bonds issued, credit facilities, subordinated debt and other borrowings.

Financial liabilities are recognised initially at fair value. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss for the year.

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

REVENUE RECOGNITION

Revenues from the production and sale of crude oil, petroleum and petrochemical products and other products are recognized when risks and rewards of ownership are transferred and collectability is reasonably assured. Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any discounts and other incentives. Purchases and sales of inventory which are of a similar nature and value with the same counterparty that are entered into in contemplation of one another are combined, considered as a single arrangement and netted against each other in the consolidated statement of profit or loss and other comprehensive income. Revenue includes only economic benefits which flow to the Group. Taxes and duties arising on the sale of goods to third parties do not form part of revenue.

INTEREST INCOME ON NON-BANKING ACTIVITIES

Interest income on non-banking activities is recognised on a time-proportion basis using the effective interest method.

RECOGNITION OF INTEREST, FEE AND COMMISSION INCOME AND EXPENSE ON BANKING ACTIVITIES

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Commissions and other fees are recognized when the related transactions are completed. Loan origination fees for loans issued to customers, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Other income and expenses are recognized on an accrual basis.

Once a financial asset or group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the consolidated statement of profit or loss and other comprehensive income over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the consolidated statement of profit or loss and other comprehensive income on expiry.

Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in the consolidated income statement when the syndication has been completed. All other commissions are recognized when services are provided.

Note 4: Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management of the Group also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

- Estimation of oil and gas reserves;
- Useful life of property, plant and equipment;
- Decommissioning provisions;
- Impairment of property, plant and equipment;
- Accounting of investments in JSC "National Non-State Pension Fund";
- Financial assets impairment;
- Financial assets classification;
- Financial instruments fair value estimation..

ESTIMATION OF OIL AND GAS RESERVES

Oil and gas development and production assets are depreciated on a unit-of-production (UOP) basis for each field or group of fields with similar characteristics at a rate calculated by reference to proved developed reserves. Estimates of proved reserves are also used in the determination of whether impairments have arisen or should be reversed. Also, exploration drilling costs are capitalised pending the results of further exploration or appraisal activity, which may take several years to complete and before any related proved reserves can be booked.

Proved reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of oil and gas reserves are inherently imprecise, require the application of judgment and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. The Group estimates its oil and gas reserves in accordance with rules promulgated by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE) for proved reserves.

Changes to the Group's estimates of proved developed reserves affect prospectively the amounts of depreciation, depletion and amortization charged and, consequently, the carrying amounts of oil and gas properties. It is expected, however, that in the normal course of business the diversity of the Group's portfolio will limit the effect of such revisions. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related capitalised exploration drilling costs being written off in the profit and loss for the year.

USEFUL LIFE OF PROPERTY, PLANT AND EQUIPMENT

Based on the terms included in the licenses and past experience, management believes hydrocarbon production licenses will be extended past their current expiration dates at insignificant additional costs. As a result of the anticipated license extensions, the assets are depreciated over their useful lives beyond the end of the current license term.

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

Management reviews the appropriateness of the assets' useful economic lives and residual values at the end of each reporting period. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group and the estimated residual value.

DECOMMISSIONING PROVISIONS

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future decommissioning provisions is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

SENSITIVITY ANALYSIS FOR CHANGES IN DISCOUNT RATE:

		IMPACT ON DECOMMISSIONING PROVISION	
	CHANGE IN	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
Discount rate	+1%	(7 207)	(8 457)
	-1%	9 353	11 148

Information about decommissioning provision is presented in Note 12.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

At 31 December 2018 management assessed whether there is any indication of impairment of long-lived assets. As result impairment of exploration assets was recognised (Note 12). Based on the stable financial performance, absence of significant adverse changes in economic and market environment and in interest rates the management believes that there is no indication of impairment of other long-lived assets as of 31 December 2018 and 2017.

ACCOUNTING OF INVESTMENTS IN JSC "NATIONAL NON-STATE PENSION FUND"

As at 31 December 2018 and 2017 the Group has 74.46% of shares of JSC "National Non-Governmental Pension Fund". The Group does not exercise either control or significant influence over JSC "National Non-Governmental Pension Fund" based on corporate governance and pension legislation. These investments are presented within financial assets carried at FVOCI as at 31 December 2018 (within available-for-sale investments as at 31 December 2017).

FINANCIAL ASSETS IMPAIRMENT

ECL measurement. Calculation and measurement of ECLs is an area of significant judgement, and implies methodology, models and data inputs. The following components of ECL calculation have the major impact on credit loss allowance for ECLs: default definition, significant increase in credit risk (SICR), probability of default (PD), exposure at default (EAD), loss given default (LGD), macromodels and scenario analysis for credit impaired loans. The Group regularly reviews and validates models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. Refer to Note 28.

Significant increase in credit risk (SICR). In order to determine whether there has been a significant increase in credit risk, the Group compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Group considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Group identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 28.

FINANCIAL ASSETS CLASSIFICATION

Business model assessment. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Group considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Group assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Group's control, is not recurring and could not have been anticipated by the Group, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

Assessment whether cash flows are solely payments of principal and interest ("SPPI"). Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement.

The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The assessment was done for all reasonably possible scenarios, including reasonably possible financial stress situation that can occur in financial markets.

The Group identified and considered contractual terms that change the timing or amount of contractual cash flows.

The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, i.e. instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual per amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (iii) the fair value of the prepayment feature is immaterial at initial recognition.

The Group's loans, primarily to real estate developers, have cash flows that highly depend on performance of the underlying assets. The loans are carried at FVTPL where management determined that such loans are in substance non-recourse.

The instruments that failed the SPPI test are measured at FVTPL are described in Note 8.

FINANCIAL INSTRUMENTS FAIR VALUE ESTIMATION

Financial instruments carried at FVTPL or FVOCI and all derivatives are stated at fair value. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are missed, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument, in exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets.

Any difference between the transaction price and the value based on a valuation technique is not recognised in the consolidated statement of profit or loss and other comprehensive income on initial recognition unless the value is based on valuation technique that uses only data from observable markets. Subsequent gains or losses are only recognised to the extent that they arise from a change in a factor that market participants would consider in setting a price.

Information on fair value of financial instruments where estimate is based on assumptions that do not utilize observable market prices is presented in Note 28.

Accounting judgements applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9, are as follows:

- Impairment of loans to customers on banking activities (for comparatives only);
- Impairment of other loans (for comparatives only);
- Impairment of available-for-sale equity investments (for comparatives only);
- Held-to-maturity financial assets (for comparatives only).

IMPAIRMENT OF LOANS TO CUSTOMERS ON BANKING ACTIVITIES (FOR COMPARATIVES ONLY)

The Group regularly reviews its loans to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a significant impact on its financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behaviour, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

IMPAIRMENT OF OTHER LOANS (FOR COMPARATIVES ONLY)

The Group also regularly reviews its other loans issued to assess impairment. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows for borrowers. To assess future cash flows, management of the Group analyses the information on the debtor's solvency, requests expert estimates regarding the market value of the collateral provided, builds (where possible) models of discounted expected cash flows, requests additional information to estimate the probability of non-repayment of the relevant debt in the terms established by the contracts.

IMPAIRMENT OF AVAILABLE-FOR-SALE EQUITY INVESTMENTS (FOR COMPARATIVES ONLY)

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of changes in technology or a deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows.

HELD-TO-MATURITY FINANCIAL ASSETS (FOR COMPARATIVES ONLY)

Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity. In making this judgement, the Group evaluates its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would, therefore, be measured at fair value rather than amortised cost. Furthermore, the Group would not be able to classify any financial assets as held-to-maturity for the following two annual reporting periods.

Note 5: Adoption of new or revised standards and interpretations

ADOPTION OF IFRS 9

The Group has adopted IFRS 9, Financial Instruments, with a date of transition of 1 January 2018, which resulted in changes in accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

The Group elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities at the date of initial application in the opening retained earnings of the current period. Consequently, the revised requirements of the IFRS 7, Financial Instruments: Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

Details of the specific IFRS 9 accounting policies applied in the current period are described in Note 3.

The impact of the IFRS 9 adoption on the Group is disclosed below:

	MEASUREMENT CATEGORY IAS 39 AS AT 31 DECEMBER 2017			REMEASUREMENT		MEASUREMENT CATEGORY IFRS 9 AS AT 1 JANUARY 2018	
FINANCIAL ASSETS	CATEGORY	AMOUNT	RECLASSIFICATION	ECL	OTHER	CATEGORY	AMOUNT
CASH AND CASH EQUIVALENTS							
Cash on hand and in banks	Loans and receivables	29 219	-	-	-	Amortised cost	29 219
Term deposits	Loans and receivables	11 906	-	-	-	Amortised cost	11 906
Due from banks	Loans and receivables	1 672	-	-	-	Amortised cost	1 672
Banking: Mandatory reserve deposits with CB RF	Loans and receivables	1 916	-	-	-	Amortised cost	1 916
ACCOUNTS RECEIVABLE							
Trade receivables	Loans and receivables	59 075	-	-	-	Amortised cost	59 075
Other financial receivables	Loans and receivables	5 771	-	(54)	-	Amortised cost	5 717
Banking: Loans to customers	Loans and receivables	150 983	(15 316)	(6 834)	-	Amortised cost	128 833
Banking: Loans to customers	Loans and receivables	-	15 316	-	(717)	FVOCI	14 599
OTHER FINANCIAL ASSETS							
Bank deposits	Loans and receivables	302	-	-	-	Amortised cost	302
Due from banks	Loans and receivables	1 183	-	-	-	Amortised cost	1 183
REPO with banks	Loans and receivables	459	-	-	-	Amortised cost	459
Notes receivable	Loans and receivables	456	-	-	-	Amortised cost	456
Loans to employees	Loans and receivables	1 558	-	(354)	-	Amortised cost	1 204
Other loans	Loans and receivables	11 321	(1 559)	(1 569)	-	Amortised cost	8 193
Other loans	Loans and receivables	-	1 559	-	-	FVTPL	1 559
Held-for-trading financial assets	FVTPL	8 501	(1 028)	-	9	FVTPL	7 482
Held-for-trading financial assets	FVTPL	-	1 510	-	-	FVOCI	1 510
Available-for-sale financial assets	Available-for-sale	41 705	(482)	(193)	-	FVOCI	41 030
Held to maturity financial assets	Held-to-maturity	55 805	(854)	(201)	-	Amortised cost	54 750
Held to maturity financial assets	Held-to-maturity	-	854	-	(153)	FVTPL	701

The following table reconciles the prior period's closing provision for impairment measured in accordance with incurred loss model under IAS 39 to the new credit loss allowance measured in accordance with expected loss model under IFRS 9 at 1 January 2018:

	MEASUREMENT CATEGORY		Provision for impairment under IAS 39 or IAS 37 at 31 December 2017	EFFECT		Credit loss allowance under IFRS 9 at 1 January 2018
	IAS 39	IFRS 9		REMEASUREMENT	RECLASSIFICATION	
ACCOUNTS RECEIVABLE						
Trade receivables	Loans and receivables	Amortised cost	(1 676)	-	-	(1 676)
Other financial receivables	Loans and receivables	Amortised cost	(2 419)	(54)	-	(2 473)
Banking: Loans to customers	Loans and receivables	Amortised cost	(4 925)	(6 834)	-	(11 759)
Banking: Loans to customers	Loans and receivables	FVTPL	(2 357)	-	2 357	-
OTHER FINANCIAL ASSETS						
Bank deposits	Loans and receivables	Amortised cost	(5 547)	-	-	(5 547)
Notes receivable	Loans and receivables	Amortised cost	(318)	-	-	(318)
Loans to employees	Loans and receivables	Amortised cost	(1 420)	(354)	-	(1 774)
Other loans	Loans and receivables	Amortised cost	(7 490)	(1 569)	-	(9 059)
Other loans	Loans and receivables	FVTPL	(404)	-	-	(404)
Available-for-sale financial assets	Available-for-sale	FVOCI	-	(193)	-	(193)
Held to maturity financial assets	Held-to-maturity	Amortised cost	-	(201)	-	(201)
Credit related commitments			(248)	(710)	-	(958)
TOTAL			**(26 804)**	**(9 915)**	**2 357**	**(34 362)**

As a result of adoption of IFRS 9 "Financial instruments" the Group discloses gains / losses from accrual / reversal of provision of financial assets determined in accordance with requirements of IFRS 9 in "Net impairment losses on financial assets" of the Consolidated Statement of Profit or Loss and Other Comprehensive Income for 2018 year. All other gains / losses from accrual / reversal of provision of other assets are disclosed in "Net impairment losses on property, plant and equipment and other non-financial assets". Comparable information was reclassified appropriately as follows.

	AMOUNT FOR 2017 YEAR		
FSLI	BEFORE CHANGES	CHANGES	AFTER CHANGES
Net impairment losses on financial assets	-	(15 156)	(15 156)
Net impairment losses on property, plant and equipment and other non-financial assets	-	(356)	(356)
Loss on impairments of property, plant and equipment and other assets	(15 512)	15 512	-

The effect of the transition to IFRS 9 on equity is as follows:

Opening equity balance under IAS 39 at 31 December 2017	**718 729**
Recognition of ECL under IFRS 9 for financial assets at AC	(9 012)
Recognition of ECL under IFRS 9 for financial assets at FVOCI	(193)
Recognition of ECL under IFRS 9 for credit related commitments	(710)
Remeasurement of loans and advances at FVTPL	(717)
Other remeasurement	(144)
Deferred tax	1 769
Total effect of initial application of IFRS 9	**(9 007)**
Including attributable to non-controlling interest	(2 048)
Revised opening balance under IFRS 9 at 1 January 2018	**709 722**

Also starting from 2018 year net impairment losses on accounts receivable are disclosed in "Net impairment losses on financial assets" of the Consolidated Statement of Profit or Loss and Other Comprehensive Income, whereas in 2017 year they were disclosed in "Selling, general and administrative expenses" in amount RR 1,591 million of the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

ADOPTION OF IFRS 15

The group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018. In accordance with the transition provisions in IFRS 15, the Group has elected simplified transition method with the effect of transition to be recognised as at 1 January 2018. The Group applies IFRS 15 retrospectively only to contracts that are not completed at the date of initial application. An impact on the Group's consolidated financial statements from the adoption of the new standard on 1 January 2018 is not significant. Contract assets are not significant for the Group. Contract liabilities are presented as Advances received from customers in Note 15.

In addition to IFRS 9 and IFRS 15, the following amended standards became effective for the Group from 1 January 2018, but did not have any material impact on the Group:

- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Certain new standards, interpretations and amendments to standards have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group has not early adopted.

IFRS 16, LEASES (ISSUED ON 13 JANUARY 2016 AND EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2019)

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group decided that it will apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without restatement of comparatives. Right-of-use assets mainly will be represented by the right to use oilfield equipment obtained under lease agreements and will be evaluated at the amount of the lease liability on adoption.

As at 31 December 2018 the Group has non-cancellable lease commitments of RR 6,119 million. A reconciliation of the operating lease commitments disclosed in Note 26 to the recognised liability is as follows:

	31 DECEMBER 2018 / 1 JANUARY 2019
Total future minimum lease payments for non-cancellable operating leases (Note 26)	6 119
Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	20 875
Effect of discounting to present value	(11 576)
Total lease liabilities	**15 418**

The Group expects to recognise right-of-use assets in the amount of the lease liabilities. The amount may be adjusted upon completion of the assessment regarding the lease terms.

The activity of the Group as a lessor is not material and, therefore, will not have a significant impact on the financial statements.

IFRIC 23 «UNCERTAINTY OVER INCOME TAX TREATMENTS» (ISSUED ON 7 JUNE 2017 AND EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2019)

IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate.

Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The interpretation is not expected to have a material impact on the Group's consolidated financial statements.

The following other new standards and interpretations are not expected to have any material impact on the Group's consolidated financial statements when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB);
- IFRS 17 «Insurance Contracts» (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds.
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur.
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The amendments revise definition of a business.
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved.

Note 6: Cash and cash equivalents

Cash and cash equivalents comprise the following:

	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
Cash on hand and in banks	42 340	29 219
Term deposits with original maturity of less than three months	22 078	11 906
Due from banks	1 071	1 672
Total cash and cash equivalents	**65 489**	**42 797**

Term deposits with original maturity of less than three months represent deposits placed in banks in the course of non-banking activities. Due from banks represent deposits with original maturities of less than three months placed in the course of banking activities in banks other than those that are part of the Group. The fair value and credit quality analysis of cash and cash equivalents is presented in Note 28.

Note 7: Accounts receivable

Short-term and long-term accounts receivable comprise the following:

	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
SHORT-TERM ACCOUNTS RECEIVABLE:		
Trade receivables	79 088	58 696
Other financial receivables	8 150	5 025
Other non-financial receivables	144	191
Less credit loss allowance	(6 620)	(2 314)
Total short-term accounts receivable	**80 762**	**61 598**
LONG-TERM ACCOUNTS RECEIVABLE:		
Trade receivables	1 569	2 055
Other financial receivables	3 063	3 165
Less credit loss allowance	(1 702)	(1 781)
Total long-term accounts receivable	**2 930**	**3 439**
Total trade and other receivables		
Итого торговая и прочая дебиторская задолженность	83 692	65 037

Fair value of short-term and long-term accounts receivable is presented in Note 28.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

The credit loss allowance for trade and other receivables is determined according to provision matrix presented in the table below. The provision matrix is based the number of days that an asset is past due, with a distribution to portfolios of receivables, homogeneous in terms of credit risk. In addition to the number of days that an asset is past due, types of products sold, geographical specificity of distributional channels and other factors were taken into account.

Analysis by credit quality of trade and other receivables is as follows:

	УРОВЕНЬ УБЫТКОВ	ВАЛОВАЯ БАЛАНСОВАЯ СТОИМОСТЬ	ОЖИДАЕМЫЕ КРЕДИТНЫЕ УБЫТКИ ЗА ВЕСЬ СРОК
TRADE RECEIVABLES			
current	0,197%	78 244	(157)
less than 90 days overdue	89,34%	798	(713)
91 to 180 days overdue	0,59%	88	(1)
over 180 days overdue	89,68%	1 527	(1 369)
Total trade receivables (gross carrying amount)		**80 657**	
Credit loss allowance		(2 240)	
Total trade receivables (carrying amount)		**78 417**	
OTHER RECEIVABLES			
current	0,735%	5 168	(37)
less than 90 days overdue	100%	12	(12)
91 to 180 days overdue	0%	-	-
over 180 days overdue	100%	6 033	(6 033)
Total other receivables (gross carrying amount)		**11 213**	
Credit loss allowance		(6 082)	
Total other receivables (carrying amount)		5 131	

The following table explains the changes in the credit loss allowance for trade and other receivables under simplified ECL model between the beginning and the end of the annual period:

	2018	
	TRADE RECEIVABLES	OTHER RECEIVABLES
Balance at 1 January 2018	**(1 676)**	**(2 419)**
New originated or purchased	(734)	(3 635)
Other movements	-	(53)
Total credit loss allowance charge in profit or loss for the period	**(734)**	**(3 688)**
Write-offs	228	25
FX movements	(58)	-
Balance at 31 December 2018	(2 240)	(6 082)

Analysis by credit quality of trade and other receivables is as follows:

	AT 31 DECEMBER 2018 TRADE RECEIVABLES	AT 31 DECEMBER 2018 OTHER RECEIVABLES	AT 31 DECEMBER 2017 TRADE RECEIVABLES	AT 31 DECEMBER 2017 OTHER RECEIVABLES
NEITHER PAST DUE NOR IMPAIRED				
international crude oil and oil products traders	21 373	-	14 188	-
Russian crude oil and oil products traders	8 252	-	5 392	-
Russian refineries	14 160	-	12 933	-
central and eastern Europe refineries	15 910	-	14 383	-
Russian tire dealers and automotive manufacturers	4 732	-	3 718	-
Natural monopoly entity	5 170	-	-	-
Russian construction companies	325	-	625	-
unrated	8 322	5 168	7 512	4 678
including related parties	*2 697*	*369*	*2 374*	*590*
Total neither past due nor impaired	**78 244**	**5 168**	**58 751**	**4 678**
PAST DUE BUT NOT IMPAIRED				
less than 90 days overdue	85	12	279	67
91 to 180 days overdue	88	-	45	11
over 180 days overdue	-	-	-	26
Total past due but not impaired	**173**	**12**	**324**	**104**
INDIVIDUALLY DETERMINED TO BE IMPAIRED (GROSS)				
less than 90 days overdue	713	-	-	-
91 to 180 days overdue	-	-	-	-
over 180 days overdue	1 527	6 033	1 676	3 599
Total individually impaired	**2 240**	**6 033**	**1 676**	**3 599**
Less provision for impairment	(2 240)	(6 082)	(1 676)	(2 419)
TOTAL	**78 417**	**5 131**	**59 075**	**5 962**

Movements in the impairment provision for trade and other receivables during 2017 are as follows:

	2017 TRADE RECEIVABLES	2017 OTHER RECEIVABLES
Provision for impairment at 1 January	**(1 409)**	**(333)**
Provision for impairment during the year	(302)	(2 371)
Foreign exchange gain	25	-
Change in Group structure	10	285
PROVISION FOR IMPAIRMENT AT 31 DECEMBER	**(1 676)**	**(2 419)**

Note 8: Banking: Loans to customers

	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
Loans to legal entities	106 538	122 699
Loans to individuals	39 935	35 566
Loans to customers at AC before impairment	**146 473**	**158 265**
Credit loss allowance	(13 069)	(7 282)
Total loans to customers at AC	**133 404**	**150 983**
Loans to customers at FVTPL	12 901	-
Total loans to customers	**146 305**	**150 983**
Less: long term loans at FVTPL	(12 901)	-
Less: long term loans at AC	(85 905)	(112 579)
Less: credit loss allowance for long term loans	6 298	6 091
Total short term loans to customers and current portion of long term loans to customers at AC	**53 797**	**44 495**

As at 31 December 2018 and 2017 the Group granted loans to 20 and 17 customers totalling RR 51,743 million and RR 50,314 million respectively, which individually exceeded 5% of the Bank ZENIT equity.

As at 31 December 2018 and 2017, the total amount of pledged loans to legal entities is RR 1,742 million and RR 3,297 million and loans to individuals is RR 5,422 million and RR 5,985 million respectively. The loans are pledged against the funds accounted within Due to banks and CB RF.

The Group holds a portfolio of loans and advances to customers that does not meet the SPPI requirement for AC classification under IFRS 9. Dominant features that failed SPPI test were the following: the amount of net operating cash flows according to business-plan is not sufficient to fully repayment of loans within the period specified in loan contract; the time value of money is not compensated to the Bank, interest payments will be performed in the end of loan contract; amount of collateral is not sufficient for repayment of loan.

As a result, these loans and advances were classified as at FVTPL from the date of initial recognition. Loans and advances to customers at FVTPL are measured taking into account the credit risk. The carrying amount presented in the consolidated statement of financial position best represents the Group's maximum exposure to credit risk arising from loans and advances to customers.

Loans and advances to legal entities which due to transition to IFRS 9 were reclassified at fair value through profit or loss, at 1 January 2018 amounted to RR 14,599 million (31 December 2017: these loans were measured at amortised cost, their carrying amount being RR 17,673 million before impairment provision, the provision amounting to RR 2,357 million). The fair value of loans and advances to customers, including a breakdown by fair value hierarchy level, is disclosed in Note 28. Information on related party balances is disclosed in Note 25.

Movements in the provision for loan impairment during the year ended 31 December 2018 are as follows:

	LOANS TO LEGAL ENTITIES	LOANS TO INDIVIDUALS	TOTAL
Credit loss allowance as at 1 January 2018	**(10 605)**	**(1 154)**	**(11 759)**
Net provision for credit loss allowance during the period	(928)	(382)	(1 310)
Credit loss allowance as at 31 December 2018	**(11 533)**	**(1 536)**	**(13 069)**

Movements in the provision for loan impairment during the year ended 31 December 2017 are as follows:

	LOANS TO LEGAL ENTITIES	LOANS TO INDIVIDUALS	TOTAL
Provision for loan impairment at 1 January 2017	**(1 030)**	**(137)**	**(1 167)**
Net provision charge for loan impairment during the period	(8 194)	(491)	(8 685)
Loans and advances to customers written off during the period	-	41	41
Cession	2 336	26	2 362
FX translation	167	-	167
Provision for loan impairment as at 31 December 2017	**(6 721)**	**(561)**	**(7 282)**

Risk concentrations by customer industry within the customer loan portfolio are as follows:

	AT 31 DECEMBER 2018		AT 31 DECEMBER 2017	
	GROSS BOOK VALUE	SHARE IN CUSTOMER LOAN PORTFOLIO, %	GROSS BOOK VALUE	SHARE IN CUSTOMER LOAN PORTFOLIO, %
Trade	28 943	18,16%	28 480	18,00%
Manufacturing	24 471	15,35%	24 676	15,59%
Construction	16 542	10,38%	23 996	15,16%
Services	22 877	14,35%	29 298	18,51%
Food	1 474	0,92%	3 547	2,24%
Finance	12 080	7,58%	7 907	5,00%
Agriculture	1 538	0,97%	1 187	0,75%
Oil and gas	2 533	1,59%	1 376	0,87%
Individuals, including:	39 936	25,06%	35 566	22,47%
mortgage loans	25 333	15,90%	23 347	14,75%
consumer loans	13 247	8,31%	10 634	6,72%
car loans	846	0,53%	999	0,63%
plastic cards overdrafts	479	0,30%	585	0,37%
other	31	0,02%	1	0,00%
Other	8 979	5,63%	2 232	1,41%
TOTAL LOANS TO CUSTOMERS BEFORE IMPAIRMENT	159 373	100%	158 265	100%

Loans to customers' credit quality analysis is presented in Note 28.

Note 9: Other financial assets

Other short-term financial assets comprise the following as at 31 December 2018:

	AT 31 DECEMBER 2018
FINANCIAL ASSETS AT AC	
Notes receivable (net of credit loss allowance of RR 249 million as of 31 December 2018)	136
Other loans (net of credit loss allowance of RR 261 million as of 31 December 2018)	3 220
Bank deposits (net of credit loss allowance of RR 5,544 million as of 31 December 2018)	11
Due from banks	997
REPO with banks	537
Securities held by the Group (net of credit loss allowance of RR 47 million as of 31 December 2018):	4 632
Russian government and municipal debt securities	675
Corporate debt securities	3 957
Securities pledged under sale and repurchase agreements (net of credit loss allowance of RR 37 million as of 31 December 2018):	8 267
Russian government and municipal debt securities	2 272
Corporate debt securities	5 995
FINANCIAL ASSETS AT FVTPL	
Securities held by the Group:	4 017
Russian government and municipal debt securities	287
Corporate debt securities	2 018
Corporate shares	186
Derivatives	1 526
FINANCIAL ASSETS AT FVOCI	
Securities held by the Group:	11 084
Russian government and municipal debt securities	176
Corporate debt securities	10 719
Corporate shares	189
TOTAL SHORT-TERM FINANCIAL ASSETS	32 901

Other short-term financial assets comprise the following as at 31 December 2017:

	AT 31 DECEMBER 2017
LOANS AND RECEIVABLES	
Notes receivable	1
Loans	455
Bank deposits (net of provision for impairment of RR 5,547 million as at 31 December 2017)	2
Due from banks	956
REPO with banks	459
HELD-FOR-TRADING FINANCIAL ASSETS	
Securities held by the Group:	6 006
Russian government and municipal debt securities	1 564
Corporate debt securities	4 265
Corporate shares	177
Securities pledged under sale and repurchase agreements:	2 495
Russian government and municipal debt securities	1 022
Corporate debt securities	1 473
AVAILABLE-FOR-SALE FINANCIAL ASSETS	
Securities held by the Group:	6 680
Russian government and municipal debt securities	12
Corporate debt securities	6 668
Securities pledged under sale and repurchase agreements:	3 976
Russian government and municipal debt securities	1 052
Corporate debt securities	2 924
HELD TO MATURITY INVESTMENTS	
Securities held by the Group:	32 362
Russian government and municipal debt securities	238
Corporate debt securities	32 124
Securities pledged under sale and repurchase agreements:	15 533
Russian government and municipal debt securities	2 191
Corporate debt securities	13 342
TOTAL SHORT-TERM FINANCIAL ASSETS	**68 925**

The fair value of financial assets and valuation techniques used are disclosed in Note 28.

As at 31 December 2018 and 31 December 2017 RR 10,083 million and RR 19,757 million of due to banks was received under sale and repurchase agreements, fair value of securities pledged amounts to RR 8,268 million and RR 22,004 million.

Corporate bonds consist of Russian Ruble, US Dollar and Euro denominated bonds and Eurobonds issued by Russian banks and companies.

Federal loan bonds consist of Russian Ruble denominated government securities issued by the Ministry of Finance of the Russian Federation, which are commonly referred to as "OFZ" and Russian Federation Eurobonds.

Municipal bonds consist of Russian Ruble denominated bonds issued by regional and municipal authorities of the Russian Federation.

Corporate shares at FVTPL include quoted shares of Russian companies and banks. At 31 December 2018 unquoted securities at FVOCI include investment in AK BARS Bank ordinary shares (17.24%) in the amount of RR 7,300 million. At 31 December 2017 investment in AK BARS Bank ordinary shares was included to available-for-sale financial assets.

Investment fund units are solely presented with investment in closed mutual investment rental fund AK BARS – Gorizont. The main assets of this fund are the land plots located in Tatarstan Republic. The Group does not exercise significant influence over this investment and therefore accounts for it as a financial assets at FVOCI (2017: available-for-sale investment).

Other long-term financial assets comprise the following as at 31 December 2018:

	AT 31 DECEMBER 2018
FINANCIAL ASSETS AT AC	
Notes receivable (net of credit loss allowance of RR 318 million as of 31 December 2018)	320
Loans to employees (net of credit loss allowance of RR 1,776 million as of 31 December 2018)	1 046
Other loans (net of credit loss allowance of RR 17,746 million as of 31 December 2018)	25 450
Bank deposits	646
Due from banks	1 018
Securities held by the Group (net of credit loss allowance of RR 138 million as of 31 December 2018):	19 867
Russian government and municipal debt securities	2 301
Corporate debt securities	17 566
FINANCIAL ASSETS AT FVTPL	
Other loans	117
Securities held by the Group:	757
Corporate shares	757
FINANCIAL ASSETS AT FVOCI	
Securities held by the Group:	32 292
Russian government and municipal debt securities	36
Corporate shares	12 317
Corporate debt securities	6 851
Investment fund units	13 088
TOTAL LONG-TERM FINANCIAL ASSETS	**81 513**

Other long-term financial assets comprise the following as at 31 December 2017:

	AT 31 DECEMBER 2017
LOANS AND RECEIVABLES	
Notes receivable (net of provision for impairment of RR 318 million as at 31 December 2017)	455
Loans to employees (net of provision for impairment RR 1,420 million as at 31 December 2017)	1 558
Other loans (net of provision for impairment of RR 7,894 million as at 31 December 2017)	10 866
Bank deposits	300
Due from banks	227
AVAILABLE-FOR-SALE FINANCIAL ASSETS	
Securities held by the Group:	31 049
Corporate shares	12 824
Russian government and municipal debt securities	1 711
Corporate debt securities	3 558
Investment fund units	12 956
HELD TO MATURITY INVESTMENTS	
Securities held by the Group:	7 909
Russian government and municipal debt securities	3 732
Corporate debt securities	4 177
TOTAL LONG-TERM FINANCIAL ASSETS	**52 364**

The following table discloses the changes in the credit loss allowance and gross carrying amount for other loans carried at amortised cost between the beginning and the end of the reporting period:

In December 2018 the Group entered into a transaction to acquire the rights of certain Russian government controlled banks under the credit facilities extended to NEFIS Group, a leading Russian household chemicals, oil and fats manufacturer. Total rights in the amount of RR 21,506 million were accounted as other loans in other long-term financial assets carried at amortised cost at 31 December 2018.

	CREDIT LOSS ALLOWANCE				GROSS CARRYING AMOUNT			
	STAGE 1	STAGE 2	STAGE 3	TOTAL	STAGE 1	STAGE 2	STAGE 3	TOTAL
	(12-months ECL)	(lifetime ECL for SICR)	(lifetime ECL for credit im-paired)		(12-months ECL)	(lifetime ECL for SICR)	(lifetime ECL for credit im-paired)	
Other loans								
At 1 January 2018	-	(232)	(8 827)	(9 059)	49	1 768	15 435	17 252
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	36	(36)	-	-	(195)	195	-
Net remeasurement of credit loss allowance within the same stage	-	(17)	(8 273)	(8 290)	-	-	-	-
New originated or purchased	-	(323)	(703)	(1 026)	34	22 407	751	23 192
Total movements with impact on credit loss allowance charge for the period	**-**	**(304)**	**(9 012)**	**(9 316)**	**34**	**22 212**	**946**	**23 192**
Movements without impact on credit loss allowance charge for the period:								
Disposals	-	6	1 296	1 302	-	(263)	(3 171)	(3 434)
Reclassification from other financial assets	-	(13)	(921)	(934)	-	2 500	7 167	9 667
AT 31 DECEMBER 2018	**-**	**(543)**	**(17 464)**	**(18 007)**	**83**	**26 217**	**20 377**	**46 677**

Note 10: Inventories

	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
Materials and supplies	17 640	13 692
Crude oil	12 003	8 745
Refined oil products	11 621	12 541
Petrochemical supplies and finished goods	9 342	4 340
TOTAL INVENTORIES	**50 606**	**39 318**

Note 11: Prepaid expenses and other current assets

Prepaid expenses and other current assets are as follows:

	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
Prepaid export duties	3 818	3 003
VAT recoverable	7 873	6 817
Advances	8 670	10 534
Prepaid transportation expenses	1 752	1 247
Other	977	1 522
PREPAID EXPENSES AND OTHER CURRENT ASSETS	**23 090**	**23 123**

Note 12: Property, plant and equipment

	OIL AND GAS PROPERTIES	BUILDINGS AND CONSTRUCTIONS	MACHINERY AND EQUIPMENT	CONSTRUCTION IN PROGRESS	TOTAL
COST					
As of 31 December 2016	**331 486**	**197 502**	**131 525**	**168 815**	**829 328**
Additions	-	-	-	88 514	88 514
Disposals	(697)	(599)	(954)	(1 760)	(4 010)
Changes in Group structure	-	214	(647)	5	(428)
Transfers	46 438	(1 045)	15 015	(60 408)	-
Changes in decommissioning provision	5 101	-	-	-	5 101
As of 31 December 2017	**382 326**	**196 072**	**144 939**	**195 168**	**918 505**
DEPRECIATION, DEPLETION AND AMORTISATION					
As of 31 December 2016	**152 505**	**33 978**	**59 231**	**-**	**245 714**
Depreciation charge	11 328	4 852	7 440	-	23 620
Disposals	(610)	(123)	(924)	-	(1 657)
Changes in Group structure	-	25	(657)	-	(632)
Transfers	5 133	(4 968)	(165)	-	-
As of 31 December 2017	**168 356**	**33 764**	**64 925**	**-**	**267 045**
NET BOOK VALUE					
As of 31 December 2016	**178 981**	**163 524**	**72 294**	**168 815**	**583 614**
As of 31 December 2017	**213 970**	**162 308**	**80 014**	**195 168**	**651 460**
COST					
As of 31 December 2017	**382 326**	**196 072**	**144 939**	**195 168**	**918 505**
Additions	-	-	-	95 761	95 761
Disposals	(3 060)	(1 453)	(1 669)	(4 832)	(11 014)
Changes in Group structure	-	(726)	(679)	103	(1 302)
Transfers	24 377	26 969	14 938	(66 284)	-
Changes in decommissioning provision	(6 253)	-	-	-	(6 253)
As of 31 December 2018	**397 390**	**220 862**	**157 529**	**219 916**	**995 697**
DEPRECIATION, DEPLETION AND AMORTISATION					
As of 31 December 2017	**168 356**	**33 764**	**64 925**	**-**	**267 045**
Depreciation charge	14 363	6 783	9 999	-	31 145
Disposals	(2 156)	(454)	(982)	-	(3 592)
Changes in Group structure	-	(216)	(607)	-	(823)
Transfers	(1 204)	3 699	(2 495)	-	-
As of 31 December 2018	**179 359**	**43 576**	**70 840**	**-**	**293 775**
NET BOOK VALUE					
As of 31 December 2017	**213 970**	**162 308**	**80 014**	**195 168**	**651 460**
As of 31 December 2018	**218 031**	**177 286**	**86 689**	**219 916**	**701 922**

Additions for the year include construction of TANECO refinery complex and superviscous oil fields facilities.

Within construction in progress there are advances for construction of RR 15,318 million and RR 10,047 million at 31 December 2018 and 2017, respectively.

As stated in Note 3, the Group calculates depreciation, depletion and amortization for oil and gas properties using the units-of-production method over proved developed oil and gas reserves. The proved developed reserves used in the units-of-production method assume the extension of the Group's production license beyond their current expiration dates until the end of the economic lives of the fields as discussed below in further detail.

The Group's oil and gas fields are located principally on the territory of Tatarstan. The Group obtains licenses from the governmental authorities to explore and produce oil and gas from these fields. The Group's existing production licenses for its major fields expire, after their recent extension, between 2038 and 2090, with other production licenses expiring between 2019 and 2105. The economic lives of several of the Group's licensed fields extend beyond the dates of licenses expiration. Under Russian law, the

Group is entitled to renew the licenses to the end of the economic lives of the fields, provided certain conditions are met.

Management is reasonably certain that the Group will be allowed to produce oil from the Group's reserves after the expiration of existing production licenses and until the end of the economic lives of the fields. "Reasonable certainty" is the applicable standard for defining proved reserves under the SEC's Regulation S-X, Rule 4-10.

At 1 January 2017	**17 069**
Additions	2 091
Reclassification to development assets	(640)
Charged to expense	-
At 31 December 2017	**18 520**
Additions	2 018
Reclassification to development assets	(642)
Charged to expense	(3 178)
At 31 December 2018	**16 718**

Changes in the net book value of exploration and evaluation assets are presented below:

For the years ended 31 December 2018 and 2017, operating and investing cash flows used for exploration and evaluation activities amounted to RR 688 million and RR 2,018 million and RR 1,143 million and RR 2,091 million, respectively.

SOCIAL ASSETS

During the years ended 31 December 2018 and 2017 the Group transferred social assets with a net book value of RR 21 million and RR 9 million, respectively, to local authorities. At 31 December 2018 and 2017 the Group held social assets with a net book value of RR 9,232 million and RR 6,025 million, respectively, all of which were constructed after the privatization date.

The social assets comprise mainly dormitories, hotels, gyms and other facilities. The Group may transfer some of these social assets to local authorities in the future, but does not expect these to be significant. The Group incurred social infrastructure expenses of RR 5,592 million and RR 5,418 million for the years ended 31 December 2018 and 2017, respectively, for maintenance that mainly relates to housing, schools and cultural buildings.

DECOMMISSIONING PROVISIONS

The following table summarizes changes in the Group's decommissioning provision for the year:

	2018	2017
Balance at the beginning of period	**38 081**	**30 406**
Unwinding of discount	2 936	2 603
New obligations	630	1 905
Release of existing obligations	(308)	(31)
Changes in estimates	(6 882)	3 196
Balance at the end of period	**34 457**	**38 081**
Less: current portion of decommissioning provisions (Note 15)	(119)	(64)
Long-term balance at the end of period	**34 338**	**38 017**

In 2018 and 2017 the Group recorded the change in estimate for oil and gas properties decommissioning primarily due to the change in discount rate and expected long-term inflation rate.

Key assumptions used for evaluation of decommissioning provision were as follows:

	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
Discount rate	8,75%	7,70%
Inflation rate	4,21%	4,00%

Note 13: Taxes

Income tax expense comprises the following:

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Current income tax expense	(58 015)	(34 227)
Deferred income tax expense	(4 226)	(5 419)
Income tax expense for the year	(62 241)	(39 646)

Presented below is reconciliation between the provision for income taxes and taxes determined by applying the statutory tax rate 20% to income before income taxes:

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Profit before income tax	273 789	163 538
Theoretical income tax expense at statutory rate	(54 758)	(32 708)
Increase due to:		
Non-deductible expenses, net	(7 653)	(7 076)
Other	170	138
Income tax expense	**(62 241)**	**(39 646)**

At 31 December 2018 no provision has been made for taxable temporary differences of RR 62,453 million (2017: RR 40,070 million) of undistributed earnings of certain subsidiaries. These earnings have been and will continue to be reinvested. These earnings, except for undistributed earnings of subsidiaries operating in a tax free jurisdictions, could become subject to additional tax of approximately RR 1,185 million (2017: RR 880 million) if they were remitted as dividends.

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognised for financial reporting purposes and such amounts recognised for statutory tax purposes.

Deferred tax assets (liabilities) are comprised of the following:

	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
Tax loss carry forward	3 281	3 517
Decommissioning provision	6 868	7 603
Prepaid expenses and other current assets	278	166
Accounts receivable	230	-
Long-term loans and certificates of deposits	2 131	-
Long-term investments	395	74
Other	1 333	2 001
Deferred income tax assets	**14 516**	**13 361**
Property, plant and equipment	(39 602)	(36 681)
Inventories	(2 824)	(1 914)
Accounts receivable	-	(494)
Long-term investments	(15)	(11)
Other liabilities	(13)	(82)
Deferred income tax liabilities	**(42 454)**	**(39 182)**
Net deferred tax liability	**(27 938)**	**(25 821)**

Deferred income taxes are reflected in the consolidated statement of financial position as follows:

	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
Deferred income tax asset	3 548	1 502
Deferred income tax liability	(31 486)	(27 323)
Net deferred tax liability	(27 938)	(25 821)

Deferred tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the unused tax losses/credits can be utilised.

TAX LOSSES CARRY FORWARD

At 31 December 2018, the Group had recognised deferred income tax assets of RR 3,281 million (RR 3,517 million at 31 December 2017) in respect of unused tax loss carry forwards of RR 16,405 million (RR 17,587 million at 31 December 2017). Starting from 1 January 2017 the amendments to the Russian tax legislation became effective in respect of tax loss carry forwards. The amendments affect tax losses incurred and accumulated since 2007 that have not been utilised. The ten year expiry period for tax loss carry-forwards no longer applies. The amendments also set limitation on utilisation of tax loss carry forwards that will apply during the period from 2018 to 2021. The amount of losses that can be utilised each year during that period is limited to 50% of annual taxable profit. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments including expectations regarding the Group's ability to generate sufficient future taxable income and the projected time period over which deferred tax benefits will be realised.

The Group doesn't have any unrecognised potential deferred tax assets in respect of deductible temporary differences.

The Group is subject to a number of taxes other than income taxes, which are detailed as follows:

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Mineral extraction tax	284 118	186 585
Property tax	6 680	5 896
Penalties and interest	73	123
Other	2 291	1 712
Total taxes other than income taxes	**293 162**	**194 316**

For mineral extraction tax for fields whose depletion rate exceeds a certain threshold the Group received a tax relief of approximately RR 52.2 billion and RR 30.4 billion for the years ended 31 December 2018 and 2017, respectively.

At 31 December 2018 and 2017 taxes payable were as follows:

	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
Mineral extraction tax	21 692	20 030
Value Added Tax	7 622	2 789
Excise	2 683	1 118
Export duties	2 493	1 344
Property tax	1 549	774
Other	2 732	1 751
Total taxes payable	**38 771**	**27 806**

Note 14: Debt

	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
SHORT-TERM DEBT		
Bonds issued	1 056	6 836
Subordinated debt	2 160	-
Debt securities issued	1 061	3 330
US $75 million 2011 credit facility	1 397	1 508
US $144.5 million 2011 credit facility	2 932	2 917
EUR 55 million 2013 credit facility	2 353	2 364
RR 40,000 million 2017 credit facility	-	20 955
Other debt	994	2 006
Total short-term debt, including current portion of long-term debt	**11 953**	**39 916**
LONG-TERM DEBT		
Bonds issued	-	906
Subordinated debt	1 420	4 492
Debt securities issued	69	98
Other debt	1 595	1 400
Total long-term debt, net of current portion	**3 084**	**6 896**

Fair value of debt is presented in Note 28. Maturity and currency analysis of debt is presented in Note 28. Debt issued to related parties is presented in Note 25.

CREDIT FACILITIES

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.

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.

In May 2013, TANECO entered into a Euro 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. The loan bears interest at LIBOR plus 1.5% per annum. In accordance with credit facility terms repayment of the debt is performed in USD. 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. In May 2016 this credit facility was assigned to Citibank Europe plc, UK Branch with credit facility details remaining.

In December 2017 the Company entered into revolving credit facility with differentiated interest rates for up to RR 40,000 million. The credit facility is arranged by Sberbank and expires in 2020. In December 2017 the Company received a loan under this credit facility at rates ranging from 6.91% to 7.44% which was fully repaid in February 2018. In March 2018 the Company received a new loan under this credit facility at rate 6,60 % per annum which was fully repaid in April 2018.

BONDS ISSUED

At 31 December 2018 and 2017 bonds issued are bonds denominated in Russian Rubles issued by Bank ZENIT that mature between 2019 and 2025 and between 2018 and 2025, respectively. At 31 December 2018 and 2017 the annual coupon rates on these securities range from 7.5% to 8.0% and 8.5% to 10.75% respectively. The majority of bonds allow early repurchase at the request of the bond holder as set in the respective offering documents. In addition, the issuer at any time with the consent of the bond holder, may purchase/repay the bonds early with the possibility of subsequently placing the bonds in the market. Such purchase/repayment of the bonds does not constitute an early redemption.

SUBORDINATED DEBT

At 31 December 2018 and 2017 subordinated debt is presented by two and three subordinated loans raised by Bank ZENIT respectively. Subordinated loans bear interest at rates ranging from 6.5% to 9.5% and mature from 2019 to 2024 at 31 December 2018 and 2017.

Bank ZENIT is obliged to comply with certain financial covenants in relation to subordinated loan maturing in December 2024 bearing an interest rate of 9.5%. At 31 December 2018 Bank ZENIT was in compliance with these covenants.

Information about subordinated loans received by Bank ZENIT from Deposit Insurance Agency (DIA) within the Russian Federation Government programme for additional capitalisation of Russian banks is presented in Note 28.

DEBT SECURITIES ISSUED

At 31 December 2018 and 2017 debt securities are promissory notes issued by Bank ZENIT at a discount to nominal value and interest bearing promissory notes denominated in Russian Rubles and US Dollars. Maturity dates of these promissory notes vary from 2019 to 2028.

As at 31 December 2018 and 2017 non-interest-bearing promissory notes of the aggregate nominal value of RR 469 million and RR 505 million respectively were issued by the Group for settlement purposes and mature primarily on demand.

Note 15: Accounts payable and accrued liabilities

	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
Trade payables	25 728	22 366
Other payables	1 013	3 400
Total financial liabilities within trade and other payables	**26 741**	**25 766**
Salaries and wages payable	4 465	3 374
Advances received from customers	6 197	8 003
Current portion of decommissioning provisions (Note 12)	119	64
Other accounts payable and accrued liabilities	5 467	4 322
Total non-financial liabilities	**16 248**	**15 763**
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	**42 989**	**41 529**

Revenue in amount of RR 8,003 million was recognised in the current reporting period related to the contract liabilities as at 1 January 2018.

The fair value of each class of financial liabilities included in short-term trade and other payables at 31 December 2018 and 2017 is presented in Note 28.

Note 16: Banking: Due to banks and CB RF

	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
Term deposits from other banks	4 073	5 994
Term deposits from CB RF	2 731	6 826
REPO	10 083	19 757
Correspondent accounts and other banks' overnight deposits	1 538	1 063
Total due to banks and CB RF	**18 425**	**33 640**
Less: long term due to banks and CB RF	(4 660)	(5 669)
TOTAL SHORT TERM OF DUE TO BANKS AND CB RF	**13 765**	**27 971**

Within due to banks and CB RF at 31 December 2018 and 2017 there are RR 16,523 million and RR 16,514 million respectively of correspondent accounts and term deposits from four Russian banks, which individually exceeded 5% of the Bank ZENIT equity.

Note 17: Banking: Customer accounts

	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
State and public organizations		
Current / settlement accounts	577	612
Term deposits	347	639
Other legal entities		
Current / settlement accounts	22 385	19 963
Term deposits	37 679	27 390
Individuals		
Current / settlement accounts	14 958	12 489
Term deposits	108 390	97 821
Total customer accounts	**184 336**	**158 914**
Less: long-term customer accounts	(682)	(478)
TOTAL SHORT-TERM CUSTOMER ACCOUNTS	183 654	158 436

Within customer accounts at 31 December 2018 and 2017 there are RR 48,549 million and RR 8,171 million of current/settlement accounts and term deposits from 19 and 3 customers respectively, which individually exceeded 5% of the Bank ZENIT equity.

Risk concentrations by customer industry within customer accounts are as follows:

	AT 31 DECEMBER 2018		AT 31 DECEMBER 2017	
	CARRYING VALUE	SHARE IN CUSTOMER LOAN PORTFOLIO, %	CARRYING VALUE	SHARE IN CUSTOMER LOAN PORTFOLIO, %
Individuals	123 348	66,91%	110 310	69,41%
Finance	20 479	11,11%	11 709	7,37%
Oil and gas	3 659	1,99%	2 575	1,62%
Trade	8 097	4,39%	6 051	3,81%
Services	10 886	5,91%	13 165	8,28%
Manufacturing	5 801	3,15%	7 581	4,77%
Construction	4 741	2,57%	5 257	3,31%
Other	7 325	3,97%	2 266	1,43%
TOTAL CUSTOMER ACCOUNTS	184 336	100%	158 914	100%

Note 18: Other long-term liabilities

Other long-term liabilities are as follows:

	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
Pension liability	3 287	4 040
Other long-term liabilities	150	6
Total other long-term liabilities	3 437	4 046

PENSION LIABILITIES

The Group has various pension plans covering substantially all eligible employees and members of management. The amount of contributions, frequency of benefit payments and other conditions of these plans are regulated by the "Statement of Organization of Non-Governmental Pension Benefits for OAO Tatneft Employees" and the contracts concluded between the Company or its subsidiaries, management, and the JSC "National Non-Governmental Pension Fund" (the Fund). In accordance with these contracts the Group is committed to make certain contributions on behalf of all employees and guarantees a minimum benefit upon retirement. Contributions or benefits are generally based upon grade and years of service upon reaching official retirement age (according to the Law 350-FZ on amending the appointment and payment of pensions), and for management are based upon employment contract terms. In accordance with the provisions of collective agreements concluded on an annual basis between the Company or its subsidiaries and their employees, the Group is obliged to pay other certain post-employment benefits, the amounts of which are generally based on salary grade and years of service at the time of retirement.

Principal actuarial assumptions are as follows:

	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
Discount rate	8,70%	7,38%
Rate of increase in salary levels	5,35%	6,01%
Actuarial rate of NPF	3,00%	3,00%
Statutory insurance contributions rate	30,85%	30,77%

Management has assessed that reasonable changes in the principal significant actuarial assumptions will not have a significant impact on the consolidated statements of profit of loss and other comprehensive income or the liability recognised in the consolidated statement of financial position.

Amounts recognised in the consolidated statement of financial position:

	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
Present value of defined benefit obligation	4 182	5 717
Less: Fair value of plan assets	(895)	(1 677)
Net defined benefit liability	3 287	4 040

Change in the defined benefit obligation amount:

	2018	2017
Defined benefit obligation at beginning year	5 717	5 442
Effect of exchange rate changes	2	(11)
Current service cost	141	119
Interest cost	374	340
Benefits paid	(396)	(455)
Remeasurement (gains)/losses:		
Actuarial gains arising from changes in financial assumptions	(757)	(77)
Actuarial (gains)/losses arising from changes in demographic assumptions	(252)	295
Actuarial (gains)/losses – Experience	(1)	64
Curtailment	(646)	-
Defined benefit obligation at the end of the year	4 182	5 717

The amounts recognised in profit or loss are as follows:

	2018	2017
Service cost	64	119
Net interest expense	251	208
Remeasurement losses/(gains):		
Actuarial gains arising from changes in financial assumptions	(151)	(20)
Actuarial (gains)/losses arising from changes in demographic assumptions	(96)	54
Actuarial gains – Experience	(68)	(29)
Total included in 'employee benefits expense'	-	332

The amounts recognised in other comprehensive income are as follows:

	2018	2017
Remeasurement (gains)/losses:		
Actuarial gains arising from changes in financial assumptions	(606)	(57)
Actuarial (gains)/losses arising from changes in demographic assumptions	(157)	241
Actuarial losses – Experience	427	77
Effect of exchange rate changes	2	(11)
Total included in other comprehensive income	(334)	250

Reconciliation of the opening and closing balances of plan assets' fair value:

	2018	2017
Plan assets at beginning of year	1 677	1 586
Interest income	124	132
Contributions	112	136
Benefits paid	(89)	(193)
Actuarial (losses)/gains	(360)	16
Curtailment	(569)	-
Plan assets at year end	895	1 677

The annual contributions made by the Group are managed by the Fund. The primary investment objectives of the Fund are to achieve the highest rate of total return within prudent levels of risk and liquidity, to diversify and mitigate potential downside risk associated with the investments, and to provide adequate liquidity for benefit payments and portfolio management.

Plan assets structure:

	At 31 December 2018	At 31 December 2017
Russian corporate bonds and equity securities of Russian issuers	52,37%	57,99%
Russian government and regions bonds	23,37%	17,83%
Bank deposits	23,13%	21,97%
Foreign government securities	0,93%	2,11%
Other	0,20%	0,10%
Total plan assets	**100%**	**100%**

Based on Group's best estimate expected contributions to be paid during the next annual reporting period are RR 579 million.

Note 19: Shareholders' equity

AUTHORISED SHARE CAPITAL

At 31 December 2018 and 2017 the authorised and paid share capital consists of 2,178,690,700 voting common shares and 147,508,500 non-voting preferred shares; both classes of shares have a nominal value of RR 1.00 per share. The nominal value of authorised share capital differs from its carrying value due to effect of the hyperinflation of capital contributions made before 2003.

GOLDEN SHARE

Tatarstan 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 Revision Commission of the Company and to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization and "major" and "interested party" transactions as defined under Russian law. The Golden Share currently has an indefinite term. The Tatarstan government also controls or exercises significant influence over a number of the Company's suppliers, contractors and customers (see also Note 1).

RIGHTS ATTRIBUTABLE TO PREFERRED SHARES

Unless a different amount is approved at the annual shareholders meeting, preferred shares earn dividends equal to their nominal value. The amount of a dividend for a preferred share may not be less than the amount of a dividend for a common share. Preferred shareholders may vote at meetings only on the following decisions:

- the amendment of the dividends payable per preferred share;
- the issuance of additional shares with rights greater than the current rights of preferred shareholders; and
- and the liquidation or reorganization of the Company.

The decisions listed above can be made only if approved by 75% of preferred shareholders.

Holders of preferred shares acquire the same voting rights as holders of common shares in the event that preferred dividends are either not declared, or declared but not paid. On liquidation, the shareholders are entitled to receive a distribution of net assets. Under Russian Joint Stock Companies Law and the Company's charter in case of liquidation, preferred shareholders have priority over shareholders holding common shares to be paid declared but unpaid dividends on preferred shares and the liquidation value of preferred shares, if any.

AMOUNTS AVAILABLE FOR DISTRIBUTION TO SHAREHOLDERS

Amounts available for distribution to shareholders are based on the Company's non-consolidated statutory accounts prepared in accordance with RAR, which differ significantly from IFRS (see Note 2). Russian legislation identifies the basis of distribution as the current period net profit calculated in accordance with RAR. However, this legislation and other statutory laws and regulations dealing with distribution rights are open to legal interpretation. For the years ended 31 December 2018 and 2017, the Company had a statutory current profit of RR 197,523 million and RR 100,022 million, respectively.

In December 2018, the shareholders of the Company approved the payment of interim dividends for the nine months ended 30 September 2018, including previously paid interim dividends for the six months ended 30 June 2018, in the amount of RR 52.53 per preference and ordinary share. Dividends will be paid in the beginning of 2019.

In September 2018 the shareholders of the Company approved the payment of interim dividends for the six months ended 30 June 2018 in amount of RR 30.27 per preference and ordinary share. Dividends were paid in the fourth quarter of 2018.

In June 2018 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2017 in amount of RR 39.94 per preference and ordinary share, including previously paid interim dividends for the nine months ended 30 September 2017 in the amount of RR 27.78 per preference and ordinary share. Dividends were paid in the third quarter of 2018.

In June 2017 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2016 in amount of RR 22.81 per preference and ordinary share. Dividends were paid in the third quarter of 2017.

EARNINGS PER SHARE

Preference shares are not redeemable and are considered to be participating shares. Basic and diluted earnings per share are calculated by dividing profit or loss attributable to ordinary and preference shareholders by the weighted average number of ordinary and preferred shares outstanding during the period. Profit or loss attributed to equity holders is reduced by the amount of dividends declared in the current period for each class of shares. The remaining profit or loss is allocated to common and preferred shares to the extent that each class may have share in earnings if all the earnings for the period had been distributed. Treasury shares are excluded from calculations. The total earnings allocated to each class of shares are determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

	Year ended 31 December 2018	Year ended 31 December 2017
Profit attributable to Group shareholders	211 812	123 139
Common share dividends	(136 057)	(106 900)
Preferred share dividends	(9 542)	(7 462)
Income available to common and preferred shareholders, net of dividends	**66 213**	**8 777**
BASIC AND DILUTED:		
Weighted average number of shares outstanding (millions of shares):		
Common	2 103	2 103
Preferred	148	148
Combined weighted average number of common and preferred shares outstanding	2 251	2 251
BASIC AND DILUTED EARNINGS PER SHARE (RR)		
Common	94,11	54,73
Preferred	93,89	54,32

NON-CONTROLLING INTEREST

Non-controlling interest is adjusted by dividends declared and paid by the Group's subsidiaries amounting to RR 46 million and RR 15 million at 31 December 2018 and 2017, respectively.

Note 20: Employee benefit expenses

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Wages and salaries	34 567	31 135
Statutory insurance contributions	9 793	8 872
Pension costs – defined benefit plans (Note 18)	-	332
Other employee benefits	1 837	1 390
TOTAL EMPLOYEE BENEFIT EXPENSE	**46 197**	**41 729**

Employee benefit expenses are included in operating expenses, selling, general and administrative expenses and maintenance of social infrastructure and transfer of social assets, other expenses and operating expenses on banking activities in the consolidated statement of profit or loss and other comprehensive income.

Note 21: Interest income and interest expense on non-banking activities

Interest income on non-banking activities comprises the following:

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Interest income from loans and receivables (for comparatives only)	-	6 319
Interest income from financial assets at AC	5 225	-
Unwinding of the present value discount of long-term financial assets	272	175
TOTAL INTEREST INCOME ON NON-BANKING ACTIVITIES	**5 497**	**6 494**

Interest expense on non-banking activities comprises the following:

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Bank loans	(593)	(425)
Unwinding of the present value discount of decommissioning provision	(2 936)	(2 603)
Unwinding of the present value discount of long-te	(61)	(67)
TOTAL INTEREST EXPENSES ON NON-BANKING ACTIVITIES	**(3 590)**	**(3 095)**

Note 22: Interest income and expense on banking activity

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
INTEREST INCOME		
Loans to customers	15 518	22 644
Due from banks	436	1 820
Securities at AC	2 286	-
Held-to-maturity investments (for comparatives only)	-	1 209
Correspondent accounts	39	40
Financial assets held-for-trading (for comparatives only)	-	528
Securities at FVTPL	339	-
Available-for-sale financial assets (for comparatives only)	-	1 080
Securities at FVOCI	867	-
Total interest income on banking activity	**19 485**	**27 321**
INTEREST EXPENSE		
Term deposits of individuals	(4 389)	(5 771)
Term deposits of legal entities	(2 005)	(2 674)
RUR-denominated bonds issued	(614)	(2 011)
Subordinated debt	(466)	(921)
Term placements of banks	(2 455)	(1 736)
Debt securities issued	(48)	(117)
Total interest expense on banking activity	**(9 977)**	**(13 230)**
NET INTEREST INCOME ON BANKING ACTIVITY	**9 508**	**14 091**

Note 23: Fee and commission income and expense on banking activity

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Settlement transactions	2 499	2 048
Cash transactions	501	607
Operations with foreign currencies	392	396
Guarantees issued	234	319
Transactions with securities	37	24
Asset management	8	12
Other	103	237
Total fee and commission income on banking activity	**3 774**	**3 643**
Settlement transactions	(874)	(797)
Cash transactions	(164)	(124)
Transactions with securities	(34)	(65)
Operations with foreign currencies	(24)	(21)
Commission on guarantees received	(12)	(8)
Other	(166)	(97)
Total fee and commission expense on banking activity	**(1 274)**	**(1 112)**
NET FEE AND COMMISSION INCOME ON BANKING ACTIVITY	**2 500**	**2 531**

Note 24: Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the Board of Directors and the Management Committee and for which discrete financial information is available.

Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

The Group's business activities are conducted predominantly through four main operating segments:

- Exploration and production consists of exploration, development, extraction and sale of own crude oil. Intersegment sales consist of transfer of crude oil to refinery and other goods and services provided to other operating segments;
- Refining and marketing comprises purchases and sales of crude oil and refined products from third parties, own refining activities and retailing operations;
- Petrochemical products include production and sales of tires and petrochemical raw materials and refined products, which are used in production of tires;
- Banking segment includes operations of Banking Group ZENIT.

Other sales include revenues from ancillary services provided by the specialised subdivisions and subsidiaries of the Group, such as sales of oilfield equipment and drilling services provided to other companies in Tatarstan, revenues from the sale of auxiliary petrochemical related services and materials as well as other business activities, which do not constitute reportable business segments.

The Group evaluates performance of its reportable operating segments and allocates resources based on segment earnings, defined as profit before income tax not including interest income, expense on non-banking activities, and gains from equity investments, other income (expenses) and foreign exchange loss or gain. Intersegment sales are at prices that approximate market. Group financing (including interest expense and interest income on non-banking activities) and income taxes are managed on a Group basis and are not allocated to operating segments.

For the year ended 31 December 2018, revenues of RR 98,183 million or 11% of the Group's total sales and operating revenues is derived from one external customer.

For the year ended 31 December 2017, revenues of RR 72,733 million or 11% and of RR 71,616 million or 11% of the Group's total sales and operating revenues is derived from two external customers.

These revenues represent sales of crude oil and are attributable to the exploration and production segment and refining and marketing segment. Management does not believe the Group is dependent on any particular customer.

SEGMENT EARNINGS

For the year ended 31 December 2018 and 2017 corporate and other loss includes loss on impairments of financial assets, charity, maintenance of social infrastructure and transfer of social assets.

From the 1 January 2018 Tatneft Group includes Head Office administrative expenses in the corporate and other loss. For the prior periods administrative expenses were included in the Exploration and Production segment results. Management believes that changes made meet the criteria of relevant and reliable information. Changes made are disclosed retrospectively in the consolidated financial statements, administrative expenses in the amount of RR 6,846 million were included in the corporate and other losses.

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Segment earnings		
Exploration and production	267 320	179 577
Refining and marketing	33 867	15 969
Petrochemicals	3 634	2 409
Banking	269	(3 155)
Total segment earnings	**305 090**	**194 800**
Corporate and other	(41 112)	(33 033)
Other income	9 811	1 771
Profit before income tax	**273 789**	**163 538**

SEGMENT SALES AND OTHER OPERATING REVENUES

Reportable operating segment sales and other operating revenues are stated in the following table:

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
EXPLORATION AND PRODUCTION		
Domestic own crude oil	167 694	91 781
CIS own crude oil	28 395	20 781
Non-CIS own crude oil	270 966	244 947
Other	4 908	4 131
Intersegment sales	191 912	113 245
Total exploration and production	**663 875**	**474 885**
REFINING AND MARKETING		
Domestic sales		
Crude oil purchased for resale	-	418
Refined products	183 497	126 576
Total Domestic sales	183 497	126 994
CIS sales		
Refined products	20 565	12 267
Total CIS sales(1)	**20 565**	**12 267**
Non-CIS sales		
Crude oil purchased for resale	7 282	7 289
Refined products	150 960	102 809
Total non-CIS sales(2)	158 242	110 098
Other	8 579	7 670
Intersegment sales	1 239	1 031
Total refining and marketing	**372 122**	**258 060**
PETROCHEMICALS		
Tires – domestic sales	33 316	35 655
Tires – CIS sales	10 418	8 648
Tires – non-CIS sales	3 806	2 255
Petrochemical products and other	4 248	3 091
Intersegment sales	994	973
Total petrochemicals	**52 782**	**50 622**
BANKING		
Interest income	19 485	27 321
Fee and commission income	3 774	3 643
Total banking	**23 259**	**30 964**
Total segment sales	**1 112 038**	**814 531**
Corporate and other sales	15 900	12 841
Elimination of intersegment sales	(194 145)	(115 249)
Total sales and other operating revenues	**933 793**	**712 123**

(1) – CIS is an abbreviation for Commonwealth of Independent States (excluding the Russian Federation).

(2) – Non-CIS sales of crude oil and refined products are mainly made to Germany, Switzerland, Netherlands and United Kingdom based traders and Poland based refineries.

SEGMENT ASSETS

As of 31 December 2018 corporate and other includes RR 41,059 million of property, plant and equipment, RR 24,341 million of securities at FVOCI, RR 49 million of debt securities at AC and RR 22,378 million of bank deposits at AC.

As of 31 December 2017 corporate and other includes RR 33,496 million of property, plant and equipment, RR 23,556 million of available-for-sale investments, RR 23,994 million of investments held to maturity and RR 12,208 million of bank deposits.

The Group's assets and operations are primarily located and conducted in the Russian Federation.

	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
Assets		
Exploration and production	368 991	340 525
Refining and marketing	406 407	366 804
Petrochemicals	32 923	26 820
Banking	252 854	251 444
Corporate and other	140 113	121 861
TOTAL ASSETS	**1 201 288**	**1 107 454**

SEGMENT DEPRECIATION, DEPLETION AND AMORTISATION AND ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
DEPRECIATION, DEPLETION AND AMORTIZATION		
Exploration and production	15 797	13 850
Refining and marketing	11 595	8 434
Petrochemicals	1 687	1 781
Banking	326	244
Corporate and other	1 114	576
Total depreciation, depletion and amortization	**30 520**	**24 885**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT		
Exploration and production	39 361	41 313
Refining and marketing	41 235	39 246
Petrochemicals	1 731	2 428
Banking	596	2 489
Corporate and other	6 585	8 117
Total additions to property, plant and equipment	**89 508**	**93 593**

For the years ended 31 December 2018 and 2017 additions to property, plant and equipment of exploration and production segment are shown net of RR 6,253 million decrease and RR 5,101 million increase, respectively, associated with changes in the decommissioning provision.

Note 25: Related party transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions are entered into in the normal course of business with associates, joint ventures, government related companies, key management personnel and other related parties. These transactions include sales and purchases of refined products, purchases of electricity, transportation services and banking transactions. The Group enters into transactions with related parties based on market or regulated prices.

ASSOCIATES, JOINT VENTURES AND OTHER RELATED PARTIES

The amounts of transactions for each period with associates, joint ventures and other related parties are as follows:

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Revenues and income		
Sales of refined products	14	11
Other sales	250	255
Interest income	302	139
Costs and expenses		
Other services	905	896
Other purchases	579	574

At 31 December 2018 and 2017 the outstanding balances with associates, joint ventures and other related parties were as follows:

	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
ASSETS		
Accounts receivable, net	148	534
Banking: Loans to customers	193	20
Other financial assets		
Notes receivable	249	-
Other loans receivable	51	-
Prepaid expenses and other current assets	276	553
Due from related parties short-term	**917**	**1 107**
Long-term accounts receivable	114	280
Loans to customers	-	21
Other financial assets		
Available for sale (for comparatives only)	-	3 400
Securities at FVOCI	5 249	-
Other loans receivable	912	2 443
Due from related parties long-term	**6 275**	**6 144**
LIABILITIES		
Accounts payable and accrued liabilities	(61)	(169)
Banking: Customer accounts	(1 668)	(1 711)
Due to related parties short-term	**(1 729)**	**(1 880)**
Banking: Customer accounts	-	(165)
Due to related parties long-term	**-**	**(165)**

GOVERNMENT RELATED COMPANIES

At 31 December 2018 and 2017 the outstanding balances with Government related companies were as follows:

	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
ASSETS		
Cash and cash equivalents	16 810	12 678
Banking: Mandatory reserve deposits with CB RF	1 875	1 916
Accounts receivable	6 795	2 306
Banking: Loans to customers	7 496	2 415
Other financial assets		
Bank deposits	-	1
Available-for-sale (for comparatives only)	-	8 006
Securities at FVOCI	10 209	-
Held-to-maturity (for comparatives only)	-	37 795
Securities at AC	8 349	-
Trading securities (for comparatives only)	-	5 095
Securities at FVTPL	1 679	-
Other loans receivable	40	120
Prepaid expenses and other current assets	5 067	6 579
Due from related parties short-term	**58 320**	**76 911**
Long-term accounts receivable	1 221	1 086
Loans to customers	500	1 991
Other financial assets		
Bank deposits	346	-
Available-for-sale (for comparatives only)	-	10 680
Securities at FVOCI	11 001	-
Held to maturity (for comparatives only)	-	6 781
Securities at AC	8 192	-
Other loans receivable	192	174
Advances for construction	1 430	3 510
Due from related parties long-term	**22 882**	**24 222**
LIABILITIES		
Accounts payable and accrued liabilities	(1 420)	(873)
Banking: Due to banks and CB RF	(100)	(4 771)
Banking: Customer accounts	(6 298)	(2 418)
Debt		
Other debt	(3 121)	(21 580)
Due to related parties short-term	**(10 939)**	**(29 642)**
Debt		
Subordinated debt	-	(2 141)
Other debt	-	(13)
Banking: Due to banks and CB RF	(2 631)	(2 055)
Due to related parties long-term	**(2 631)**	**(4 209)**

The amounts of transactions for each period with Government related companies are as follows:

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Sales of crude oil	1 132	-
Sales of refined products	20 965	11 093
Other sales	4 287	4 476
Interest income	4 988	4 132
Interest expense	1 019	1 484
Purchases of refined products	34 184	34 461
Purchases of electricity	16 691	14 384
Purchases of transportation services	23 831	26 729
Other services	4 485	4 426
Other purchases	3 822	1 340

In December 2018 the Group entered into a transaction to acquire the rights of certain Russian government controlled banks under the credit facilities extended to NEFIS Group (Note 9).

COMPENSATION TO KEY MANAGEMENT PERSONNEL

The key management personnel of the Group includes members of the Board of Directors and the Management Board of PJSC Tatneft.

As of 31 December 2018 and 2017 total remuneration, including pension cost, for key management personnel was RR 1,089 million and RR 903 million, respectively.

At 31 December 2018 and 2017 key management personnel customer accounts in Bank ZENIT amounted to RR 31,290 million and RR 26,312 million, respectively.

Note 26: Contingencies and commitments

OPERATING ENVIRONMENT OF THE GROUP

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. Tax, currency and customs legislation is sometimes subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2018.

The ongoing uncertainty and volatility of the financial markets and other risks could have significant negative effects on the Russian financial and corporate sectors. Management determined provisions for impairment by considering the economic situation and outlook at the end of the reporting period.

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

CAPITAL COMMITMENTS

As of 31 December 2018 and 2017 the Group has outstanding capital commitments of approximately RR 38,327 million and RR 42,758 million, respectively, mainly for the construction of the TANECO refinery complex and superviscous oil fields facilities construction. These commitments are expected to be paid between 2019 and 2022.

Management believes the Group's current and long-term capital expenditures program can be funded through cash flows generated from existing operations as well as lines of credit available to the Company. The TANECO refinery project has been funded from the Company's cash flow with the support of the bank facilities (Note 14).

Management believes the Company has the ability to obtain syndicated loans and other financings as needed to continue funding the TANECO refinery project, refinance any maturing debts as well as finance business acquisitions and other transactions that may arise in the future.

OPERATING LEASE COMMITMENTS

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
Less than one year	2 849	2 867
More than one year and less than five years	2 980	1 266
More than five years	290	301
Total operating lease commitments	**6 119**	**4 434**

CREDIT RELATED COMMITMENTS

The credit related commitments comprise loan commitments, letters of credit and guarantees. The contractual commitments represent the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. In general, certain part of Group's import letters of credit are collateralised with cash deposits or collateral pledged to the Group and accordingly the Group normally assumes minimal risk.

Outstanding credit related commitments are as follows:

	AT 31 DECEMBER 2018	AT 31 DECEMBER 2017
Loan commitments	18 810	26 421
Guarantees issued	20 467	14 525
Import letters of credit	271	1 676
Total credit related commitments before impairment	39 548	42 622
Less: allowance for credit related commitment impairment	(426)	(66)
Less: client funds held as security for guarantees issued	(29)	(658)
Less: client funds held as security for import letter of credit	(806)	(250)
Total credit related commitments	**38 287**	**41 648**

TAXATION

The Russian tax legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of the legislation, as applied to the transactions and activities, may be challenged by the tax authorities. The tax authorities may take a different position in their interpretation of the legislation, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), with certain specific features. This legislation allows tax authorities to assess additional taxes for controllable transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's length basis.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such prices could be challenged. Management believes that its pricing policy is arm's length and it has implemented internal processes to be in compliance with the new transfer pricing legislation. The Group believes that its interpretation of the new legislation is appropriate and the Group's tax position will be sustained.

ENVIRONMENTAL CONTINGENCIES

The Group, through its predecessor entities, has operated in Tatarstan for many years without developed environmental laws, regulations and the Group's policies. Environmental regulations and their enforcement are currently being considered in the Russian Federation and the Group is monitoring its potential obligations related thereto. The outcome of environmental liabilities under proposed or any future environmental legislation cannot reasonably be estimated at present, but could be material. Under existing legislation, however, management believes that there are no probable liabilities, which would have a material adverse effect on the operating results or financial position of the Group.

LEGAL CONTINGENCIES

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.

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.

TRANSPORTATION OF CRUDE OIL

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, the state-owned monopoly owner and operator of Russia's trunk crude oil pipelines. 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. There is currently no equalization scheme for differences in crude oil quality within the Transneft pipeline system and the implementation of any such scheme or the impact of it on the Group's business is not currently determinable.

UKRTATNAFTA

In May 2008, Tatneft commenced international arbitration against Ukraine on the basis of the agreement between the Government of the Russian Federation and the Cabinet of Ministries of Ukraine on the Encouragement and Mutual Protection of Investments of 27 November 1998 ("Russia-Ukraine BIT") in connection with the forcible takeover of Ukrtatnafta and seizure of shares of the Group in Ukrtatnafta. In July 2014 the arbitral tribunal issued the award holding Ukraine liable for violation of the Russia-Ukraine BIT and required Ukraine to pay Tatneft US$ 112 million plus interest. Ukraine filed a request for annulment of the award in the Court of Appeal in Paris, France (seat of arbitration), which on 29 November 2016 rejected the request for annulment. In March 2017 Ukraine filed a cassation appeal against the Paris Court of Appeal decision of 29 November 2016 rejecting its request for annulment. Tatneft filed a motion with the Court of Cassation to exclude Ukraine's cassation appeal from the Cassation Court docket without prejudice due to Ukraine's failure to perform the decision of the Court of Appeal requiring Ukraine to compensate Tatneft's legal expenses in relation to the appeal and commence performance of the tribunal's award. On 9 November 2017, Tatneft's motion was granted.

At this time, it is not clear whether and when the cassation appeal will be heard. Filing of the cassation appeal does not preclude Tatneft from commencing enforcement of the award. Accordingly, Tatneft has commenced recognition and enforcement procedures in relation to this arbitration award in the USA, England and the Russian Federation. In March 2017, Tatneft filed a petition to recognize and enforce the award in the U.S. District Court for the District of Columbia, which is now pending and is subject to various procedural actions by Tatneft and Ukraine. On 19 March 2018, the U.S. District Court for the District of Columbia denied Ukraine's challenge to the U.S. court's jurisdiction, Ukraine's motion to stay the enforcement proceedings pending the outcome of the French proceedings and Ukraine's motion for jurisdictional discovery. On 17 April 2018, Ukraine appealed this decision to the United States Court of Appeals for the District of Columbia Circuit; the District Court has stayed proceedings on Ukraine's remaining objections to enforcement of the award in the United States pending this appeal. The hearing before the United States Court of Appeals took place on 28 November 2018. The United States Court of Appeal reserved the decision and proceedings are now pending the decisions by this court.

In April 2017, Tatneft filed an application for recognition of the award and permission to enforce the award in the High Court of England and Wales. In May 2017, the High Court approved Tatneft's application to enforce the award, however the order granting Tatneft's application and the enforcement procedure are subject to challenge by Ukraine. Ukraine challenged the jurisdiction of the English courts to consider Tatneft's petition for recognition and enforcement of the award and a hearing on this threshold issue was held in the High Court of England and Wales in June 2018. On 13 July 2018, the High Court rejected Ukraine's challenge to jurisdiction in its entirety. Ukraine was granted the permission to appeal the High Court's judgment to the Court of Appeals solely on one ground while all other grounds were rejected). The appeal is scheduled for hearing in May 2019. Any remaining objections of Ukraine to recognition and enforcement in England and Wales are stayed pending the appeal.

On 27 June 2017 the Arbitration Court of the City of Moscow terminated the proceedings in relation to Tatneft's application for recognition and enforcement of the award due to Ukraine's alleged jurisdictional immunity and lack of effective jurisdiction of the Arbitration Court of the City of Moscow to consider the application. On 22 August 2017, the Arbitration Court of the Moscow District overturned this ruling. Tatneft's petition for enforcement of the award was returned to the Arbitration Court of the City of Moscow for further consideration. Several hearings took place in 2017-2018. On 22 June 2018 the Arbitration Court of the City of Moscow transferred the case for consideration by the Arbitration Court of Stavropol Region because Ukraine's property was identified in that region. Tatneft appealed this ruling to the Arbitration Court of the Moscow District. On 2 August 2018, the Arbitration Court of the Moscow District upheld the ruling of the Arbitration Court of the City of Moscow. On 28 February 2019 the Arbitration Court of Stavropol Region recognised the award and gave permission to enforce it in Russia. The ruling of the Arbitration Court of Stavropol Region has entered in force immediately. Ukraine may appeal this ruling to the Arbitration Court of the North Caucasian District within one month from the date of its issuance.

On 23 March 2016 Tatneft commenced court proceedings in England against Gennady Bogolyubov, Igor Kolomoisky, Alexander Yaroslavsky and Pavel Ovcharenko. Tatneft alleges that in 2009 those individuals fraudulently diverted to themselves sums owed to Tatneft for oil it had supplied to Kremenchug refinery (Ukrtatnafta). Tatneft claims damages of US$ 334.1 million plus interest. On 8 November 2016, the High Court refused the claim. On 23 November 2016, Tatneft requested from the Court of Appeals permission to appeal the judgement of 8 November 2016. Tatneft's appeal was heard by the Court of Appeals at the end of July 2017. On October 18 the Court of Appeals found that Tatneft's claim should not have been dismissed by the High Court and that the case may proceed to trial. The trial has been listed for autumn 2020.

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 consolidated financial statements. 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.

As of 31 December 2018 the Group had approximately RR 5,116 million of assets associated with its Libyan operations of which RR 4,899 million is related to capitalised exploration costs, RR 210 million of inventories and RR 7 million of cash. As of 31 December 2017 the Group had approximately RR 5,759 million of assets associated with its Libyan operations of which RR 5,545 million is related to capitalised exploration costs, RR 210 million of inventories and RR 4 million of cash.

Note 27: Principal subsidiaries

Set out below are the Group's principal subsidiaries at 31 December 2018. The joint-stock companies as listed below (except for PJSC «Nizhnekamskshina») have share capital consisting solely of ordinary shares. The proportion of ownership interests held equals to the voting rights held by Group. PJSC «Nizhnekamskshina» has share capital consisting of ordinary and preference shares. 82% of voting right and 84.5% of ownership interest are held by the Group, 18% of voting rights and 15.5% of ownership interest are held by non-controlling interests. The country of incorporation or registration is also their principal place of business. For all principal subsidiaries the country of incorporation is the Russian Federation, except for Tatneft Europe AG, which is incorporated in Switzerland.

NAME OF ENTITY	PRINCIPAL ACTIVITY	AT 31 DECEMBER 2018 % OF OWNERSHIP INTEREST HELD BY THE GROUP	AT 31 DECEMBER 2018 % OF OWNERSHIP INTEREST HELD BY THE NCI	AT 31 DECEMBER 2017 % OF OWNERSHIP INTEREST HELD BY THE GROUP	AT 31 DECEMBER 2017 % OF OWNERSHIP INTEREST HELD BY THE NCI
Bank ZENIT	Banking operations	71,89	28,11	71,89	28,11
Tatneft Europe AG	Export oil sales	100	-	100	-
TANECO	Oil refinery	100	-	100	-
Nizhnekamskshina	Tires production	84,5	15,5	84,5	15,5
Nizhnekamskiy zavod shin CMK	Tires production	100	-	100	-
Trade House Kama	Tires sales	100	-	100	-
Tatneft-AZS Centr	Oil products sales	100	-	100	-
Tatneft-AZS-Zapad	Oil products sales	100	-	100	-

The summarised financial information relating to the subsidiaries with material non-controlling interest was as follows:

	CURRENT ASSETS	NON-CURRENT ASSETS	CURRENT LIABILITIES	NON-CURRENT LIABILITIES	REVENUE	PROFIT
YEAR ENDED 31 DECEMBER 2018						
Bank ZENIT	121 300	133 315	224 675	8 233	23 347	322
Nizhnekamskshina PJSC	1 576	3 783	6 567	-	20 368	237
Total						
ИТОГО	122 876	137 098	231 242	8 233	43 715	559
YEAR ENDED 31 DECEMBER 2017						
Bank ZENIT	123 503	129 344	211 321	13 148	35 414	1 146
Nizhnekamskshina PJSC	1 135	4 195	6 789	-	16 652	167
TOTAL	124 638	133 539	218 110	13 148	52 066	1 313

Note 28: Financial risk management

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group has introduced a risk management system and developed a number of procedures to measure, assess and monitor risks and select the relevant risk management techniques.

MARKET RISK

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of a business.

The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest rate risk and (c) commodity and financial instruments price risk.

a) Currency risk

The Group operates internationally and is exposed to currency risk arising from various currency exposures primarily with respect to the US Dollar. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.

The table below summarises the Group's exposure to foreign currency exchange rate risk as of 31 December 2018.

	RUSSIAN RUBLE	US DOLLAR	OTHER	TOTAL
FINANCIAL ASSETS				
Cash and cash equivalents				
Cash on hand and in banks	25 249	14 353	2 738	42 340
Term deposits with original maturity of less than three months	22 078	-	-	22 078
Due from banks	29	657	385	1 071
Restricted cash	-	-	-	-
Banking: Mandatory reserves with CB RF	1 875	-	-	1 875
Accounts receivable				
Trade receivables	42 750	35 299	368	78 417
Other financial receivables	5 130	1	-	5 131
Banking: Loans to customers	131 907	8 220	6 178	146 305
Other financial assets				
Bank deposits	310	347	-	657
Due from banks	168	428	1 419	2 015
REPO with banks	537	-	-	537
Notes receivable	456	-	-	456
Loans to employees	1 046	-	-	1 046
Other loans	28 517	270	-	28 787
Securities at FVTPL	3 149	1 625	-	4 774
Securities at FVOCI	38 773	4 603	-	43 376
Securities at AC	18 718	14 048	-	32 766
Total financial assets	**320 692**	**79 851**	**11 088**	**411 631**
FINANCIAL LIABILITIES				
Trade and other financial payables				
Trade payables	25 727	1	-	25 728
Dividend payable	50 711	-	-	50 711
Other payables	933	80	-	1 013
Banking: Other finance liabilities FVPL	1 190	-	-	1 190
Debt				
Bonds issued	1 056	-	-	1 056
Subordinated debt	2 160	1 420	-	3 580
Debt securities issued	981	149	-	1 130
Credit facilities	-	6 682	-	6 682
Other debt	1 754	835	-	2 589
Banking: Due to banks and CB RF	15 212	3 087	126	18 425
Banking: Customer accounts	144 070	33 764	6 502	184 336
Other short-term liabilities	533	-	-	533
Total financial liabilities	**244 327**	**46 018**	**6 628**	**296 973**
NET BALANCE SHEET POSITION	76 217	33 833	4 460	114 510

The table below summarises the Group's exposure to foreign currency exchange rate risk as of 31 December 2017.

	RUSSIAN RUBLE	US DOLLAR	OTHER	TOTAL
FINANCIAL ASSETS				
Cash and cash equivalents				
Cash on hand and in banks	21 748	4 255	3 216	29 219
Term deposits with original maturity of less than three months	11 906	-	-	11 906
Due from banks	1 501	171	-	1 672
Restricted cash	-	-	-	-
Banking: Mandatory reserves with CB RF	1 916	-	-	1 916
Accounts receivable				
Trade receivables	34 733	23 934	408	59 075
Other financial receivables	5 751	14	6	5 771
Banking: Loans to customers	136 085	13 958	940	150 983
Other financial assets				
Bank deposits	302	-	-	302
Due from banks	330	1 285	27	1 642
Notes receivable	456	-	-	456
Loans to employees	1 558	-	-	1 558
Other loans	10 769	552	-	11 321
Financial assets at fair value through profit or loss	6 147	2 354	-	8 501
Available-for-sale financial assets	37 681	3 520	503	41 705
Held to maturity investments	48 831	6 974	-	55 805
Total financial assets	**319 714**	**57 018**	**5 100**	**381 832**
FINANCIAL LIABILITIES				
Trade and other financial payables				
Trade payables	21 543	352	471	22 366
Dividend payable	6 032	-	-	6 032
Other payables	3 312	88	-	3 400
Debt				
Bonds issued	7 742	-	-	7 742
Subordinated debt	2 161	2 331	-	4 492
Debt securities issued	1 491	1 937	-	3 428
Credit facilities	20 955	6 789	-	27 744
Other debt	1 556	1 486	364	3 406
Banking: Due to banks and CB RF	31 233	1 758	649	33 640
Banking: Customer accounts	125 344	27 208	6 362	158 914
Other short-term liabilities	256	-	-	256
Total financial liabilities	**221 625**	**41 949**	**7 846**	**271 420**
NET BALANCE SHEET POSITION	**98 089**	**15 069**	**(2 746)**	**110 412**

For the year ended 31 December 2018 the Group recognised RR 21,483 million and RR 13,547 million foreign exchange gains and losses respectively in the consolidated statement of profit or loss and other comprehensive income (for the year ended 31 December 2017: RR 10,257 million and RR 11,875 million, respectively).

The following table presents sensitivities of profit and loss and equity to changes in US Dollar exchange rates applied at the end of the reporting period relative to Russian Ruble

	YEAR ENDED 31 DECEMBER 2018		YEAR ENDED 31 DECEMBER 2017	
	IMPACT ON PROFIT BEFORE TAX	IMPACT ON EQUITY	IMPACT ON PROFIT BEFORE TAX	IMPACT ON EQUITY
US Dollar strengthening by 10%	3 376	2 701	1 501	1 200
US Dollar weakening by 10%	(3 376)	(2 701)	(1 501)	(1 200)

b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates.

Non-banking operations interest rate risk management

The majority of the Group's borrowings is at variable interest rates (linked to the LIBOR rate). To mitigate the risk of significant changes in the LIBOR rate, the Group's treasury function performs periodic analysis of the interest rate environment. The Group does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, the Group performs periodic analysis of the current interest rate environment and depending on that analysis at the time of raising new debts management makes decisions whether to obtain financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

Banking operations interest rate risk management

The majority of the Group's interest rate sensitive banking financial assets and liabilities are at fixed rates. Therefore, the Group's interest rate risk arises primarily from unmatched positions on maturities of assets and liabilities carried at fixed rates.

Management of interest rate risk is performed through analysis of the structure of assets and liabilities by repricing dates. Interest rates that are contractually fixed on both assets and liabilities may be renegotiated before any new credit tranche is issued to reflect current market conditions. All new credit products and transactions are assessed in respect of interest rate risk upfront, prior to starting these transactions.

Additionally, as disclosed in the maturity analysis below, the maturity dates applicable to the majority of the Group's assets and liabilities are relatively short-term and that provides the Group with a certain level of flexibility to react to changing market conditions.

The Group's overall interest rate risk is monitored by Assets and liabilities committee ("ALCO") which reviews the structure of assets and liabilities, current and projected interest rates. Treasury departments of Bank ZENIT are responsible for day-to-day management of the interest rate mismatch, preliminary approval of interest rates on projected transactions, preparation and submission for approval suggestions on acceptable interest rate levels by instrument and duration. Risk management departments of Bank ZENIT review current interest rate gaps and assess resulting effects of interest rate risk on the Group's interest margin and economic capital.

The interest rate risk measurement system provides the ability to evaluate a risk profile from two different, but complementary points of view. From the economic value point of view the effect of changes in interest rates and the associated volatility of the present value of all future cash flows is considered and is calculated as the change in the sensitivity of fair value using a shock effect on the interest rate curve. From the profit point of view the effect generated by measuring interest rates on net profit in the form of interest and, therefore, on the associated effect on net interest income on a 1-year horizon is analysed. Interest rate risk reporting is compiled and reported to the Bank ZENIT's Management Board on a quarterly basis.

Interest rate risk analysis on banking and non-banking operations of the Group

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

	DEMAND AND LESS THAN 1 MONTH	FROM 1 TO 6 MONTHS	FROM 6 TO 12 MONTHS	FROM 1 TO 5 YEARS	MORE THAN 5 YEARS	NON-SENSITIVE	TOTAL
31 December 2018							
Total financial assets	73 319	41 463	20 961	92 419	54 469	129 000	411 631
Total financial liabilities	41 385	46 508	57 113	44 540	1 560	105 867	296 973
Net interest sensitivity gap	**31 934**	**(5 045)**	**(36 152)**	**47 879**	**52 909**	**23 133**	**114 658**
31 December 2017							
Total financial assets	77 018	34 751	37 788	74 011	56 817	101 447	381 832
Total financial liabilities	65 755	82 390	50 466	12 359	3 489	56 961	271 420
Net interest sensitivity gap	**11 264**	**(47 639)**	**(12 678)**	**61 652**	**53 328**	**44 486**	**110 412**

The table below summarises the effective average year end interest rates, by major currencies (US Dollars, Russian Rubles), for financial instruments outstanding as of 31 December 2018 and 2017. The analysis has been prepared on the basis of weighted average effective interest rates for the various financial instruments using year-end contractual terms and conditions.

	AT 31 DECEMBER 2018		AT 31 DECEMBER 2017	
	RUSSIAN RUBLE	US DOLLAR	RUSSIAN RUBLE	US DOLLAR
FINANCIAL ASSETS				
Cash and cash equivalents				
Cash on hand and in banks	6,26%	0,30%	7,31%	0,76%
Term deposits	7,96%	-	7,39%	-
Due from banks	1,20%	-	7,40%	-
Banking: Loans to customers	8,30%	6,60%	11,71%	6,91%
Other financial assets				
Bank deposits	13,00%	1,60%	13,00%	-
Due from banks	1,20%	-	8,18%	1,14%
Notes receivable	0,10%	-	0,10%	-
Loans to employees	3,19%	-	3,19%	-
Other loans	9,25%	-	8,32%	-
Securities at FVTPL	5,56%	7,89%	-	-
Financial assets at fair value through profit or loss (for comparatives only)	-	-	9,31%	6,44%
Securities at FVOCI	7,76%	5,86%	-	-
Available-for-sale financial assets (for comparatives only)	-	-	8,31%	8,10%
Securities at AC	9,18%	6,11%	-	-
Held to maturity investments (for comparatives only)	-	-	9,33%	8,92%
FINANCIAL LIABILITIES				
Debt				
Bonds issued	7,73%	-	9,90%	-
Subordinated debt	6,50%	9,50%	7,10%	8,80%
Debt securities issued	2,92%	2,30%	5,40%	1,90%
Credit facilities	-	4,18%	7,17%	3,10%
Other debt	5,24%	2,91%	1,90%	2,90%
Banking: Other financial liabilities at fair value through profit and loss	7,90%	-	-	-
Banking: Due to banks and CB RF	7,58%	2,00%	7,90%	2,50%
Banking: Customer accounts	5,46%	2,80%	7,40%	1,70%

The following table presents a sensitivity analysis of interest rate risk on banking and non-banking financial assets and liabilities:

	YEAR ENDED 31 DECEMBER 2018		YEAR ENDED 31 DECEMBER 2017	
	IMPACT ON PROFIT BEFORE TAX	IMPACT ON EQUITY	IMPACT ON PROFIT BEFORE TAX	IMPACT ON EQUITY
Increase by 100 basis points	(1 147)	(917)	(659)	(527)
Decrease by 100 basis points	1 147	917	659	527

c) Commodity and financial instruments price risk

Commodity price risk management

Commodity price risk is the risk or uncertainty arising from possible movements in prices for crude oil and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows. The Group's overall strategy in production and sales of crude oil and related products is centrally managed.

The Group assesses on a regular basis potential scenarios for future fluctuation in commodity prices and their impacts on operational and investment decisions.

However, in the current environment management estimates may materially differ from actual future impact on the Group's financial position. Actual results, and the impact on the Group's operations and financial position, may differ from management's estimates of potential scenarios.

Financial instruments price risk management

Financial instruments price risk is the risk that movements in market prices resulting from factors associated with an issuer of financial instruments (specific risk) and general changes in the market prices of financial instruments (general risk) will affect the fair value or future cash flows of a financial instrument and, as a result, the Group's profitability.

Financial instruments price risk for financial instruments held within the Group's financial assets at fair value through profit or loss is managed: (a) through maintaining a diversified structure of portfolios; and (b) by setting position limits (i.e. limits restricting the total amount of an investment or maximum mismatch between respective assets and liabilities) as well as stop-loss and call-level limits, in addition to these, the Group sets limits on a maximum duration of debt financial instruments. When necessary the Group establishes margin and collateral requirements.

Financial instruments price risk is managed primarily through daily mark-to-market procedures, sensitivity analysis and control of limits established for various types of financial instruments.

Sensitivity to changes in other prices is estimated using the Value at Risk (VaR) methodology. This is a way to assess potential losses that may occur at a risk position as a result of changes in market rates and prices in a certain period of time with a given level of confidence.

VaR estimates in respect of financial assets at fair value through profit or loss and available-for-sale financial assets as of 31 December 2018 and 2017 are as follows:

	YEAR ENDED 31 DECEMBER 2018		YEAR ENDED 31 DECEMBER 2017	
	IMPACT ON PROFIT BEFORE TAX	IMPACT ON EQUITY	IMPACT ON PROFIT BEFORE TAX	IMPACT ON EQUITY
Fixed income securities price risk	104	83	105	84
Equity securities price risk	12	10	-	-
TOTAL PRICE RISK	**116**	**93**	**105**	**84**

CREDIT RISK

The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

Expected credit loss (ECL) measurement.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the committed amounts to an on-balance sheet exposure within a defined period.

PD an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's lifetime period. The lifetime period is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit.

Management models Lifetime ECL, that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The 12-month ECL, represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining lifetime period of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider forward-looking information, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

The ECL modelling does not differ for Purchased or Originated Credit Impaired ("POCI") financial assets, except that (a) gross carrying value and discount rate are based on cash flows that were recoverable at initial recognition of the asset, rather than based on contractual cash flows, and (b) the ECL is always a lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as impaired loans acquired in a past business combination.

Credit risk management

Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk.

An assessment is performed at each reporting date to identify a significant increase in credit risk since initial recognition of a financial instrument. Such assessment is performed on the basis of qualitative and quantitative information:

- Quantitative assessment is performed on the basis of a change in risk of default arising over the expected lifetime of a financial asset.
- Qualitative assessment implies that a number of factors are important for assessing significant increase in credit risk (restructuring indicative of problems, establishing favourable schedule for repaying loan interest and principal, significant changes in expected results of operations and behaviour of a borrower and other material changes).

Financial assets move from Stage 1 to Stage 2 if there is one or a combination of the following factors:

- financial assets are over 30 days overdue;
- credit rating deteriorates;
- there are early warning indicators of an increase in credit risk; a need to change previously agreed on terms of the agreement to create more favourable environment for a customer due to his inability to meet current liabilities because of the customer's financial position; full or partial refinancing of the current debt which would not be required if the client did not experience financial difficulties;
- a customer has no rating at the reporting date;
- information on future changes in assets that may result in credit losses not considered in the rating systems is identified (e.g. military conflicts in the region that may have a significant impact on future credit quality).

A default is recognised if one or a combination of the following events occur:

- financial assets are over 90 days overdue (a rebuttable presumption);
- a default rating is assigned;
- restructuring indicative of problems is undertaken;
- a favourable schedule for repaying interest and principal with payments to be made at the end of the term is granted.

Non-banking activities credit risk management

Credit risk arises from cash and cash equivalents, bank deposits, loans and notes receivables, as well as credit exposures to customers including outstanding trade and other receivables.

Credit risks related to accounts receivable are systematically monitored taking into account the customer's financial position, past experience and other factors. Management systematically reviews ageing analysis of receivables and uses this information for calculation of expected credit losses. A significant portion of the Group's accounts receivable is due from domestic and export trading companies. The Group does not always require collateral to limit the exposure to loss; however, in most cases letters of credit and prepayments are used, especially with respect to accounts receivables from non-CIS sales of crude oil. The Group operates with various customers and a substantial part of its sales relate to major customers. Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded. Credit risk analysis for accounts receivable is presented in Note 7.

The Group performs an ongoing assessment and monitoring of the risk of default. In addition, as part of its cash management and credit risk function, the Group regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash.

The Group deposits available cash mostly with financial institutions in the Russian Federation. To manage this credit risk, the Group allocates its available cash to a variety of Russian banks. Management periodically reviews the credit worthiness of the banks in which it deposits cash.

Banking activities credit risk management

The Group's credit risk policies prescribe its acceptance only through formalized procedures and only based on decisions of the authorized collegial body. The Bank ZENIT has a system of credit committees responsible for making credit decisions, the main objective of which is to create a high-quality loan portfolio that ensures the implementation of the strategy, credit policies and risk management policies. The credit committees of Bank ZENIT, authorized to make credit decisions, have a clear segmentation according to business lines, lending segments and the amount of authority.

Credit committees and their level of responsibility in respect of approval of maximum exposures on a borrower or group of related borrowers are as follows:

The name of the committee	Maximum exposure allowed to be approved, RR million
Credit committee	Not limited*
Credit committee on small and medium-sized business borrowers	400
Credit committee on retail lending	90

* Within the limits of standards N6 and N25

The Group structures the level of credit risk it undertakes by placing the appropriate limits. Limits are set by the Group on an individual (for example, for specific customers and counterparties), group and portfolio basis (for example, industry and regional limits, limits on types of operations, etc.).

Internal regulations on financial analysis and risk assessment are created and applied to each segment of the lending activity, including lending to legal entities, individuals, small and medium-sized businesses and other categories of borrowers.

To reduce the level of risk, the Group accepts collateral in the form of pledges, sureties and guarantees. In case of acceptance of a surety, the Group performs a financial analysis of the guarantor. The assessment of collateral is performed internally by special division responsible for collateral assessment and control. They use several methodologies developed for each type of collateral.

Valuations performed by third parties, including independent appraisal firms authorized by the Group, may serve as additional data for such assessment. The Group usually requires collateral to be insured by insurance companies authorized by the Group.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for on balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

Risk management departments monitor compliance with the requirements of external and internal polices of risk assessment, credit decision making, authority to make credit decisions, and work with collaterals.

To quantify the credit risk, the Group uses internal models (rating systems). In the absence of a model, the assessment can be carried out in one of the alternative ways:

- based on the average values obtained on the internal statistics;
- using external ratings of international rating agencies (S&P, Fitch, Moody`s), mapped to the internal scale of the Bank ZENIT.

The system of internal ratings has been applied by Bank ZENIT since 1999 and is continuously updated and developed. The information accumulated over this period provides a sound ground for assessment of ratings migration and allows the Group to calibrate corresponding parameters of default probability.

The Group updates and validates internal models and approaches on a periodic basis, but at least once a year. For the purpose of information disclosure, assets are grouped in one of the 4 credit quality rating categories in order of credit quality deterioration (credit risk increase) in accordance with the approaches outlined below:

The Group does not enter into transactions with an initial rating of III or IV.

In order to monitor the credit risk, responsible employees of credit departments prepare regular reports based on a structured analysis of the Client's business and financial performance. Management obtains and analyses all information about significant risks related to customers with deteriorating creditworthiness.

Credit risk monitoring has an important role in maintaining the quality of loans at least as good as at the moment of credit limits approval, in preventing losses on the formed portfolio in excess of planned norms and consists in:

- maintaining constant contact and holding regular risk-focused discussions (meetings) with the borrower by business managers;
- structured and continuous monitoring of the implementation of financial and non-financial covenants using the control register;
- carrying out, with an established frequency, regular inspections of the volume, type and conditions of maintenance of the pledged items, its validity and insurance;
- conducting a quarterly analysis of the financial and economic activities of the borrower and monitoring its financial position;
- monitoring of proper loan maintenance and repayment (tranches);
- compulsory comprehensive annual review of the risk limit established for the Client in order to re-approve, increase or reduce it (in case of negative trends in the borrower's activity, in its sector, in the economy as a whole, etc.);
- analysis of actual exposures versus established limits;
- control over compliance with internal policies, procedures, instructions and orders issued by respective management bodies;
- monitoring of macroeconomic parameters in order to check the adequacy of risk assessment and forecast;
- portfolio analysis showing trends in levels of default, concentrations, diversifications by borrowers or groups of borrowers, products, industries, countries, etc.

In order to ensure financial stability, forecast expected losses, plan capital requirements, calculate risk-appetite limits, the Group performs periodic stress-testing of credit risk. The stress-testing tool includes regression models based on macroeconomic factors. A mandatory condition for the application of regression models is their high quality, confirmed by the results of validation.

The Group's divisions carry out loan maturity analysis and follow-up control over overdue balances.

For more detailed analyses please refer to https://www.zenit.ru/rus/about_bank/disclosure/financial-statements/

Credit risk analysis on banking and non-banking operations of the Group

The Group uses the following rating categories for the analysis of credit quality of assets other than loans to customers and accounts receivable:

- investment grade ratings classification referred to as Aaa to Baa3 for Moody's Investment Services, as AAA to BBB- for Fitch Rating and as AAA to BBB- for Standard and Poor's Rating, respectively;
- non-investment (speculative) grade ratings classification referred to as Ba1 to C for Moody's Investment Services, as BB+ to B- for Fitch Rating and as BB+ to D for Standard and Poor's Rating, respectively.

RATING GROUP	PD INTERVAL	CORRESPONDING RATINGS OF EXTERNAL INTERNATIONAL RATING AGENCIES		DESCRIPTION
		S&P \ FITCH	MOODY'S	
I	0,00%...2,40%	«AAA»...«B+»	«Aaa»...«B1»	Rating group I, characterized by the best credit quality and low probability of default. There are no events (trends) associated with the Clients' activities that can have a negative and (or) threatening effect their financial stability and (or) solvency in the near future.
II	2,40%...26,50%	«B»...«B-»	«B2»...«Caa3»	Rating group II, characterized by acceptable credit quality and a certain probability of default. There may be negative events (trends) associated with the Clients' activities that can affect their financial stability and (or) solvency in the near future.
III	26,50%...65,80%	«CCC»...«C»	«Ca»...«C»	Rating group III, characterized by doubtful credit quality and a high probability of default. As a rule, there are negative and (or) threatening events (trends) associated with the Clients' activities that can affect their financial stability and (or) solvency in the near future.
IV	100,00%	«D»	«D»	Rating group IV, default category includes Clients that fall under the criteria of the Bank's definition of default. Redemption is unlikely.

The following table contains an analysis of the credit risk exposure of cash and cash equivalents including mandatory reserve deposits with CB RF. The carrying amount as at 31 December 2018 also represents the Group's maximum exposure to credit risk on these financial assets.

	STAGE 1 (12-months ECL)	STAGE 2 (lifetime ECL for SICR)	STAGE 3 (lifetime ECL for credit im-paired)	POCI	TOTAL
CASH ON HAND AND CASH IN BANKS					
Investment grade rating	31 721	-	-	-	31 721
Non-investment grade rating	4 030	-	-	-	4 030
Unrated	6 589	-	-	-	6 589
Gross carrying amount	**42 340**	-	-	-	**42 340**
Credit loss allowance	-	-	-	-	-
Carrying amount	**42 340**	-	-	-	**42 340**
TERM DEPOSITS WITH ORIGINAL MATURITY OF LESS THAN THREE MONTHS					
Investment grade rating	6 468	-	-	-	6 468
Non-investment grade rating	15 610	-	-	-	15 610
Unrated	-	-	-	-	-
Gross carrying amount	**22 078**	-	-	-	**22 078**
Credit loss allowance	-	-	-	-	-
Carrying amount	**22 078**	-	-	-	**22 078**
DUE FROM BANKS					
Investment grade rating	-	-	-	-	-
Non-investment grade rating	1 071	-	-	-	1 071
Unrated	-	-	-	-	-
Gross carrying amount	**1 071**	-	-	-	**1 071**
Credit loss allowance	-	-	-	-	-
Carrying amount	**1 071**	-	-	-	**1 071**
MANDATORY RESERVE DEPOSITS WITH CB RF					
Investment grade rating	1 875	-	-	-	1 875
Non-investment grade rating	-	-	-	-	-
Unrated	-	-	-	-	-
Gross carrying amount	**1 875**	-	-	-	**1 875**
Credit loss allowance	-	-	-	-	-
Carrying amount	**1 875**	-	-	-	**1 875**

The following table contains an analysis of the credit risk exposure of other financial assets carried at AC and at FVOCI for which ECL allowance is recognised other than cash and cash equivalents including mandatory reserve deposits with CB RF, loans to customers and accounts receivable. The carrying amount as at 31 December 2018 also represents the Group's maximum exposure to credit risk on these financial assets.

	STAGE 1 (12-months ECL)	STAGE 2 (lifetime ECL for SICR)	STAGE 3 (lifetime ECL for credit im-paired)	POCI	TOTAL
NOTES RECEIVABLE					
Investment grade rating	-	-	-	-	
Non-investment grade rating	-	-	-	-	
Unrated	-	456	566	-	1 022
Gross carrying amount	**-**	**456**	**566**	**-**	**1 022**
Credit loss allowance	-	-	(566)	-	(566)
Carrying amount	**-**	**456**	**-**	**-**	**456**
OTHER LOANS					
Investment grade rating	-	-	-	-	-
Non-investment grade rating	-	-	-	-	-
Unrated	83	26 217	20 377	-	46 677
Gross carrying amount	**83**	**26 217**	**20 377**	**-**	**46 677**
Credit loss allowance	-	(543)	(17 464)	-	(18 007)
Carrying amount	**83**	**25 674**	**2 913**	**-**	**28 670**
LOANS TO EMPLOYEES					
Investment grade rating	-	-	-	-	
Non-investment grade rating	-	-	-	-	
Unrated	-	-	2 822	-	2 822
Gross carrying amount	**-**	**-**	**2 822**	**-**	**2 822**
Credit loss allowance	-	-	(1 776)	-	(1 776)
Carrying amount	**-**	**-**	**1 046**	**-**	**1 046**
BANK DEPOSITS					
Investment grade rating	346	-	-	-	346
Non-investment grade rating	-	-	-	-	
Unrated	311	-	5 544	-	5 855
Gross carrying amount	**657**	**-**	**5 544**	**-**	**6 201**
Credit loss allowance	-	-	(5 544)	-	(5 544)
Carrying amount	**657**	**-**	**-**	**-**	**657**
DUE FROM BANKS					
Investment grade rating	333	-	-	-	333
Non-investment grade rating	1 599	-	-	-	1 599
Unrated	83	-	-	-	83
Gross carrying amount	**2 015**	**-**	**-**	**-**	**2 015**
Credit loss allowance	-	-	-	-	-
Carrying amount	**2 015**	**-**	**-**	**-**	**2 015**

	STAGE 1 (12-months ECL)	STAGE 2 (lifetime ECL for SICR)	STAGE 3 (lifetime ECL for credit im-paired)	POCI	TOTAL
REPO WITH BANKS					
Investment grade rating	537	-	-	-	537
Non-investment grade rating	-	-	-	-	-
Unrated	-	-	-	-	-
Gross carrying amount	**537**	**-**	**-**	**-**	**537**
Credit loss allowance	-	-	-	-	-
Carrying amount	**537**	**-**	**-**	**-**	**537**
DEBT SECURITIES AT AC					
Investment grade rating	32 938	3	-	-	32 941
Non-investment grade rating	35	10	-	-	45
Unrated	-	1	-	-	1
Gross carrying amount	**32 973**	**14**	**-**	**-**	**32 987**
Credit loss allowance	(221)	-	-	-	(221)
Carrying amount	**32 752**	**14**	**-**	**-**	**32 766**
DEBT SECURITIES AT FVOCI					
Investment grade rating	15 662	-	-	-	15 662
Non-investment grade rating	1 677	-	-	-	1 677
Unrated	478	89	-	-	567
Gross carrying amount	**17 817**	**89**	**-**	**-**	**17 906**
Credit loss allowance	(124)	-	-	-	(124)
Carrying amount	**17 693**	**89**	**-**	**-**	**17 782**

The table below shows credit quality of assets other than loans to customers and accounts receivable as of 31 December 2017:

	INVESTMENT GRADE RATING	NON-INVESTMENT GRADE RATING	UNRATED	TOTAL
NEITHER PAST DUE NOR IMPAIRED				
Cash and cash equivalents				
Cash on hand and in banks	3 114	9 188	16 917	29 219
Term deposits	8 012	3 859	35	11 906
Due from banks	-	1 672	-	1 672
Banking: Mandatory reserves with CB RF	-	-	1 916	1 916
Other financial assets				
Bank deposits	-	1	301	302
Due from banks	-	1 613	-	1 613
Notes receivable	-	-	456	456
Other loans	-	-	3 260	3 260
Financial assets at fair value through profit or loss	1 952	3 191	3 358	8 501
Available-for-sale financial assets	4 360	12 509	11 870	28 739
Held to maturity investments	21 681	29 924	4 200	55 805
PAST DUE BUT NOT IMPAIRED	-	-	-	-
INDIVIDUALLY IMPAIRED				
Other financial assets				
Bank deposits	-	-	5 547	5 547
Due from banks	-	30	-	30
Notes receivable	-	-	318	318
Loans to employees	-	-	2 978	2 978
Other loans			15 955	15 955
Financial assets at fair value through profit or loss	-	-	298	298
Available-for-sale financial assets	-	318	19 602	19 920
Held to maturity investments	-	-	-	-
Less: provision for impairment	-	(348)	(22 114)	(22 462)
TOTAL CREDIT RISK	**39 119**	**61 957**	**64 897**	**165 973**

Within short term bank deposits there are RR 5,400 million of deposits placed with Tatfondbank. In March 2017, by the order of CB RF the license to conduct banking operations was withdrawn from Tatfondbank. At 31 December 2018 and 2017 the Group created a provision for impairment of deposits placed with Tatfondbank in the amount of RR 5,400 million.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Non-banking operations liquidity risk management

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In managing its liquidity risk, the Group maintains adequate cash reserves and debt facilities, continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities on non-banking activities.

The Group prepares various financial plans (monthly, quarterly and annually) which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities for a period of 30 days or more. To fund cash requirements of a more permanent nature, the Group will normally raise long-term debt in available international and domestic markets.

Banking operations liquidity risk management

The objective of liquidity risk management is to ensure the stable operations of all banks of the Group, the possibility of uninterrupted operations in accordance with the Group's business plans, including the timely fulfilment of all obligations to customers and counterparties related to making payments, as well as minimising the negative impact on financial results, own funds (capital), the Group's reputation for a possible liquidity deficit. Also, the priority objective of liquidity risk management is to ensure that all banks of the Group comply with the mandatory liquidity ratios established by the Central Bank of Russia.

The Group's approach to banking operations liquidity management is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due under both ordinary and stressed conditions, without incurring unacceptable losses or damaging the Group's reputation.

The Group endeavors to maintain a stable and diversified funding base including core corporate and individual customer accounts; short-, medium- and long-term loans from other banks; promissory notes and bonds issued. On the other hand, the Group tends to keep diversified portfolios of liquid and highly liquid assets in order to be able to settle unforeseen liquidity requirements in an efficient and timely manner.

Key parameters in liquidity risk management such as the structure of assets and liabilities, composition of liquid assets and acceptable liquidity risks are established by Assets and Liabilities

Management Committee (ALCO). ALCO sets and reviews limits on liquidity gaps which are assessed on the basis of liquidity stress-tests in regard to medium- and long-term liquidity. These tests are performed using the following information::

- current structure of assets and liabilities including any known renewal arrangements as at the date of the respective test;
- amounts, maturity and liquidity profiles of transactions projected by business units;
- current and projected characteristics of liquid assets which include, apart from cash and cash equivalents, amounts due from other banks and certain financial assets held-for-trading;
- and relevant external factors.

The resulting models allow for the assessment of future expected cash flows due to projected future business and different crisis scenarios. While managing liquidity risk treasury departments of the Group distinguish liquidity required within a current business day and term liquidity. For managing current liquidity (with a 1-day horizon) the following methods are used:

- reallocation of cash between accounts with other banks;
- collection of information from business and other supporting units on large transactions (both proprietary and customer based);
- purchase and sale of certain financial assets in liquid portfolios;
- accelerating closure of trade positions;
- estimation of minimum expected cash inflow during a business day;
- and daily control over the balance of cash and estimated liabilities to be settled on demand.

In order to optimize liquidity management procedures, Bank ZENIT allocates instant (intraday) and emergency liquidity management. The monitoring of the current and forecasted state of urgent liquidity is carried out by the Bank's Treasury daily on the basis of calculating the sufficiency of highly liquid assets to cover planned and unplanned outflows and meeting resource requirements for a period of up to 30 days. In the normal course of business, liquidity reports reflecting the current and projected structure of assets and liabilities, taking into account the model of daily minimum balance on current accounts by currency based on an analysis of historical dynamics, as well as expected future cash flows are regularly reported to ALCO. Liquidity management decisions made by the ALCO are implemented by treasuries as part of their duties.

The share of liquid assets is maintained at a level sufficient to meet obligations to customers and counterparties of Bank ZENIT, which can significantly reduce liquidity risks and non-market funding rates.

To maintain instant liquidity, limits are open on Bank ZENIT by a significant number of Russian banks. In addition, the liquidity risk is minimized by the Bank ZENIT's ability to raise funds from the Bank of Russia within the framework of the refinancing system and state support for the financial sector, as well as established liquidity management policies and technologies that provide for stress approaches in estimating future cash flows.

In accordance with the Group's Liquidity Management Policy, the basic principle of liquidity management is risk limiting, in particular, using the required liquid assets limit. If necessary (changing the financial situation in the markets or at Bank ZENIT), other limits (for counterparties, financial instruments, etc.) included in the Bank ZENIT's limit structure can be used to manage liquidity.

Liquidity analysis for banking and non-banking operations of the Group

The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments as of 31 December 2018:

	LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL LIABILITIES				
Trade and other financial payables				
Trade payables	25 728	-	-	25 728
Dividend payable	50 711	-	-	50 711
Other payables	1 013	-	-	1 013
Banking: Other financial liabilities at fair value through profit and loss	1 190	-	-	1 190
Debt				
Bonds issued	945	59	193	1 197
Subordinated debt	2 498	1 966	2 125	6 589
Debt securities issued	1 051	76	4	1 131
Credit facilities	6 682	-	-	6 682
Other debt	964	1 625	-	2 589
Banking: Due to banks and CB RF	15 386	4 660	-	20 046
Banking: Customer accounts	170 869	38 753	8	209 630
Other short-term liabilities	533	-	-	533
Credit related commitments (Note 26)	38 929	-	-	38 929
TOTAL	**316 499**	**47 139**	**2 330**	**365 968**

The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments as of 31 December 2017:

	LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL LIABILITIES				
Trade and other financial payables				
Trade payables	22 366	-	-	22 366
Dividend payable	6 032	-	-	6 032
Other payables	3 400	-	-	3 400
Debt				
Bonds issued	8 369	-	-	8 369
Subordinated debt	528	5 543	2 102	8 173
Debt securities issued	3 364	108	4	3 476
Credit facilities	28 349	-	-	28 349
Other debt	2 039	1 612	-	3 651
Banking: Due to banks and CB RF	29 695	5 919	20	35 634
Banking: Customer accounts	170 337	2 824	-	173 161
Other short-term liabilities	256	-	-	256
Credit related commitments (Note 26)	12 924	13 028	469	26 421
TOTAL	**287 659**	**29 034**	**2 595**	**319 288**

FAIR VALUES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The estimated fair values of financial instruments are determined with reference to various market information and other valuation techniques as considered appropriate.

The different levels of fair value hierarchy have been defined as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities that Group has the ability to assess at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Unobservable inputs for the asset or liability. These inputs reflect the Group's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

RECURRING FAIR VALUE MEASUREMENTS

The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	AT 31 DECEMBER 2018			
	FAIR VALUE			CARRYING VALUE
	LEVEL 1	LEVEL 2	LEVEL 3	
Banking: Loans to customers at FVTPL	-	-	13 043	13 043
Securities at FVTPL	2 320	2 265	189	4 774
Other loans at FVTPL	-	-	117	117
Securities at FVOCI	18 056	9 227	16 092	43 375
Investment property	-	-	918	918
Banking: Other financial liabilities at FVTPL	(1 190)	-	-	(1 190)
TOTAL	**19 186**	**11 492**	**30 359**	**61 037**

	AT 31 DECEMBER 2017			
	FAIR VALUE			CARRYING VALUE
	LEVEL 1	LEVEL 2	LEVEL 3	
Financial assets at fair value through profit or loss	8 096	-	405	8 501
Available-for-sale financial assets	16 944	8 998	15 763	41 705
Investment property	-	-	871	871
TOTAL	**25 040**	**8 998**	**17 039**	**51 077**

The description of valuation technique and description of inputs used in the fair value measurement for Level 2 and Level 3 measurements at 31 December 2018:

	FAIR VALUE HIERARCHY	VALUATION TECHNIQUE AND KEY INPUT DATA
Banking: Loans to customers at FVTPL	Level 3	Discounted cash flow models adjusted at credit risk
Securities at FVOCI	Level 2, Level 3	Quoted prices for similar investments in active markets, net assets valuation, comparative (market) approach / Publicly available information, comparable market prices/ discounted cash flow models adjusted at credit risk
Securities at FVTPL	Level 2, Level 3	Quoted prices for similar investments in active markets, net assets valuation, comparative (market) approach / Publicly available information, comparable market prices / discounted cash flow models adjusted at credit risk
Other loans at FVTPL	Level 3	Discounted cash flow models adjusted at credit risk
Investment property	Level 3	Market data on comparable objects adjusted in case of differences from similar objects

The description of valuation technique and description of inputs used in the fair value measurement for Level 2 and Level 3 measurements at 31 December 2017:

	FAIR VALUE HIERARCHY	VALUATION TECHNIQUE AND KEY INPUT DATA
Held-for-trading financial assets	Level 2, Level 3	Quoted prices for similar investments in active markets, net assets valuation, comparative (market) approach / Publicly available information, comparable market prices
Available-for-sale financial assets	Level 2, Level 3	Quoted prices for similar investments in active markets, net assets valuation, comparative (market) approach / Publicly available information, comparable market prices
Investment property	Level 3	Market data on comparable objects adjusted in case of differences from similar objects

There were no changes in valuation technique for Level 2 and Level 3 recurring fair value measurements during the year ended 31 December 2018 and 2017.

There have been no transfers between Level 1, Level 2 and Level 3 during 2018 and 2017 year.

ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE BUT FOR WHICH FAIR VALUE IS DISCLOSED

Fair values analysed by level in the fair value hierarchy and carrying value of assets and liabilities not measured at fair value are as follows:

	AT 31 DECEMBER 2018				AT 31 DECEMBER 2017			
	FAIR VALUE			CARRYING VALUE	FAIR VALUE			CARRYING VALUE
	LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3	
ASSETS								
Cash and cash equivalents								
Cash on hand and in banks	5 451	36 889	-	42 340	6 587	22 632	-	29 219
Term deposits	-	22 078	-	22 078	-	11 906	-	11 906
Due from banks	-	1 071	-	1 071	-	1 672	-	1 672
Banking: Mandatory reserve deposits with CB RF	1 875	-	-	1 875	1 916	-	-	1 916
Accounts receivable								
Trade receivables	-	-	78 417	78 417	-	-	59 075	59 075
Other financial receivables	-	596	4 535	5 131	-	788	4 983	5 771
Banking: Loans to customers at AC	-	-	133 404	133 404	-	-	150 983	150 983
Other financial assets								
Bank deposits	-	657	-	657	-	302	-	302
Due from banks	-	2 015	-	2 015	-	1 183	-	1 183
REPO with banks	-	537	-	537		459	-	459
Notes receivable	-	-	456	456	-	-	456	456
Loans to employees	-	-	1 046	1 046	-	-	1 558	1 558
Other loans at AC	-	-	28 670	28 670	-	-	11 321	11 321
Held to maturity investments (for comparatives only)	-	-	-	-	55 805	-	-	55 805
Securities at AC	31 276	1 490	-	32 766	-	-	-	-
Total financial assets	**38 602**	**65 333**	**246 528**	**350 463**	**64 308**	**38 942**	**228 376**	**331 626**
LIABILITIES								
Trade and other financial payables								
Trade payables	-	272	25 456	25 728	-	-	22 366	22 366
Dividend payable	-	-	50 711	50 711	-	-	6 032	6 032
Other payables	-	500	513	1 013	-	-	3 400	3 400
Debt								
Bonds issued	1 056	-	-	1 056	7 742	-	-	7 742
Subordinated debt	-	3 580	-	3 580	-	4 492	-	4 492
Debt securities issued	-	1 130	-	1 130	-	3 428	-	3 428
Credit facilities	-	-	6 682	6 682	-	-	27 744	27 744
Other debt	-	-	2 589	2 589	-	-	3 406	3 406
Banking: Due to banks and CB RF	1 526	16 899	-	18 425	1 054	32 437	-	33 640
Banking: Customer accounts	-	182 970	-	182 970	-	158 914	-	158 914
Other short-term liabilities	-	-	533	533	-	-	256	256
TOTAL FINANCIAL LIABILITIES	**2 582**	**205 351**	**86 484**	**294 417**	**8 796**	**199 271**	**63 204**	**271 420**

The carrying amounts of financial assets and liabilities carried at amortised cost approximates their fair values. The fair values in Level 2 fair value hierarchy were estimated using the discounted contractual cash flows and observable interest rates for identical instruments. The fair values in Level 3 fair value hierarchy were estimated using the discounted cash flows and observable interest rates for similar instruments with adjustment to credit risk and maturity.

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below sets out an analysis of the movements in the Group's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing in the statement of cash flows:

	LIABILITIES ARISING AS A RESULT OF FINANCING ACTIVITIES			
	SHORT-TERM AND LONG-TERM DEBT	BONDS I SSUED	SUBORDINATED DEBT	TOTAL
At 31 December 2016	**12 041**	**32 698**	**4 497**	**49 236**
Cash flow movement, including:				
Proceeds from issuance of debt	25 107	-	-	25 107
Repayment of debt	(5 434)	-	-	(5 434)
Issuance of bonds	-	2 365	-	2 365
Redemption of bonds	-	(25 740)	-	(25 740)
Interest accrued	(160)	(2 011)	(921)	(3 092)
Interest paid	(504)	-	(298)	(802)
Foreign exchange adjustments	425	2 011	921	3 357
Other non-cash flows	(325)	(1 581)	293	(1 613)
At 31 December 2017	**31 150**	**7 742**	**4 492**	**43 384**
Cash flow movement, including:				
Proceeds from issuance of debt	25 920	-	-	25 920
Repayment of debt	(49 466)	-	-	(49 466)
Issuance of bonds	-	-	-	-
Redemption of bonds	-	(6 979)	(1 359)	(8 338)
Interest paid	-	(602)	-	(602)
Foreign exchange adjustments	1 012	-	(19)	993
Interest accrual	654	614	466	1 734
Other non-cash flows	-	281	-	281
At 31 December 2018	**9 270**	**1 056**	**3 580**	**13 906**

MANAGEMENT OF CAPITAL

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and increase shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Group defines capital under management as the total Group shareholders' equity as shown in the consolidated statement of financial position. The amount of capital that the Group managed as of 31 December 2018 was RR 771,265 million (2017: RR 711,859 million). The Group manages capital for banking and non-banking operations separately.

Non-banking operations capital management

The Group considers equity and debt to be the principal elements of capital management. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, revise its investment program, attract new or settle existing debt or sell certain non-core businesses.

The Group monitors capital on the basis of its gearing ratio.

	YEAR ENDED 31 DECEMBER 2018	YEAR ENDED 31 DECEMBER 2017
Consolidated total borrowings excluding borrowings of Bank ZENIT:	**9 271**	**31 410**
Credit facilities	6 682	27 744
Other debt	2 589	3 406
Notes payable	-	260
Consolidated shareholders' equity	**771 265**	**711 859**
Debt to capital employed ratio, % (Consolidated total borrowings / Consolidated shareholders' equity)	**1,20%**	**4%**

ANNEXES

Banking operations capital management

The Bank ZENIT's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored by the Management of Bank ZENIT on a daily basis. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the Central Bank of Russia, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Bank ZENIT is also subject to minimum capital requirements established by loan covenants, including capital adequacy level of 8% calculated in accordance with Basel I and IFRS, and Tier 1 capital adequacy ratio of 6%. Bank ZENIT has complied with all externally imposed capital requirements throughout 2018 and 2017.

In September 2015 Bank ZENIT received five subordinated loans totalling RR 9,933 million from DIA within the Russian Federation Government programme for additional capitalisation of Russian banks. Under the terms of these subordinated loan agreements DIA paid these loans by securities (OFZ of five series), that should be returned upon maturity of the subordinated loans. These subordinated loans mature from January 2025 to November 2034 and bear interest equal to OFZ coupon rate plus 1%. In accordance with IFRS 9 and IAS 39 if securities are loaned under an agreement to return them to the transferor, they are not derecognised because the transferor retains substantially all the risks and rewards of ownership. Accordingly, the obligation to return the securities should not be recognised. Therefore, OFZ and the subordinated loan received from DIA are not recognised within assets and liabilities in the consolidated statement of financial position. These subordinated loans are accounted for in capital adequacy ratio calculation in accordance with Bank of Russia's Regulation No. 395-P.

Annex 2

Financial statements under the Russian accounting standards

Auditor's report

Independent Auditor's Report

Attn.: the Shareholders and Board of Directors of PJSC TATNEFT named after V.D. Shashin

Opinion

In our opinion, the attached accounting statements present fairly in all material respects the financial standing of PJSC TATNEFT named after V.D. Shashin (hereinafter referred to as the "Company") as of December 31, 2018, as well as its financial results and cash flows for the year ended on that date, in compliance with the rules for drafting the accounting statements, established in the Russian Federation.

Subject of audit

We have audited the Company's accounting statements, which include:

- Balance Sheet as of December 31, 2018;
- Profit and Loss Statement for the year ended on that date;
- Capital Statement for the year ended on that date;
- Cash Flow Statement for the year ended on that date;
- Notes to the Balance Sheet and the Profit and Loss Statement.

Grounds for expressing the opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibility under these standards is described further in the Auditor's Responsibility for the Audit of Accountant Statements section.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide the grounds for our opinion.

Independence

We are independent in respect of the Company, in accordance with the Code of Ethics for Professional Accountants developed by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Code of Professional Ethics for Auditors and the Rules of Independence of Auditors and Audit Organizations, applicable to our audit of accounting statements in the Russian Federation, and we have fulfilled other ethical obligations in accordance with these requirements and the IESBA Code.

Joint Stock Company PricewaterhouseCoopers Audit (JSC PwC Audit)
10 Butyrsky Val Str., Business Center Belaya Ploschad, Moscow, 125047, Russia
Telephone: +7 (495) 967-6000, Fax: +7 (495) 967-6001, www.pwc.ru

Our auditing methodology

Overview

Materiality	• Materiality at the level of the Company's accounting statements as a whole: 12.6 billion rubles, which amounts to 5% of profit before tax.
Key audit issues	• Provision for bad and doubtful debt.

When planning the audit, we defined the materiality and assessed the risks of material misstatements in accounting statements. In particular, we analyzed, in which areas the management made subjective judgments, for example, with respect to significant accounting estimates, which implied the application of assumptions and consideration of future events, which due to their nature, give rise to uncertainty. We also have considered the risk of the management's circumvention of internal controls, including, inter alia, an assessment of whether there are signs of management bias that creates the risk of material misstatement due to fraud.

We defined the scope of the audit in such a way, that we could perform the works sufficient to express our opinion on the accounting statements as a whole, taking into account the Company's structure, accounting processes, and controls as well as the specifics of the industry, in which the Company operates.

Materiality

The scope of our audit was determined based on our application of materiality. The objective of the audit was to obtain reasonable assurance that the accounting statements are free from material misstatements. Misstatements may arise as a result of fraud or error. Misstatements are considered material if they could reasonably be expected to affect, individually or collectively, the users' economic decisions made on the grounds of these accounting statements.

Based on our professional judgment, we have established certain quantitative thresholds for materiality, including for materiality at the level of the Company's accounting statements as a whole, as indicated in the table below. Using these values and taking into account qualitative factors, we determined the scope of our audit, as well as the nature, timing, and scope of our audit procedures, and assessed the impact of misstatements (those individual and taken in aggregate), if any, on the accounting statements as a whole.

Auditor's report (continued)

Materiality at the level of the Company's accounting statements as a whole:	12.6 billion rubles
How we defined it	5% of profit before tax
Justification for the level of materiality we applied	We decided to use profit before tax as a base indicator to determine the level of materiality because we believe that this base indicator is most often considered by the users to assess the Company's activities results and, furthermore, is a generally accepted base indicator. We established materiality at 5%, which falls within the range of acceptable quantitative thresholds of materiality, which are applicable to profit-driven enterprises in this industrial sector, and corresponds to the approach applied in the previous year.

Key audit issues

Key audit issues are those issues, which according to our professional judgment, were the most significant for our audit of the annual accounting statements for the current period. These issues were considered in the context of our audit of the annual accounting statements as a whole and when forming our opinion on these statements, and we do not express a separate opinion on these issues.

Key audit issue	Audit procedures performed regarding the key audit issue
Provision for bad and doubtful debt	
Refer to Note IV.13 (text part) to the Balance Sheet and the Profit and Loss Statement As a result of the assessment conducted as of December 31, 2018, the Company set up a provision for bad and doubtful debts in the amount of 16,881 million rubles (12,483 million rubles in 2017), presented in line 2350 "Other expenses" of the profit and loss statement, with respect to the following assets: - Interest-free loans granted to subsidiaries and affiliates engaged in oil and gas exploration, accrued interest, and penalties; - Interest-free loans granted to other related parties; - Advances issued under agency agreements. In accordance with the Regulation on Accounting and Reporting in the Russian Federation approved by Order No. 34n of the Ministry of Finance dated July 29, 1998, the Company sets up the provision for bad and doubtful debts in the case when receivables are deemed doubtful with the provision amount allocated to the financial results. Doubtful receivables are the Company's receivables that are not repaid or are highly unlikely to be repaid within the term established by the agreement and not secured by the relevant guarantees. To identify doubtful receivables, the Company analyzes the information on the debtors solvency, request expert assessments on the market value of the collateral provided, builds (if applicable) and analyzes the models of expected discounted cash flows, requests additional information, on the grounds of which the probability of failure to repay the relevant debt within the term established by the agreements is assessed.	We have evaluated the methodology applied by the Company for calculating the provision for bad and doubtful debts for its compliance with the rules for drafting the accounting statements, established in the Russian Federation. We tested the agreements on interest-free loans granted by the Company as well as the agency agreement, under which a provision for bad and doubtful debts was created on an individual basis. We have performed the following procedures: • Testing whether the debt was classified as doubtful in a timely manner; • Analyzing the critical assumptions used by the Company's management in assessing the current market value of property and rights to claim provided as collateral under loan agreements. To analyze the current market value of property and rights to claim that are pledged for loans granted, we have engaged our evaluation experts; • Analyzing the reasonableness of critical assumptions used in the models of technical and economic feasibility studies in the context of fields, such as the production volume, hydrocarbon prices, the value of production costs; • Verifying the mathematical accuracy of the models of discounted expected cash flow. We have assessed the macroeconomic assumptions used by management, which include, for example, hydrocarbon price forecasts, by comparing them with the data of the consensus forecast of the investment banks. Our procedures for verifying the reasonableness of the production cost values used by the management included discussions with the Company's technical specialists on the composition of the relevant costs, the sources of information for their forecasting and verification with these sources.

Auditor's report (continued)

Key audit issue	Audit procedures performed regarding the key audit issue
For the debts of subsidiaries and affiliates engaged in oil and gas exploration, the Company also shall analyze the technical and economic feasibility studies for each field of operation of subsidiaries and affiliates. We paid significant attention to this issue due to the fact that the management made significant judgments in assessing the amount of the provision for bad and doubtful debts, which is substantial for the Company's accounting statements for 2018.	We also compared the information on the hydrocarbon production volume, according to the technical and economic feasibility studies with the data of the forms of statistical monitoring of the state and changes in reserves and resources of hydrocarbons (6-GR) of subsidiaries and affiliates, and confirmed that, for the purposes of calculating the provision, the technical and economic feasibility studies were used, the volume of production in which does not exceed the amount of reserves according to the 6-GR forms. Having considered the results of our procedures, we did not reveal any material misstatements in the amount of the provision for bad and doubtful debts, which is recognized by the Company and presented in the attached accounting statements.

Other information

The management shall be responsible for other information. Other information includes the Company's Annual Report 2018 and the Issuer's Quarterly Report Q1 2019 (but does not include accounting statements and our audit report on these statements), which are expected to be provided to us after the date of this audit report.

Our opinion regarding accounting statements does not apply to other information, and we will not provide a conclusion expressing assurance in any form, regarding this information.

In connection with our audit of accounting statements, our responsibility is to familiarize ourselves with the above-mentioned other information upon its provision and to consider whether there are material inconsistencies between other information and accounting statements or the knowledge we obtain in the course of the audit and whether other information contains any possible material misstatements.

If we come to the conclusion that the Company's Annual Report 2018 and the Issuer's Quarterly Report Q1 2019 contain material misstatements, we should communicate this to the persons responsible for corporate governance.

Responsibility for accounting statements of the management and persons responsible for corporate governance

The management shall be responsible for the preparation and fair presentation of these accounting statements in accordance with the rules for drafting the accounting statements, established in the Russian Federation and for such internal control system as the management deems appropriate to enable the preparation of accounting statements free from material misstatement due to fraud or error.

When preparing accounting statements, the management shall be responsible for assessing the ability of the Company to continue as a going concern, for disclosing, as appropriate, the data relating to going concern, and for drafting the statements based on the going concern assumption, unless the management intends to liquidate the Company, to cease its operations or has no other viable alternative but to liquidate the Company or cease its operations.

The persons responsible for corporate governance shall be liable for the supervision of the preparation of the Company's accounting statements.

Auditor's responsibility for conducting the audit of accounting statements

Our objective is to obtain reasonable assurance that the accounting statements are free from material misstatements, due to fraud or error, and to issue an auditor's report that represents our opinion. Reasonable assurance is a high degree of assurance, but it is not a guarantee that the audit conducted in accordance with ISA always reveals material misstatements, if any. Misstatements may result from fraud or errors and are considered material if they could reasonably be expected to affect, individually or collectively, the users' economic decisions made on the grounds of these accounting statements.

Within the scope of the audit conducted in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. Besides, we perform the following:

- Identify and assess the risks of material misstatement of accounting statements, due to fraud or error; design and perform audit procedures to respond to those risks; obtain audit evidence that is sufficient and appropriate to provide the grounds for our opinion. The risk of failure to detect a material misstatement resulting from fraud is higher than the risk of failure to detect a material misstatement resulting from an error, since fraud may involve collusion, forgery, intentional omissions, misrepresentation, or circumventing the internal control system;
- Obtain insight of the internal control system relevant to the audit in order to develop audit procedures appropriate to the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control system;

Auditor’s report (continued)

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- Assess the appropriateness of the accounting policies applied and the reasonableness of accounting estimates and the corresponding disclosure of information prepared by the management;
- Conclude on the appropriateness of the application by the management of the going concern assumption and, on the grounds of the audit evidence obtained, conclude on the existence of a material uncertainty related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we come to the conclusion that a material uncertainty exists, we must draw attention in our audit report to the appropriate disclosures in the accounting statements or, if such disclosures are inadequate, modify our opinion. Our conclusions are based on the audit evidence obtained prior to the date of our audit report. However, future events or conditions may lead to the Company losing its ability to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the accounting statements, including disclosures, and whether the accounting statements present the underlying transactions and events in a manner ensuring their fair presentation.

We share information with persons responsible for corporate governance by communicating to them, inter alia, the information about the planned scope and timing of the audit as well as major comments on the audit results, including on significant deficiencies in the internal control system, identified by us in the course of the audit.

We also provide persons responsible for corporate governance with a statement that we have complied with all relevant ethical requirements for independence and have informed these persons about all relationships, as well as on other matters that can reasonably be considered to have an influence on the auditor’s independence and, where necessary, about the relevant precautions.

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Among the issues, which we have communicated to the parties responsible for corporate governance, we identify the issues that were the most significant for the audit of the accounting statements for the current period and, therefore, were key audit issues. We describe these issues in our audit report, except in cases where public disclosure of information about these issues is prohibited by law or regulation, or when, in very rare cases, we come to the conclusion that information about an issue should not be presented in our report, as it can be reasonably assumed that the negative consequences of the disclosure of such information will exceed the socially significant benefit from its disclosure.

Maksim Evgenievich Timchenko is the Head of the Assignment, which resulted in the issuance of this auditor report of an independent auditor.

АО „ПВК Аудит"

March 26, 2019

Moscow, the Russian Federation

M.E. Timchenko, Head of the Assignment (Qualification Certificate No. 01-000267),
Joint Stock Company PricewaterhouseCoopers Audit

Audited entity:
Public Joint Stock Company TATNEFT
named after V.D. Shashin

Registered by the Ministry of Finance of the Republic of Tatarstan
under No. 632 on January 21, 1994
An entry in the Unified State Register of Legal Entities was made
on July 18, 2002, state registration number: 1021601623702

75 Lenina Str., Almetyevsk, 423450,
the Republic of Tatarstan, the Russian Federation

Independent auditor
Joint Stock Company
PricewaterhouseCoopers Audit

Registered by the Moscow Registration Chamber
under No. 008.890 on February 28, 1992
An entry in the Unified State Register of Legal Entities was made
on August 22, 2002, state registration number: 1027700148431

Member of Russian Union (Association) of Auditors,
Self-regulated Organization of Auditors

Primary Registration Number of Entry in the Register of Auditors
and Audit Organizations: 12603050547

Financial statements of Tatneft PJSC for 2018

Balance Sheet
RUB ‘000

ASSETS	LINE CODE	AS OF 12/31/2018	AS OF 12/31/2017	AS OF 12/31/2016
I. NON-CURRENT ASSETS				
Intangible assets	1110	1 519 494	882 443	465 285
Research and development results	1120	939 972	792 200	632 054
Intangible development assets	1130	4 265 212	4 320 885	4 288 829
Tangible development assets	1140	2 292 250	2 561 503	2 376 749
Plant, property and equipment	1150	256 510 046	233 442 786	207 448 974
including capital investment in progress	1151	115 195 430	100 782 153	87 916 754
advances issued for the acquisition and construction of fixed assets	1152	8 920 829	4 760 324	4 575 908
Income-bearing investments in tangible assets	1160	4 323 952	4 199 156	4 776 524
Financial investments	1170	92 381 756	92 578 452	253 078 329
Deferred tax assets	1180	-	-	-
Other non-current assets	1190	39 324 481	51 612 371	47 200 643
including assets from liquidated obligations	1191	29 418 486	29 818 978	28 996 993
TOTAL for Section I	**1100**	**401 557 163**	**390 389 796**	**520 267 387**
II. CURRENT ASSETS				
Inventory	1210	65 781 674	48 115 981	37 573 010
including raw materials and supplies	1211	12 085 489	9 873 466	7 319 776
work in progress costs	1212	1 518 853	971 862	421 525
finished products and goods for resale	1213	27 274 632	24 839 505	22 924 361
goods shipped	1214	22 724 492	7 669 809	2 398 102
other inventories and expenses	1215	2 178 208	4 761 339	4 509 246
Value added tax on acquired valuables	1220	3 617 822	3 919 516	3 386 647
Receivables	1230	332 674 500	267 690 805	88 128 999
including nondelinquent accounts receivable (due beyond 12 months after the reporting date)	1231	203 639 972	163 426 232	4 686 487
including buyers and customers	1232	104 673	718 656	436 418
advances paid	1233	98 572	205 258	822 812
other debtors	1234	203 436 727	162 502 318	3 427 257
including nondelinquent accounts receivable (due in the 12 months after the reporting date)	1235	129 034 528	104 264 573	83 442 512
including buyers and customers	1236	77 536 010	61 981 366	64 239 889
advances paid	1237	3 266 296	5 373 018	6 843 389
other debtors	1238	48 232 222	36 910 189	12 359 234
Financial investments (except for cash equivalents)	1240	3 340 306	28 418 509	55 736 376
Cash and cash equivalents	1250	28 850 530	10 866 389	21 949 639
Other current assets	1260	5 097 762	1 735 899	1 259 705
TOTAL for Section II	**1200**	**439 362 594**	**360 747 099**	**208 034 376**
BALANCE (ASSETS)	1600	840 919 757	751 136 895	728 301 763

LIABILITIES	LINE CODE	AS OF 12.31.2018	AS OF 12.31.2017	AS OF 12.31.2016
III. CAPITAL AND RESERVES				
Authorized capital (contributed capital, authorized fund, contributions of partners)	1310	2 326 199	2 326 199	2 326 199
Shares repurchased	1320	-	-	-
Revaluation of non-current assets	1340	13 111 718	11 673 571	11 294 898
Additional capital (without revaluation)	1350	328 409	318 908	320 092
Reserve capital	1360	116 310	116 310	1 328 926
Retained profit (uncovered loss)	1370	638 788 515	591 617 946	609 147 154
TOTAL for Section III	**1300**	**654 671 151**	**606 052 934**	**624 417 269**
IV. LONG-TERM LIABILITIES				
Borrowings	1410	370 000	370 000	370 000
Deferred tax liabilities	1420	11 394 242	10 435 625	10 272 462
Estimated liabilities	1430	34 346 312	38 026 536	30 330 233
Other liabilities	1450	-	-	392
TOTAL for Section IV	**1400**	**46 110 554**	**48 832 161**	**40 973 087**
V. SHORT-TERM LIABILITIES				
Borrowings	1510	16 036 104	32 212 379	4 207 953
Payables	1520	121 654 847	61 779 884	56 573 009
including suppliers and contractors	1521	22 081 257	17 057 659	21 155 447
debt in respect of insurance premiums	1522	594 348	172 200	545 876
taxes and duties payable	1523	32 121 047	25 945 577	19 498 095
advances received	1524	5 095 325	6 957 711	8 403 106
profit due to shareholders (owners)	1525	52 222 838	6 031 506	149 472
other creditors	1526	9 540 032	5 615 231	6 821 013
Deferred revenues	1530	238 436	136 631	55 757
Estimated liabilities	1540	2 208 665	2 122 906	2 074 688
Other liabilities	1550	-	-	-
Total for Section V	**1500**	**140 138 052**	**96 251 800**	**62 911 407**
BALANCE	1700	840 919 757	751 136 895	728 301 763

Profit and Loss Statement for 2018

LINE ITEM	LINE CODE	FOR 12 MONTHS OF 2018	FOR 12 MONTHS OF 2017
Revenue	2110	793 237 174	581 536 880
Cost of sales	2120	(474 524 138)	(369 978 929)
Gross profit (loss)	2100	318 713 036	211 557 951
Selling expenses	2210	(46 274 869)	(43 247 042)
Administrative expenses	2220	(7 607 310)	(6 845 911)
Mineral exploration and evaluation expenses	2230	(40 291)	(111 085)
Profit (loss) on sales	2200	264 790 566	161 353 913
Income from shareholdings	2310	2 931 884	5 406 388
Interest receivable	2320	5 073 049	7 611 763
Interest payable	2330	(3 094 329)	(2 667 738)
Other income	2340	64 911 548	17 001 048
Other expenses	2350	(80 732 987)	(56 902 170)
Profit (loss) before taxation	2300	253 879 731	131 803 204
Current income tax	2410	(55 494 136)	(31 728 773)
including permanent tax liabilities (assets)	2421	(5 676 807)	(5 531 295)
Changes in deferred tax liabilities	2430	(958 617)	(163 163)
Changes in deferred tax assets	2450	-	-
Other	2460	77 890	28 466
Adjusted income tax for the consolidated group of taxpayers	2465	17 946	82 482
Net profit (loss)	2400	197 522 814	100 022 216
Surplus on revaluation of fixed assets not included in net profit (loss) for the period	2510	1 525 515	474 114
Result from other operations not included in the net income (loss) for the period	2520	9 501	(1 184)
Total profit (loss) for the period	2500	199 057 830	100 495 146
For reference only			
Basic earnings (loss) per share	2900	86,35	43.21
Diluted profit (loss) per share	2910	-	-

Material aspects of accounting policies and presentation of information in financial statements

MAIN APPROACHES TO THE PREPARATION OF ANNUAL FINANCIAL STATEMENTS

Accounting records are kept by the Company in accordance with Federal Law No.402-ФЗ dated December 6, 2011 "On Accounting," "Regulations for Accounting and Reporting in the Russian Federation" approved by Order of the Ministry of Finance of the Russian Federation No. 34н dated July 29, 1998, current Russian Accounting Standards (RAS), as well as the accounting policy of the Company. The Company's financial statements for 2018 were prepared in accordance with the above Law, accounting regulations and policy. The annual financial statements for 2018 were drawn up according to the forms developed and approved by the Company in accordance with Order of the Ministry of Finance of the Russian Federation No. 66н dated July 2, 2010, "On Corporate Accounting Forms". The reported financials are presented in thousands of Russian rubles.

ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY

Accounting of assets and liabilities denominated in foreign currency is kept in accordance with RAS 3/2006 "Accounting of Assets and Liabilities Denominated in Foreign Currency" approved by Order of the Finance Ministry of the Russian Federation No. 154н dated November 27, 2006.

The exchange rate difference is reflected in the accounting records and reporting in the reporting period in which payment obligations are due or for which the financial statements are drawn up.

The exchange rate difference arising from the conversion of the organization's assets and liabilities denominated in foreign currency used in business outside the Russian Federation into rubles is credited to the company's capital surplus.

The exchange rate difference on other operations is charged against the financial performance of the organization as other income and expenses. Currency exchange gains and losses are recognized in the Profit and Loss Statement minimized in lines "Other income" or "Other expenses."

When accounting for business transactions in foreign currencies, the official exchange rate of the foreign currency to the ruble valid on the date of transaction was applied. Cash in foreign currency accounts at banks and on hand, financial assets (except for shares) and settlement funds in foreign currencies (except for the funds received, advances paid and prepayment or earnest money) are reflected in the financial statements as amounts calculated on the basis of the official exchange rates valid on the reporting date. The currency exchange rates amounted to RUB 69.4706 to USD 1.00 as of December 31, 2018 (RUB 57.6002 as of December 31, 2017; RUB 60.6569 as of December 31, 2016), RUB 79,4605 to EUR 1.00 (RUB 68.8668 as of December 31, 2017; RUB 63.8111 as of December 31, 2016).

INTANGIBLE ASSETS

Intangible assets include computer software programs; databases; inventions; utility models; trademarks and service marks; licenses for mineral geological exploration and production; licenses for mineral production, mineral exploration, evaluation and prospecting expenses (transferred from the intangible exploration assets after confirmation of the commercial viability of oil production in the field).

Intangible assets are reflected in accounting records at historical value in the reporting period when the documents are received confirming the Company's exclusive rights to the results of intellectual activity or means of individualization irrespective of intangible assets used in production, performance of works or rendering of services, for administrative purposes.

The cost of intangible assets is repaid by the straight-line depreciation method at the rates determined on the basis of their established useful lives.

Depreciation is not charged for intangible assets with an indefinite useful life.

Depreciation is performed through the accumulation of appropriate amounts in a separate account. Depreciation on intangible assets is reflected in the accounting period which they pertain to, and it is charged regardless of the company's operating results in the reporting period.

The useful life of intangible assets is annually verified for the purpose of clarification. In case of substantial change of the period duration (by more than twenty percent) within which the asset is intended to be used, its useful life is defined. The resulting adjustments are reflected in the accounting records and reporting as changes in estimates.

Intangible assets of homogeneous groups at fair market value are not revaluated.

EXPENSES FOR RESEARCH, DEVELOPMENT AND ENGINEERING

Expenses for research, development and engineering are accounted for in the amount of actual expenses incurred during performance of these works.

The expenses for research, development and engineering that have produced positive results and started to be implemented are written off as expenses of ordinary activities starting with the month following the month when the company started the actual application of the mentioned work results in manufacturing (work performance, service rendering) or for administrative needs of the company.

The expenses for research, development and engineering for which a positive result is obtained are written off on a straight-line basis over the useful life of the R&D deliverables (which should not exceed 5 years).

The expenses for research, development and engineering that have not produced positive results are written off as other expenses in the reporting period.

EXPLORATION ASSETS

The Company includes the following exploration assets as part of tangible exploration assets:

- the cost of the acquisition and construction of prospecting, exploration and advance producing wells and other oil field facilities;
- the cost of the acquisition and installation of equipment for prospecting, exploration and advance producing operation wells.

The Company includes the following types of exploration costs as a part of intangible exploration assets:

- the cost of licenses for geological study of subsurface, licenses for geological exploration and production of mineral resources;
- the cost of mineral prospecting, evaluation, and exploration: the cost of geological, geochemical, geophysical works, the cost of acquiring geological information on the subsurface from third parties, including state authorities, and the cost of drilling key, appraisal and structural wells.

Tangible exploration assets are depreciated on a straight-line basis over their useful lives.

Depreciation costs for tangible exploratory assets are included in the cost of mineral prospecting, evaluation and exploration for relevant licensed subsoil areas.

Intangible exploration assets in the form of licenses for geological subsoil study are depreciated on a straight-line basis over the period of the respective licenses. Depreciation costs for the above assets are included in the cost of mineral prospecting, evaluation and exploration for relevant subsoil areas.

Acquisition costs incurred for exploration and mining licenses, as well as the cost of mineral prospecting, evaluation and exploration are not depreciated until the commercial feasibility of crude oil production is confirmed in the relevant licensed subsoil areas of mineral resources and the order on commercial field development is approved.

The commercial feasibility of crude oil production is considered to be confirmed at the moment of approval of the initial field development plan in the licensed subsoil area of mineral resources.

The Company checks exploration assets for impairment annually as of December 31, as well as if they are derecognized upon confirmation of the commercial feasibility of oil production in the relevant licensed subsoil area.

For the purpose of checking exploration assets for impairment, the said assets are categorized by subsoil areas of mineral resources indicated in the licenses.

Impairment loss of exploration assets is reflected in the profit and loss statement in the line code "Other expenses." Furthermore, the Company applies the reversal of impairment loss to exploration assets.

The Company derecognizes exploration assets in relation to a certain licensed subsoil area of mineral resources when confirming commercial feasibility of oil production in the relevant licensed subsoil area or recognizing lack of prospects of mineral resources production in this area.

When confirming the commercial feasibility of oil production in the licensed subsoil area of mineral resources, the Company reclassifies exploration assets as follows::

- tangible exploration assets included in fixed assets at residual value;
- intangible exploration assets included in intangible assets at residual value.

FIXED ASSETS

Land plots, buildings, facilities, machinery, equipment, transport vehicles and other relevant assets of over 12 months service life and cost over RUB 40,000 are reflected in the fixed assets.

The Company, once a year, revalues fixed assets (industrial-purpose buildings; facilities, such as pipelines, machinery and equipment (except for data equipment) based on the current (replacement) value at the end of the reporting period.

Fixed assets accounted before January 1, 2002 are depreciated based on uniform depreciation rates approved by Decree of the USSR Council of Ministers dated October 22, 1990, No. 1072 "On Uniform Depreciation Rates of Fixed Assets of the USSR National Economy" and those accounted after January 1, 2002 - at the rates calculated on the basis of useful life determined according to the classification of fixed assets included in the depreciation groups, approved by the Decree of the Government of the Russian Federation No. 1 dated January 1, 2002, except for fixed assets acquired for lease, as well as those included in the engineering complex for the production of electric energy by low-grade steam turbines and aircraft, the useful life of which is determined on the basis of the lease period and the planned period of their operation according to the reports of special commission.

TYPES OF FIXED ASSETS	USEFUL LIFE OF ASSETS (NUMBER OF YEARS)* BEFORE JANUARY 1, 2002	AFTER JANUARY 1, 2002
Buildings	25-50	8-31
Facilities, including:	10-25	2,5-31
Wells	10-15	6-14
Machinery and equipment	5-15	1-26

Depreciation is calculated by the straight-line method.

Depreciation is not charged on land plots and land use facilities.

The historical value of fixed assets at which they were included in the accounting records can be changed in the cases of further construction, further equipping, renovation, modernization, partial retirement and revaluation of the fixed assets.

Renovation costs of fixed assets are included at actual costs and are reflected in the reporting period in which they were incurred.

The line "Capital investment in progress" includes the costs of construction and installation works, acquisition of buildings, facilities, equipment (including equipment requiring assembly) and other tangible durable assets, materials for the construction of fixed assets, and other capital works and expenses. This line reflects the cost of capital facilities before they are commissioned or decided to be sold, after which these assets are transferred into fixed assets, income-yielding investments in tangible assets or other non-current assets.

Fixed assets intended for lease are reflected in the line "Income-bearing investments in tangible assets".

OTHER NON-CURRENT ASSETS

Other non-current assets include assets from liquidated obligations, the costs of implementing the exploration and production sharing agreement, construction in progress, which the management has decided to sell.

FINANCIAL INVESTMENTS

Financial investments are accepted for accounting at historical cost.

Financial investments defining the current market value are reflected in the financial statements as of the end of the reporting year at current market value by adjusting their evaluation on the previous reporting date.

Financial investments for which the current market value is not determined are reflected in the financial statements as of the reporting date at cost less the amount of the formed provision for their impairment. The investment depreciation provision is created based on the amount of the difference between the investment's book value and their estimated value if the results of the impairment test confirm a sustained significant decrease in the value of financial investments.

* The useful lives of fixed assets acquired for leasing, as well as those included in the engineering complex for the production of electric energy by low-grade steam turbines and aircraft, may differ from the periods indicated in the table above.

Financial investments are reflected in current assets if the expected duration of their possession is less than 12 months after the reporting date. Other financial investments are included in non-current assets.

The accounting unit of financial investments may be a contribution to the charter capital, loan agreement, bank deposit agreement, securities issue package, etc., depending on the nature of the financial investments, the procedure for their acquisition and use.

Upon disposal of financial investments for which the current market value cannot be determined, their value is formed on the basis of the assessment determined by:

- the historical value of the first-time purchased financial assets (FIFO method) upon disposal of shares or bonds;
- at historical value of each accounting unit of financial investments upon disposal of promissory notes.

Upon disposal of financial investments for which the current market value is determined, their value is determined by the company on the basis of the last assessment.

Income and losses from the disposal of financial investments are reflected in the profit and loss statement as part of other income and expenses.

INVENTORIES

The "Raw materials and supplies" line of the balance sheet reflects raw materials, basic and auxiliary materials, purchased semifinished products and components, fuel, packaging, spare parts, construction and other materials.

Inventories also include assets that meet the conditions necessary for recognizing them as fixed assets valued at no more than RUB 40,000 per unit.

Inventories are recognized in the amount of the actual costs of their acquisition, except for value added tax and other recoverable taxes (except as provided for by the legislation of the Russian Federation). Inventories are disposed of at average cost.

Inventories that are obsolete, wholly or partially have lost their original quality, or whose current market value has decreased, are reflected in the balance sheet less the inventory reserve.

Raw materials and materials transferred to processing on an as-needed basis continue to be accounted for in raw materials and materials of the Company separately. Monthly raw materials and materials that have passed through all processing stages are recognized as part of finished products..

FINISHED PRODUCTS, GOODS AND SALES EXPENSES

Finished products are reflected in the balance sheet at the actual decreased production cost excluding management expenses.

When shipping oil, petroleum products and gas products, the valuation is carried out based on the average cost method for each group of products.

Sales expenses are written off under the Company's financial and operational activities without differentiating between sold and unsold products.

GOODS SHIPPED

The balance sheet item "Goods shipped" reflects shipped products for which the title was not transferred to buyers.

This line also reflects real estate transferred to the buyer under a handover certificate before state registration of the title transfer.

OTHER INVENTORIES AND EXPENSES

The line "Other inventories and expenses" includes expenses associated with the extraction of super viscous oil produced before the start of production. These expenses are written off evenly over the period of oil production at the relevant development site, but not for more than 2 years, starting from the first day of the month following the month production starts.

RECEIVABLES

Trade receivable (reflected as part of accounts receivable) is determined on the basis of the prices established by contracts concluded between the Company and buyers (customers) taking into account all discounts (surcharges). Uncollectible receivables are written off the balance sheet if they are proven to be so.

Accounts receivable that are not paid when due or which will most likely not be paid within the time frame stipulated in contracts and not secured by respective guarantees are shown after deduction of accrued provisions for doubtful debts. The provision is set up for each doubtful debt (depending on the financial condition (solvency) of the debtor and an estimated probability of debt repayment in whole or in part) on the basis of the receivables inventory, made for the last day of the reporting quarter.

Income and expenses incurred in the formation and recovery of the doubtful debts provision within one financial year are reflected in the profit and loss statement minimized in "Other income" or "Other expenses."

Advance payments issued and received are presented in the balance sheet less the value added tax (from the amount of advance payments) to be deducted (paid) in accordance with tax legislation.

CASH AND CASH EQUIVALENTS

In accordance with RAS 23/2011 "Statement of Cash Flows" approved by Order of the Ministry of Finance of Russia No. 11н dated February 2, 2011, cash equivalents include highly liquid investments that can easily be converted into the known in advance amount of cash and are subject to an insignificant risk of value change.

The Company qualifies bank deposits placed for maximum period of 3 months as cash equivalents.

In the Statement of Cash Flows:

- cash balances and cash equivalent balances in foreign currency at the beginning and at the end of the reporting period are expressed in rubles for the amount determined in accordance with RAS 3/2006 "Accounting for Assets and Liabilities Whose Value is Expressed in Foreign Currency" approved by Order of the Ministry of Finance of Russia No. 154н dated November 27, 2006. Differences arising due to the conversion of the company's cash flows and cash equivalents in foreign currency exchange rates on different dates are reflected in the statement of cash flows as the effects of changes in foreign exchange rates against the ruble.
- indirect taxes (VAT and excise duties) as part of the proceeds from buyers and customers, payments to suppliers and contractors and payments to the budget system of the Russian Federation or reimbursement out of it are reflected as balanced result being part of other income (payments) for the current activity in the line "Other income" ("Other payments");
- proceeds from the sale of products and goods contain customs duties;
- interest-free loans granted to subsidiaries and affiliates are mainly related to the capital investment financing, and therefore, based on the principle of rationality, the movement of all loans issued to subsidiaries and affiliates is reflected in cash flows from investment activities.

Cash flows are reflected in the statement of cash flows on a net basis in the following cases:

- cash receipts from certain entities stipulate relevant payments to other entities (cash flows of the commission buyer or agent in connection with the performance of commission or agency services (except for payment for services themselves); income from the counterparty against the reimbursement of utility payments and making these payments in leasing and other similar relationships, etc.
- cash flows are characterized by quick return, large amounts and short payback periods (purchase and resale of financial investments, short-term investments (up to three months) using the proceeds from borrowed funds, cash flows on loans received by the Company from subsidiaries - participants of the Treasury system, etc.)
- cash flows on short-term deposits (more than three months but less than one year) that are classified as financial investments. Cash flows on deposits are disclosed in Table 3 "Financial Assets" in the Explanation to the balance sheet and profit and loss statement.

AUTHORIZED CAPITAL, SURPLUS CAPITAL AND RESERVE CAPITAL

Authorized capital is reflected in the amount of the nominal value of ordinary and preferred shares.

The surplus capital of the Company includes exchange differences arising from the conversion of the company's assets and liabilities expressed in foreign currency used in business outside the Russian Federation into rubles. In addition, the amount of the revaluation less the subsequent markdown of the fixed assets as a result of the revaluation attributed to the surplus capital is reflected in the line "Revaluation of non-current assets". Revaluation surplus in case of the fixed asset item disposal is transferred from the surplus capital to the retained earnings of the Company.

In accordance with the legislation, the Company established a reserve fund in the amount of 5% of the authorized capital formed out of the Company's net profits. The reserve fund is intended to cover losses of the Company, for bonds redemption, and repurchase of the Company's shares in case other funds are unavailable.

In accordance with the constituent documents, the Company creates an employee share ownership fund, which is formed out of the Company's net profits. Contributions to this fund are made in accordance with the method approved by the "Tatneft Regulations on Bonus Certificates." The fund was not established in 2017, 2018.

ESTIMATED LIABILITIES

The Company recognizes its estimated liability for remuneration payment based on the results of the year. The amount of monthly payments under the estimated liability is determined based on the monthly interest deductions and the actual salaries expense. The interest deductions under the estimated liability are calculated by the ratio of the annual planned expenditure for year-end remuneration payment to the planned amount of salaries expenses.

The Company also acknowledges in its accounting the estimated liability for unused vacations by employees.

The estimated liability for unused vacations is determined based on the total number of days of the unused vacation for each employee, of the average daily earnings, and insurance premiums accrued on the specified amount.

The actual amount of the vacation allowance (including the compensation amount for unused vacation) accrued to the employee in the accounting is prescribed to the unused vacation payment due to the recognized amount of the estimated liability for unused vacation.

An inventory of the estimated liability for unused vacation payment is carried out as of the last day of each quarter. The results of this inventory are reflected by the estimated liability adjustments.

In accordance with the requirements of the regulations (Federal Law No. 2395-1 "On Subsoil," No. 7-ФЗ "On Environmental Protection", etc.), the terms of license agreements for the right to use the subsoil, the Company recognizes in the accounting records and financial statements the estimated provisions for decommissioning liabilities of fixed assets, as well as commitments for remediation of lands in the fields after completion of the oil and gas production.

Estimated liabilities are formed for all immovable oil and gas assets. Estimated decommissioning and restoration liabilities are calculated by groups of the fields. The estimated liability is recorded at the present (discounted) cost.

To calculate the estimated liability as of December 31, 2018, the Company used the following key assumptions: discount rate - 8.75% (as of December 31, 2017 - 7.71%), inflation rate - 4.21% (as of December 31, 2017 - 4.0%), discount period - from 15 to 31 years depending on the field (as of December 31, 2017 - from 16 to 32 years).

Accrued estimated liabilities at initial recognition, as well as the newly introduced fixed assets are included in the "Other non-current assets."

Depreciation of assets on decommissioning liabilities is accrued on a monthly basis in proportion to the oil production volume. The amount of monthly depreciation is determined for each group of the fields and the Oil & Gas Production Division based on the amount of oil produced during the current month and the amount of assets on the decommissioning liabilities attributable to 1 ton of oil reserves on deposits of the group at the end of the previous reporting period.

The accrual of discount due to the increased present value as we approach the period of performance estimated liability is recorded in the profit and loss statement in the "Interest payable".

Adjustment of estimated decommissioning and restoration liabilities due to the review of core indicators of calculation (forecast inflation rate, discounted rate, discounted period) is recorded in the profit and loss statement in "Other expenses" and "Other income".

LOANS AND BORROWINGS

In accordance with RAS 15/2008 "Accounting of Expenses on Loans and Borrowings" approved by Order of the Ministry of Finance of Russia No. 107нн dated October 6, 2008, the principal amount of the loan (credit) received from the lender is accounted for in accordance with the terms of the loan agreement (credit agreement) in the amount of actually received monetary assets or in the cost estimate of other items stipulated by the contract.

Loan and borrowing indebtedness, as well as accrued interest are reflected in the balance sheet line of "Borrowings."

Loan and borrowing indebtedness, as well as accrued interest is subdivided in the accounting into short-term indebtedness (the repayment period of which does not exceed 12 months under the terms of contract) and long-term indebtedness (the repayment period of which is over 12 months under the terms of contract).

The long-term indebtedness is transferred to short-term indebtedness at the moment when there are 365 days left before repayment of the principal amount.

Interest on received loans and borrowings is recognized as other expenses of that period in which they were made, except for the part to be included in the value of the investment asset.

Expenses on received loans and borrowings directly attributable to the acquisition and/or construction of the investment asset are included in the cost of this asset and are repaid through depreciation.

Inclusion of expenses on received loans and borrowings in the original value of the investment asset is terminated on the first day of the month following the month of termination of the acquisition, construction and (or) manufacturing of the investment asset, or the start of use of the investment asset.

REVENUE RECOGNITION

Revenue from sales of goods, products (completing work, rendering services) is recognized during the product title transfer to the customers (completing work, rendering service). Revenues are reflected in the accounting statements less value added tax, excise duties and customs duties.

Other income includes income which is not included in revenue: revenue from the sale of fixed assets, assets under construction and other assets, foreign currency, income from changes in estimates of liquidated fixed assets and restoration of natural resources, exchange differences, and other similar income.

EXPENSES

Administrative expenses include the Executive office expenses. At the end of the month the indicated expenses are fully written off to the debit of account 90 "Sales", i.e. are fully recognized in the reporting period without distribution to the balances of work in progress and finished products.

Other expenses include expenses which are not related to the manufacture and sales of products, completion of work, rendering of services, purchase and sale of goods.

ACCOUNTING FOR PROFITS TAX

The Company has been a responsible member of the consolidated group of taxpayers (hereinafter referred to as the "CGT") from January 1, 2012. As of the date of the agreement, the CGT included four members. Since 2016, the list of participants has been expanded to five members.

The Company independently forms the accounting information on income tax in accordance with RAS 18/02 "Profit Tax Accounting" approved by Order of the Ministry of Finance of Russia dated November 19, 2002 No. 114н. In this regard, the temporary and permanent differences are determined by the Company based on its revenues and expenses included in the tax base in accordance with the norms of the Tax Code of the Russian Federation. The amount of the current income tax is determined on the basis of the Company's accounting information and reflected in the profit and loss statement in line 2410 "Current income tax." The difference between the amount of the current income tax calculated by the Company for inclusion in the consolidated tax base of the CGT and the amount of funds due and payable by the Company based on the terms of the contract on CGT establishment in the profit and loss statement, is reflected in line 2465 "Adjusted tax on profit for the consolidated group of taxpayers" and included in the determination of net income (loss) of the Company without participating in generating profit (loss) before taxation.

The outstanding amount of CGT income tax on the CGT as a whole, to be paid by the Company as a responsible CTG member to the budget, is reflected in the Company's balance sheet in line 1523 "Taxes and fees payable." The overpaid amounts of CGT income tax to the budget is reflected in the balance sheet in line 1238 "Other debtors."

The outstanding amount upon settlements with the CGT members on CGT income tax (interim payment) is reflected in the balance sheet separately in the items of the current assets in line 1238 "Other debtors" and short-term liabilities in line 1526 "Other creditors" of the balance sheet, respectively.

The Company as a responsible CGT member reflects the income tax assessment and payments to the members in the framework of the contract on CGT establishment with account 78 "Settlements with CGT members."

When preparing financial statements, the balanced (net) amounts of deferred tax asset and deferred tax liability are reflected in the balance sheet.

CORRECTION OF ERRORS IN ACCOUNTING AND REPORTING

An error identified in accounting and reporting is recognized to be significant if the ratio of the error to the numerical indicator of the relevant group of balance sheet items of the Company, or item of the profit and loss statement of the Company for the reporting period is a minimum of five percent. Otherwise, the error is insignificant.

Annex 3

Report on PJSC Tatneft's Non-arm's Length Transactions in 2018

The present report lists transactions carried out by PJSC Tatneft n.a. V.D.Shashin (hereinafter the Company, PJSC Tatneft) in 2018, which are recognised by the Federal Law on Joint-Stock Companies No 208-FZ of 26/12/1995 as non-arm's lengths transactions.

Persons listed herein are recognised as interested in the transactions as of the transaction date.

PJSC Tatneft's non-arm's length transactions in 2018

COUNTER PARTY	INTERESTED PARTIES	TRANSACTION APPROVAL OR RATIFICATION DATE	GOVERNANCE BODY OF THE COMPANY THAT MADE THE DECISION REGARDING THE TRANSACTION	ESSENTIAL TERMS OF THE TRANSACTION
TANECO Joint Stock Company	PJSC Tatneft n.a. V.D. Shashin as a controller of AO TANECO	20/07/2018	Board of Directors of PJSC Tatneft n.a. V.D. Shashin	**Subject matter:** purchase and sale of immovable assets **Immovable property:** Kerosene hydrotreater. Title 007, Section 1500. **Transaction value:** RUB 6,365,756,825.99 **Transaction date:** 27/06/2018
TANECO Joint Stock Company	PJSC Tatneft n.a. V.D. Shashin as a controller of AO TANECO	20/07/2018	Board of Directors of PJSC Tatneft n.a. V.D. Shashin	**Subject matter:** purchase and sale of immovable assets. **Immovable asset:** Diesel hydrotreater. Title 007, Section 1600. **Transaction value:** RUB 6,883,141,862. 35 **Transaction date:** 27/06/2018
TANECO Joint Stock Company	PJSC Tatneft n.a. V.D. Shashin as a controller of AO TANECO	20/07/2018	Board of Directors of PJSC Tatneft n.a. V.D. Shashin	**Subject matter:** purchase and sale of immovable assets **Immovable asset:** Flare unit. Title 077/1, Section 0740. **Transaction value:** RUB 1,851,678,035. 63 **Transaction date:** 01/09/2018
TANECO Joint Stock Company	PJSC Tatneft n.a. V.D. Shashin as a controller of AO TANECO	20/07/2018	Board of Directors of PJSC Tatneft n.a. V.D. Shashin	**Subject matter:** purchase and sale of immovable assets. **Immovable asset:** Fire extinguishing pump station with fire water storage tanks. Title 189, Section 7740 **Transaction value:** RUB 567,759,797. 04 **Transaction date:** 21/11/2018
TANECO Joint Stock Company	PJSC Tatneft n.a. V.D. Shashin as a controller of AO TANECO	20/07/2018	Board of Directors of PJSC Tatneft n.a. V.D. Shashin	**Subject matter:** purchase and sale of immovable assets. **Immovable asset:** Analytical laboratory of petrochemical plant (lab building 2), Title 097, Section 9250. **Transaction value:** RUB 862,286,874. 63 **Transaction date:** 21/11/2018
TANECO Joint Stock Company	PJSC Tatneft n.a. V.D. Shashin as a controller of AO TANECO	20/07/2018	Board of Directors of PJSC Tatneft n.a. V.D. Shashin	**Subject matter:** purchase and sale of immovable assets **Immovable asset:** Intersectional connections and outdoor plumbing system. Title 011, Section 2000. **Transaction value:** RUB 1,316,310,209. 33 **Transaction date:** 21/11/2018
TANECO Joint Stock Company	PJSC Tatneft n.a. V.D. Shashin as a controller of AO TANECO	20/07/2018	Board of Directors of PJSC Tatneft n.a. V.D. Shashin	**Subject matter:** purchase and sale of immovable assets **Immovable asset:** Aromatics reforming unit. Title 011, Section 2100. **Transaction value:** RUB 5,464,582,367. 94 **Transaction date:** 21/11/2018
TANECO Joint Stock Company	PJSC Tatneft n.a. V.D. Shashin as a controller of AO TANECO	20/07/2018	Board of Directors of PJSC Tatneft n.a. V.D. Shashin	**Subject matter:** purchase and sale of immovable assets. **Immovable asset:** Catalyst recovery block. Title 011, Section 2150. **Transaction value:** RUB 1,604,597,375. 70 **Transaction date:** 21/11/2018

COUNTER PARTY	INTERESTED PARTIES	TRANSACTION APPROVAL OR RATIFICATION DATE	GOVERNANCE BODY OF THE COMPANY THAT MADE THE DECISION REGARDING THE TRANSACTION	ESSENTIAL TERMS OF THE TRANSACTION
TANECO Joint Stock Company	PJSC Tatneft n.a. V.D. Shashin as a controller of AO TANECO	20/07/2018	Board of Directors of PJSC Tatneft n.a. V.D. Shashin	**Subject matter:** purchase and sale of immovable assets **Immovable asset:** Heavy aromatics splitter. Title 011, Section 2200. **Transaction value:** RUB 3,275,478,309. 93 **Transaction date:** 21/11/2018
TANECO Joint Stock Company	PJSC Tatneft n.a. V.D. Shashin as a controller of AO TANECO	20/07/2018	Board of Directors of PJSC Tatneft n.a. V.D. Shashin	**Subject matter:** purchase and sale of immovable assets **Immovable asset:** Paraxylol and fuel blending pump station. Title 052/1, Section 8751 **Transaction value:** RUB 678,136,183. 89 **Transaction date:** 21/11/2018
TANECO Joint Stock Company	PJSC Tatneft n.a. V.D. Shashin as a controller of AO TANECO	13.02.2019	Board of Directors of PJSC Tatneft n.a. V.D. Shashin	**Subject matter:** purchase and sale of immovable assets **Immovable asset:** Distribution transformer substation. Title 124/39. **Transaction value:** RUB 916,037,270. 32 **Transaction date:** 21/11/2018
TANECO Joint Stock Company	PJSC Tatneft n.a. V.D. Shashin as a controller of AO TANECO	13.02.2019	Board of Directors of PJSC Tatneft n.a. V.D. Shashin	**Subject matter:** purchase and sale of immovable assets **Immovable asset:** Feedstock Depot of the Aromatics Production. Title 028/1. **Transaction value:** RUB 799,049,864 04 **Transaction date:** 21/11/2018

Explanatory Information:

The present report is to be published by the Company pursuant to the Articles 52 and 81 of the Federal Law on Joint-Stock Companies 208-FZ of 26/12/1995.

The report is also to be included in the materials to be distributed among the persons entitled to participate the Company's annual general meeting of shareholders for information purposes.

The report on PJSC Tatneft's non-arm's length transactions carried out in 2018 is to be signed by the General Director of the Company and is subject to approval by the Board of Directors during preparation for the AGM. Reliability and accuracy of the information in the report is to be confirmed by the Company's Revision Committee.

Major transactions in the reporting year

In 2018, the Company did not carry out any transactions that the Federal Law on Joint-Stock Companies No 208-FZ of 26/12/1995 would recognise as major transactions.

Annex 4

Report on PJSC Tatneft compliance with the principles and recommendations of the Corporate Governance Code

The present report is compliant with the Bank of Russia's Regulation on Disclosure by Securities Issuers No 454-P of 30/12/2014, Chapter 70 and describes how the Company observes the principles and recommendations of the Corporate Governance Code of the Bank of Russia (hereinafter the Code) for joint-stock companies with listed securities.

Full text of the Corporate Governance Code is available at the website of the Bank of Russia at http://www.cbr.ru/finmarkets/files/common/letters/2014/inf_apr_1014.pdf.

The PJSC Tatneft compliance evaluation was guided by the recommendations in the Bank of Russia's letter requiring that joint-stock companies are to disclose in the annual report their reports on compliance with the Corporate Governance Code's principles and recommendations (Letter No IN-06-52/8 of 17 February 2016).

This Corporate Governance Compliance Report was considered by the PJSC TATNEFT Board of Directors at the meeting in May 22, 2019. (Minutes No. 13 dated May 22, 2019) as part of 2018 Annual report.

The Board of Directors acknowledges that the information and data disclosed herein contain complete and accurate information with regard of PJSC TATNEFT compliance with the guidance of the Corporate Governance Code in 2018.

The Company's corporate governance model and practice is set out in the Corporate Governance Section of this Report.

№	Corporate Governance Principle	Compliance Evaluation Criteria	Compliance Status	Comments on Noncompliance
1.1.	The Company shall ensure equal and fair treatment of all shareholders as they exercise their right to participate in the governance of the Company.			
1.1.1.	The company should create most favourable conditions for its shareholders enabling them to participate in the general meeting and develop informed opinions on issues on its agenda, as well as provide them with the opportunity to coordinate their actions and express their opinions on issues being discussed.	1. An internal documents of the Company that regulates holding of the general meeting and approved by the general meeting of shareholders is publicly available. 2. The Company provides communication channels such as the hotline, email or a forum in the internet that allow shareholders to share their opinions or ask questions regarding the meeting agenda during preparation for the general meeting. The Company undertook such actions before every general meeting that took place in the reporting period.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
1.1.2.	General meeting notification proceedings and provision of materials should enable the shareholders to get properly prepared for participation in the meeting.	1. The general meeting notification and agenda are posted online no later than 30 days prior to the meeting date. 2. The notification indicates the venue of the meeting and documents to be presented to attend the meeting. 3. Shareholders have been provided with access to the information about who proposed agenda items and who nominated candidates for the Board of Directors and the Revision Committee of the Company.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
1.1.3.	During the preparation for and holding of the general meeting, the shareholders should be able to freely and timely receive information about the meeting and its materials, to pose questions to members of the company's executive bodies and board of directors, and to communicate with each other.	1. In the reporting period, shareholders could ask questions to the members of the Board of Directors and the Executive Board of the Company before and during the annual general meeting. 2. The opinion of the Board of Directors (including dissenting opinions included in the meeting minutes) on each agenda item of general meetings, held in the reporting period, was included in the package of materials for the general meeting of shareholders. 3. The Company provided to eligible shareholders access to the list of persons entitled to participate in the general meeting, from the date the Company had it, in all general meetings held in the reporting period.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
1.1.4.	There should be no unjustified difficulties preventing shareholders from exercising their right to demand that a general meeting be convened, nominate candidates to the company's governing bodies, and to place proposals on its agenda.	1. In the reporting period, shareholders had the opportunity to propose items for the annual general meeting agenda within at least 60 days after the end of the calendar year. 2. In the reporting period, the company has not refused to accept shareholders' agenda proposals or nominations for the company's bodies on grounds of typos or other immaterial issues.	☐ Full compliance ☑ Partial compliance ☐ Noncompliance	Explanation for item 1: The Company's Articles of Association provide for 55 calendar days after the end of financial year when shareholders can propose topics for the AGM agenda. Pursuant to the recommendation of the Corporate Governance Code, the Company has proposed to the General Meeting of Shareholders 2019 to approve amendments to the Articles whereby the period shall be extended to 60 days. Item 2 is fully complied with.
1.1.5.	Each shareholder should be able to freely exercise his or her right to vote in a straightforward and most convenient way.	1. The internal document (internal policy) of the Company contains provisions that each participant of the general meeting can, before the end of the meeting, demand a copy of the ballot, that he/she has filled in, authenticated by the ballot-counting committee.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
1.1.6.	Procedures for holding a general meeting set by the company should provide equal opportunity to all persons present at the general meeting to express their opinions and ask questions that might be of interest to them.	1. Sufficient time was provided for presentations on agenda items and as well as the discussion time during general meeting of shareholders held in the form of joint attendance in the reporting period. 2. Candidates for the governance and control bodies of the Company, whose nomination was put to vote, were available for answering shareholders' questions at the meeting. 3. When making decisions regarding preparation and holding of the general meetings of shareholders, the Board of Directors considered the option of using telecommunicational means for enabling shareholders to participate in the general meetings in the reporting period remotely.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	

№	Corporate Governance Principle	Compliance Evaluation Criteria	Compliance Status	Comments on Noncompliance
1.2	**Shareholders are given equal and fair possibility to participate in the Company's profit through receiving dividends.**			
1.2.1.	The company should develop and put in place a transparent and clear mechanism of determining the size of dividends and their payment.	1. The Company has developed a dividend policy that has been approved by the Board of Directors and disclosed. 2. If the dividend policy of the Company uses the Company's performance indicators for determining the size of dividends, then relevant provisions of the dividend policy take into account consolidated indicators of the financial statements.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
1.2.2.	The company should not decide to pay dividends if such decision, while formally compliant with laws, is unjustified from the economic point of view and may lead to misrepresentation of the company's performance.	1. The Company's dividend policy contains clear indications of financial and economic circumstances when the Company shall not pay dividends.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
1.2.3.	The company should not allow deterioration of dividend rights of its existing shareholders.	1. In the reporting period, the Company has not undertaken any actions that would lead to deterioration of dividend rights of its existing shareholders. 2. The track of dividend payments reflects the Company's consistency in terms of ensuring high level of dividend yield while striking a balance between short-term (earnings in the form of dividend payouts) and long-term (investment into the development of the Company) interests of shareholders.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
1.2.4.	The company should strive to rule out any ways for its shareholders to obtain any profit or gain at the company's expense other than dividends and distributions of its liquidation value.	In order to rule out any ways for its shareholders to obtain any profit or gain at the company's expense other than dividends and distributions of its liquidation value, the internal documents of the Company set out controls that ensure timely identification and approval procedure for transactions with persons affiliated (associated) with substantial shareholders (persons who have the right to exercise their voting shares rights), when the law formally does not recognise such transactions as interested party transactions.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
1.3.	**The system and practices of corporate governance should ensure equal terms and conditions for all shareholders owning shares of the same class (category) in a company, including minority and foreign shareholders as well as their equal treatment by the company.**			
1.3.1.	The company should create conditions which would enable its governing bodies and controlling persons to treat each shareholder fairly, in particular, which would rule out the possibility of any abuse of minority shareholders by major shareholders.	1. In the reporting period, the procedures for managing potential conflict of interest of substantial shareholders have been effective, and the conflicts among shareholders, if they took place, were given sufficient attention by the Board of Directors.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
1.3.2.	The company should not undertake any actions that will or might result in artificial reallocation of corporate control therein.	1. There either were no quasi-treasury shares, or they did not participate in voting in the reporting period.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	The Company prevents all actions that result or may result in artificial reallocation of corporate control. The structure of the shareholder capital is such that 61% of voting shares are in free circulation of minority shareholders. Total quasi-treasury stock of the Company makes up minimal 3.19% of voting shares, and voting under this package cannot substantially alter voting results. Votes are equally distributed among all candidates to the governance and control bodies so that none has an advantage. The voluntary nature of such approach is equivalent of voluntary renunciation of voting under quasi-treasury stock in principle. Based on the above, the Company believes that in essence, it fully complies with the requirement not to undertake any actions that result or may result in artificial reallocation of control. The Company regularly considers various ways of using the financial instrument of quasi-treasury shares, but to date it has not finalised its long-term policy in respect of this instrument.
1.4.	**The shareholders should be provided with reliable and efficient means of recording their rights in shares as well as with the possibility to freely dispose of such shares in a non-onerous manner.**			
1.4.1.	Shareholders should be provided with reliable and efficient means of recording their rights in shares as well as with the possibility to freely dispose of such shares in a non-onerous manner.	1. The quality and reliability of the Company's registrar's performance on managing the register of shareholders meet the needs of the Company and its shareholders.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	

№	Corporate Governance Principle	Compliance Evaluation Criteria	Compliance Status	Comments on Noncompliance
2.1	**The board of directors shall be in charge of strategic management of the company, determine major principles and philosophy of a risk management and internal control system within the company, monitor the activity of the company's executive bodies, and performs other key functions.**			
2.1.1.	The board of directors should be responsible for decisions to appoint and dismiss (members) of executive bodies, including due to their failure to properly perform their duties. The board of directors should also procure that the company's executive bodies act in accordance with an approved development strategy and main business goals of the company.	1. The Articles of Association authorise the Board of Directors to appoint and dismiss members of the executive bodies and to determine terms of contracts with them. 2. The Board of Directors has considered the progress report of the individual executive body and members of the collegial executive body on the Company's strategy.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.1.2.	The board of directors should establish key long-term targets of the company's activity, evaluate and approve its key performance indicators and principal business goals, as well as evaluate and approve its strategy and business plans in respect of its core activities.	1. In the reporting period, at its meetings, the Board of Directors considered matters related to the progress and revision of the strategy, approval of financial and business plan (budget) of the Company, as well as considered criteria and indicators (interim indicators included) of implementation of the strategy and business plans.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.1.3.	The board of directors should determine principles of and approaches to creation of the risk management and internal control system in the company.	1. The Board of Directors determines the principles and approaches to risk management and internal controls in the Company. 2. The Board of Directors has conducted an evaluation of the risk management and internal controls system of the Company in the reporting period.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.1.4.	The board of directors should determine the company's policy on remuneration due to and/or reimbursement of costs incurred by its board members, members of its executive bodies and other key managers.	1. The Company has developed and put in place a policy (policies), approved by the Board of Directors, on remuneration and reimbursement of costs (compensation) due to the members of the Board of Directors, executive management and other key company managers. 2. In the reporting period, the Board of Directors has considered matters related to the concerned policy (policies).	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.1.5.	The board of directors should play a key role in prevention, detection and resolution of internal conflicts between the company's bodies, shareholders and employees.	1. The Board of Directors plays a key role in prevention, detection and resolution of internal conflicts. 2. The Company has developed a system for identifying transactions associated with conflicts of interest and a set of measures for resolving such conflicts.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.1.6.	The board of directors should play a key role in procuring that the company is transparent, discloses information in full and in due time, and provides its shareholders with unhindered access to its documents.	1. The Board of Directors has approved a regulation on information policy. 2. The Company has identified persons who are responsible for implementing the information policy.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.1.7.	The board of directors should monitor the company's corporate governance practices and play a key role in its mandatory corporate actions.	1. In the reporting period, the Board of Directors has considered an issue related to corporate governance practices in the Company.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.2.	**The board of directors should be accountable to the company's shareholders.**			
2.2.1.	Information about the board of directors' work should be disclosed and provided to the shareholders.	1. The annual report of the Company for the reporting period includes information about directors' attendance of the meetings of the Board of Directors and committees. 2. The annual report contains information about key performance evaluation results of the Board of Directors held in the reporting period.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.2.2.	The chair of the board of directors must be available to communicate with the company's shareholders.	1. The Company has a transparent procedure whereby shareholders can send the Chair of the Board of Directors their questions and opinions on them.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	

№	Corporate Governance Principle	Compliance Evaluation Criteria	Compliance Status	Comments on Noncompliance
2.3.	**The board of directors should be an effective and professional governing body of the company capable of fair and independent judgements and making resolutions in the best interests of the company and its shareholders.**			
2.3.1.	Only persons with impeccable business and personal reputation should be elected to the board of directors; such persons should also have knowledge, skills, and experience necessary to make decisions that fall within the jurisdiction of the board of directors and to perform its functions efficiently.	1. The Board of Directors evaluation procedure adopted by the Company includes, inter alia, assessment of the Board members' professional qualifications. 2. In the reporting period, the Board of Directors (or its nominations committee) has assessed the candidates for the Board of Directors in order to verify that they possess the necessary experience, knowledge, business reputation, lack of conflict of interest, etc.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.3.2.	Members of the board of directors should be elected through a transparent procedure enabling shareholders to obtain information about respective candidates sufficient for them to form an opinion of the candidates' personal and professional qualities.	1. In all general meetings of shareholders held in the reporting period, where the meeting agenda included issues of the election of the Board of Directors, the Company provided shareholders with biographical details of all candidates for the Board of Directors, results of evaluation of the candidates performed by the Board of Directors (or its nomination committee), as well as the information on whether candidates meet independence criteria as per recommendations 102 - 107 of the Code, and the written consent of the candidates to be elected for the Board of Directors.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.3.3.	The composition of board of directors should be balanced, in particular, in terms of qualifications, expertise, and business skills of its members. The board of directors should enjoy the confidence of the shareholders.	1. In the course of evaluation of the Board of Directors carried out in the reporting period, the Board analysed its own needs in terms of professional qualifications, experience and business skills.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.3.4.	The membership of the board of directors of the company must enable the board to organize its activities in a most efficient way, in particular, to create committees of the board of directors, as well as to enable substantial minority shareholders of the company to elect a candidate to the board of directors for whom they would vote.	1. In the course of evaluation of the Board of Directors carried out in the reporting period, the Board has considered an issue of alignment of its membership size to the needs of the Company and interests of shareholders.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.4.	**The board of directors should include a sufficient number of independent directors.**			
2.4.1.	An independent director should mean any person who has professional skills and expertise and is capable of independent and fair judgement, independent of the influence of the company's executive bodies and any groups of its shareholders or other stakeholders. It should be noted that, under normal circumstances, a candidate (or an elected board member) may not be recognised to be independent, if he/she is associated with the company, any of its substantial shareholders, material trading partners or competitors, or the government.	1. In the reporting period, all independent members of the Board of Directors met all independence criteria indicated in the recommendations 102 - 107 of the Code, or were recognised as independent by the resolution of the Board of Directors.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.4.2.	It is recommended to evaluate whether candidates nominated to the board of directors meet independence criteria as well as to review, on a regular basis, whether or not independent board members meet the independence criteria. When carrying out such evaluation, substance should take precedence over form.	1. In the reporting period, the Board of Directors (or the Board's nominations committee) formed an opinion about independence of each candidate for the Board and presented a relevant statement to the shareholders. 2. In the reporting period, the Board of Directors (or the Board's nominations committee) has considered, at least once, independence of current members of the Board of Directors whom the Company presents in its annual report as independent directors. 3. The Company has developed procedures that determine what a member of the Board of Directors shall do in the event he/she ceases being independent, including promptly communicating the loss of independence to the Board of Directors.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.4.3.	At least a third of the elected members of the Board consists of Independent Directors.	1. Independent Directors make up a third of the elected members of the Board of Directors.	☐ Full compliance ☑ Partial compliance ☐ Noncompliance	The membership of the Board of Directors has been composed to balance and align the interests of minority and majority shareholders, as well as the Company itself needed for highly professional managers to participate in the Board. The Board of Directors has three independent directors and in the future, the Company intends to increase the number of independent directors to a third of the Board membership.
2.4.4.	Independent directors should play a key role in prevention of internal conflicts in the company and performance by the latter of mandatory corporate actions.	1. Independent directors (with no conflict of interest) preliminary assess mandatory corporate action associated with possible conflict of interest, and the assessment results are presented to the board of directors.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.5.	**The chair of the board of directors facilitates the most effective functioning of the board of directors.**			
2.5.1.	Either the board of directors is chaired by an independent director, or one of the independent directors is appointed as a senior independent director who coordinates work of the independent directors and liaises with the chair of the board of directors.	1. The Board of Directors is chaired by an independent director, or one of the independent directors is appointed as a senior independent director.[39] 2. The roles, rights and responsibilities of the Chair of the Board of Directors (and the senior independent director, where applicable) shall be duly prescribed in the internal documents of the Company.	☐ Full compliance ☑ Partial compliance ☐ Noncompliance	Explanation for item 1: The Chair of the Board of Directors is a non-executive director elected unanimously by all members of the Board of Directors as the most competent Board member, who is a knowledgeable professional with significant leadership experience and of impeccable business and personal reputation. Presently, the independent directors have decided not to identify a senior independent director. All independent directors have equal rights to interact with the Chair of the Board of Directors. Every corporate year, independent directors are offered to elect a senior independent director. The Company offers to do so on a voluntary basis, but regularly explains this recommendation of the Corporate Governance Code. Full compliance of item 2.
2.5.2.	The board chair should ensure that board meetings are held in a constructive atmosphere and that any items on the meeting agenda are discussed freely. The chairman should also monitor fulfilment of decisions made by the board of directors.	1. The performance of the Chair of the Board of Directors was evaluated as part of the performance evaluation of the Board of Directors carried out in the reporting period.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.5.3.	The chair of the board of directors should take any and all measures as may be required to provide the board members in a timely fashion with information required to make decisions on issues on the agenda.	1. The internal documents of the Company provide that it is the duty of the Board of Directors Chair to take measures to provide the Board members with materials on Board meetings agendas.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.6.	**Board members must act reasonably and in good faith in the best interests of the company and its shareholders, being sufficiently informed, with due care and diligence.**			
2.6.1.	Board members should make decisions considering all available information, in the absence of a conflict of interest, treating shareholders of the company equally, and assuming normal business risks.	1. The internal documents of the Company provide that a member of the Board of Directors shall notify the Board of Directors if he/she has a conflict of interest in respect of any item on the meeting agenda of the Board or a Board's committee before the beginning of the discussion of the concerned item. 2. The internal documents of the Company provide that a Board member shall abstain from voting on any items in respect of which he/she has a conflict of interest. 3. The Company has a procedure in place that allows the Board of Directors to obtain professional consultations on matters within its scope at the expense of the Company.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.6.2.	Rights and duties of board members should be clearly stated and documented in the company's internal documents.	1. The Company has approved and published an internal document that clearly states the rights and duties of the members of the Board of Directors.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	

ANNEXES

№	Corporate Governance Principle	Compliance Evaluation Criteria	Compliance Status	Comments on Noncompliance
2.6.3.	Members of the board of directors should have sufficient time to perform their duties.	1. Individual attendance at the meetings of the Board of Directors and its committees, as well as time allotted to preparation for the meetings, were covered in the performance evaluation of the Board of Directors carried out in the reporting period. 2. The internal documents of the Company provide that members of the Board of Directors shall notify the Board about their intention to become a member of governance bodies in other companies (besides the Company's controlled and subsidiary companies), as well as of such appointments.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.6.4.	All board members should have equal opportunity to access the company's documents and information. Newly elected board members should be provided with sufficient information about the company and work of its board of directors as soon as practicable.	1. The internal documents of the Company provide that members of the Board of Directors have the right to have access to documents and make requests concerning the Company and its controlled companies, and the executive bodies of the Company shall provide requested information and documents. 2. The Company has a formal onboarding programme for newly elected members of the Board of Directors.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.7.	**Meetings of the board of directors, board members' preparation and participation therein ensure effectiveness of the Board.**			
2.7.1.	It is recommended to hold meetings of the board of directors as needed, with due account of the company's scope of activities and its then current goals.	1. The Board of Directors has met at least six times in the reporting year.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.7.2.	It is recommended to develop a procedure for preparing for and holding meetings of the board of directors and set it out in the company's internal documents. The above procedure should enable the shareholders to get prepared properly for such meetings.	1. The Company has approved an internal document that sets out the procedure for preparing for and holding Board of Directors meetings, which also stipulates that meeting notification should be made, as a rule, at least 5 days before the meeting date.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.7.3.	The form of a meeting of the board of directors should be determined with due account of importance of issues on the agenda of the meeting. Most important issues should be decided at the physical meetings.	1. The articles of association or internal documents of the company provide that more important issues (according to the list in the recommendation 168 of the Code) shall be considered in physical meetings.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.7.4.	Decisions on most important issues relating to the company's business should be made at a meeting of the board of directors by a qualified majority vote or by a majority vote of all elected board members.	1. The articles of association of the company provides that decisions on most important issues listed in the recommendation 170 of the Code shall be made at a meeting of the board of directors by a qualified majority vote of at least three quarters of the votes or by a majority vote of all elected board members.	☐ Full compliance ☑ Partial compliance ☐ Noncompliance	Historically, resolutions on more important issues are made based on responsible awareness of the members of the Board of Directors, as a rule, unanimously. Due to the fact, that there are no restrictions on formalising this approach, the Company has proposed to the General Meeting of Shareholders 2019 to approve amendments to the Articles of Association, that regulate the quorum for resolutions on most important matters in accordance with the Code's recommendations.
2.8.	**The board of directors should form committees for preliminary consideration of most important issues of the company's business.**			
2.8.1	For the purpose of preliminary consideration of any matters of control over the company's financial and business activities, it is recommended to form an audit committee comprised of independent directors.	1. The Board of Directors has set up an Audit Committee consisting solely of independent directors. 2. The internal documents of the Company specify the objectives of the Audit Committee, including the objectives indicated in the recommendation 172 of the Code. 3. At least one Audit Committee member, who is an independent director, has experience and expertise in preparing, analysing, evaluating and auditing accounting (financial) statements. 4. The Audit Committee has met in the reporting year at least once a quarter.	☐ Full compliance ☑ Partial compliance ☐ Noncompliance	Clarification for item 1: The Audit Committee consists of three independent directors, one of whom has experience and expertise in preparation, analysis, evaluation and audit of accounting (financial) statements (Yu.L.Levine, Committee chair). The Board of Directors decided to increase the membership of the Committee by adding a non-executive director who is also experienced and knowledgeable in preparation, analysis, evaluation and audit of accounting (financial) statements (R.R. Gaizatullin). The Company reviews membership of the Committee on an annual basis, and possible changes are presently directly associated with the structure of the Board of Directors (clarification in the item 2.4.3 herein).
2.8.2	For the purpose of preliminary consideration of any matters of development of efficient and transparent remuneration practices, it is recommended to form a remuneration committee comprised of independent directors and chaired by an independent director who should not concurrently be the board chairman.	1. The Board of Directors has a Remuneration Committee, which consists solely of independent directors. 2. The Remuneration Committee is chaired by an independent director who is not a Board of Directors Chair. 3. The internal documents of the Company specify the objectives of the Remuneration Committee, including the objectives indicated in the recommendation 186 of the Code.	☐ Full compliance ☑ Partial compliance ☐ Noncompliance	Clarification for item 1: The Human Resource and Remuneration Committee of PJSC Tatneft Board of Directors has three independent directors and is chaired by an independent director (R.Steiner). The Board of Directors decided to increase the Committee membership by adding a non-executive director (R.K.Sabirov). The increase is due to the fact that the Committee also functions as the Nominations Committee (for appointments and human resource). The Company reviews membership of the Committee on an annual basis, and possible changes are presently directly associated with the structure of the Board of Directors (clarification in the item 2.4.3 herein).
2.8.3	For the purpose of preliminary consideration of any matters relating to human resources planning (making plans regarding successor directors), professional composition and efficiency of the board of directors, it is recommended to form a nominating committee (a committee on nominations, appointments and human resources) with a majority of its members being independent directors.	1. The Board of Directors has set up a Nominations Committee (or its functions indicated in the recommendation 186 of the Code are delegated to another Committee), and most of its members are independent directors. 2. The internal documents of the company specify the objectives of the Nominations Committee (or another Committee which performs its functions), including the objectives indicated in the recommendation 186 of the Code.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	The objectives of the Nominations Committee are delegated to the HR and Remuneration Committee.
2.8.4	Taking account of its scope of activities and levels of related risks, the board of directors of a company has made sure that its committees' membership is fully aligned to the business goals of the company. Additional committees are either in place, or were not deemed as necessary (a Strategy Committee, a Corporate Governance Committee, an Ethics Committee, a Risk Management Committee, a Budget Committee, a Committee on Occupational Health and Environment, etc.)	1. In the reporting period, the Board of Directors of the Company has considered alignment between membership of the Board's committees and the business goals of the Company. Additional committees have either been set up, or deemed as unnecessary.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.8.5	The composition of the committees should be determined in such a way that it would allow a comprehensive discussion of issues being considered on a preliminary basis with due account of differing opinions.	1. Board of Directors' committees are headed by independent directors. 2. The internal documents (policies) of the company have provisions that persons who are not members of the Audit Committee, Nominations Committee and the HR and Remuneration Committee can attend committee meetings only at the invitation of the respective chair.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	Clarification for item 1: Due to the differences of opinion of the Company and the Bank of Russia on this matter, we believe that for public companies it is mandatory to have an audit committee, a remunerations committee and a nominations committee; the requirements for these committees are clearly stated in the Corporate Governance Code and the Company follows them. The Corporate Governance Committee is not a mandatory arm of the Board of Directors, and the Code's restriction on the number of independent directors (at least three) creates a conflict whereby the same directors may be members in different committees, which can undermine the quality of their contribution to the work of committees. Therefore, the membership of the Corporate Governance Committee and its chair (N.U.Maganov) follow the recommendation on the Committee membership in line with the Committee's goals and possibility of quality discussion of considered matters taking into account different opinions.
2.8.6	The chairs of the committees should inform the board of directors and its chair of the work of their respective committees on a regular basis.	1. In the reporting period, committee chairs have regularly reported about their work to the Board of Directors.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
2.9	**The Board of Directors conducts performance evaluation of the Board of Directors, its committees and members.**			
2.9.1	Performance evaluation of the board of directors should be aimed at determining how effectively the board of directors, its committees and board members work and whether their work meets the company's needs, as well as at making their work more intensive and identifying areas of improvement.	1. Self-evaluation or external evaluation of the Board of Directors conducted in the reporting period included evaluation of the work of Committees, individual members of the Board of Directors and the Board in general. 2. The results of self-evaluation or external evaluation of the Board of Directors conducted in the reporting period were considered at a physical meeting of the Board.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	

№	Corporate Governance Principle	Compliance Evaluation Criteria	Compliance Status	Comments on Noncompliance
2.9.2	Performance of the board of directors, its committees and members, should be evaluated regularly, at least once a year. An independent company (a consultant) should be engaged for an independent evaluation of the board of directors carried out at least once in three years.	1. For the purposes of an independent performance evaluation of the Board of Directors, in the last three reporting periods the Company has at least once engaged an independent company (a consultant).	☐ Full compliance ☑ Partial compliance ☐ Noncompliance	Performance of the Board of Directors is evaluated on a regular basis once a year; the evaluation takes the form of a formal self-evaluation and the results are considered by the Audit Committee and Corporate Governance Committee with the involvement of independent directors. The self-evaluation survey is based on a methodology similar to the RAEX (Expert RA) methodology used since 01/06/2014. The results are disclosed in the annual report and are available to shareholders and all stakeholders. The Company has not engaged an independent company for the evaluation in the last three years for rational reasons associated with quality changes in the Company (development, approval and implementation of the corporate long-term strategy) and good financial and production performance. The Company finds it reasonable to carry out an independent evaluation in the event the structure of the Board of Directors changes (clarification in the item 2.4.3 herein).
3.1	**The company's corporate secretary shall be responsible for effective communication with its shareholders, coordination of the company's efforts to protect the rights and interests of its shareholders, and support of efficient work of its board of directors.**			
3.1.1	The corporate secretary should have knowledge, experience, and qualifications adequate for the scope of responsibilities, as well as an impeccable reputation and should enjoy the trust of the shareholders.	1. The Company has adopted and disclosed an internal document - the Regulation on Corporate Secretary. 2. The Company's website and the annual report provide biographical details of the corporate secretary, with the same degree of detail as for the members of the Board of Directors and the executive management.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
3.1.2	The corporate secretary should be sufficiently independent of the company's executive bodies and be vested with powers and resources required to perform his/her tasks.	1. The Board of Directors approves appointment, dismissal and benefits of the corporate secretary.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
4.1	**The level of remuneration paid by the company should be adequate to enable it to attract, motivate, and retain persons having required skills and qualifications. Remuneration due to board members, the executive bodies, and other key managers of the company should be paid in accordance with a remuneration policy approved by the company.**			
4.1.1	It is recommended that the level of remuneration paid by the company to its board members, executive bodies, and other key managers should be adequate to motivate them to work efficiently and enable the company to attract and retain knowledgeable, skilled, and duly qualified persons. The company should avoid setting the level of remuneration any higher than necessary, as well as an excessively large gap between the level of remuneration of any of the above persons and that of the company's employees.	1. The Company has approved an internal document (documents) - policy (policies) on remuneration for the members of the Board of Directors, executive bodies and other key managers, which clearly describes the remuneration framework.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
4.1.2	The company's remuneration policy should be developed by its remuneration committee and approved by the board of directors. With the help from its remuneration committee, the board of directors should monitor implementation of and compliance with the remuneration policy by the company and, should this be necessary, review and amend it.	1. In the reporting period, the Remuneration Committee has reviewed the remuneration policy (policies) and its (their) implementation practices, and, where necessary, provided relevant recommendations to the Board of Directors.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
4.1.3	The company's remuneration policy contains transparent mechanisms of determining the remuneration size for the members of the board of directors, executive bodies and other senior officers of the company and also regulates all types of payments, benefits and privileges granted to the mentioned persons.	1. The Company's remuneration policy (policies) contains transparent mechanisms of determining the remuneration size for the members of the Board of Directors, executive bodies and other key company officers and also regulates all types of payments, benefits and privileges granted to the mentioned persons.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
4.1.4	The company should determine the reimbursement (compensation) policy, which specifies which costs are subject to reimbursement and the level of service that members of the board of directors, executive management and other key company officers can claim. Such policy can be a component of the company's remuneration policy.	1. The remuneration policy (policies) or other internal documents of the company set out the rules for reimbursement of expenses to the members of the Board of Directors, executive management and other key managers of the company.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
4.2.	**The system of remuneration of members of the Board of Directors makes sure that financial interests of the directors are aligned with long-term financial interests of the shareholders.**			
4.2.1.	The company pays fixed annual remuneration to the members of the board of directors. The company does not pay remuneration for participation in certain Board meetings or the Board's committees' meetings. The company does not engage short-term motivation methods and offer additional financial incentives towards members of the board of directors.	1. Fixed component of the annual remuneration has been the only monetary remuneration for the members of the Board of Directors for working in the Board of Diretors in the reporting period.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
4.2.2.	Long-term ownership of the company's shares are most conducive to alignment of financial interests of the board members with long-term interests of the shareholders. At the same time, the company does not link performance to the right to sell shares, and members of the board of directors do not participate in stock option plans.	1. If the internal document (documents) - remuneration policy (policies) of the company stipulate provision of shares of the company to the members of the Board of Directors, there should be provisions and clear rules for stock ownership by members of the Board of Directors aimed at incentivising long-term ownership of such stock.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
4.2.3.	The company does not provide for any additional payments or compensation in the event of early resignation due to change of control over the company or other circumstances.	1. The Company does not provide for any additional payments or compensation in the event of early resignation due to change of control over the Company or other circumstances.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
4.3.	**The system of remuneration of members of executive management and other key company officers provides for relation between remuneration and the Company's performance and personal contribution to the performance of the Company.**			
4.3.1.	Members of executive bodies and other key managers of the company are remunerated in a manner than ensures reasonable and sound ratio of fixed remuneration and variable remuneration that depends on the company's performance and personal (individual) contribution of the employee.	1. In the reporting period, annual performance indicators approved by the Board of Directors were factored in in determining the variable component of the remuneration of the members of executive bodies and other key managers of the company. 2. In the course of the last evaluation of the system of remuneration of members of executive bodies and other key managers of the company, the Board of Directors (the Remuneration Committee) assured that the company applies effective ratio of fixed and variable components of remuneration. 3. The company provides for a procedures that ensures that bonuses received by members of the executive bodies and other key managers illegitimately are returned back to the company.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
4.3.2.	The company has implemented a plan of long-term incentives for members of executive management and other key company officers using the company's stock (stock options or other financial derivatives, where underlying asset is the company's shares).	1. The Company has a long-term incentives plan for members of executive management and other key company officers using the Company's stock (financial derivatives based on the Company's shares). 2. The long-term incentive programme for members of executive bodies and key managers of the company provides that the right to sell shares or other financial instruments provided under the programme is granted not earlier than three years after their provision. At the same time, the Company links corporate performance to the right to sell shares.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
4.3.3.	The compensation (the golden parachute) to be paid by the company in the event of early termination of powers of executive managers or other key company officers by the company in the absence of any misconduct by them, does not exceed the double of the fixed part of the annual remuneration.	1. The compensation (the golden parachute) to be paid by the Company in the event of early termination of powers of executive managers or other key company officers by the Company in the absence of any misconduct by them, has not exceeded in the reporting period the double of the fixed part of the annual remuneration.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	

№	Corporate Governance Principle	Compliance Evaluation Criteria	Compliance Status	Comments on Noncompliance
5.1.	**The Company has an effective system in place for managing risks and internal controls that provides reasonable assurance in achieving the Company's goals.**			
5.1.1.	The board of directors should determine the principles and approaches to risk management and internal controls in the Company.	1. The functions of different governance bodies and divisions of the company in the risk management and internal controls system are clearly defined in the internal documents / relevant policies of the company approved by the Board of Directors.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
5.1.2.	The company's executive bodies should make sure that the Company has an effective risk management system and internal controls that function properly.	1. The executive bodies of the company have ensured distribution of functions and powers in respect of risk management and internal controls among divisions and departments heads accountable to them.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
5.1.3.	The company's risk management and internal control system should ensure an objective, fair and clear understanding of the current state and prospects of the Company, the integrity and transparency of the company's statements, the soundness and acceptability of the risks accepted by the Company.	1. The Company has an approved policy on counteracting corruption. 2. The company has in place a usable method (hotline) for informing the Board of Directors or the Audit Committee of the Board of Directors of any breaches of legislation, internal procedures and the ethics code of the company.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
5.1.4.	The board of directors of the company should do everything necessary to ensure that the risk management and internal controls system is effective and in keeping with the relevant principles and approaches determined by the Board.	1. In the reporting period, the Board of Directors or the Audit Committee of the Board of Directors has conducted an evaluation of the risk management and internal controls system of the company. The evaluation results are included in the annual report of the company.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
5.2.	**For the purposes of regular independent assessment of reliability and effectiveness of the risk management and internal controls system, as well as corporate governance practices, the Company conducts internal audit.**			
5.2.1.	The company has a separate structural division or engages an independent company to conduct internal audit of the company. There is a division between functional and administrative accountability of the internal audit unit. Functionally, the internal audit unit is accountable to the board of directors.	1. For the purposes of internal audit, the company has set up a separate structural division of internal audit, which is accountable to the Board of Directors or the Audit Committee, or an independent company is engaged with the same accountability principle.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
5.2.2.	The internal audit unit should evaluate internal controls, risk management system, and the corporate governance system. The company should use commonly accepted internal audit standards.	1. In the reporting period, the internal controls and risk management system has been evaluated, as part of the internal audit. 2. The company is using commonly accepted approaches to the internal control and risk management.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
6.1.	**The Company and its activities are transparent to shareholders, investors and other stakeholders.**			
6.1.1.	The company should develop and implement an information policy that ensures effective communication between the company and its shareholders, investors and other stakeholders.	1. The Board of Directors of the Company has approved an information policy aligned with the recommendations of the Code. 2. The Board of Directors (or one of its Committees) has considered issues related to the Company's compliance with its information policy at least once in the reporting period.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
6.1.2.	The company should disclose the information about the corporate governance system and practices, including detailed information about compliance with the Code's principles and recommendations.	1. The company discloses information about the company's system of corporate governance and the general framework of corporate governance used in the company, including at its corporate website. 2. The company discloses information about membership of the executive bodies and the Board of Directors, independence of the members of the Board and their membership in the Board's Committees (as defined in the Code). 3. In the event there is a person who controls the company, the company publishes a memorandum of the controlling person regarding the plans of such person in respect of the corporate governance in the company.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	

№	Corporate Governance Principle	Compliance Evaluation Criteria	Compliance Status	Comments on Noncompliance
6.2.	**The Company discloses relevant and accurate information about the Company in full and in due time to make sure that shareholders and investors can make informed decisions.**			
6.2.1.	The company's disclosure is based on the principles of regularity, consistency and timeliness, as well as availability, accuracy, completeness and comparability of the disclosed information.	1. The information policy of the company defines approaches and criteria for determining which information can have a material impact on the valuation of the company and the value of its securities, as well as procedures ensuring timely disclosure of such information. 2. If the company's securities are traded on foreign organized markets, equivalent material information should be simultaneously disclosed both in and outside the Russian Federation. 3. If foreign investors hold a material share in the company's capital, the company should, along with disclosure of information in Russian, disclose information in a foreign language that is commonly used.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
6.2.2.	The company avoids a formalistic approach to disclosure and discloses material information about its activities, even if such disclosure is not required legislatively.	1. In the reporting period, the company has disclosed annual and interim financial statements prepared under IFRS standards. The annual report of the company for the reporting period includes annual financial statements prepared under IFRS and an auditor's report. 2. The company discloses full information about the structure of capital of the company in the annual report and in the corporate website in compliance with the recommendation 290 of the Code.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
6.2.3.	The annual report, as one of the most important communication channels with shareholders and other stakeholders, should contain information enabling one to evaluate the company's performance results for the year.	1. The annual report of the company contains information about key aspects of the company's business and its financial results. 2. The annual report of the company contains information about environmental and social aspects of the company's activities.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
6.3.	**The Company should provide equal and unhindered access to the information and documents to its shareholders at their request.**			
6.3.1.	The company provides equal and unhindered access to the information and documents to shareholders at their request.	1. The company should set forth a procedure for providing its shareholders with unhindered access to its information and documents at their request in its information policy.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
6.3.2.	Information is provided in a manner which ensures reasonable balance between interests of individual shareholders and interests of the company in general, as it is interested in preserving the confidentiality of commercial and sensitive information that may have a significant impact on the company's competitive ability.	1. In the reporting period, the Company has always accommodated shareholders' requests to provide information, or when it did not, it provided validated grounds for the refusal to provide information. 2. In the events specified in the information policy of the Company, shareholders are notified about the confidential nature of the information and undertake to ensure its confidentiality.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
7.1.	**Actions that have or may have a significant impact on the structure of the Company's equity and financial standing and hence the position of the shareholders (mandatory corporate action), are carried out on fair terms ensuring observance of the rights and interests of the shareholders as well as other interested parties.**			
7.1.1.	Company reorganisation, acquisition of 30 or more percent of voting shares of the company (acquisition), major transactions, increase or decrease of authorised capital, listing or de-listing of the company's shares, as well as other actions that can significantly change the rights or violate the interests of shareholders are recognised as mandatory corporate actions. The articles of association of the company provides for a list (criteria) of transactions and other actions that are mandatory corporate actions, and such actions are within the terms of reference of the board of directors of the company.	1. The Articles of Association of the Company provides for a list of actions that are mandatory corporate actions and their criteria. Decisions on mandatory corporate actions are the scope of the Board of Directors. When such corporate actions fall in the scope of the General Meeting of Shareholders according to the current legislation, the Board of Directors gives shareholders its recommendations. 2. Company reorganisation, acquisition of 30 or more percent of voting shares of the Company (acquisition), major transactions, increase or decrease of authorised capital, listing or de-listing of the Company's shares (not exhaustively) are recognised in the Articles of Association of the Company as mandatory corporate actions.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	De facto compliance. The Company specifies the list of mandatory corporate actions in Chapter 9 of the Corporate Governance Code approved by the Board of Directors on 20/03/2017. The Articles of Association of the Company specifies that decisions on matters related to mandatory corporate actions are within the terms of reference of the Board of Directors. Pursuant to the recommendation of the Corporate Governance Code, the Company has proposed to the General Meeting of Shareholders 2019 to approve amendments to the Articles that specify the list of mandatory corporate actions criteria.

№	Corporate Governance Principle	Compliance Evaluation Criteria	Compliance Status	Comments on Noncompliance
7.1.2.	The board of directors should play a key role in passing resolutions or making recommendations relating to mandatory corporate actions; for that purpose, relying on opinions of the company's independent directors.	1. The company has provides for a procedure for independent directors to state their opinion on mandatory corporate actions prior to their approval.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	De facto compliance. There were no mandatory corporate actions in the reporting year. Pursuant to the recommendation of the Corporate Governance Code, the Company has proposed to the General Meeting of Shareholders 2019 to approve amendments to the Regulation on the Board of Directors that set out a procedure for independent directors' actions in respect of mandatory corporate actions.
7.1.3.	When taking any mandatory corporate actions which would affect rights or legitimate interests of the company's shareholders, equal terms and conditions should be ensured for all of the shareholders; if statutory mechanisms designed to protect the shareholder rights prove to be insufficient for that purpose, additional measures should be taken with a view to protecting the rights and legitimate interests of the company's shareholders. In doing so, the company should not only seek to comply with the formal requirements of law but should also be guided by the principles of corporate governance set out in this Code.	1. Given the specifics of its business, the Articles of Association of the Company sets lower, than legislatively stipulated, criteria for recognising transactions as mandatory corporate actions. 2. In the reporting period, all mandatory corporate actions have undergone approval procedure prior to taking place.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	Complied with de facto. The Corporate Governance Code approved by the Board of Directors on 20/03/2017, Chapter 9, provides that actions that have or may have a significant impact on the structure of the Company's equity and financial position and hence the position of the shareholders, are carried out on fair terms ensuring observance of the rights and interests of the shareholders as well as other interested parties. There were no mandatory corporate actions in the reporting year. Pursuant to the recommendation of the Corporate Governance Code, the Company has proposed to the General Meeting of Shareholders 2019 to approve amendments to the Articles that specify mandatory corporate actions criteria.
7.2.	**The Company provides for a procedure of mandatory corporate actions that allows shareholders to timely receive complete information about such actions, allows them to influence such actions and guarantees that their rights are observed and adequately protected.**			
7.2.1.	When disclosing information about material corporate actions, it is recommended to give explanations concerning reasons for, conditions and consequences of such actions.	1. In the reporting period, the company has disclosed information about mandatory corporate action in a timely and detailed manner, including grounds and timescale of such actions.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	
7.2.2.	Rules and procedures in relation to mandatory corporate actions taken by the company should be set out in its internal documents.	1. The internal documents of the Company provide for a procedure for engaging an independent appraiser for valuating the assets to be alienated or acquired in a major transaction or an interested party transaction. 2. The internal documents of the Company provide for a procedure for engaging an independent appraiser for evaluating the cost of purchasing or buying out the company's stock. 3. The internal documents of the Company provide for an extensive list of grounds for recognising members of the Board of Directors or other persons as stated in respective laws as interested in the company's transactions.	☑ Full compliance ☐ Partial compliance ☐ Noncompliance	

Annex 5

Principal risks

RISK DESCRIPTION	COMPANY RISK MANAGEMENT PRACTICE

Strategic risk

The implementation of the Company's Development Strategy and the achievement of operational and financial results depend on multiple factors, including changes in the energy markets, international and domestic policies, macroeconomics, agreements between OPEC and other oil producers, legal and tax regulation, the development of technology and information resources, the dynamics of the labor market as well as various other factors.

The Company implements the Development Strategy for the period up to 2030, formed on the basis of a detailed analysis of the whole complex of all key factors, which may affect the development of the Company and the achievement of the planned results. Decisions of the Company's management bodies related to the strategic and current planning and operational activities are made on the grounds of all available information related to possible development scenarios and tend to consider all reasonably foreseeable variations and assumptions used in such planning.

The Company has a high-quality asset structure and a high-tech foundation, which is improving constantly in accordance with production tasks, including the development of import-substituting technologies and equipment.

The Company has a stable management platform for the implementation of the Strategy and adjusts its plans as and when required.

The Company's investments are protected by the relevant Risk Control Map.

The Company implements a policy of vertical integration and diversification, which allows for significant reduction (elimination) of strategic risks, including critical risks, through redistribution of resources and commodity flows.

Country and foreign policy risks

The Company is registered in the Russian Federation, where a significant part of its assets is located. Principal production activities are carried out in the Republic of Tatarstan, which is a constituent entity of the Russian Federation. The political situation in the Russian Federation and, in particular, in the Republic of Tatarstan is stable.

The Company adheres to the opinion that the situation in the region of principal activities and location of key assets of the Group as a whole is stable.

At the same time, a number of international organizations, commercial, nongovernmental organizations publish their country ratings based on the level of political risks. In such ratings, the Russian Federation may be classified as a country with increased risks that investors should take into account when investing their funds in the country's economy and securities of Russian issuers, such as the Company.

Rating agencies assess the creditworthiness of the country based on their own methodologies.

During 2018, the credit ratings of the Russian Federation assigned by such international agencies as Standard & Poor's, Moody's, and Fitch were at BBB-, Ba1, and BBB-, respectively. These credit ratings are used by investors to assess the risks associated with investing in assets in the Russian Federation.

U.S. and EU sanctions

Since 2014, the United States, the European Union, and a number of other countries have consistently imposed sanctions on the Russian Federation, including sectoral sanctions affecting the activities of individual companies in the energy and other sectors of the Russian economy.

These sanctions, including their unpredictability, increase the country risk of the Russian Federation.

In its activities, the Company takes into account the existing sanctions and monitors them to minimize the adverse effects and consequences (considering the potential expansion of sanctions, i.e. various initiatives in the United States to strengthen the sanctions regime against the Russian Federation), which might have a selective impact on the Company's promising projects.

To reduce the risks related to the availability of technologies and equipment subject to sanctions, the Company implements consistently the program of import substitution and development of its own technologies with the localization of equipment production in the Russian Federation and the engagement of advanced industry research centers..

RISK DESCRIPTION	COMPANY RISK MANAGEMENT PRACTICE

Financial risks

Company's activities are exposed to various financial risks: market risks (including currency, interest rate, and price risks), credit risks, and the liquidity risk.

The Company's financial risk management policy focuses on risk measurement, assessment, and monitoring procedures as well as on the selection of the appropriate risk management methods.

For detailed information about financial risks, including those related to the banking segment within TATNEFT Group, see the IFRS Consolidated Financial Statements, Note 28: Financial Risk Management.

Changes in legislation and regulatory environment

Changes in the applicable legislation, including tax, currency, customs regulations, etc., may have a significant impact on the Company's performance.

The Company conducts continuous monitoring of changes in legislation, evaluates and predicts the extent of their impact on the activities of the Group entities. The Company participates on a regular basis in working groups to develop draft laws in various fields of legislation.

Industry risks

Risk of oil and oil product prices

Business efficiency and profitability largely depend on current prices of oil and oil products as well as on the demand for oil and oil products. Recently, oil and oil product prices have shown significant volatility due to multiple factors.

The Company conducts continuous monitoring and analysis of the dynamics of prices and demand for oil and oil products.

The Company's model of strategic and current planning provides for appropriate adjustments. Planning is based on a scenario approach, including variability based on market forecasts.

The Company has the internal potential to redistribute commodity flows in the event of a significant price difference between domestic and international markets, demand for crude oil and oil products, and the ability to reduce or rebalance capital and operating costs in order to fulfill its obligations in the event of a sharp decline in oil, gas, and oil product prices.

The Company analyzes the risks of prices and demand for oil and oil products on the basis of modeling different scenarios.

In terms of demand for oil and oil products, the Company does not expect that alternative sources of energy will be able to replace significantly oil and oil products in the medium-term perspective. Regardless of the development of alternative sources of energy and a potential increase in the number of electric vehicles, the demand for oil and oil products will continue to grow (largely due to the emerging markets). Thus, the Company does not expect any significant negative changes in the industry in terms of the demand structure.

RISK DESCRIPTION	COMPANY RISK MANAGEMENT PRACTICE

Technical and technological risks

Exploration, development, and equipping of new fields, maintenance of existing wells, drilling of new ones as well as preparation, transportation, and processing of oil and gas constitute an extremely complex and expensive process. Additional expenses are required for enhanced oil recovery, which is of particular importance for the Company. In the future, as fields go depleted, special methods for enhanced oil recovery will play an increasingly important role.

The Company has started to develop a new line, i.e. petrochemical industry business.

At the same time, the Company is developing the banking segment.

In aggregate, the economic efficiency of all business lines of the Company will largely depend on the Company's ability to use the most productive and affordable technologies, including information technology.

The Company pays special attention to development and application of cutting-edge technologies in all lines of its business; as one of the innovation leaders in the industry in Russia, it develops its own research and production base, interacts with advanced industry research centers.

Target focus is the technology, which is required to implement the strategy, effective investment in R&D, and pilot developments.

The Company is actively developing IT infrastructure on the basis of the new-generation single information platform for production management, which integrates information flows of all services at all stages of the value chain. The Company plans to implement a series of IT projects by 2021, which will increase the efficiency of business processes.

Transportation

As the majority of oil production regions in Russia are located far from the main markets of oil and oil products, oil companies are dependent on the maturity of transport infrastructure as well as its accessibility. The Company transports a significant part of the crude oil, which it sells in foreign and domestic markets, via the network of major pipelines under contracts with PJSC Transneft and its subsidiary structures. A significant part of the oil transported via the pipeline is headed to seaports for subsequent transportation by sea. Russian sea terminals have certain limitations associated with geographic location, weather conditions, and capacity. In the territory of Russia, oil products are transported mainly by rail. The railway infrastructure of the Russian Federation is owned and controlled by JSC Russian Railways. Transneft and Russian Railways are joint stock companies partially owned by the state. As the above companies belong to the natural monopolies sector, their tariff policy is defined by state authorities to ensure a balance of the interests of the state and those of all parties involved in the transportation process. The Federal Antimonopoly Service of the Russian Federation (FAS of Russia) sets the tariffs of natural monopolies. Tariff rate depends on the route of transportation, size of shipment, distance to destination, and several other factors. FAS of Russia reviews tariffs at least once a year.

The region of the Company's principal activities is not remote in terms of transport and other infrastructure.

The Company monitors closely the development and maintenance of transport infrastructure required to deliver oil and oil products to buyers, as well as the tariff policy, and participates actively in the relevant industrial discussions and initiatives.

Industrial and environmental risks

The Company and TATNEFT Group enterprises operate complex process systems and facilities for production, preparation, transportation, and processing of oil and gas, which are classified as especially hazardous production facilities.

The oil and gas sector of the economy is extremely exposed to industrial and environmental risks, which entail the threat of injury, potentially pose danger to life, health and are associated with fine sanctions, etc.

The Company has developed a comprehensive program aimed at mitigating negative situations associated with industrial and environmental risks. The Company continuously implements new technical and organizational measures to minimize the impact of such risks. The Company provides liability insurance for a number of facilities.

The Company is committed to becoming a leader in the field of industrial, labor, and environmental safety of production, minimizing the impact on the environment, including the impact on the climate. Comprehensive actions in this field have resulted in the reduction of environmental footprint to the level where there is a potential for self-recovery of ecosystems. To improve the efficiency of industrial and environmental safety management, TATNEFT Group is currently implementing the management system in accordance with the latest-generation international standards ISO 14001-2015 and ISO 45001:2018.

RISK DESCRIPTION	COMPANY RISK MANAGEMENT PRACTICE

Reputational risk related to the quality of products and services

Perception of consumers of the Company's products regarding the quality of its products and services affects the sales and profitability of the relevant business segment.

Improving the quality of interaction and establishing long-term relations with consumers is one of the priorities in creating a competitive advantage of the Company, based on the quality control system, high level of services as well as by raising consumer awareness.

In the course of interaction with consumers of products and services, the Company adheres to the UN guidelines for the protection of consumers' interests and the International Covenant on Economic, Social, and Cultural Rights.

Quality of products and services

The Company strictly controls compliance with all regulatory requirements governing the quality of products and services.

Safety of products and services

At all life-cycle stages of the offered products and services, the Company assesses their impact on health and safety in order to identify opportunities for improvement and takes a set of measures to minimize any negative impact of the offered products and services on the environment. Consumer health and safety protection includes the provision of products and services that are safe and do not pose an unacceptable risk of harm when used or consumed. The Company adheres to a high level of quality and safety standards.

Information sharing

The Company constantly informs customers and counterparties about its activities by way of publications and press releases on the Internet, in the mass media as well as via social media and mobile applications.

Feedback

The Company has a hotline.

Procedures have been adopted and are in place – to respond promptly to complaints and claims received via the hotline in order to address their causes.

Fair and responsible marketing practices

The Company uses only fair marketing practices and protects consumers from unfair or misleading advertising or labeling. The Company's activities in the field of promotion of products and services, advertising, and marketing comply with the legislation of the Russian Federation.

Geographical and nature-related aspects

Geographical and natural features of the region of the Company's principal activities are not characterized by factors that can have a significant adverse impact on the normal production activities and plans implementation. At the same time, there is a potential risk of the impact of these aspects on the production and economic activities of the Company.

When planning its activities, the Company takes into account the geographical, including climatic, features of the region of operation. Against the possibility of negative consequences for the Company's activities that may be caused by natural disasters, such as floods, earthquakes, mudflows, hurricane winds, etc., the Company has approved procedures and policies aimed at the prompt elimination of such consequences and, in case of emergency, to reduce the impact of such situations on the life, health, and safety of employees and residents of the regions of operation as well as on the production activities of the Company.

There are monitoring procedures that, with the use of the latest technical means, are aimed at preventing the possibility of adverse consequences of natural phenomena and informing the population of the region where the Company carries out its operations about the possibility of such consequences.

Annex 6

On the annual report and the underlying regulatory documents constituting the framework for the current annual report

The report of Public Joint Stock Company TATNEFT (PJSC TATNEFT, the Company) for the 2018 calendar year presents the operating results of the Company and its subsidiaries, which are collectively referred to as "TATNEFT Group" (the "Group"). The designations "PJSC TATNEFT," "TATNEFT Group," "the Group," "TATNEFT," "the Company," "we," and "our" used in the text of this Report shall be deemed equivalent and refer to TATNEFT Group as a whole, PJSC TATNEFT, and/or its subsidiaries as the context may require.

As the parent company of the Group, PJSC TATNEFT has prepared in this Report the consolidated operating and financial information for the key business units and main lines of business.

The Report has been prepared with the integrated reporting elements, which allows reflecting the priority lines of business, as well as the production, financial, economic, environmental, and social performance in direct reference to each other. The Company adheres to the principle that only the balance between these aspects can ensure effective business development.

In addition to the Annual Report, the Company also plans to publish the full version of the integrated report in an interactive format, which will expand significantly the boundaries of the provision of information on aspects of sustainable development (ESG).

The Report adheres to the guidelines of the Code of Corporate Governance approved by the Government of the Russian Federation and recommended by Bank of Russia Letter No. 06-52/2463 dated April 10, 2014.

The practice of the Annual Report preparation implies the establishment of a special Working Group (composed of responsible managers and specialists of the Company), the formation of internal administrative documents on the preparation and analysis of information for the report, interaction with stakeholders. The PJSC TATNEFT Corporate Secretary Office of participates in the coordination of actions to prepare the Report and ensures the feedback on the report from the shareholders, investors, and other stakeholders.

To ensure the reliability of the information disclosed, the Annual Report has been agreed on with the lines-responsible services and reviewed by PWS, an independent auditor. Public Joint Stock Company TATNEFT Annual Report 2018 has been preliminarily approved by the Board of Directors of PJSC TATNEFT, Minutes No. 13 dated May 22, 2019. The reliability of the data presented in the Annual Report is confirmed by the Audit Commission.

The Annual Report of TATNEFT has been formed based on the following principal documents

1. Federal Laws
- Federal Law No. 39-FZ "On Securities Markets, as amended on 27.12.2018" dated 27.12.2018;
- Federal Law No. 208-FZ "On Joint Stock Companies, as amended on 27.12.2018" dated 26.12.1995;
- Federal Law No. 514-FZ "On Amendments to the Federal Law
'On Securities Market' and Certain.
Legislative Acts of the Russian Federation on Improving the Legal Regulation of the Securities Issue" dated 27.12.2018;
2. Bank of Russia Regulation No. 660-P "On General Meetings of Shareholders" dated 16.11.2018.
3. Regulation "On Disclosing Information by Securities Issuers" approved by Bank of Russia Order No. 454-P dated 30.12.2014, as amended on 25.05 2018;
4. Code of Corporate Governance issued by the Bank of Russia and recommended by Bank of Russia Letter No. 06-52/2463 dated April 10, 2014.
5. Bank of Russia Letter No. IN-06-52/8 "On Disclosure in Annual Reports of Public Joint Stock Companies of Information on Compliance with the Principles and Recommendations of the Code of Corporate Governance" dated February 17, 2016.
6. Bank of Russia Letter No. IN-06-28/57 "On Recommendations on Disclosure in the Annual Report of Public Joint Stock Companies of Information on Compensation of Members of Board of Directors (Supervisory Board), members of Executive Bodies, and Other Key Executives of Public Joint Stock Companies" dated December 11, 2017.
7. LSE Information Disclosure Standards.
8. G20/OECD Principles of Corporate Governance, as amended in 2015.
9. UN Global Compact and Sustainable Development Goals, 2030 Agenda for Sustainable Development.
10. International Integrated Reporting Standard issued by the International Integrated Reporting Council (IIRC).
11. Series of standards:
of the Institute of Social and Ethical Accountability AA1000; ISO 26000: 2010 Guidance on Social Responsibility; GRI

List of acronyms

Public Joint Stock Company TATNEFT named after V.D. Shashin throughout the text of the Report is referred to as PJSC TATNEFT, TATNEFT, the Company.

BIA	Business Idea Auction
ABS	Automated Banking System
AGFS	Autogas Fueling Station
ASPI	Almetyevsk State Petroleum Institute
AB	Anode Bed
FFS	Fuel Filling Station
AIS	Automated Information System
JSC	Joint Stock Company
BVMB	Basin Water Management Board
ZBG	ZENIT Banking Group
BMZ	Bugulma Mechanical Plant (a structural subdivision of TATNEFT)
VOIR	All-Russian Society of Inventors and Innovators
VEB	Vnesheconombank
FEA	Foreign Economic Activity
GMPS	Group Metering Pump Station
GMS	Group Metering Station
GIBDD	State Traffic Safety Inspectorate
SCNS	State Complex Nature Sanctuary
HS	Horizontal Settler
GOST	National State Standard
Frac	Formation Hydraulic Fracturing
F&L	Fuel & Lubricants
HEI	Hydraulic Engineering Installations
RBS	Remote Banking Services
CC	Community Center
BPS	Booster Pumping Station
CHC	Children's Holiday Camp
CYSS	Children's and Youth Sports School
UBS	Unified Biometric System
EU	European Union
UIAS	Unified Identification and Authentication System
UNECE	United Nations Economic Commission for Europe
RCT	Reinforced Concrete Tank
CJSC	Closed Joint Stock Company
IB	Investment Business
DPI	Discounted Profitability Index
IS	Information System
IT	Information Technology

CB	Corporate Business
CIS	Corporate Information System
PPS	Pad Pumping Station
KFU	Kazan (Volga Region) Federal University
CSR	Corporate Social Responsibility
HRS	Horse-racing School
CDW	Corporate Data Warehouse
MGPP	Minnibayevo Gas Processing Plant
MICEX	Moscow Interbank Currency Exchange
IPS	International Payment Systems
MPP	Metal-Plastic Pipes
MTBR	Mean Time Between Repair
SME	Small and Medium Enterprises
EOR	Enhanced Oil Recovery
MPP	Multiphase Pump
EMERCOM of Russia	The Ministry of the Russian Federation for Civil Defense, Emergencies, and Elimination of Consequences of Natural Disasters
NGDU	Oil and Gas Field Operating Division (a structural subdivision of TATNEFT)
MRRT	Mineral Resource Recovery Tax
VAT	Value Added Tax
NSSCTF	Nizhnekamsk Solid Steel Cord Tire Factory
R&D	Research and Development
Tubing	Oil Well Tubing
ITA	Intangible assets
OR & PP	Oil Refining and Petrochemical Plants
Refinery	Oil Refinery
OPU	Oil Processing Unit
NPCS	National Payment Card System
STC	Science and Technology Center
PCC	Petrochemical Complex
LLC	Limited Liability Company
NCA	Nature Conservation Area
PO	Pilot Operations
PDC	Production Dual Completion
P&IDC	Production and Injection Dual Completion
IDC	Injection Dual Completion
DC	Dual Completion

SEZ	Special Economic Zone
MPC	Maximum Permissible Concentration
APG	Associated Petroleum Gas
RPM	Reservoir Pressure Maintenance
PCP	Polymer Coated Pipes
PS	Power Substation
CD	Chain Drive
RB	Retail Business
VSST	Vertical Stainless Steel Tank
RIA	Result of Intellectual Activities
SCS	Settlement and Cash Services
RYSO	Regional Youth Social Organization
RT	the Republic of Tatarstan
RF	the Russian Federation
REC	Russian Export Center
SVO	Super Viscous Oil
CPS	Cathodic Protection Station
CGS	Corporate Governance Standard
SES	Secondary Education School
EDMS	Electronic Document Management System
TH	Trading House
TTH	Trade Technical House
TS	Technical Specifications
FEC	Fuel and Energy Complex
TPP	Thermal Power Plant
DCU	Delayed Coker Unit
MC	Management Company
LHVR	Light Hydrocarbon Vapor Recovery
HSOTF	High Sulfur Oil Treatment Facility
OTF	Oil Treatment Facility
PWSU	Initial Water Separation Unit
PFTF for RPM	Process Fluid Treatment Facility for Reservoir Pressure Maintenance (a subsidiary of TATNEFT)
SRU	Sulfur Recovery Unit
UTNGP	TATNEFTEGAZPERERABOTKA Division (structural subdivision of TATNEFT)
Ind.	Individuals
PRF	Payroll Fund

AS-tires	All-Steel Tires
PSC	Processing and Storage Center
PTC	Personnel Training Center
CDH	Central District Hospital
NPV	Net Present Value
NFI	Net Fee Income
NII	Net Interest Income
NGL	Natural Gas Liquids
EIC	Electrical Insulating Connection
EXIAR	Export Insurance Agency of Russia
ECU	Electronic Corporate University
AUM (Assets Under Management)	Assets Under Management
CAPEX (capital expenditure)	Capital expenses, one-time costs for the acquisition of physical assets for the business.
	Показатель, отражающий эффективность ведения бизнеса. Рассчитывается как отношение расходов (операционных расходов) банка за отчетный период к операционной прибыли (операционным доходам) и выражается в процентах.
CIR	Показатель, который характеризует степень риска банка, определяется как сумма созданных резервов под кредитные потери (риск), поделенная на размер кредитного портфеля.
(Cost/Income Ratio)	An indicator that reflects the business efficiency. Calculated as the ratio of expenses (operating expenses) of the bank for the reporting period and operating profit (operating income) and expressed as a percentage.
COR	Электронная коммерция
(Cost of Risk)	The indicator, which characterizes the degree of risk of the bank, is defined as the amount of provisions for credit losses (risk) divided by the loan portfolio amount.
CRM	Customer Relationship Management
E-Commerce (Electronic Commerce)	Операционные расходы, которые несет компания в процессе текущей деятельности для обеспечения функционирования.
RAROC	PRIVATE BANKING
(Risk-Adjusted Return on Capital)	Risk-adjusted return on capital of the bank.
ROE (Return on Equity)	Return on authorized capital of the bank. Calculated as the ratio of profit of the bank after tax as of the reporting date and the average value of the balance sheet capital for the relevant period
OPEX (operational expenditure)	Operating expenses incurred by the company in the course of its day-to-day continuous operations to ensure its functioning.
PB (private banking)	
TCO (Total Cost of Ownership)	Total cost of IT-systems ownership

Important statements

Information disclosed in this Annual Report contains some forward-looking statements. Such statements include, inter alia, plans, tasks, and forecasts of production, including those relating to the output, products, and services, economic, and financial indicators, information concerning anticipated or expected income, profit (loss), net profit (loss) in respect of shares, dividends, capital structure, and other indicators and ratios as well as statements concerning the prerequisites, on which we base our statements. These statements are accompanied by the wordings “is expected,” “intends,” “is planned,” “will,” “strives,” “is projected,” “is forecast,” etc.

Due to their specific nature, the statements about the future are subject to inherent risk and uncertainties, both general and specific. The feasibility of the stated intentions depends, inter alia, on factors (economic, social, legal) that are beyond the Company’s control. There is a risk that the future actual results may materially differ from those plans, objectives, expectations, estimates, and intentions expressed in such statements or may not be implemented due to various factors.

Note

The text of the Report may contain errors in the calculation of shares, percentages, amounts due to rounding the calculated indicators. The data presented in this Report may differ slightly from the data published previously due to the difference in rounded figures.

Contact information

Holding Company “Public Joint Stock Company TATNEFT named after V.D. Shashin (hereinafter referred to as the Company) was established pursuant to the Decree of the President of the Republic of Tatarstan “On Measures for transformation of the state-owned enterprises, entities, and amalgamations into joint-stock companies” dated 26.09.1992 No.UP-466 and the Law of the Republic of Tatarstan “On transformation of the national and communal properties in the Republic of Tatarstan (denationalization and privatization)”.

The Company was established in June 1994 for an indefinite period.

The Company was registered with the Republic of Tatarstan Ministry of Finance (Registration No. 632 dated January 21, 1994).

The Company’s activity is focused on a profit-making goal.

PUBLIC JOINT STOCK COMPANY TATNEFT
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Significant statements
Note
The report may contain some inaccuracies in the calculation of fractions, percent, and amounts when rounding the estimated values. The data presented in this report may differ slightly from previously published data due to the difference in rounded figures.

TATNEFT

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