DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE MONTHS AND
THE YEAR ENDED 31 DECEMBER 2017

Content

The following discussion should be read in conjunction with the audited consolidated financial statements prepared in accordance with IFRS and the related notes, published simultaneously with this Management's Discussion and Analysis of financial condition and results of operations (MD&A). This report includes forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in the forward-looking statements as a result of numerous factors, including those discussed later in this MD&A. Words such as "believes," "anticipates," "expects," "estimates," "intends," "plans," etc. – that reflect management's current estimates and beliefs, but are not guarantees of future results. Please see "Forward-looking statements" on page 25 for a discussion of some factors that could cause actual results to differ materially.

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

Background

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

As of 31 December 2017 and 2016 the government of Tatarstan controls approximately 36% of the Company's voting stock. Tatarstan also holds a "Golden Share", a special governmental right, in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and one representative to the Revision Committee of the Company as well as to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization of the Company and "major" and "interested party" transactions as defined under Russian law. The Golden Share currently has an indefinite term.

The majority of the Group's crude oil and gas production, refining capacity and other operations are located in Tatarstan, a republic of the Russian Federation, situated between the Volga River and the Ural Mountains, approximately 750 kilometers southeast of Moscow.

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

Nonrecurring and exceptional items

The following significant nonrecurring and exceptional one-off items impacted the Group's results of operations for the year ended 31 December 2017 included in the Loss on impairments of property, plant and equipment and other assets in the Consolidated Statement of Profit or Loss and other Comprehensive Income of the Group (see p. 14):

- Loss on impairment of some loans initially issued by Bank ZENIT in the amount of RR 7,107 million, subsequently transferred under the cession agreements to other subsidiaries of the Group
- Loss on impairment of available-for-sale investments into closed mutual investment fund "AK BARS-Gorizont" in the amount RR 6,647 million, as a result of the revaluation by an independent appraiser the fair value of land plots held by the fund

The following significant nonrecurring and exceptional one-off item impacted the Group's results of operations for the year ended 31 December 2016:

- Loss from deconsolidation of several entities of the Group which were ceased to meet the power criteria for consolidation under IFRS 10 "Consolidated Financial Statements" and therefore were deconsolidated in the respective period due to ceasing of exercising control over those entities. That resulted in one-off non-cash loss on disposal in the amount of RR 8,745 million recorded within the section Gain/ (loss) on disposals of interests in subsidiaries and associates, net (see p. 15).

	3 months ended		12 months ended	
(RR million)	**31 December 2017**	**30 September 2017**	**31 December 2017**	**31 December 2016**
Loss on impairment of some loans initially issued by Bank ZENIT	6,007	1,100	7,107	-
Loss on impairment of available-for-sale investments into closed mutual investment fund "AK BARS-Gorizont"	-	6,647	6,647	-
Loss from deconsolidation of several entities of the Group (change in the Group structure)	-	-	-	8,745
Total Nonrecurring and exceptional one-off items	**6,007**	**7,747**	**13,754**	**8,745**

Key financial and operational results

	3 months ended		Chg.,	12 months ended		Chg.,
	31 December 2017	30 September 2017	%	31 December 2017	31 December 2016	%
Financial results						
Sales on non-banking activities, net (RR million)	195,008	169,172	*15.3*	681,159	580,127	*17.4*
Profit attributable to Group shareholders (RR million)	34,343	27,056	*26.9*	123,139	107,389	*14.7*
EBITDA(1) (RR million)	53,142	41,489	*28.1*	185,309	165,647	*11.9*
Adjusted EBITDA(1) (RR million)	59,149	49,236	*20.1*	199,063	174,392	*14.1*
Additions to property, plant and equipment (RR million)	25,318	19,728	*28.3*	84,986	95,669	*(11.2)*
Free Cash Flow (RR million)	27,051	38,561	*(29.8)*	105,286	45,702	*>100*
Net debt(3) (RR million)	4,015	(36,831)	*n/a*	4,015	(22,976)	*n/a*
Basic and Diluted profit per share (RR)						
Common	15.28	12.03	*27.0*	54.73	47.50	*15.2*
Preferred	14.87	11.87	*25.3*	54.32	47.48	*14.4*
Operational results						
Crude oil production by the Group (th. tonnes)	7,275	7,284	*(0.1)*	28,939	28,686	*0.9*
Crude oil production by the Group (th. barrels)	51,816	51,882	*(0.1)*	206,136	204,331	*0.9*
Crude oil daily production (th. barrels per day)	563.2	563.9	*(0.1)*	564.8	558.3	*1.2*
Gas production by the Group (million cubic meters)	221.3	234.4	*(5.6)*	945.3	997.8	*(5.3)*
Gas daily production (th. boe per day)	14.2	15.0	*(5.3)*	15.2	16.0	*(5.0)*
Refined products produced (th. tonnes)	2,305.4	2,383.9	*(3.3)*	8,458.4	9,329.2	*(9.3)*
incl. produced for third parties under tolling arrangements	*112.1*	*183.9*	*(39.0)*	*515.1*	*368.1*	*39.9*
Gas products produced(4) (th. tonnes)	263.9	280.2	*(5.8)*	1,116.0	1,157.8	*(3.6)*
Refining throughput* (th. barrels per day)	179.4	178.7	*0.4*	163.3	179.3	*(8.9)*
Production of tires (million tires)	3.6	3.4	*5.9*	12.9	11.5	*12.2*
Number of petrol (gas) stations in Russia(2) (3)	574	567		574	567	
Number of petrol (gas) stations outside of Russia(2) (3)	111	114		111	122	

(1) *As defined on page 16*
(2) *Including leased stations*
(3) *At the end of the period*
(4) *Including natural stable gasoline, produced by gas refining division Tatneftegaspererabotka*
** Including volumes produced for third parties under tolling arrangements*

Our net profit in the fourth quarter of 2017 in the amount of RR 34,343 million increased by 26.9% in comparison to the third quarter of 2017. The positive effect was mainly due to an increase in net revenues on non-banking activities on the back of higher average sales prices of crude oil and refined products in the current period.

Our net profit in 2017 was RR 123,139 million, which is RR 15,750 million, or 14.7%, more than in 2016. Higher net revenues on non-banking activities in the current period, partly offset by an increase in mineral extraction tax expense was the main factor behind an increase in our profit compared to 2016. Also, our results of operations for 2017 were affected by significant nonrecurring and exceptional losses on impairment of some assets (see section Nonrecurring and exceptional items). For more detailed presentation of various factors affecting the results of our operations as well as period-to-period comparison, please see page 9.

In the fourth quarter of 2017 the Group produced 7.3 million metric tonnes of crude oil, which is insignifically lower than in the third quarter of 2017. Our gas production in the fourth quarter of 2017 was 221.3 million cubic meters, which is 5.6% lower than in the third quarter of 2017.

In 2017 the Group produced 28.9 million metric tonnes of crude oil, which is 0.9% higher than in 2016. Our gas production in 2017 was 945.3 million cubic meters, which is 5.3% lower than in 2016.

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

TANECO operational results	3 months ended 31 December 2017	3 months ended 30 September 2017	Chg., %	12 months ended 31 December 2017	12 months ended 31 December 2016	Chg., %
	(in thousand tonnes)			(in thousand tonnes)		
Refined products output:	**2,239.4**	**2,311.3**	***(3.1)***	**8,190.8**	**9,090.8**	***(9.9)***
incl. produced for third parties under tolling arrangements	*112.1*	*183.9*	*(39.0)*	*515.1*	*368.1*	*39.9*
Middle distillates	868.7	941.9	*(7.8)*	3,298.9	2,884.3	*14.4*
Fuel oil	-	-	*n/a*	-	1,270.1	*(100.0)*
Naphtha	447.7	455.8	*(1.8)*	1,607.3	1,790.0	*(10.2)*
Diesel fuel	410.3	394.1	*4.1*	1,407.3	1,583.3	*(11.1)*
Vacuum gasoil	-	1.8	*(100.0)*	12.5	33.9	*(63.1)*
Kerosene	11.5	5.7	*101.8*	31.6	99.1	*(68.1)*
Visbreaker naphtha	-	-	*n/a*	-	55.5	*(100.0)*
Jet fuel	45.6	86.1	*(47.0)*	221.5	137.0	*61.7*
Petroleum coke	151.9	155.1	*(2.1)*	571.1	278.8	*104.8*
Other	303.7	270.8	*12.1*	1,040.6	958.8	*8.5*

Segment information

Our operations are currently divided into the following main segments:

- **Exploration and production** – consists of the Company's oil and gas extraction and production divisions, as well as production subsidiaries. Most oil and gas exploration and production activities are concentrated within the Company.

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

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

- **Banking** - our banking segment consists of Bank ZENIT and its subsidiaries (ZENIT Banking Group). ZENIT Banking Group has been consolidated into the Group's financial statements from the fourth quarter of 2016.

  ZENIT Banking Group (further "Bank ZENIT") includes Bank ZENIT, Bank Devon-Credit, Lipetskkombank, Bank ZENIT Sochi and SPIRITBANK.

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

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

Intersegment Sales

Tatneft's three main non-banking business segments are interconnected and dependent on each other as a portion of the revenues of one main segment is included in the expenses of the other main segment. In particular, exploration and production Group companies sell part of crude oil for the refining and marketing Group companies, which processes crude oil at own TANECO refinery. Refined products are then either sold by the Company through wholesale in international or domestic markets or sold to the Company's consumer marketing subsidiaries for subsequent distribution in Russia.

As a result of certain factors benchmarking crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil and other goods and services reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of crude oil refining and other factors. Accordingly, an analysis of either of these segments on a stand-alone basis could give a misleading perception of those segments' underlying financial position and results of operations. For this reason, we do not analyze either of our main segments separately in the discussion that follows. However, we present the financial data for each in Note 27 "Segment information" to our consolidated financial statements. All intercompany operations are eliminated on the consolidation level.

Executive overview

Recent developments and outlook

E&P activities in Tatarstan

One of the Company's primary strategic goals is a shift from stabilization to sustainable organic growth of crude oil production from its licensed fields in Tatarstan. In 2017 the Group increased production by 0.9% from its fields compared to 2016. Due to the relative maturity of the Company's main producing fields significant portion of all crude oil produced by the Company in Tatarstan was extracted using various enhanced oil recovery techniques. In 2017 the Group put 895 new production wells into operation in Taterstan.

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

E&P activities outside of Tatarstan

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

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

Highly viscous oil production

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

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

In 2017 production of highly viscous oil amounted to 2,244.2 thousand tonnes, including 1,620.4 thousand tonnes at the Ashalchinskoye and some other (with the viscocity more than 10,000 Megapascal x S) fields.

Crude oil refining and marketing

TANECO, the Group's core refining complex, located in Nizhnekamsk, Tatarstan, has been in commercial operation from December 2011. Starting from 2014 TANECO's capacity was increased to the level of 115% of the nameplate capacity. In 2016 the Group launched the delayed coker unit at TANECO, allowing it to eliminate the production of fuel oil and increase the light products yield to 87% and the overall refining depth to 99.2%. In 2017 the Group continued implementation of several major active projects at TANECO including the installation of the vacuum and atmospheric column at the CDU/VDU-6 as well as construction activities on the other units. Also in 2017 scheduled maintenance was carried out, which allowed to extend of complex's turnaround cycle to five years.

Petrochemicals

In 2017 production of tires by the Group's petrochemicals segment amounted to 12.9 million tires in comparison to 11.5 million tires in 2016.

Results of Group operations for the three months and the year ended 31 December 2017

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

(RR million)	3 months ended 31 December 2017	3 months ended 30 September 2017	Chg., %	12 months ended 31 December 2017	12 months ended 31 December 2016	Chg., %
Sales and other operating revenues on non-banking activities, net	**195,008**	**169,172**	***15.3***	**681,159**	**580,127**	***17.4***
Costs and other deductions on non-banking activities						
Operating expenses	(33,968)	(32,537)	*4.4*	(123,517)	(119,480)	*3.4*
Purchased oil and refined products	(18,870)	(17,399)	*8.5*	(70,984)	(80,166)	*(11.5)*
Exploration	(263)	(278)	*(5.4)*	(1,143)	(1,185)	*(3.5)*
Transportation	(9,148)	(8,918)	*2.6*	(35,925)	(30,478)	*17.9*
Selling, general and administrative	(12,319)	(11,874)	*3.7*	(48,327)	(46,754)	*3.4*
Depreciation, depletion and amortization	(6,059)	(6,731)	*(10)*	(24,885)	(21,626)	*15.1*
Loss on impairments of property, plant and equipment and other assets	(7,530)	(7,832)	(3.9)	(15,512)	(5,616)	*>100*
Taxes other than income taxes	(56,104)	(45,981)	*22*	(194,316)	(126,590)	*53.5*
Maintenance of social infrastructure and transfer of social assets	(1,724)	(1,375)	*25.4*	(5,427)	(5,182)	*4.7*
Total costs and other deductions on non-banking activities	**(145,985)**	**(132,925)**	***9.8***	**(520,036)**	**(437,077)**	***19***
Gain on disposals of interests in subsidiaries and associates, net	92	-	*n/a*	109	1,951	*(94.4)*
Other operating income/ (expenses), net	1,586	(184)	*n/a*	1,343	(917)	*n/a*
Operating profit on non-banking activities	**50,701**	**36,063**	*40.6*	**162,575**	**144,084**	*12.8*
Net interest, fee and commission and other operating income/ (expenses) and gains/ (losses) on banking activities						
Interest, fee and commission income	6,194	6,695	*(7.5)*	30,964	7,955	*>100*
Interest, fee and commission expense	(2,739)	(3,742)	*(26.8)*	(14,342)	(5,105)	*>100*
Provision for loan impairment	(1,356)	(3,396)	*(60.1)*	(8,685)	(1,167)	*>100*
Operating expenses	(2,322)	(1,409)	*64.8*	(7,498)	(2,258)	*>100*
Profit/ (loss) arising from dealing in foreign currencies, net	174	(130)	*n/a*	(27)	(175)	*(84.6)*
Other operating (expenses)/ income, net	(1,983)	493	*n/a*	(1,220)	(230)	*>100*
Total net interest, fee and commission and other operating expenses and losses on banking activities	**(2,032)**	**(1,489)**	***36.5***	**(808)**	**(980)**	***(17.6)***
Other income/(expenses)						
Foreign exchange gain/ (loss), net	43	(377)	*n/a*	(1,618)	(3,304)	*(51)*
Interest income on non-banking activities	1,075	1,411	*(23.8)*	6,494	5,430	*19.6*
Interest expense on non-banking activities, net of amounts capitalized	(806)	(730)	*10.4*	(3,095)	(3,920)	*(21)*
Share of results of associates and joint ventures	(62)	(24)	*>100*	(10)	(339)	*(97.1)*
Total other income/ (expenses)	**250**	**280**	***(10.7)***	**1,771**	**(2,133)**	***n/a***
Profit before income tax	**48,919**	**34,854**	***40.4***	**163,538**	**140,971**	***16***
Current income tax expense	(9,752)	(7,785)	*25.3*	(34,227)	(29,657)	*15.4*
Deferred income tax expense	(3,256)	(1,461)	*>100*	(5,419)	(5,184)	*4.5*
Total income tax expense	**(13,008)**	**(9,246)**	***40.7***	**(39,646)**	**(34,841)**	***13.8***
Profit for the period	**35,911**	**25,608**	***40.2***	**123,892**	**106,130**	***16.7***
Less: (profit)/ loss attributable to non-controlling interest	(1,568)	1,448	*n/a*	(753)	1,259	*n/a*
Profit attributable to Group shareholders	**34,343**	**27,056**	***26.9***	**123,139**	**107,389**	***14.7***

Sales and other operating revenues on non-banking activities

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

(RR million)	3 months ended 31 December 2017	3 months ended 30 September 2017	Chg., %	12 months ended 31 December 2017	12 months ended 31 December 2016	Chg., %
Crude oil						
Sales	*115,353*	*98,265*	*17.4*	*430,432*	*354,494*	*21.4*
Less related export duties	*(16,051)*	*(14,247)*	*12.7*	*(65,216)*	*(56,402)*	*15.6*
	99,302	84,018	18.2	365,216	298,092	*22.5*
Refined products						
Sales	*82,158*	*71,877*	*14.3*	*267,936*	*240,873*	*11.2*
Less related export duties and excise taxes	*(8,266)*	*(7,527)*	*9.8*	*(26,284)*	*(28,543)*	*(7.9)*
	73,892	64,350	14.8	241,652	212,330	*13.8*
Petrochemicals	15,030	14,139	6.3	48,939	44,734	*9.4*
Corporate and other sales	6,784	6,665	1.8	25,352	24,971	*1.5*
Total Sales and other operating Revenues on non-banking activities, net	**195,008**	**169,172**	**15.3**	**681,159**	**580,127**	***17.4***

Increase in sales and other operating revenues on non-banking activities, net in the fourth quarter of 2017 compared to the third quarter of 2017 and in 2017 compared to 2016 was mainly due to increased average sales prices of crude oil and refined products in the current periods.

In the fourth quarter of 2017 export duties, paid by the Group, compared to the third quarter of 2017, increased by 16.6% to RR 19,492 million due to increase in average crude oil export duty rate in the current period.

In 2017 export duties, paid by the Group, compared to 2016, increased by 7.5% to RR 75,513 million due to increase in volumes of crude oil sales to Non-CIS market in the current period as well as an increase in average export duty rate in the current period on the back of higher crude oil prices.

Our expenses on excise taxes in the fourth quarter of 2017 decreased by 4.5% to RR 4,826 million compared to RR 5,056 million in the third quarter of 2017 mainly due to lower volumes of refined products sold on domestic market which were subject to excise tax in the current period.

Our expenses on excise taxes in 2017 increased to RR 15,987 million compared to the RR 14,692 million in 2016 mainly due to an increase in excise tax rates on majority of refined products partly offset by lower volumes of refined products sold on domestic market which were subject to excise tax in the current period.

Sales of crude oil and refined products outside of Russia

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

Three months ended 31 December 2017

During the fourth quarter of 2017, the Group exported approximately 72% of all its crude oil sold compared to approximately 73% in the third quarter of 2017.

In the fourth quarter of 2017 the Company delivered 64% (70% in the third quarter of 2017) of its own crude oil for export through Transneft's Druzhba pipeline (mainly to Poland, Germany and Czech Republic); 2% (3% in the third quarter of 2017) of crude oil was shipped through Russian Black Sea ports (mainly Novorossiysk) and 34% (27% in the third quarter of 2017) of crude oil exported through Russian Baltic Sea ports (mainly Primorsk). [(*)]

In the fourth quarter of 2017 the Group exported 1,600 thousand tonnes of refined products (including 35 thousand tonnes of purchased refined products) in comparison to 1,353 thousand tonnes in the third quarter of 2017 (including 61 thousand tonnes of purchased refined products).

Twelve months ended 31 December 2017

In 2017 the Group exported approximately 73% of all its crude oil sold compared to approximately 61% in 2016.

In 2017 the Company delivered 65% (63% in 2016) of its own crude oil for export through Transneft's Druzhba pipeline (mainly to Poland, Germany and Slovakia); 4% (5% in 2016) of crude oil was shipped through Russian Black Sea ports (mainly Novorossiysk) and 31% (32% in 2016) of crude oil exported through Russian Baltic Sea ports (mainly Primorsk). [*]

In 2017 the Group exported 5,031 thousand tonnes of refined products (including 185 thousand tonnes of purchased refined products) in comparison to 4,909 thousand tonnes in 2016 (including 104 thousand tonnes of purchased refined products).

[*] *Sales to CIS were excluded in the calculation of figures in percent in the paragraphs above*

Sales breakdown on non-banking activities

Sales revenues

(RR million)	3 months ended 31 December 2017	3 months ended 30 September 2017	Chg., %	12 months ended 31 December 2017	12 months ended 31 December 2016	Chg., %
Crude oil						
Non-CIS						
Export sales	83,361	73,177	*13.9*	317,452	236,938	*34*
Less related export duties	(16,051)	(14,247)	*12.7*	(65,216)	(56,402)	*15.6*
CIS sales[1]	5,960	5,242	*13.7*	20,781	16,572	*25.4*
Domestic sales	26,032	19,846	*31.2*	92,199	100,984	*(8.7)*
	99,302	**84,018**	***18.2***	**365,216**	**298,092**	***22.5***
Refined products						
Non-CIS export sales						
Export sales	37,263	29,177	*27.7*	113,102	95,456	*18.5*
Less related export duties	(3,440)	(2,468)	*39.4*	(10,293)	(13,848)	*(25.7)*
CIS sales						
CIS sales	6,067	2,900	*109.2*	12,271	6,982	*75.8*
Less related export duties	-	(3)	*(100)*	(4)	(3)	*33.3*
Domestic sales						
Domestic sales	38,828	39,800	*(2.4)*	142,563	138,435	*3*
Less related excise taxes	(4,826)	(5,056)	*(4.5)*	(15,987)	(14,692)	*8.8*
	73,892	**64,350**	***14.8***	**241,652**	**212,330**	***13.8***
Petrochemical products						
Tires sales	14,281	13,467	*6*	46,558	43,013	*8.2*
Other petrochemicals sales	749	672	*11.5*	2,381	1,721	*38.3*
	15,030	**14,139**	***6.3***	**48,939**	**44,734**	***9.4***
Other sales	**6,784**	**6,665**	***1.8***	**25,352**	**24,971**	***1.5***

[1] *CIS is an abbreviation for Commonwealth of Independent States*

Sales volumes

(thousand tonnes)	3 months ended 31 December 2017	3 months ended 30 September 2017	Chg., %	12 months ended 31 December 2017	12 months ended 31 December 2016	Chg., %
Crude oil						
Non-CIS export sales	3,365	3,450	*(2.5)*	14,676	12,352	*18.8*
CIS sales	299	310	*(3.5)*	1,211	1,127	*7.5*
Domestic sales	1,414	1,295	*9.2*	5,943	8,638	*(31.2)*
	5,078	**5,055**	***0.5***	**21,830**	**22,117**	***(1.3)***
Refined products						
Non-CIS export sales	1,397	1,253	*11.5*	4,627	4,659	*(0.7)*
CIS sales	203	100	*103*	404	250	*61.6*
Domestic sales	1,309	1,588	*(17.6)*	5,492	6,031	*(8.9)*
	2,909	**2,941**	***(1.1)***	**10,523**	**10,940**	***(3.8)***

Realized average sales prices

(th. RR per tonne)	3 months ended 31 December 2017	3 months ended 30 September 2017	Chg., %	12 months ended 31 December 2017	12 months ended 31 December 2016	Chg., %
Crude oil						
Non-CIS export sales	*24.77*	*21.21*	*16.8*	*21.63*	*19.18*	*12.8*
CIS sales	*19.93*	*16.91*	*17.9*	*17.16*	*14.70*	*16.7*
Domestic sales	*18.41*	*15.32*	*20.2*	*15.51*	*11.69*	*32.7*
Refined products						
Non-CIS export sales	*26.67*	*23.29*	*14.5*	*24.44*	*20.49*	*19.3*
CIS sales	*29.89*	*29.00*	*3.1*	*30.37*	*27.93*	*8.7*
Domestic sales	*29.66*	*25.06*	*18.4*	*25.96*	*22.95*	*13.1*

Sales of crude oil

In the fourth quarter and the twelve months of 2017 compared to the third quarter of 2017 and the twelve months of 2016, sales of crude oil increased accordingly by 17.4% and 21.4% to RR 115,353 million and RR 430,432 million mainly due to higher average prices of crude oil in the current periods.

Sales of refined products

In the fourth quarter and the twelve months of 2017 compared to the third quarter of 2017 and the twelve months of 2016, sales of refined products increased accordingly by 14.3% and 11.2% to RR 82,159 million and RR 267,936 million mainly due to higher average prices of refined products sold in the current periods.

	3 months ended				Chg.*, %		12 months ended				Chg.*, %	
	31 December 2017		30 September 2017				31 December 2017		31 December 2016			
Non-CIS export sales	**RR mln**	**mln tonnes**	**RR mln**	**mln tonnes**	**Sales**	**Volumes**	**RR mln**	**mln tonnes**	**RR mln**	**mln tonnes**	**Sales**	**Volumes**
Naphtha	13,433	0.43	12,016	0.46	*11.8*	*(6.5)*	45,311	1.66	46,091	1.93	*(1.7)*	*(14.0)*
Middle distillates	13,892	0.55	9,320	0.43	*49.1*	*27.9*	40,622	1.74	24,001	1.12	*69.2*	*55.4*
Hydrorefined fuel oil	-	-	-	-	*n/a*	*n/a*	1,620	0.07	-	-	*n/a*	*n/a*
Engine oil	550	0.02	1,381	0.04	*(60.2)*	*(50.0)*	3,195	0.10	2,482	0.09	*28.7*	*11.1*
Diesel fuel	1,534	0.04	1,871	0.07	*(18.0)*	*(42.9)*	4,192	0.14	5,689	0.22	*(26.3)*	*(36.4)*
Gas products	491	0.01	301	0.02	*63.1*	*(50.0)*	1,497	0.06	1,371	0.07	*9.2*	*(14.3)*
Fuel oil	-	-	-	-	*n/a*	*n/a*	-	-	6,132	0.64	*(100.0)*	*(100.0)*
Other	7,363	0.35	4,288	0.23	*71.7*	*52.2*	16,665	0.86	9,689	0.59	*72.0*	*45.8*
Total	**37,263**	**1.40**	**29,177**	**1.25**	***27.7***	***12.0***	**113,102**	**4.63**	**95,456**	**4.66**	***18.5***	***(0.6)***

	3 months ended				Chg.*, %		12 months ended				Chg.*, %	
	31 December 2017		30 September 2017				31 December 2017		31 December 2016			
CIS export sales	**RR mln**	**mln tonnes**	**RR mln**	**mln tonnes**	**Sales**	**Volumes**	**RR mln**	**mln tonnes**	**RR mln**	**mln tonnes**	**Sales**	**Volumes**
Diesel fuel	3,190	0.09	1,030	0.04	*>100*	*>100*	6,312	0.19	4,431	0.15	*42.5*	*26.7*
Gas products	258	0.01	292	0.01	*(11.6)*	*0.0*	911	0.04	705	0.04	*29.2*	*0.0*
Naphtha	1,694	0.06	207	0.01	*>100*	*>100*	1,901	0.07	388	0.02	*>100*	*>100*
Other	925	0.04	1,371	0.04	*(32.5)*	*0.0*	3,147	0.10	1,458	0.04	*>100*	*>100*
Total	**6,067**	**0.20**	**2,900**	**0.10**	***>100***	***100.0***	**12,271**	**0.40**	**6,982**	**0.25**	***75.8***	***60.0***

Domestic sales	3 months ended 31 December 2017 RR mln	3 months ended 31 December 2017 mln tonnes	3 months ended 30 September 2017 RR mln	3 months ended 30 September 2017 mln tonnes	Chg.*, % Sales	Chg.*, % Volumes	12 months ended 31 December 2017 RR mln	12 months ended 31 December 2017 mln tonnes	12 months ended 31 December 2016 RR mln	12 months ended 31 December 2016 mln tonnes	Chg.*, % Sales	Chg.*, % Volumes
Diesel fuel	14,287	0.42	11,981	0.38	*19.2*	*10.5*	48,646	1.50	44,719	1.56	*8.8*	*(3.8)*
Middle distillates	9,425	0.34	11,637	0.50	*(19.0)*	*(32.0)*	35,967	1.52	37,898	1.73	*(5.1)*	*(12.1)*
Petrol fuel	9,491	0.24	10,231	0.26	*(7.2)*	*(7.7)*	36,610	0.95	33,145	0.91	*10.5*	*4.4*
Gas products	3,035	0.18	3,114	0.20	*(2.5)*	*(10.0)*	12,133	0.76	11,816	0.80	*2.7*	*(5.0)*
Engine oil	838	0.01	573	0.03	*46.2*	*(66.7)*	2,387	0.07	1,678	0.05	*42.3*	*40.0*
Jet fuel	538	0.02	1,373	0.05	*(60,8)*	*(60.0)*	2,822	0.09	1,938	0.08	*45.6*	*12.5*
Other	1,214	0.10	890	0.16	*36.4*	*(37.5)*	3,998	0.59	7,241	0.90	*(44.8)*	*(34.4)*
Total	**38,828**	**1.30**	**39,800**	**1.58**	***(2.4)***	***(17.7)***	**142,563**	**5.49**	**138,435**	**6.03**	***3.0***	***(9.0)***

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

Sales of petrochemical products

In the fourth quarter and the twelve months of 2017 compared to the third quarter of 2017 and the twelve months of 2016, sales of petrochemical products increased by 6.3% and 9.4% to RR 15,030 million and RR 48,939 million, respectively, primarily due to the higher volumes of tires sold and higher average prices, respectively, in the current periods.

The Group's production of tires in the fourth quarter of 2017 compared to the third quarter of 2017, increased by 5.9% and amounted to 3.6 million tires. The Group's production of tires in 2017 increased by 12.2% and amounted to 12.9 million tires compared to 2016.

Other sales

Other sales primarily represent sales of materials and equipment, various oilfield services (such as well construction and repairs, and geophysical works) and sales of energy, water and steam by the Group entities to third parties.

In the fourth quarter of 2017 other sales increased by 1.7% and amounted to RR 6,784 million in comparison to RR 6,665 million in the third quarter of 2017 mainly due to an increase in commission fee received and an increase in other sales in the current period.

In 2017 other sales increased by 1.5% to RR 25,352 million compared to 2016 mostly due to an increase in sales of materials in the current period.

Costs and other deductions on non-banking activities

Operating expenses. Operating expenses include the following costs:

(RR million)	3 months ended 31 December 2017	3 months ended 30 September 2017	12 months ended 31 December 2017	12 months ended 31 December 2016
Crude oil extraction expenses	13,268	14,118	53,163	52,830
Refining expenses	3,152	2,810	10,906	11,011
Petrochemical production expenses	12,280	10,987	38,792	35,920
Cost of other sales	5,592	4,993	20,557	20,607
Operating expenses not attributed to the revenues in the current period(1)	(324)	(371)	99	(888)
Total operating expenses	**33,968**	**32,537**	**123,517**	**119,480**

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

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

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

In the fourth quarter of 2017 lifting expenses averaged to RR 256.1 per barrel compared to RR 272.1 per barrel in the third quarter of 2017.

In 2017 lifting expenses averaged to RR 257.9 per barrel compared to RR 258.6 per barrel in 2016.

Decrease in per barrel lifting expenses in the fourth quarter of 2017 by 5.9% compared to the third quarter of 2017 was mainly due to effective implementation of various cost cutting initiatives in the current period.

Decrease in per barrel lifting expenses in 2017 by 0.3% compared to 2016 was mainly was mainly due to higher crude oil production level in the current period.

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

The refining expenses incurred at TANECO in the fourth quarter of 2017 were RR 1,398 per tonne of crude oil throughput (RR 1,482 per tonne of products output) compared to RR 1,243 per tonne of crude oil throughput (RR 1,321 per tonne of products output) in the third quarter of 2017.

The refining expenses incurred at TANECO in 2017 were RR 1,335 per tonne of crude oil throughput (RR 1,421 per tonne of products output) compared to RR 1,202 per tonne of crude oil throughput (RR 1,262 per tonne of products output) in 2016.

Increase of TANECO per tonne refining expenses in the fourth quarter 2017 in comparison to the third quarter of 2017 was mainly due to an increase in expenses on other raw materials and electricity.

The main reason for the increase in per tonne refining expenses at TANECO in 2017 compared to 2016 was an increase of overhead expenses.

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

Increase of petrochemical products' operating expenses both in the fourth quarter of 2017 and in the twelve months of 2017 by 11.8% and 8%, respectively, compared to the third quarter of 2017 and the twelve months of 2016 was primarily due to an increase in volumes of petrochemicals production in the current periods.

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

In the fourth quarter of 2017 other operating expenses increased by 12% to RR 5,592 million compared to the third quarter of 2017 due to an increase in other sales in the current period.

Decrease in other operating expenses in 2017 by 0.3% in comparison to 2016 was mostly due to a decrease in cost of sales of other goods in the current period.

Cost of purchased crude oil and refined products. Purchased oil and refined products' summary in the respective periods of 2017 and 2016 presented below:

	3 months ended				**12 months ended**			
	31 December 2017		**30 September 2017**		**31 December 2017**		**31 December 2016**	
	RR mln	**th. tonnes**	**RR mln**	**th. tonnes**	**RR mln**	**th. tonnes**	**RR mln**	**th. tonnes**
Purchased crude oil	3,582	184	2,197	113	16,584	956	37,866	2,761
Purchased refined products	15,288	402	15,202	570	54,400	1,764	42,300	1,448
Total cost of purchased oil and refined products*	**18,870**		**17,399**		**70,984**		**80,166**	

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

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

In the fourth quarter of 2017 and in the twelve months of 2017 exploration expenses amounted to RR 263 million and RR 1,143 million compared to RR 278 million and RR 1,185 million in the third quarter of 2017 and the twelve months of 2016, respectively.

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

Increase of transportation expense in the fourth quarter of 2017 by 2.6% to RR 9,148 million compared to the third quarter of 2017 was due to an increase in refined products export sales in the current period.

Increase of transportation expense in 2017 by 17.9% to RR 35,925 million compared to 2016 was mostly due to an increase in crude oil sales volumes on Non-CIS market as well as an increase in volumes of refined products export sales in the current period.

Selling, general and administrative expenses. Certain selling, general and administrative expenses by nature are fixed costs which are not directly related to production, such as payroll, general business costs, insurance, advertising, share based compensation, legal fees, consulting and audit services, charity and other expenses, including bad debt provisions.

In the fourth quarter of 2017 increase of selling, general and administrative expenses by 3.7% to RR 12,319 million compared to the third quarter of 2017 was mostly attributed to an increase in bad debt provision, partly offset by a decrease in compensation cost.

Increase of selling, general and administrative expenses by RR 1,573 million to RR 48,327 million in 2017 compared to 2016 was mostly attributed to an increase in bad debt provision as well as in charitable and advertising expenses, partly offset by a decrease in compensation cost.

Loss on impairments of property, plant and equipment and other assets. In 2017 the Group recognised a loss on impairment of financial assets in the amount of RR 15,512 million, which mainly presented by impairment of available-for-sale investments into closed mutual investment fund "AK BARS-Gorizont" in the amount of RR 6,647 million, as a result of the revaluation by an independent appraiser the fair value of land plots held by the fund. Also the loss on impairments in the current period included one-off loss on impairment of certain loans initially issued by Bank ZENIT, subsequently transferred under the cession agreements to other subsidiaries of the Group in total amount of RR 7,107 million (see also section Nonrecurring and exceptional items).

In 2016 the Group recorded a provision on deposits held in PJSC Tatfondbank in the amount of RR 5,400 million as at 31 December 2016 due to the decision of the Central Bank of the Russian Federation to introduce temporary administration at PJSC Tatfondbank, announced in December 2016 and following revocation of its banking licence in March 2017.

Taxes. Effective tax burden (based on taxes other than income tax plus export duties and excise taxes) on the Group in the fourth and third quarters of 2017 were approximately 37% and 35% of total gross revenue on non-banking activities, respectively. In 2017 the effective tax burden on the Group was approximately 37% on total gross revenue on non-banking activities compared to the 32% in 2016.

Share of fiscal seizures in the financial result on non-banking activities of the Group excluding other operating income/loss was up to 71% and 73% in the fourth quarter of 2017 and in the twelve months of 2017, respectively.

Taxes other than income taxes include the following:

	3 months ended		12 months ended	
(RR million)	**31 December 2017**	**30 September 2017**	**31 December 2017**	**31 December 2016**
Mineral extraction tax	53,984	44,111	186,585	119,393
Property tax	1,641	1,399	5,896	5,623
Penalties and interest	17	34	123	(40)
Other	462	437	1,712	1,614
Total taxes other than income taxes	**56,104**	**45,981**	**194,316**	**126,590**

Taxes other than income taxes increased in the fourth quarter of 2017 in comparison to the third quarter of 2017 by 22% mainly due to higher mineral extraction tax expense in the current period based on higher crude oil market prices to which the tax rates are linked.

Taxes other than income taxes increased in 2017 in comparison to 2016 by 53.5% mainly due to higher mineral extraction tax expense in the current period based on higher crude oil market prices to which the tax rates are linked and due to an increase in base tax rate. From 1 January 2017 the base mineral extraction tax rate was increased to RR 919 per tonne from RR 857 per tonne in 2016. Other taxes include land tax and non-recoverable VAT.

Effective 1 January 2007, the tax rate formula for mineral extraction tax was modified to provide for fields a depletion rate of which is 80% or above as determined under Russian reserves classification. Under these rules, the Group benefits for each percent of depletion over 80% per field. The Group's largest field – Romashkinskoye and, certain other fields are more than 80% depleted. The Group's benefits in the fourth quarter of 2017 and the twelve months of 2017 were RR 9.1 billion and RR 30.4 billion, respectively (in comparison to RR 7.3 billion and RR 23.2 billion, in the third quarter of 2017 and the twelve months of 2016, respectively).

Tax benefits also apply to the Group's production of highly viscous crude oil from the Ashalchinskoye and some other fields. Related tax benefits in the fourth quarter of 2017 and the twelve months of 2017 amounted to RR 5.4 billion and RR 16.3 billion, respectively, in comparison to RR 4.2 billion and RR 7.1 billion in the third quarter of 2017 and the twelve months of 2016, respectively (also see p. 25).

Maintenance of social infrastructure and transfer of social assets. In the fourth quarter of 2017 and in 2017 maintenance of social infrastructure expenses and transfer of social assets amounted to RR 1,724 million and RR 5,427 million, respectively, compared to RR 1,375 million and RR 5,182 million, in the third quarter of 2017 and in 2016, respectively. These social infrastructure expenses relate primarily to housing, schools and cultural buildings in Tatarstan.

Gain on disposals of interests in subsidiaries and associates, net. In 2017 the Group recorded a gain on disposals of interests in some of our non-core subsidiaries and associates in the amount of RR 109 million.

In 2016 the Group recorded a RR 8,745 million one-off loss on disposal of some of the Group's entities which ceased to meet the power criteria for consolidation under IFRS 10 and therefore were deconsolidated. Also, in 2016 we recorded gain on sale of share in Nizhnekamskneftekhim in the amount of RR 9,800 million.

Other operating income/ (expenses), net. Other income, net, in the fourth quarter of 2017 amounted to RR 1,586 million compared to RR 184 million of other expense, net, in the third quarter of 2017.

In 2017 the Group recorded other income, net, in the amount of RR 1,343 million compared to RR 917 million of other expenses, net, in 2016.

<u>Net interest, fee and commission and other operating expenses and losses on banking activities</u>

Our banking activities was represented by Bank ZENIT. This section reflected the results of operations for the three months and a year ended 31 December 2017 from the consolidated statement of income and loss of the Bank ZENIT's financial statements. Comparative data for 2016 reflected the results of Bank ZENIT's operations for the fourth quarter of 2016 – the first period of the Bank's consolidation into the Group's financial statements.

<u>Other income/ (expenses)</u>

Foreign exchange gain/ (loss), net. In the fourth quarter of 2017 and in 2017 the Group recorded foreign exchange gain in the amount of RR 43 million and a loss in the amount of RR 1,618 million, respectively, compared to a foreign exchange losses of RR 377 million and in the third quarter of 2017 and RR 3,304 million in 2016, respectively, which were due to volatility of Ruble to US Dollar exchange rate in the reporting periods, resulting in the corresponding revaluation of US Dollars denominated monetary assets and liabilities of the Group.

Interest income on non-banking activities in the fourth quarter of 2017 decreased by 23.8% compared to the third quarter of 2017 and amounted to RR 1,075 million due to lower interest income received on loans and receivables (mainly on corporate debt securities) in the current period.

Increase of interest income in 2017 by 19.6% compared to 2016 to RR 6,494 million were related to an increase in interest income received on loans and receivables in the current period.

Interest expense on non-banking activities, net of amounts capitalized, includes among other things an unwinding of the discount on the provision for the future costs of decommissioning of oil and gas assets.

In the fourth quarter of 2017 interest expense, net of amounts capitalized, increased by 10.4% to RR 806 million compared to RR 730 million in the third quarter of 2017 due to an increase in interest expense on bank loans in the current period.

In 2017 compared to 2016 interest expense, net of amounts capitalized, decreased by 21% to RR 3,095 million due to a decrease in unwinding amount of present value discount for decommissioning of oil and gas assets in the current period.

Share of results of associates and joint ventures. In the fourth quarter of 2017 the Group recorded an equity share in losses of associates and joint ventures in the amount of RR 62 million compared to a RR 24 million in the third quarter of 2017.

In 2017 the Group recorded an equity share in losses of associates and joint ventures of RR 10 million compared to RR 339 million losses in 2016. Losses in 2016 were mainly due to a loss incurred on the Group's investment in Bank ZENIT in the amount of RR 4,690 million partly offset by gains earned from the Group's investment in Niznekamskneftekhim in the amount of RR 4,098 million.

Income taxes

The Group's effective income tax rate in 2017 was 24.2%, compared to the statutory tax rate of 20% in the Russian Federation.

EBITDA reconciliation

	3 months ended		12 months ended	
(RR million)	**31 December 2017**	**30 September 2017**	**31 December 2017**	**31 December 2016**
Sales and other operating revenues on non-banking activities, net	195,008	169,172	681,159	580,127
Costs and other deductions on non-banking activities	(145,985)	(132,925)	(520,036)	(437,077)
Gain/(loss) on disposal of interest in subsidiaries and associates, net	92	-	109	1,951
Banking operating results, net	(2,032)	(1,489)	(808)	(980)
Depreciation, depletion and amortization	6,059	6,731	24,885	21,626
EBITDA*	**53,142**	**41,489**	**185,309**	**165,647**
Add back Nonrecurring and exceptional one-off items**	6,007	7,747	13,754	8,745
EBITDA adjusted for one-off items**	**59,149**	**49,236**	**199,063**	**174,392**

** Starting from the fourth quarter of 2016 Bank ZENIT's operating results are included in calculation of EBITDA due to its consolidation into the Group's financial statements.*
***See section Nonrecurring and exceptional items (p.4)*

EBITDA is a non-IFRS financial measure, defined as earnings before interest, taxes, depreciation and amortization. The Company believes that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our business operations, including our ability to finance capital expenditures, acquisitions and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under IFRS, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. Our EBITDA calculation is commonly used as a basis by some investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies within the oil and gas industry. EBITDA should not be considered in isolation as an alternative to net profit, operating income or any other measure of performance under IFRS. EBITDA does not consider our need to replace our capital equipment over time.

Credit ratings

In October 2017, Fitch Ratings affirmed Long- and Short-Term Issuer Default Ratings (IDR) of the Company at BBB- and F3, respectively. The outlook is stable.

In February 2017, Moody's Investors Service (Moody's) affirmed Ba1 corporate family rating (CFR) and the Ba1-PD probability of default rating (PDR) of Tatneft and changed the outlook on the ratings to stable from negative.

In January 2018, Moody's assigned Baa3 long-term issuer rating to Tatneft, concurrently withdrawing its Ba1 CFR and Ba1-PD PDR. The outlook on the rating was changed to positive from stable.

In July 2017, credit rating agency RAEX (Expert RA) assigned Tatneft a nonfinancial company creditworthiness ruAAA rating. The outlook is stable. The credit rating has been assigned using the national scale and is long term.

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

Financial Condition Summary Information

The following table shows certain key financial indicators:

(RR million)	At 31 December 2017	At 31 December 2016
Current assets	285,381	332,496
Long-term assets	822,073	762,101
Total assets	**1,107,454**	**1,094,597**
Current liabilities	306,296	286,363
Long-term liabilities	82,429	99,330
Total liabilities	**388,725**	**385,693**
Shareholders' equity	**718,729**	**708,904**
Working capital	(20,915)	46,133

Working capital position

The working capital in 2017 was affected by the decrease in cash associated with the payment of interim dividend for the nine months of 2017 and the raising of related short term liquidity financing, which has been repaid in the first quarter of 2018, as well as the increase of long term financial assets.

Liquidity and Capital Resources

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

	12 months ended	
(RR million)	31 December 2017	31 December 2016
Net cash provided by operating activities	190,272	141,371
including:		
Net cash provided by non-banking operating activities before income tax and interest	*197,033*	*173,362*
Net cash provided by banking operating activities before income tax	*22,307*	*(9,311)*
Net cash used in investment activities	(112,322)	(47,436)
Net cash used in financing activities	(111,985)	(39,964)
Net change in cash and cash equivalents	(34,035)	53,971

Net cash provided by operating activities

Our primary source of cash flow is funds generated from our operations. Net cash provided by operating activities increased by 34.6% to RR 190,272 million in 2017 from RR 141,371 million in 2016 which is primarily explained by additional net cash inflow by banking operating activities in the current period.

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

Net cash provided by non-banking operating activities before income tax and interest increased by 13.7% to RR 197,033 million in 2017 from RR 173,362 million in 2016 which is primarily explained by higher profit attributable to Group shareholders earned in the current period.

Net cash provided by banking operating activities before income tax

Net cash provided by banking operating activities before income tax amounted to RR 22,307 million in 2017 due to changes in the Bank's operational working capital, mainly related to changes in loans to customers.

Net cash used in investing activities

Net cash used in investing activities increased by 136.8% to RR 112,322 million in 2017 from RR 47,436 million in 2016, which was primarily due to net cash flow changes in acquisition and disposal of investments in subsidiaries and associates as well as an increase in cash used to purchase held-to-maturity investments, partly offset by net changes in placement and proceeds from redemption of bank deposits.

Net cash used in financing activities

Increase in cash flow used in financing activities in 2017 to RR 111,985 million from RR 39,964 million in 2016 was primarily due to an increase in cash used for dividends paid to shareholders as well as an increase in cash used for redemption of bonds, partly offset by proceeds from issuance of debt from non-banking activities.

Additions to property, plant and equipment

The following additions to property, plant and equipment (by segment, excluding non-cash additions) were made in the respective periods of 2017 an 2016:

	3 months ended		12 months ended	
(RR million)	**31 December 2017**	**30 September 2017**	**31 December 2017**	**31 December 2016**
Exploration and production	12,493	7,478	36,212	53,487
Refining and marketing	10,428	9,158	38,024	37,716
Petrochemicals	922	498	2,428	1,193
Corporate and other	1,475	2,594	8,322	3,273
Total additions to property, plant and equipment	**25,318**	**19,728**	**84,986**	**95,669**

Calculation of Free Cash Flow

	3 months ended		12 months ended	
(RR million)	**31 December 2017**	**30 September 2017**	**31 December 2017**	**31 December 2016**
Net cash provided by operating activities	52,369	58,289	190,272	141,371
Additions to property, plant and equipment	(25,318)	(19,728)	(84,986)	(95,669)
Free Cash Flow	**27,051**	**38,561**	**105,286**	**45,702**

Analysis of Debt

At 31 December 2017, total short-term and long-term debt amounted to RR 46,812 million as compared to RR 54,130 million at 31 December 2016.

Total short-term and long-term debt at 31 December 2017, without the Bank ZENIT's debt, amounted to RR 31,150 million as compared to RR 12,040 million at 31 December 2016.

The increase in total debt outstanding, without the Bank ZENIT's debt, in the current period was due to an increase in short-term other rouble denominated debt. 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% per annum which matures in 2018. The amount outstanding as of 31 December 2017 was RR 20,955 million.

Long-term debt outstanding, without the Bank ZENIT's debt, in the current period decreased, which was mainly due to scheduled repayments under a triple (3, 5 and 7 year) tranches secured credit facility for up to US$ 2 billion arranged in June 2010. The 3-year, 5-year and 7-year tranches were fully repaid.

As of 31 December 2017 the debt under the US$ 2 billion facility was fully repaid. As of 31 December of 2016 the undiscounted amounts outstanding, including the current portion was RR 997 million (US$ 16 million).

In November 2011, TANECO entered into a US$ 75 million credit facility with equal semi-annual repayments during ten years. The loan was arranged by Nordea Bank AB (Publ), Société Générale and Sumitomo Mitsui Banking Corporation Europe Limited. The loan bears interest at LIBOR plus 1.1% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios. The undiscounted amounts outstanding under this credit facility, including the current portion, as of 31 December of 2017 and 2016 were RR 1,728 million (US$ 30 million) and RR 2,275 million (US$ 38 million), respectively.

Also in November 2011, TANECO entered into a US$ 144.5 million credit facility with equal semi-annual repayments during ten years with the first repayment date on 15 May 2014. The loan was arranged by Société Générale, Sumitomo Mitsui Banking Corporation Europe Limited and the Bank of Tokyo-Mitsubishi UFJ, LTD. The loan bears interest at LIBOR plus 1.25% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. The undiscounted amounts outstanding under this credit facility, including the current portion, as of 31 December of 2017 and 2016 were RR 2,917 million (US$ 51 million) and RR 3,584 million (US$ 59 million), respectively.

In May 2013, TANECO entered into a EUR 55 million credit facility with equal semi-annual repayment during ten years. The loan was arranged by The Royal Bank of Scotland plc and Sumitomo Mitsui Banking Corporation Europe Limited. In May 2017 this credit facility was assigned to Citibank Europe plc, UK Branch with credit facility details remaining. The loan bears interest at LIBOR plus 1.5% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. The undiscounted amounts outstanding under this credit facility, including the current portion, as of 31 December of 2017 and 2016 were RR 2,364 million (EUR 34 million) and RR 2,925 million (EUR 46 million), respectively.

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

(RR million)	At 31 December 2017	At 31 December 2016
Due for repayment:		
Between one and two years	3,009	6,786
Between two and five years	2,562	12,929
After five years	1,325	15,127
Total long-term debt, net of current portion	**6,896**	**34,842**

Calculation of Net Debt

(RR million)	At 31 December 2017	At 31 December 2016
Short term debt	39,916	19,288
Long term debt, net of current portion	6,896	34,842
Total debt	**46,812**	**54,130**
Cash and cash equivalents	42,797	77,106
Net Debt	**4,015**	**(22,976)**

Contractual obligations, other contingencies and off balance sheet arrangements

Guarantees

The Group has guarantees issued related to banking activities at 31 December 2017 and 2016.

Commitments and Contingent Liabilities

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

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. The District Court will now consider whether there are any grounds to refuse enforcement of the arbitration award in the United States.

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 has 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 is scheduled in the High Court of England and Wales for the end of June 2018.

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. The next hearing at the Arbitration Court of the City of Moscow is scheduled for 24 April 2018.

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 date for the trial has not yet been established. The application of the defendants to the Supreme Court of the United Kingdom to appeal the decision of the Court of Appeals was denied by the Supreme Court on 13 March 2018.

Libya

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

Social commitments

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

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

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

Crude oil and refined products prices

The primary driver of our revenue is the selling price of crude oil and refined products. During the fourth quarter of 2017, Brent crude oil price fluctuated between $55 and $66 per barrel and averaged $61.3 per barrel in comparison to average $52.1 per barrel in the third quarter of 2017.

During 2017, Brent crude oil price fluctuated between $44 and $66 per barrel and averaged $54.2 per barrel in comparison to average $43.7 per barrel in 2016.

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

	Average for the 3 months ended		Chg.,	Average for the 12 months ended		Chg.,
	31 December 2017	**30 September 2017**	**%**	**31 December 2017**	**31 December 2016**	**%**
World market (1)	(in US$ per barrel, except for figures in percent)					
Brent crude	61.3	52.1	*17.7*	54.2	43.7	*24.0*
Urals crude *(CIF Mediterranean)*	60.6	51.0	*18.8*	53.3	42.4	*25.7*
Urals crude *(CIF Rotterdam)*	60.2	50.7	*18.7*	52.8	41.6	*26.9*
	(in US$ per tonne, except for figures in percent)					
Gasoil 0.1 1/2 *(CIF NWE/Basis ARA + FOB Rotterdam)*	556.0	491.0	*13.2*	496.3	400.5	*23.9*
Fuel oil 3.5% 1/2 *(CIF NWE/Basis ARA+ FOB Rotterdam)*	332.3	292.4	*13.6*	296.4	203.7	*45.5*
Fuel oil 3.5% *(FOB Med (Italy))*	333.1	292.6	*13.8*	298.3	204.9	*45.6*
Naphtha Phy 1/2 *(CIF NEW/Basis ARA+ FOB Rotterdam)*	552.8	460.6	*20.0*	481.9	383.1	*25.8*
Naphtha *(FOB Med)*	536.8	447.3	*20.0*	466.5	366.3	*27.4*
Naphtha *(FOB Med+CIF Med)*	542.2	451.8	*20.0*	471.6	371.6	*26.9*
HS VGO(2) 1/2 *(CIF NWE/Basis ARA+ FOB Rotterdam)*	421.6	365.3	*15.4*	374.6	297.6	*25.9*
Diesel fuel 10 ppm *(CIF NWE/Basis ARA+ FOB Rotterdam)*	543.0	473.9	*14.6*	484.5	392.2	*23.5*

Source: Platts

	Average for the 3 months ended		Chg.,	Average for the 12 months ended		Chg.,
	31 December 2017	**30 September 2017**	**%**	**31 December 2017**	**31 December 2016**	**%**
World market (1)	(in th. RR per tonne, except for figures in percent)					
Brent crude	25.50	21.90	*16.4*	22.53	20.86	*8.0*
Urals crude *(CIF Mediterranean)*	25.21	21.44	*17.6*	22.15	20.24	*9.4*
Urals crude *(CIF Rotterdam)*	25.05	21.31	*17.6*	21.95	19.86	*10.5*
	(in th. RR per tonne, except for figures in percent)					
Gasoil 0.1 1/2 *(CIF NWE/Basis ARA + FOB Rotterdam)*	32.48	28.98	*12.1*	28.96	26.85	*7.9*
Fuel oil 3.5% 1/2 *(CIF NWE/Basis ARA+ FOB Rotterdam)*	19.41	17.26	*12.5*	17.29	13.65	*26.7*
Fuel oil 3.5% *(FOB Med (Italy))*	19.46	17.27	*12.7*	17.41	13.73	*26.8*
Naphtha Phy 1/2 *(CIF NEW/Basis ARA+ FOB Rotterdam)*	32.29	27.18	*18.8*	28.12	25.68	*9.5*
Naphtha *(FOB Med)*	31.35	26.40	*18.8*	27.22	24.55	*10.9*
Naphtha *(FOB Med+CIF Med)*	31.67	26.67	*18.7*	27.52	24.91	*10.5*
HS VGO(2) 1/2 *(CIF NWE/Basis ARA+ FOB Rotterdam)*	24.63	21.56	*14.2*	21.86	19.95	*9.6*
Diesel fuel 10 ppm *(CIF NWE/Basis ARA+ FOB Rotterdam)*	31.72	27.97	*13.4*	28.27	26.29	*7.5*

Source: Platts

	Average for the 3 months ended		Chg.,	Average for the 12 months ended		Chg.,
	31 December 2017	**30 September 2017**	**%**	**31 December 2017**	**31 December 2016**	**%**
Russian market (1)	(in th. RR per tonne (incl. excise tax and VAT), except for figures in percent)					
Crude oil	19.87	16.69	*19.1*	17.31	14.55	*19.0*
Diesel (summer)	40.71	37.03	*9.9*	37.36	32.37	*15.4*
Diesel (winter)	44.87	40.12	*11.8*	40.48	34.21	*18.3*
Fuel oil	11.23	11.11	*1.1*	10.75	6.92	*55.3*

Source: Kortes

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

There is no independent nor uniform market price for crude oil and refined products in Russia primarily because a significant portion of crude oil destined for sale in Russia is produced by vertically integrated Russian oil companies and is refined by the same vertically integrated companies. Crude oil that is not exported from Russia, refined by the producer or sold on previously agreed terms, offered for sale in the domestic market at prices determined on a transaction-by-transaction basis. However, there may be significant price differences between regions for similar quality crude oil as a result of the competition and economic conditions in those regions.

Inflation and foreign currency exchange rate fluctuations

A significant part of the Group's revenues are derived from export sales of crude oil and refined products which are denominated in US Dollars. The Group's operating costs are primarily denominated in Rubles. Accordingly, the relative movements of Ruble inflation and Ruble/US Dollar exchange rates can significantly affect the results of operations of the Group. For instance, operating margins are generally adversely affected by an appreciation of the Ruble against the US Dollar, because in the inflatory economy this will generally cause costs to increase relative to revenues. The Group has not historically used financial instruments to hedge against foreign currency exchange rate fluctuations.

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

	3 months ended		12 months ended	
	31 December 2017	30 September 2017	31 December 2017	31 December 2016
Ruble inflation/(deflation), %	0.8	(0.6)	2.5	5.4
Period-end exchange rate (Ruble to US$)	57.60	58.02	57.60	60.66
Average exchange rate (Ruble to US$)	58.41	59.02	58.35	67.03

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

At present, the Ruble is not a freely convertible currency outside the Commonwealth of Independent States. Certain exchange restrictions and controls still exist related to converting Rubles into other currencies.

Taxation

According to Federal law 401-FZ dd 30.11.2016 "On amendments to Part Two of the Tax Code and Other Legislative Acts of the Russian Federation" new amendments were introduced from 1 January 2017, in respect of excise duties, mineral extraction tax and other taxes which are discussed further.
The tables below present a summary of statutory tax rates that the Company and the majority of its subsidiaries were subject to in the respective periods:

Tax	3 months ended 31 December 2017	3 months ended 30 September 2017	Chg., %	12 months ended 31 December 2017	12 months ended 31 December 2016	Chg., %	Taxable base
Income tax – maximum rate	20%	20%	-	20%	20%	-	Taxable income
Value Added Tax (VAT)	18%	18%	-	18%	18%	-	Sales from goods/services
Property tax – maximum rate	2.2%	2.2%	-	2.2%	2.2%	-	Taxable property
	(in RR per tonne, except for figures in percent)						
Mineral extraction tax, average rates[1]	9,719	7,812	*24.4*	8,134	5,777	*40.8*	Tonne produced (crude oil)
	(in US $ per tonne, except for figures in percent)						
Crude oil export duty, average rates	96.3	79.8	*20.7*	86.7	75.7	*14.5*	Tonne exported
Refined products export duty average rates:							Tonne exported
Gasoline	28.9	23.9	*20.9*	26.0	46.1	*(43.6)*	
Straight-run gasoline	52.9	43.8	*20.8*	47.7	53.7	*(11.2)*	
Diesel fuel	28.9	23.9	*20.9*	26.0	30.3	*(14.2)*	
Light and middle distillates	28.9	23.9	*20.9*	26.0	30.3	*(14.2)*	
Fuel oil (mazut)	96.3	79.8	*20.7*	86.7	62.1	*39.6*	

[1] *Without taking into account differentiated taxation*

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

Mineral extraction tax (MET) rate. The base tax rate for the production of oil for 2017 is set at RR 919 per tonne (an increase from RUR 857 base tax rate applied in 2016) and is adjusted depending on the international market price of Urals blend and the Ruble/US Dollar exchange rate. The tax rate is zero when the average Urals blend international market price for a tax period is less than or equal to $15.00 per barrel. Each $1.00 per barrel increase in the international Urals blend price over the threshold ($15.00 per barrel) results in an increase in the tax rate by $3.52 per tonne extracted.

The MET rate is applied with a discount based on the level of depletion of the related oil fields as determined under Russian reserves classification guidelines. Such formula benefits producers with oil fields having a depletion level 80% and above as determined by the Russian reserves classification. The Group receives benefits for each percent of depletion over 80% per field. Benefit is calculated using the rate of RR 559 per tonne. Starting from January 2017, an additional component is added into calculation of MET formula, which decreases the amount of benefits (306 RUB/tonne in 2017, 357 RUB/tonne in 2018 and 428 RUB/tonne in 2019 and 2020). As Romashkinskoye field, the Group's largest, along with certain other fields, is more than 80% depleted, the Group received a benefit related to crude oil production from these fields in the fourth quarter of 2017 and the twelve months of 2017 in the amounts of RR 9.1 billion and RR 30.4 billion, respectively (in comparison to RR 7.3 billion and RR 23.2 billion, in the third quarter of 2017 and the twelve months of 2016, respectively).

Tax benefits apply to the production of highly viscous crude oil of 200 – 10 000 Megapascal x S in reservoir conditions. A zero MET rate applies to the production of highly viscous crude oil of more than 10 000 Megapascal x S in reservoir conditions. Tax benefits from the Group's production of highly viscous crude oil from the Ashalchinskoye and some other fields amount to RR 5.4 billion in the fourth quarter of 2017 and RR 16.3 billion in the twelve months of 2017 in comparison to RR 4.2 billion in the third quarter of 2017 and RR 7.1 billion in the twelve months of 2016.

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

Quoted Urals price (P), US$ per tonne	Maximum Export Duty Rate
0 – 109.50	0%
109.50 – 146.00	35.0% * (P - 109.50)
146.00 – 182.50	US$ 12.78 + 45.0% * (P - 146.00)
>182.50	US$ 29.20 + 42.0% * (P - 182.50) (from 1 January 2016 till 31 December 2016) US$ 29.20 + 30.0% * (P - 182.50) (from 1 January 2017 till 31 December 2017)

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

Effective from January 2015 the Government sets the export duty for crude oil at a marginal rate of 59% of the Urals crude oil price during the monitoring period. Starting from January 2016 the marginal export duty rate decreased to 42%. From 1 January 2017 the marginal export duty rate on crude oil decreased to 30%.

In accordance with the amendments to the Russian Federation law on customs tariffs, with effect from 1 April 2013 the Government established formulas for calculation of the export customs duties on crude oil based on international oil prices (reflecting the levels described above and providing for special formulas with respect to extra-viscous oil and oil with special physical and chemical characteristics). With effect from 1 April 2013 specific crude oil export customs duties are calculated and published by the Russian Ministry of Economic Development in accordance with the established formulas.

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

	From 1 January till 31 December 2017	From 1 January till 31 December 2016
Light, middle distillates; oil lubricants	0.30	0.40
Diesel fuel	0.30	0.40
Fuel oil	1.00	0.82
Gasoline	0.30	0.61
Straight-run gasoline	0.55	0.71

With effect from 1 April 2013 specific rates are calculated and published by the Russian Ministry of Economic Development.

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

Excise tax on refined products. According to the legislation introduced in December 2010 the excise tax rates on the refined products were increased and linked to the environmental characteristics of the products. The duty to calculate and pay excises on refined products is assigned to the producers of refined products. In case of production of refined products from raw materials under commission contracts, the duty is assigned to the refineries. The excise tax is paid per metric tonne produced and sold domestically. In accordance with new amendments of the Tax legislation, acting from January 2017, the excise tax rates on refined products are differentiated in line with the refined products quality requirements. The table below shows average excise tax rates on refined products for indicated periods.

(RR per tonne)	**01.01.16-31.03.16**	**01.04.16-31.12.16**	**2017**
Gasoline below Euro-5	10,500	13,100	13,100
Gasoline Euro-5	7,530	10,130	10,130
Straight-run gasoline	10,500	13,100	13,100
Diesel fuel	4,150	5,293	6,800
Motor oils	6,000	6,000	5,400
Jet fuel	3,000	3,000	2,800
Benzol, paraxylene	3,000	3,000	2,800
Middle distillates	4,150	5,293	7,800

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

Value added tax (VAT). The Group is subject to value added tax (or VAT) of 18% on most sales. The Group's results of operations exclude the impact of VAT.

Income tax. The total income tax rate is 20%.

Transportation of crude oil and refined products

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

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

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

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

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

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

Transneft and Russian Railways are state-owned companies. As the activities of the above mentioned companies fall under the scope of natural monopolies, the fundamentals of their tariff policies are defined by the state authorities to ensure the balance of interests of the state and all participants in the transportation process. Transportation tariffs of natural monopolies are set by the Federal Service for Tariffs of the Russian Federation ("FST") and are dependent on transport destination, delivery volume, distance of transportation, and several other factors. Tariffs are revised by the FST at least annually.

Critical accounting policies

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

Forward-looking statements

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

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

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

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

These factors include:

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

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

Corporate Governance Statement

Corporate Governance Code

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

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

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

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

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

The entities of Tatneft Group (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"). The Group's consolidated financial statements for the periods up to 30 September 2012, inclusive, were prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The Group first adopted IFRS for the financial statements for the fiscal year ended 31 December 2012. The principal differences between RAR and IFRS relate to: (1) valuation (including indexation for the effect of hyperinflation in the Russian Federation through 2002) and depreciation of property, plant and equipment; (2) foreign currency translation; (3) deferred income taxes; (4) valuation allowances for unrecoverable assets; (5) consolidation; (6) share base 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 Group's consolidated financial statements are prepared on the basis of the RAR accounting records and adjusted as necessary to comply with US GAAP or IFRS, respectively.

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

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

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

Information About Share Capital

Significant Holding of Ordinary Shares

At 29 December 2017, JSC Svyazinvestneftekhim ("Svyazinvestneftekhim"), a joint stock company wholly-owned by the Republic of Tatarstan, holds directly and through its subsidiary LLC Investneftekhim approximately 32.6% of the Company's voting stock.

BNY Mellon, as depositary bank for our ADR facility, at of 31 December 2017, owned approximately 25.54% of the Company's ordinary shares.

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

Special Rights with Regard to Control of the Company

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

- decisions relating to changes to the share capital;
- amendments to the charter;
- liquidation or reorganization of the company; and
- entering into "major" or "interested party" transactions as defined in the Law on Joint Stock Companies.

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

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

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

Voting Rights

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

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

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

A shareholder or a group of shareholders owning in the aggregate at least two percent of our issued voting shares may submit proposals to the agenda of the annual shareholders' meeting and may nominate candidates to serve as members of our Board or Revision Committee. The shareholders must provide their agenda proposals or nominations to us within 55 calendar days of the end of the fiscal year preceding the annual shareholders' meeting, (*i.e.*, by 24 February).

Extraordinary shareholders' meetings may be called by the Board at its own initiative to consider matters within the competence of the general shareholders' meeting, as well as upon written request by the Revision Committee, our independent auditor or shareholders owning not less than 10% of our ordinary shares in the aggregate as of the date of such request. The Board must then consider the request, and, if approved, schedule the meeting not more than 40 days from the date of receipt of the request or 70 days from the date of receipt of the request if the proposed agenda includes the re-election of the Board by way of cumulative voting.

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

All our shareholders entitled to participate in a shareholders' meeting must be notified of a meeting and its agenda no less than 20 days prior to the date of the meeting. However, if it is an extraordinary shareholders' meeting to elect our Board by cumulative voting, shareholders must be notified at least 70 days prior to the date of the meeting. Also, if an agenda of the shareholders' meeting contains an item on reorganization, the notification shall be made no less than 30 days prior of the meeting, and if it deals more particularly with the reorganization in the form of merger, spin-off or split-up and there is an item on the election of directors of a new company, the term shall be no less than 70 days. The record date of the shareholders' meeting is set by the Board and may not be (i) earlier than the date of adoption of the resolution to hold a shareholders' meeting and (ii) more than 50 days before the date of the meeting. In the case of an extraordinary shareholders' meeting to elect our Board, the record date must be within the 80-day period prior to the meeting.

Right to Dividends

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

Rules About Appointment of Directors and Amendment of the Charter

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

The Powers of Directors

Please see section "Board of Directors" below.

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

Board of Directors

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

The members of our Board of Directors are:

Name	***Titles***	***Year of Birth***
Rustam Nurgalievich Minnikhanov*	Chairman of the Board, President of the Republic of Tatarstan	1957
Nail Ulfatovich Maganov	Director, General Director of Tatneft	1958
Shafagat Fakhrazovich Takhautdinov**	Director, Advisor to the Chairman of the Board	1946
Radik Raufovich Gaizatullin	Director, Finance Minister of the Republic of Tatarstan	1964
Laszlo Gerecs	Independent Director, Managing Director of G Petroconsulting Ltd.	1953
Nail Gabdulbarievich Ibragimov	Director, First Deputy General Director of Production, Chief Engineer	1955
Rustam Khamisovich Khalimov	Director, Deputy General Director on Exploration and Production of Oil and Gas	1965
Azat Kiyamovich Khamaev	Director, Minister of Land and Property Relations of Tatarstan	1956
Rais Salikhovich Khisamov	Director, Deputy General Director, Chief Geologist	1950
Yuri Lvovich Levin	Independent Director, Chairman of Audit Committee, Managing Director of BVM Capital Partners Ltd.	1953
Renat Haliullovich Muslimov	Director, Assistant to the President of the Republic of Tatarstan on Exploration of Oil and Gas Fields	1934
Rafael Saitovich Nurmukhametov	Director, Head of the Leninogorskneft NGDU	1949
Rinat Kasimovich Sabirov	Director, Advisor to the Prime-Minister of the Republic of Tatarstan on the Matters of Oil, Gas and Chemical Industry	1967
Valery Yurievich Sorokin	Director, General Director of Svyazinvestneftekhim	1964
Rene Frederic Steiner	Independent Director, Head of Private Equity Investments of FIDES Business Partner AG	1964

* Appointed to the Board of Directors pursuant to the exercise of the Golden Share right of the Tatarstan government.
** Until November 2013 Mr. Shafagat F. Takhautdinov was the General Director

Biographies of the Directors are set out below:

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

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

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

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

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

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

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

Azat Kiyamovich Khamaev. Mr. Khamaev was born in 1956. In 1978, he graduated from the Kazan Aviation Institute specializing as a mechanical engineer. He graduated from the Law Faculty of the Kazan State University in 2000. He worked as the General Director of Tatkhimfarmpreparaty Company between 2004 and 2008 and as the First Deputy Minister of Land and Property Relations of the Republic of Tatarstan from December 2008. He was appointed the Minister of Land and Property Relations of the Republic of Tatarstan in March 2009. He has been a member of the Board of Directors since 2009.

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

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

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

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

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

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

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

Authority of the Board of Directors

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

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

- approving other internal documents of the Company on the regulation of the matters related to the competence of the Board of Directors, excluding internal documents that are within the competence of the shareholders' meeting, the General Director and the Management Board as provided for in the Charter; and
- making other decisions that are not within the competence of the shareholders' meeting, the General Director and the Management Board.

Meetings of the Board of Directors

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

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

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

Committees of the Board of Directors

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

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

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

Management Board

Our Management Board currently consists of 11 members. The Management Board is appointed by the Board of Directors. The Management Board coordinates and oversees the effective operation of the Company and its various divisions. The Management Board's authority extends across a broad remit and includes our long and short-term business development program, our participation in commercial and non-profit organizations, and our economic, financial and investment activities.

The members of our Management Board* are:

Name	***Titles***	***Year of Birth***
Valeriy Dmitrievitch Ershov	Head of Legal Department	1949
Nikolay Mikhailovich Glazkov	Deputy General Director for Capital Construction	1960
Viktor Isakovich Gorodny	Deputy General Director, Head of Property Department	1952
Nail Gabdulbarievich Ibragimov	Director, First Deputy General Director for Production, Chief Engineer	1955
Nail Ulfatovich Maganov	Director, General Director	1958
Rustam Nabiullovich Mukhamadeev	Deputy General Director for General Affairs	1952
Rafael Saitovich Nurmukhametov	Head of the Leninogorskneft NGDU	1949
Nurislam Zinatulovich Syubaev	Deputy General Director for Strategic Development	1960
Evgeniy Aleksandrovich Tikhturov	Head of Finance Department	1960
Anvar Fasikhovich Vakhitov	Head of Petrochemical Complex Development Center	1951
Vladlen Aleksandrovich Voskoboinikov	Head of Consolidated Financial Reporting Department	1965

* Information as of 31 December 2017

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

Valeriy Dmitrievitch Ershov. Mr. Ershov was born in 1949. In 1978, he graduated from the Kazan State University with a specialization in jurisprudence. He started work in 1971 as an adjuster at the Omsk Aviation Plant. From 1972 to 1992 he served in the Ministry for the Interior of Tatarstan. He then worked as Head of the Bureau for Foreign Economic Relations of AO Alnas (1992-1995) and Director of OOO Taurus (1995-1998). In 1998, he joined Tatneft as Head of Legal Department (renamed from Legal Division after a reorganization in 2002).

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

Viktor Isakovich Gorodny. Mr. Gorodny was born in 1952. In 1978, he graduated cum laude from the Gubkin Petrochemical and Gas Industry Institute of Moscow with a specialization in technology and comprehensive mechanization of oil and gas field development. Mr. Gorodny also graduated from the Higher Communist Party School in Saratov in 1987, from the Business Technology College of the North-Western Extramural Polytechnic Institute in 1993 and from the International Personnel Academy in Kiev, Ukraine, in 1998. He has a Ph.D. in Economics. Between 1969 and 1984, Mr. Gorodny worked at the Almetyevneft NGDU in various positions, then served as Secretary of the Communist Party Committee of the Elkhovneft NGDU (1984-1985); superintendent of the industrial-transport section of the Communist Party Committee of Almetyevsk (1985-1988); and Deputy Head of the Capital Construction Department of the Almetyevneft NGDU (1988-1995). He is a deputy of the Joint Council of the Almetyevsk district of the city of Almetyevsk. Since 1995, he has served as Deputy General Director of Tatneft.

Nail Gabdulbarievich Ibragimov. See "Board of Directors" above.
Nail Ulfatovich Maganov. See "Board of Directors" above.

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

Rafael Saitovich Nurmukhametov. See "Board of Directors" above.

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

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

Anvar Fasikhovich Vakhitov. Mr. Vakhitov was born in 1951. He graduated from the Kazan Chemical and Technological Institute named after Kirov in 1979 specializing in "Machinery and equipment of chemical plants", and 1991 he competed a correspondence course of the Finance and Economics Institute specializing in "Economics and Production Management". He began his career in 1975 at the Production Association correspondence course where had passed the way from a shop foreman of continuous flow systems to the Truck Tire Factory Director. In March 2007, Mr. Vakhitov was appointed Executive Director of the newly established OOO "Nizhnekamsk SSC Tire Factory". He headed the construction of the solid steel cord tire factory and in 2009 the OOO "Nizhnekamsk SSC Tire Factory" was put into operation under his leadership. Mr. Vakhitov is Honored Chemist of the Republic of Tatarstan, PhD. From April 2014 to August 2017 he has been serving as Director of OOO UK Tatneft Neftehim. Since September 2017- Head of Petrochemical Complex Development Center of Tatneft.

Vladlen Aleksandrovich Voskoboinikov. Mr. Voskoboinikov was born in 1965. He graduated in 1993 from the Southern Alberta Institute of Technologies with a specialization in accounting and he received an MBA from the University of Aspen in 2002. From 1995 to 1999, he worked at Black Sea Energy, a company listed on the Toronto Stock Exchange, as Chief Financial Officer for oil projects in Russia and, from 2001 to 2005, he worked as Chief Financial Officer at the Siberian Service Company. Since September 2005, he has served as Head of Consolidated Financial Reporting Department.

Authority of the Management Board

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

- developing our programs of activities;
- participating in commercial and non-commercial organizations;

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

Under the Regulation on the Management Board approved by the shareholders on 28 June 2002, the Management Board does not have a fixed number of members, but must include the General Director, the First Deputy General Directors, the Chief Accountant, the Secretary of the Board and the Head of Legal Department. Other members of the Management Board may be appointed by the Board of Directors from time-to-time.

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

The General Director

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

The General Director exercises day-to-day control over our activities and chairs meetings of the Management Board. The General Director is accountable to the Board of Directors and our shareholders. Pursuant to the Charter, the Regulation on the General Director approved by the shareholders on 25 June 2004, and Russian law, the General Director is authorized to, *inter alia*,:

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

The General Director also chairs meetings of our Management Board.

Revision Committee

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

The current members of the Revision Committee are:

- Saria Kashibulkhakovna Yusupova*, Deputy Head of Economic Analysis Department of Ministry of Finance of the Republic of Tatarstan;
- Ksenia Gennadievna Borzunova, Head of Department of the Ministry of Land and Property Relations of the Republic of Tatarstan;
- Nazilya Rafisovna Farkhutdinova, Deputy Director of Economics and Finance of OOO Tatneft-Remservis;
- Ranilya Ramilyevna Gizatova, Head of Investments Department of Elhovneft NGDU of Tatneft;
- Guzel Rafisovna Gilfanova, Deputy Head of Control and Revision Department of Tatneft;
- Venera Gibadullovna Kuzmina, Retired;
- Taskirya Gaptenurovna Nurkhametova, Chief Accountant of OOO UK Sistema-Service;
- Ravil Anasovich Sharifullin, Head of Control and Revision Department of Tatneft;
- Lilya Rafaelovna Rakhimzyanova, Head of Department of the Ministry of Industry and Trade of the Republic of Tatarstan; and

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