

2017

GROWTH STRATEGY

TATNEFT ANNUAL REPORT





The 2017 PJSC TATNEFT annual report («TATNEFT,» the «Company») presents the financial and operating results of the Company and its affiliates, which are collectively referred to as TATNEFT Group (the «Group»). As the parent company of the Group, TATNEFT has prepared consolidated operating and financial information for key business units and sectors in this annual report. The report is based on an analysis of consolidated operating data in accordance with IFRS.

The percentages and sums in the text may contain slight inaccuracies due to rounding. The data in the report may slightly differ from previously published information due to rounding. The 2017 TATNEFT annual report has been prepared on a single integrated basis in compliance with the requirements on annual reports for public companies and with corporate reporting standards in the area of sustainable development. The integrated annual report adheres to the guidelines of the Corporate Governance Code adopted in the Russian Federation and recommended by Letter No. 06-52/2463 of April 10, 2014, issued by the Bank of Russia.

The information disclosed in this annual report adheres with:

- Federal Law No. 208-FZ dated December 26, 1995, «On Joint-Stock Companies»
- Federal Law No. 39-FZ dated April 22, 1996, «On Securities Markets»
- Bank of Russia Regulation No. 454-P «On Disclosing Information by Securities Issuers» approved on December 30, 2014, registered with the Ministry of Justice of the Russian Federation on February 12, 2015
- Bank of Russia Letter No. IN-06-52/8 dated February 17, 2016, «On Disclosure of Compliance with the Principles and Recommendations of the Code of Corporate Governance in Annual Reports by Public Joint-Stock Companies»

This annual report complies with the following sustainable development standards:

- G4 Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI)
- AA 1000 Standard for Stakeholder Engagement
- ISO:26000 Standard – Guidance on Social Responsibility
- Social Charter of Russian Business
- International Integrated Reporting Standard (www.theiirc.org/intemational-ir-framework/).

The 2017 TATNEFT annual report has been preliminary approved by the TATNEFT Board of Directors.

Protocol No. 5-z dated May 21, 2018

STATEMENTS ABOUT THE FUTURE

In addition to factual data for the past period, this annual report contains some statements regarding the future. In particular, such statements include data on future business performance, plans or forecasts regarding future economic and financial indicators, and the Company's objectives and tasks in terms of development programs, products, and services.

Statements on the future performance of the Company may also contain information on anticipated or estimated income, profit/loss, and net profit/loss with regard to stock and dividends and on capital structure and other financial issues.

The statements are of a forecasting nature and include phrasings such as «it is expected,» «it is supposed,» «it is planned,» and «it is intended.» The statements on their own are associated with both general and specific risks and uncertainties. It is conceivable that future actual performance may significantly differ from the plans, objectives, expectations, estimations, and intentions presented in such statements or may not be achieved due to various factors.

The Company's corporate calendar for the year 2017 is presented in detail on the corporate website tatneft.ru

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JOINT ADDRESS OF THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THE DIRECTOR GENERAL TO SHAREHOLDERS, INVESTORS, AND PARTNERS



DEAR SHAREHOLDERS, INVESTORS, AND PARTNERS:

In 2017, we launched an important stage of our Strategy 2025 that covers all the Company's business units and is aimed at increasing the Company's value. The key results of the year included a steady increase in performance indicators along principal business lines, achievement of current priority target values and consolidation of the Company's financial stability.

The Company's achievements and outlook were highly rated by the stock market. Over the course of the year, TATNEFT's stock price has been among the best performers among Russian oil and gas companies.

For the year, TATNEFT's capitalization increased by 14%, amounting to RUB 1.1 trillion by the end of 2017.

Strong performance in production indicates the effectiveness of the Company's business model. The Management has focused on creating new sources for the growth of earnings, strengthening the assets structure and maximizing productivity. We are building up our innovative potential and adopting progressive digital solutions to create a reliable

technological foundation in the Company.

In the reporting year, TATNEFT Group produced 28.9 million tonnes of oil. To fulfill OPEC+ commitments, the Company held down the rate of production growth reached in previous years. Given that its vast hydrocarbon reserves are among the largest in Russia, TATNEFT has the potential to ramp up oil production. In addition to increasing oil production in mature fields, the Company is researching and developing methods to extract unconventional hard-to-recover resources (including Domanic productive deposits) from the subsoil. Successful development of super-viscous oil deposits is continuing.

In the current market, the Company has maintained an optimal customer balance, enabling the Company to increase oil sales income in 2017 by 22.5%.

The in-house oil refining unit has been experiencing stable growth. In December 2017, the fifty millionth tonne of crude oil was refined at the TANECO Complex. In the reporting year, the Group produced 8.5 million tonnes of oil products.

Utilization of oil refining capacity is at 115%. We have maintained our industry leadership in the refining depth at the level of 99.24%, with the light oil products output of 87.5%. In the coming years, the Company is planning to start producing high-quality Euro-5 gasoline and to increase the production of TANECO diesel and jet fuel. To increase time between repairs, TANECO conducted a major overhaul during the reporting year. These repairs have enabled the Company to launch new production facilities without significant disruption of the production process.

The Company operates 685 retail filling stations under the corporate brand in the most attractive regions (in terms of demand volumes and trends) across Russia, Belarus, and Ukraine. Over the reporting year, average daily sales per filling station have increased by 6%. Priorities in this business segment include increasing the chain's margins, ensuring the quality of oil products, and developing related services.

The TATNEFT Group's tire manufacturing business maintains a significant share of the domestic Russian tire market. In the reporting year, petrochemical sales revenue increased by 9.4% thanks to the growth in tire sales. Tires are shipped to domestic and export markets (covering around 50 countries). Our objectives in this segment include occupying new market niches due to the high quality and extended range of products and running efficient marketing programs.

To meet the strategic goal of extending our range of innovative product lines, the Company is developing a composite cluster for high-tech manufacturing.

We are increasing the reliability of our generating capacities to ensure the supply of energy to companies in the Nizhnekamsk industrial hub. The Company is developing programs to diversify its sources of raw materials for the Nizhnekamsk combined heat and power plant, which will help improve its performance.

Driven by strong results throughout the reporting year, the TATNEFT Group's consolidated profit grew by 17.4%, reaching RUB 681.2 billion at year-end. The net profit of the Group's shareholders amounted to RUB 123.1 billion, an increase of 14.7% from 2016.

In the reporting year, the total value of the consolidated assets increased to RUB 1,107.5 billion.

The Company follows a progressive dividend policy. In 2017, TATNEFT shareholders received nine-month dividends in the amount of 75% of the company's net profit. Based on the Company's 2017 performance, the Board of Directors recommends the TATNEFT General Shareholders Meeting to make a resolution on paying common share dividends in the amount of RUB 39.94 for each preferred and common share (3,994% on the nominal value of each share) with due account of the dividends already paid on the nine-month results.

We take our commitment to sustainable development seriously.

The Company's goals include maintaining ecological balance, reducing the burden on the environment as a result of our production activity, and ensuring safe working conditions.

One of our most important corporate priorities is to support the development of high-quality social infrastructure in the regions where we operate. In the reporting year, around RUB 7 billion was targeted to social initiatives in health care, education, culture, sport, and spiritual heritage.

To perform well, the complex multilevel VIOC structure requires highly efficient corporate management, talented managers, and a solid team of professional employees. The Company is steadily improving how its management bodies and operational segments collaborate with one another. We are paying special attention to developing incentive systems and performance evaluations.

The decisions of the Board of Directors are aimed at the Company's long-term success. While we are systematic about achieving our strategic goals, we also understand the challenges involved in our business. Responding to changes in the global economy, we have consolidated our domestic reserves and enhanced our competitiveness.

On behalf of the Board of Directors, we would like to express our gratitude to our shareholders for their trust and present the Board of Directors' Report on the Company's performance in priority business areas in 2017.

R. N. MINNIKHANOV

President of the Republic of Tatarstan,
Chairman of the Board of Directors of TATNEFT

N. YU. MAGANOV

CEO,
Chairman of the Executive Board of TATNEFT

KEY PERFORMANCE INDICATORS

OPERATING RESULTS				2025 STRATEGIC GOALS	
EXPANSION AND REPLENISHMENT OF THE RESOURCE BASE	Volume of proved reserves	866,489	MILLION TONNES OF OIL	Expand and diversify the hydrocarbon resource portfolio outside the Republic of Tatarstan and the Russian Federation through access to oil and gas reserves, including by establishing strategic alliances	Ensure the annual replenishment of no less than 100% of proven reserves
RAMPING UP OF OIL AND GAS PRODUCTION	Total volume of oil production	28.9	MILLION TONNES	Stay on course to move from a stable level of oil production to growth	Increase annual production to 30 million tonnes Explore possibilities to expand potential production up to 35 million tonnes or higher in 2025
	Total volume of gas production	945.3	MILLION CUBIC METERS		
CONSOLIDATION OF IN-HOUSE OIL AND GAS PROCESSING	Production of oil products	8.5	MILLION TONNES	Increase the production and sales of highly competitive finished goods produced at the high-tech TANECO Complex.	Increase the volume of refined oil to 14 million tonnes with the light oil output of 90% and the processing depth of at least 97%
	TANECO refinery yield	99.24%	Light oil products yield		
EFFECTIVENESS OF RETAIL BUSINESS	Retail and distribution network	685	FILLING STATIONS	Improve the performance and competitiveness of the retail network in the long run	Increase sales 2.3 times. Ensure that more than 50% of the gasoline and diesel fuel produced by the Company's refineries are sold through filling stations and small wholesalers
	Volume of sales	2.7	MILLION TONNES		
IN-HOUSE GENERATING CAPACITIES	Generation of electricity	1.5	BILLION KW·H	Enhance the reliability of power supply to TATNEFT Group companies and increase the volume of power supplied to companies in the Nizhnekamsk industrial hub	Diversify sources of raw materials for the Nizhnekamsk combined heat and power station
	Delivery of thermal energy	4.85	MILLION GCAL		
GROWTH OF THE YIELD OF THE PETROCHEMICAL UNIT	Sale of tires	13.06	MILLION TIRES	Develop new market niches by effectively launching marketing programs, improve the quality of our products, and expand our product lines.	Retain our leadership positions in the Russian tire market and increase the sale of tires to more than 16 million per year
	Sale of carbon black	133,800	TONNES		
BALANCED SALE OF OIL AND OIL PRODUCTS	Sale of crude naphtha	21.8	MILLION TONNES		
	Sale of oil products	10.5	MILLION TONNES		

ABOUT THE COMPANY

TATNEFT IS ONE OF THE LEADING RUSSIAN OIL AND GAS PRODUCERS, WITH OVER 70 YEARS OF EXPERIENCE IN THE FIELD. THE STRATEGY OF VERTICAL INTEGRATION OF THE FULL INDUSTRIAL CYCLE IS IMPLEMENTED AT THE GROUP LEVEL. THE COMPANY’S MAIN ASSETS ARE IN THE RUSSIAN FEDERATION AND BUSINESS PROJECTS ARE UNDERWAY IN BOTH DOMESTIC AND FOREIGN MARKETS.

The TATNEFT Group provides management processes from the issuance of licenses for resource development to sale of oil, oil and gas refinery products, and petrochemicals on the domestic market and for export, as well as the production of equipment for oil mining, treatment, and processing of oil and gas, provision of engineering services, supplies and construction services for oil, gas, and petrochemical projects.

Since October 2016, with the acquisition of a controlling interest in the ZENIT Banking Group, the TATNEFT Group has also been engaged in banking activities. The banking segment includes PJSC Bank ZENIT and its subsidiaries (ZENIT Banking Group).*

(For more details on the structure of the TATNEFT Group, subsidiaries of TATNEFT, see the section of the Annual Report on «Financial Results,» IFRS.)

CORPORATE STRATEGY IS AIMED AT LONG-TERM SUSTAINABLE DEVELOPMENT OF THE COMPANY—PROVIDING THE OPTIMAL BALANCE OF OIL AND GAS PRODUCTION, OIL REFINING AND ACHIEVING THE MAXIMUM OPERATING INCOME IN ALL BUSINESS SEGMENTS

In unstable external conditions, the Company’s program allows it to ensure profitability of oil and gas production, maintain a high level of hydrocarbon resources, effectively develop its own refining and petrochemical industry, ramp up the innovative potential, and introduce progressive digital solutions to create a reliable technological foundation for the Company.

The TATNEFT Group holds licenses for geological exploration, prospecting, and production of oil and gas in the Russian Federation. The main resource base of the Company is in the Republic of Tatarstan, including the Romashkinskiy field, one of the world’s largest fields. The business infrastructure includes geographical proximity to oil production areas, our own oil refineries and generating capacities, high-quality logistics for the sale of oil and oil products.

* In 2017, the capital of PJSC Bank ZENIT was augmented by RUB 14 billion due to investments of TATNEFT as the majority shareholder. To improve the quality of the credit portfolio of the ZENIT Banking Group, some of its assets were transferred to the nonbanking segment of the TATNEFT Group. TATNEFT spent RUB 25 billion on these measures.

The transfer of assets contributed to improvement of the Bank’s financial position (the NPL90+ share in the Group’s portfolio decreased from 7.8% at the end of 2016 to 4.2% as of December 31, 2017, while the NPL90+ coverage with the reserves increased from 166% to 246%). (see IFRS, Note 29).

KEY FUNDAMENTALS OF THE GROWTH STRATEGY

Increasing the volume of profitable oil and gas production, enhancing oil recovery at the producing license fields, and actively developing new fields, including high-viscosity and difficult-to-recover oil deposits in the Republic of Tatarstan, while reducing specific operating and investment costs.

Expanding the geography of activities and the resource base outside the Republic of Tatarstan and the Russian Federation, including access to oil and gas reserves with the possibility of forming strategic alliances and mastering new markets for manufactured products.

Increasing the volumes of production and sale of competitive finished products with high added value meeting world environmental standards and prospective market requirements, developing our own oil refining and petrochemical industry facilities.

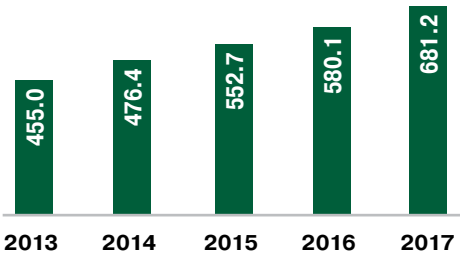
Strengthening the technological potential with effective investment in the development and modernization of the production base, accumulation of high-tech digital solutions, development of new equipment and technologies and improvement of the effectiveness of those already in use as a new generation unified production management platform at all stages of the value chain.

Ensuring sustainable development based on the high level of corporate social responsibility, industrial and environmental safety, and balance of the environment in the course of production and other economic activities.

GROWTH STRATEGY

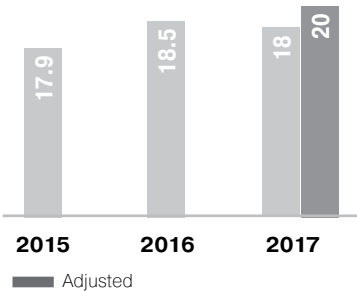
FINANCIAL STABILITY

NET INCOME, RUB BILLION (IFRS) *



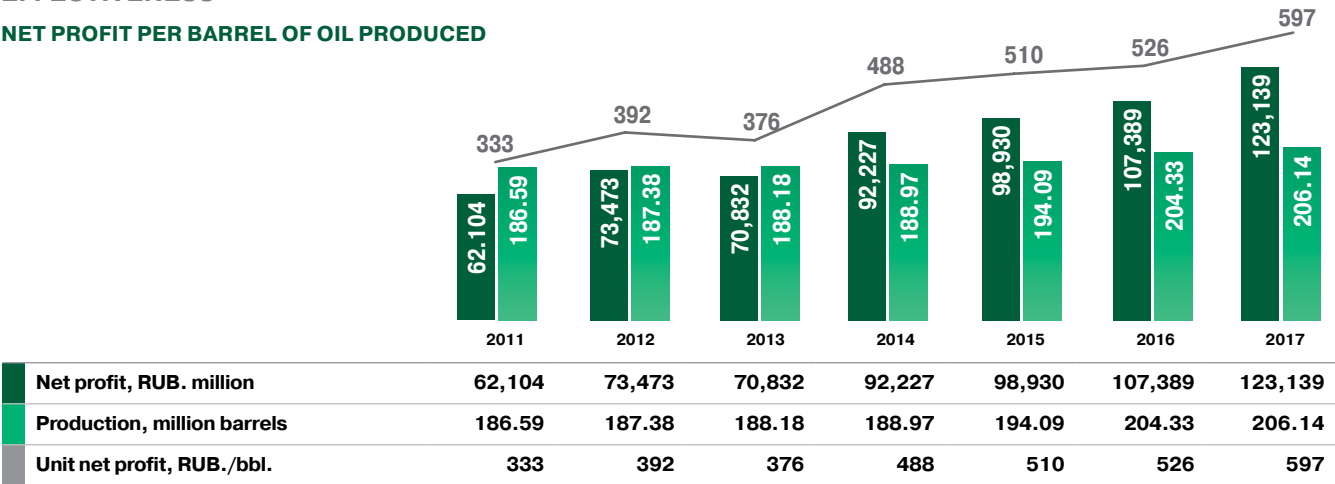
* indicators for nonbanking activities

PROFITABILITY OF SALES, %



EFFECTIVENESS

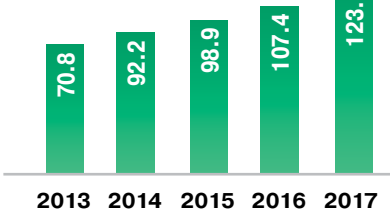
NET PROFIT PER BARREL OF OIL PRODUCED



Comparison with the period since 2005 is substantiated by the launching of the project to develop our own oil refining (TANECO Complex) during that year.

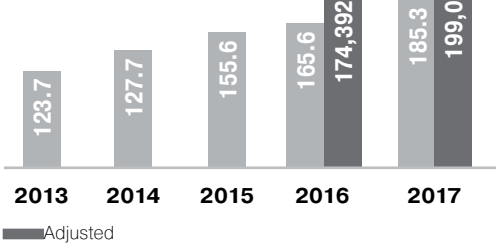
NET PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE GROUP, RUB. BILLION (AS PER IFRS)

The main factor in the profit increase for 2017 in comparison with 2016 was the growth of net proceeds from the sale of non-banking activities, partially offset by the growth of expenses for the mineral extraction tax.

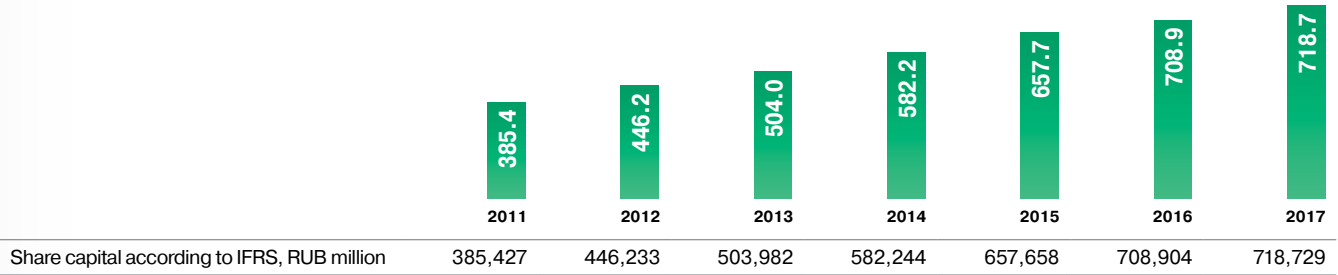


EBITDA, RUB. BILLION (AS PER IFRS)

Starting from Q4 2016, the EBITDA calculation includes operating results of banking activities due to the consolidation of PJSC Bank ZENIT in the financial statements of the Group.

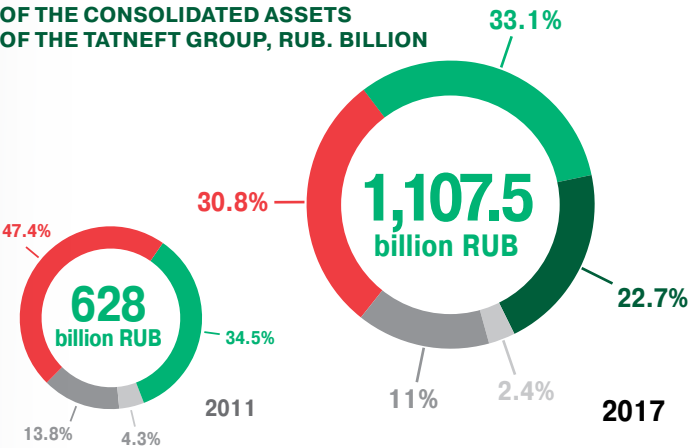


CONSOLIDATED SHARE CAPITAL, RUB. BILLION



CONSOLIDATED ASSETS

VALUE AND STRUCTURE OF THE CONSOLIDATED ASSETS OF THE TATNEFT GROUP, RUB. BILLION



The Company's asset structure is balanced against the «exploration and production» segment (31%) and the «refining and sale of oil and petroleum products» segment (33%), which provides the potential for further revenue growth due to the added value produced by the refinement of hydrocarbon resources.

Segments	2011	2017
Exploration and Production	297.7	340.5
Refining and sale of oil and oil products	216.4	366.8
Petrochemicals	27.2	26.8
Banking	-	251.4
Corporate and miscellaneous	86.4	121.9
Total assets at the end of the year, RUB billion	627.8	1,107.5

RATINGS

On February 21, 2017, the international rating agency Moody's Investors Services changed the credit rating to Corporate credit rating–Ba1. The default probability rating is Bs1-PD, and the outlook is «stable» (having been changed from «negative» to «stable»).

On January 29, 2018, the credit rating agency Moody's announced an upgrade of TATNEFT credit rating to Baa3 with a positive outlook. Moody's decision is connected with a change in the outlook for the credit rating of the Russian Federation and an increase in the «country ceiling» from Ba1 to Baa3.

The Baa3 credit rating refers to the investment level and reflects the high quality of the Company's credit.

On October 31, 2017, Fitch Ratings, an international credit rating agency, confirmed the long-term and short-term issuer default ratings of the Company (IDR) at the level of BBB- and F3, respectively. The outlook for long-term IDR is stable.

According to Fitch Ratings, the credit rating confirmation also reflects TATNEFT's strong financial position after the commissioning and further development of the TANECO refinery, and the creditworthiness of the Company is maintained by the low level of debt with adjusted gross debt in relation to the cash flow from operating activities at the level of 0.1x at the end of 2015 and 2016, which is the lowest among comparable Russian oil and gas companies to which the agency assigns a credit rating.

On July 19, 2017, the Joint-Stock Company Rating Agency Expert RA assigned the first-time credit rating to a non-financial company. The value of the assigned rating is RU AAA according to the national scale for the Russian Federation; the outlook is stable.

GROWTH STRATEGY

SUSTAINABLE DEVELOPMENT

LEVEL OF ASSOCIATED PETROLEUM GAS USAGE

The level of associated petroleum gas usage in the Company in the reporting year exceeded **96%**

LEVEL OF APG USE

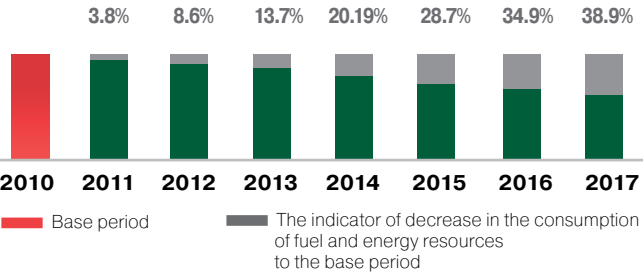
2017	96.16%
2013*	95.1%

* Resolution of the Government of the Russian Federation No. 1148 dated November 8, 2012, «On the Specifics of the Calculation of Fees for Emissions of Pollutants Generated during Flaring and/or Dispersal of Associated Petroleum Gas»

ENERGY SAVING

Consumption of fuel and energy resources from 2011 to 2017 relative to the base year was reduced by **38.9%** More than **391** thousand tonnes of equivalent fuel was saved.

DYNAMICS OF DECREASE IN THE CONSUMPTION OF FUEL AND ENERGY RESOURCES



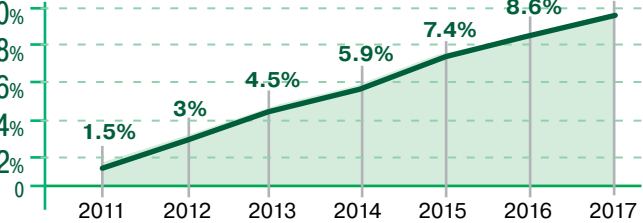
This is one of the highest indicators in the industry, with a standard value of 95% set by the government of the Russian Federation.

The Company plans to bring the level of APG usage up to 98% by means of targeted measures, making it possible to reduce discharge of harmful substances and direct emissions of greenhouse gases into the atmosphere.

Savings in the consumption of fuel and energy resources from **2011 to 2017** relative to the base year amounted to **9.8%**

The most effective areas for saving were: Energy, oil and gas preparation, transportation, oil and gas production technology, reservoir pressure maintenance

DYNAMICS OF SAVING OF FUEL AND ENERGY RESOURCES CONSUMED



USE OF FUEL AND ENERGY RESOURCES BY THE COMPANY

Name	In physical terms	In money terms, RUB million (excluding VAT)
Thermal energy, total thousand Gcal	4,855.0	4,417.2
including productive consumption, thousand Gcal	4,811.0	4,351.1
Power, total, million kW·h	4,251.7	11,560.0
including productive consumption	4,160.9	11,146.4
Gasoline, tonnes	2 720.4	129.1
Diesel fuel, tonnes	1,862.7	80.9
GAS, tonnes	507.6	15.4

THE COMPANY'S MOST IMPORTANT PRIORITY IS ENVIRONMENTAL SAFETY AND RESTORATION OF THE BALANCE OF ECOLOGICAL SYSTEMS IN THE AREA OF ACTIVITY. IN 2017, THE MAN-INDUCED IMPACT OF THE COMPANY ON THE ENVIRONMENT DID NOT EXCEED THE SELF-REGENERATION POTENTIAL OF THE ECOSYSTEMS.

IN 2017 THE COMPANY WAS RECOGNIZED AN ECO-LEADER IN THE REPUBLIC OF TATARSTAN.

Within the framework of production control for environmental protection, **110** thousand chemical analyzes of natural water were conducted in **2017**

7,000,000 trees were planted, which amounts to **4,000** HA of forests.

In the area of the Company's activity, more than **500** springs were developed.

Investments to ensure environmental safety in **2017** amounted to **RUB 7,345.9** million.

To prevent pollution of rivers and reservoirs, in **2017**, **605** stationary oil-collecting structures, booms, and lagoons are being maintained.

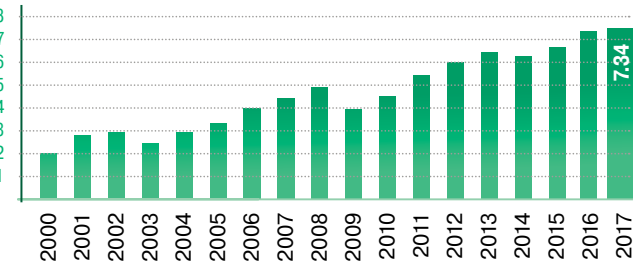
Within the licensed areas of the Company, in **2017** the monitoring of **2,117** observation points for surface and subsurface water bodies was carried out.

THE ENVIRONMENTAL MANAGEMENT SYSTEM OF THE COMPANY WAS CERTIFIED ACCORDING TO ISO 14001: 2004. THE COMPANY USES THE METHODOLOGY OF "SEQUENTIAL PROCEDURES" IN WHICH SUBSEQUENT ACTIONS ARE FORMED ON THE BASIS OF THE DATA OBTAINED FROM THE RESULTS OF THE PROCEDURE OF THE PRECEDING LEVEL.

DYNAMIC REDUCTION OF TECHNOLOGICAL LOSS OF HYDROCARBON FUELS, THOUSAND TONNES



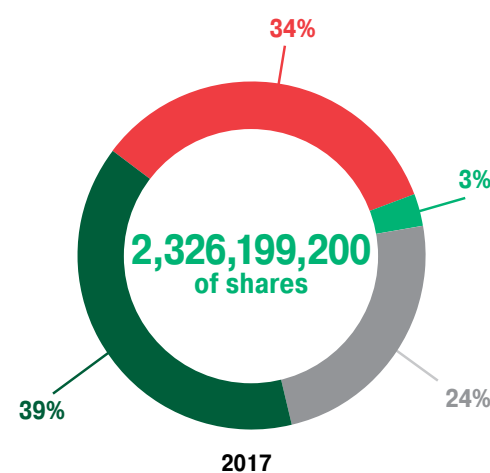
FUNDS FOR ENVIRONMENTAL PROTECTION, ENSURING ENVIRONMENTAL SAFETY, AND RATIONAL USE OF NATURAL RESOURCES, RUB BILLION



GROWTH STRATEGY

INVESTMENT APPEAL

PUBLIC STATUS OF THE COMPANY



STRUCTURE OF EQUITY CAPITAL



* Shares in the authorized capital

** Legal entities under the control of the Republic of Tatarstan

SECURITIES OF TATNEFT HAVE BEEN PRESENT ON THE RUSSIAN AND INTERNATIONAL STOCK MARKETS, INCLUDING THE MOSCOW AND LONDON STOCK EXCHANGES, FOR MORE THAN 20 YEARS. SHAREHOLDERS COME FROM MORE THAN 30 COUNTRIES.

In 2017, about 42,000 shareholders were listed in the Company's register of shareholders. TATNEFT is one of the largest public companies in Russia.

The Company's common (TATN) and preferred (TATNP) shares are included in the highest quotation list of the Moscow Stock Exchange. At the end of 2017, 25.74% of TATNEFT's common shares were deposited with BNY Mellon under the American Depository Receipts (ADR) program. ADR Companies have been listed on the London Stock Exchange (ATAD) since December 1996 and are among the most liquid issuing companies of Russia.

According to the Moscow Stock Exchange, the total amount of transactions made with the Company's common shares during regular trading in 2017 exceeded RUB 144 billion, those with preferred shares reaching RUB 13.9 billion. During 2017, the total volume of transactions with the Company's ADR on the London Stock Exchange, considering over-the-counter and negotiated transactions, exceeded USD 3 billion.

The shares of TATNEFT are included in many stock indexes, including those of the Moscow Stock Exchange and MSCI Russia; the shareholders of the Company include funds managed by the world's leading investment companies, sovereign funds of many countries, and private investors.

At the end of 2017, the price of one common share of TATNEFT on the Moscow Stock Exchange was RUB 478.80 (USD 8.31), that of one preferred share making RUB 365 (USD 6.34).

The dividend yield from the calculation of the market value of common shares at the end of 2017 was 4.76%, that of preferred shares - 6.25%.

VALUE OF PREFERRED AND COMMON SHARES OF TATNEFT FOR 2006–2017 (RUB)

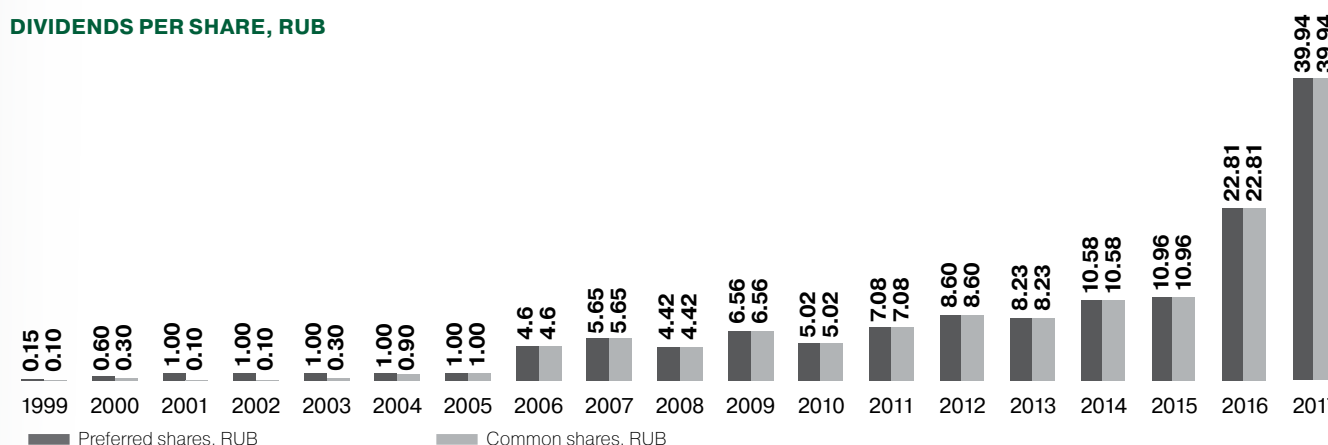
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
COMMON	121.99	148.00	55.25	139.48	145.06	158.16	218.00	208.20	226.55	315.50	427.00	478.80
PREFERRED	77.31	87.00	20.35	76.35	86.65	88.02	105.15	121.70	134.60	198.10	235.00	365.00

DIVIDEND POLICY

The Company adheres to a progressive dividend policy, acknowledging dividends as one of the key indices of the Company's investment appeal to shareholders, and strives to increase the amount of dividends on the basis of consistent growth in profits. The Board of Directors of the Company, in determining the amount of dividends recommended to the General Shareholders' Meeting (per share), proceeds from the amount of the Company's net profit under the Russian Accounting Standards (RAS) or International Financial Reporting Standards (IFRS), depending on the availability of financial statements published for the relevant period, and assumes that the target level of the aggregate funds allocated for the payment of dividends should not be less than 50% of the net profit determined by RAS or IFRS, whichever is bigger.

In 2017, TATNEFT shareholders accrued dividends for the first 9 months of 2017 in the amount of 75% of net profit. According to the results of 2017, the Board of Directors recommends that the General Meeting of TATNEFT shareholders adopt a resolution on payment of dividends per each preferred and common share (3.994% of the par value of each share) with due account for the dividends previously paid based on 9-month results.

DIVIDENDS PER SHARE, RUB



CAPITALIZATION OF THE COMPANY

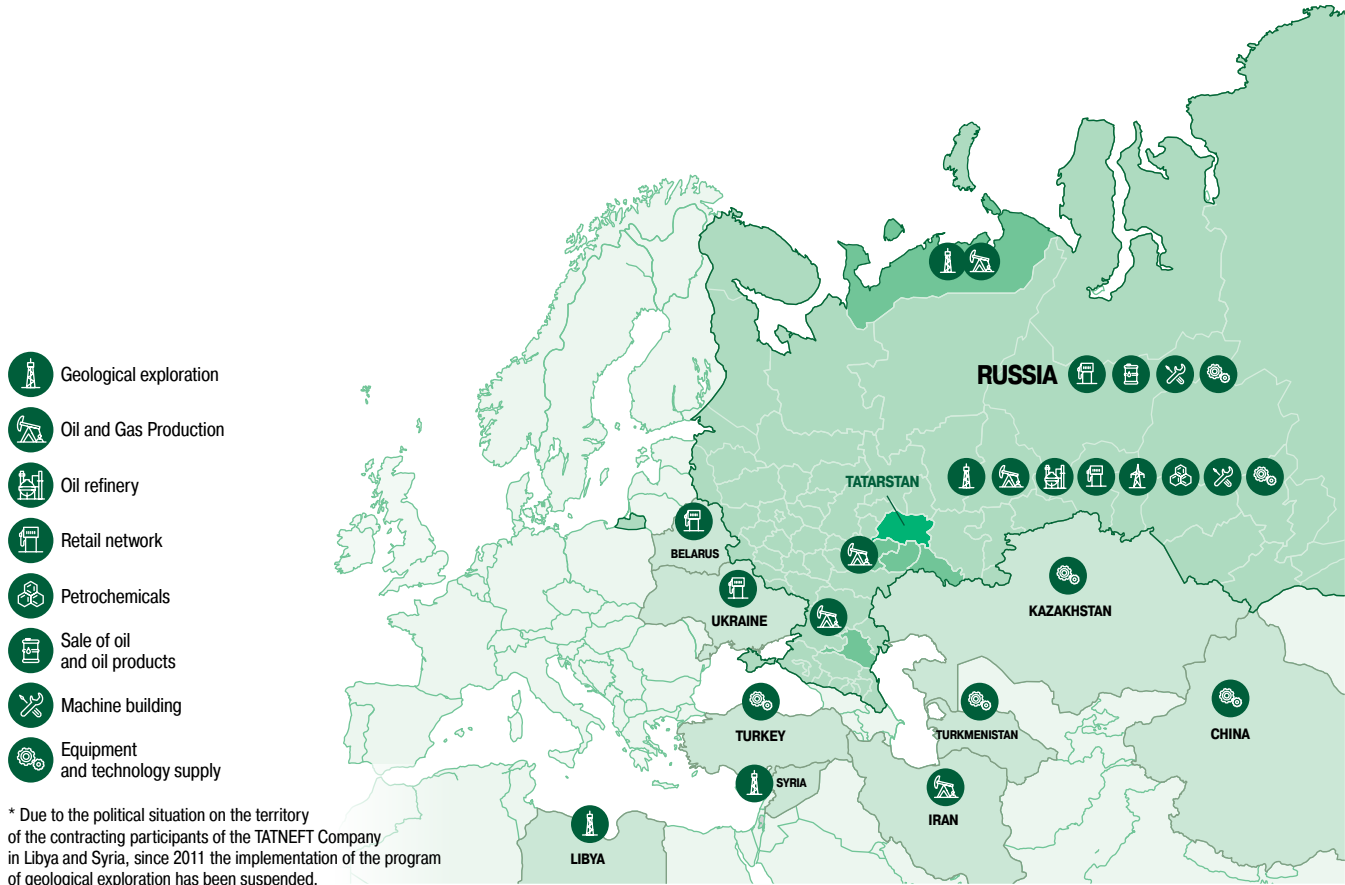
RUB 1,097 billion
(USD **19.1 billion**)
as of December 29, 2017



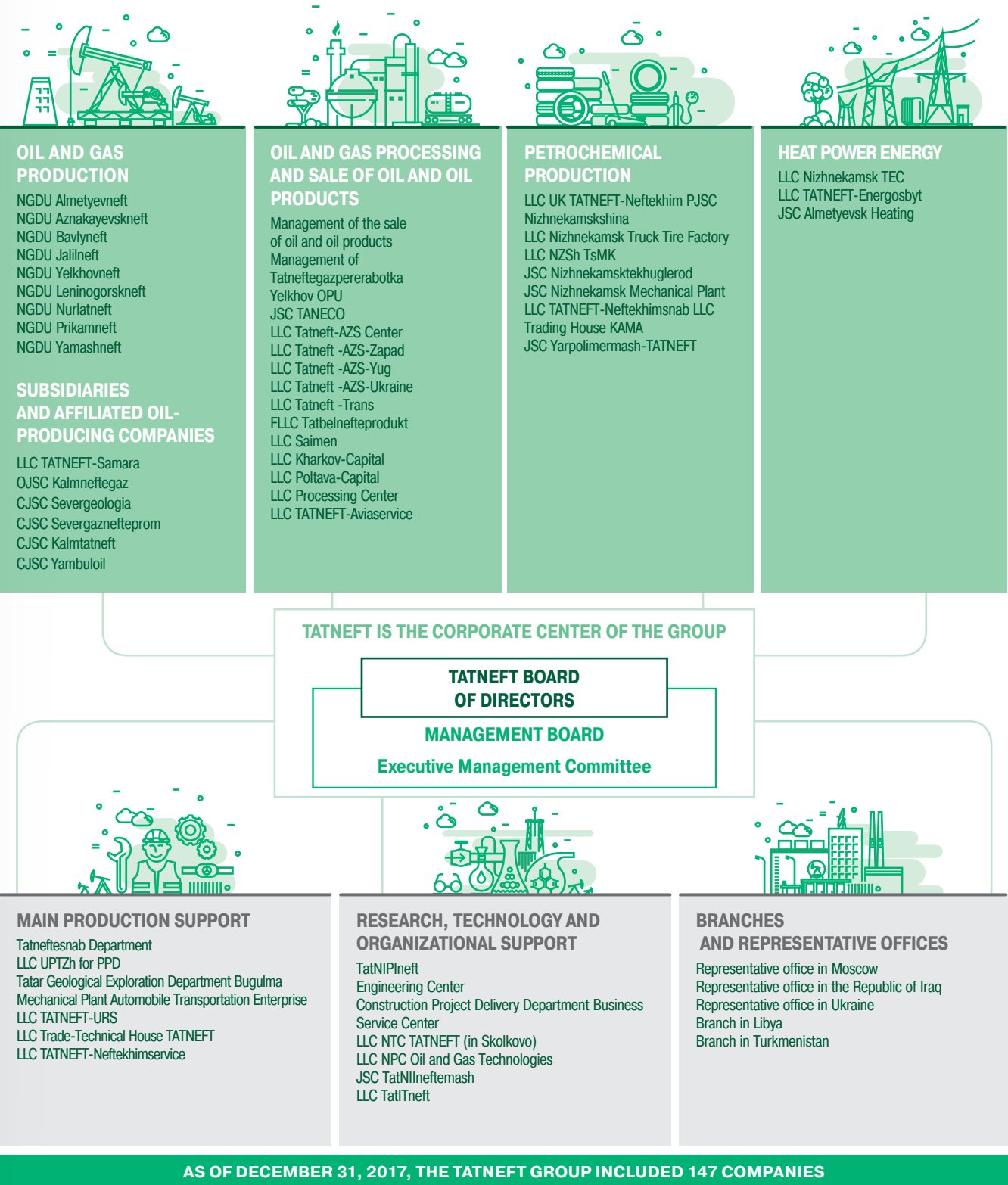
PROCEEDING FROM A UNIFIED STRATEGY, THE COMPANY INTEGRATES THE POTENTIAL OF DIVERSIFIED CORE ASSETS IN EXPLORATION AND PRODUCTION, REFINING, PETROCHEMICALS, SALES OF OIL AND OIL PRODUCTS, AND POWERFUL TECHNOLOGICAL POTENTIAL, ENSURING THE CREATION OF VALUE AND CONDITIONS FOR LONG-TERM SUSTAINABLE DEVELOPMENT.

GEOGRAPHY OF ACTIVITY

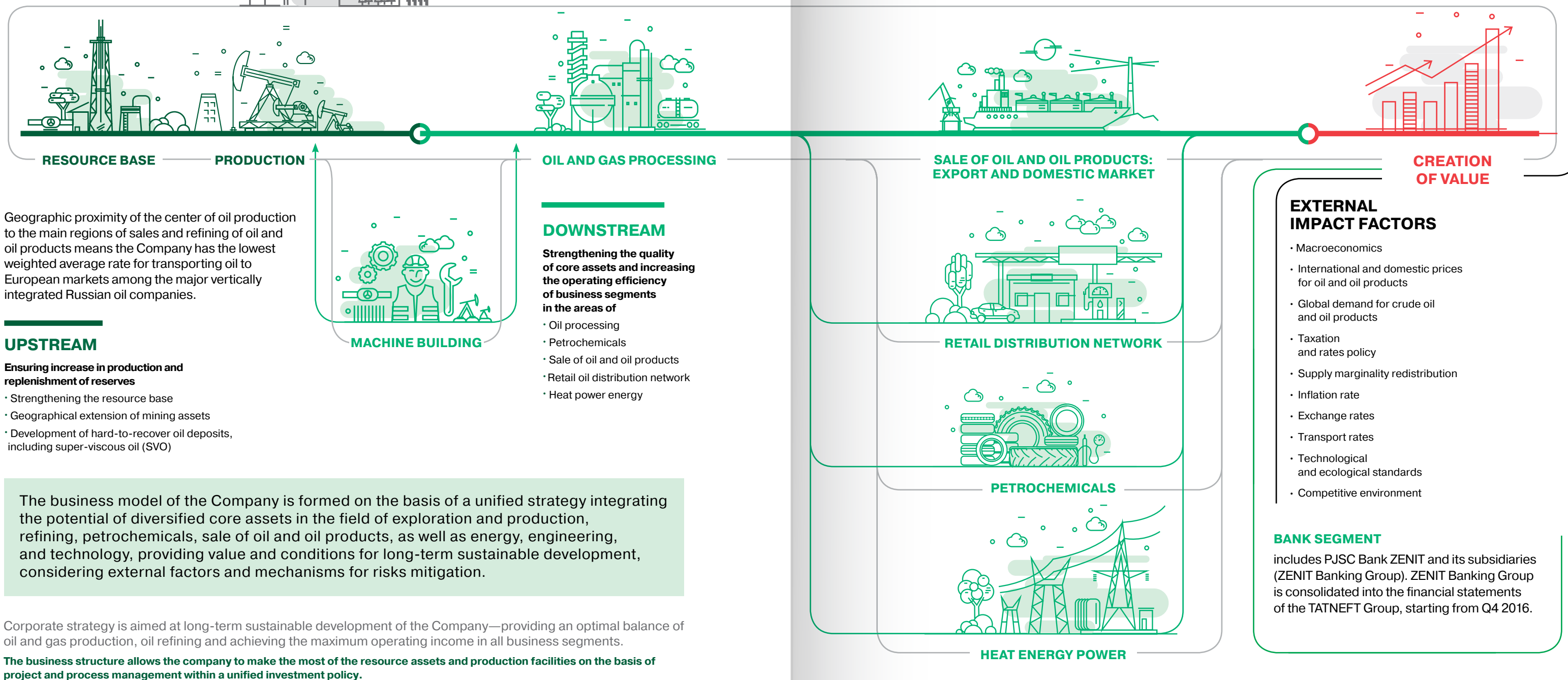
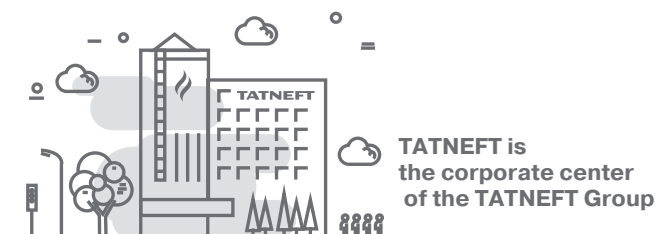
The Company holds licenses for geological exploration, prospecting and production of oil and gas in the Russian Federation. The main resource base is located in the Republic of Tatarstan, including Romashkinskiy , one of the world’s largest oil fields. The business infrastructure includes geographical proximity to oil production areas, our own oil refineries and generating capacities, high-quality logistics for the sale of oil and oil products.



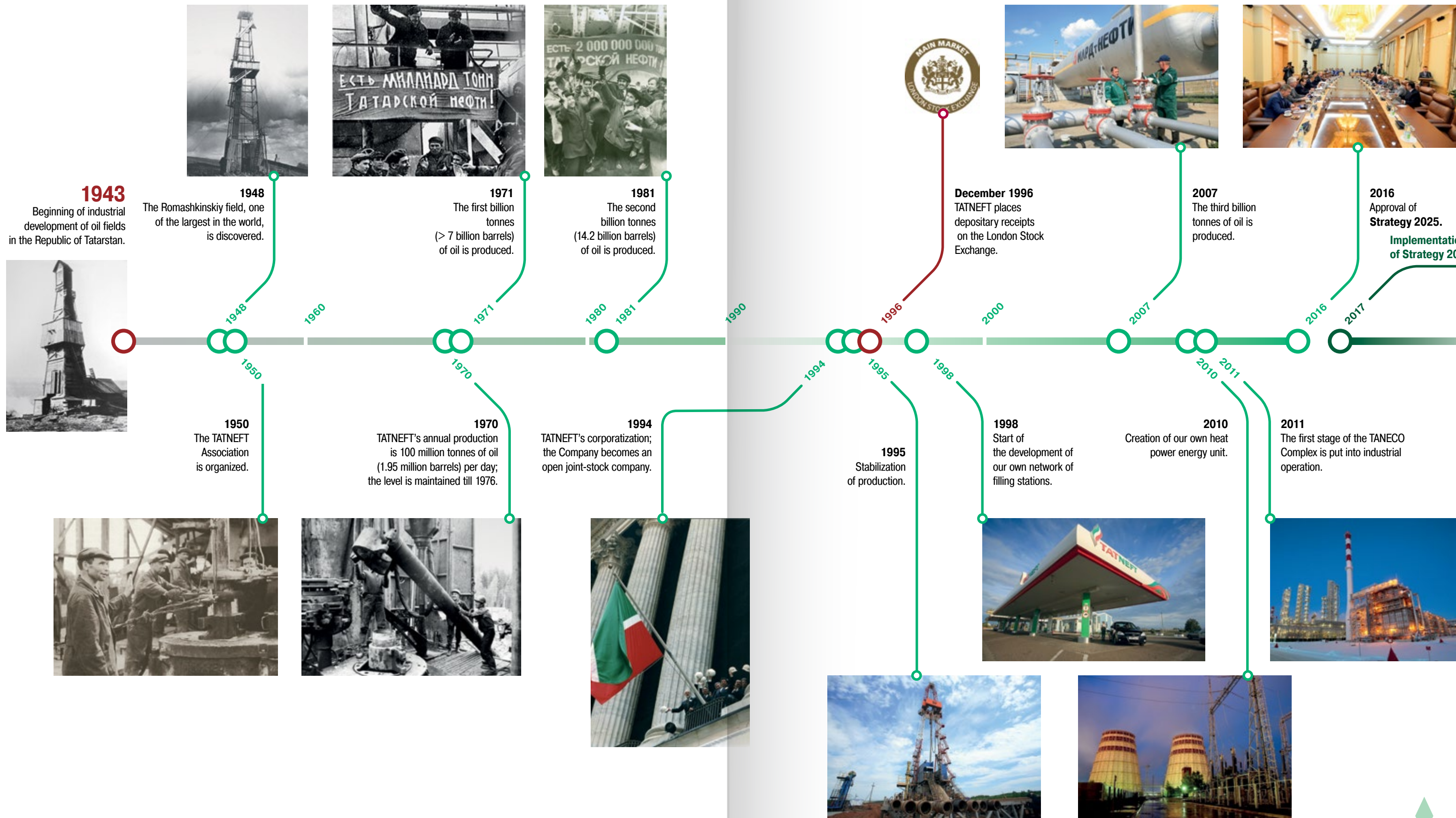
MAIN SEGMENT-FORMING ENTERPRISES



BUSINESS MODEL OF THE COMPANY



MAIN STAGES OF THE COMPANY HISTORY



GLOBAL CHALLENGES

Global business challenges	Company's activities
Volatility of world prices for oil and oil products	Programs and functional strategies ensure a high level of the Company's operational efficiency and profitability at all levels of business, from exploration and production to sales on the oil and oil products market.
Growth of competition among oil producers	By achieving target production indicators, the Company strengthens its financial and economic stability and maintains its leading position for a number of indicators in the industry, with high competitiveness in efficiency and quality. It implements high-tech projects, advanced management solutions, and organizational transformations.
Growth in demand for high-tech solutions in the oil industry	Despite considerable depletion of reserves, TATNEFT, using advanced innovative technologies, is increasing oil production while maintaining cost effectiveness.
Digital transformation (Industry 4.0)—transition to automated digital production	The growth of innovative potential, introduction of progressive digital solutions and integrated information platforms mean creation of a reliable technological basis for the Company. The Company considers innovative projects an integral condition of business development.
Growing requirements for environmental and social responsibility	The Company introduces environmentally efficient technologies that ensure rational use of natural resources, reducing the negative impact of production processes on the environment, and are aimed at restoring ecological systems. Renewable energy sources and energy saving constitute an important aspect of the Company's activity. The Company's most important priority is to promote the development of the social infrastructure in the territories of its activities.

The Company recognizes its responsibility to shareholders, investors, partners, employees, and society as a whole and strives to maximize the use of its potential to ensure sustainable development.

COMPONENTS OF SUSTAINABLE DEVELOPMENT

ECONOMIC ASPECT

- Participation in the development of the national fuel and energy complex infrastructure
- Job creation
- Added value creation
- Assistance to local economies
- Introduction of innovations
- Ensuring financial and economic stability of the Group's enterprises
- Development of own research and production base integrated with leading industry research centers

SOCIAL ASPECT

- Legal compliance
- Respect for human rights
- Positive public opinion
- Guaranteed quality of products
- Good working conditions
- Assistance in the socioeconomic development of the regions of the Company's activity
- Promotion of education, culture, and sports
- Support for socially vulnerable groups
- Provision of high-quality goods and services
- Continuous increase in product quality
- Strive to follow changing demands of consumers
- Provision of reliable information about the Company's products

ECOLOGY ASPECT

- Environment protection
- Use of recyclable materials
- Use of environment-friendly energy sources
- Energy saving
- Recycling
- Ensuring safe working conditions, protecting the health of the personnel and the population living in the areas of the Company's activity
- Decrease in the man-made impact on the environment
- Rational use of natural resources
- Implementation of a set of measures to maintain the environment in the regions of the Company's activity at the standard admissible level corresponding to the natural ecosystems' potential for self-recovery

INNOVATIONS

The Company's strategy is based on the principles of innovative development.

The work is focused at technologies required to implement the Strategy and overcome challenges hindering it.

The Company consistently develops and implements most advanced solutions, many of which are unique in the industry and in the technology supply market. Interaction with leading domestic and foreign scientific, technical and technological centers allows integration of production tasks and wide experience with innovative scientific potential in all areas of the Company's activities.

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GLOBAL CHALLENGES AND NEW OPPORTUNITIES

Recent years have been characterized by global challenges for the oil industry. Instability of external factors forces companies to have greater operational efficiency and serious programs for sustainable development in the conditions of ultra-rapid changes in the economic and industrial landscape. Today, the worldwide trend is global transformation of the technological potential, open opportunities for transition to fully automated production, the use of artificial intelligence systems, progressive digital solutions, and large-scale information resources. TATNEFT's response to business challenges is a systemic process of change management. Implementing the strategy, the Company undertakes well-considered actions under investment programs and plans the effectiveness of all business processes on the basis of the KPI system to strengthen its competitive advantages and secure a long-term growth in value.

EFFECTIVENESS

CONSISTENT IMPLEMENTATION OF STRATEGIC OBJECTIVES BY THE COMPANY HAS PROVIDED SUSTAINABLE GROWTH OF PRODUCTION AND POSITIVE DYNAMICS OF FINANCIAL INDICATORS FOR OVER 20 YEARS.

SUSTAINABILITY AND STABILITY

POSITIVE RESULTS OF THE COMPANY'S ACTIVITIES UNDER THE DIFFICULT MACROECONOMIC CONDITIONS IN 2014–2017 REFLECT THE HIGH-QUALITY POTENTIAL OF THE BUSINESS MODEL, ABLE TO HANDLE THE PRESSURE OF NEGATIVE BRANCH AND MARKET FACTORS.

RESPONSIBILITY

STRICT COMPLIANCE WITH THE RIGHTS AND LEGAL INTERESTS OF SHAREHOLDERS AND ALL PARTIES CONCERNED IS EXPRESSED IN THE FULFILLMENT OF THE COMPANY'S OBLIGATIONS REGARDING BASIC ACTIVITIES AND VOLUNTARY SOCIAL INITIATIVES.

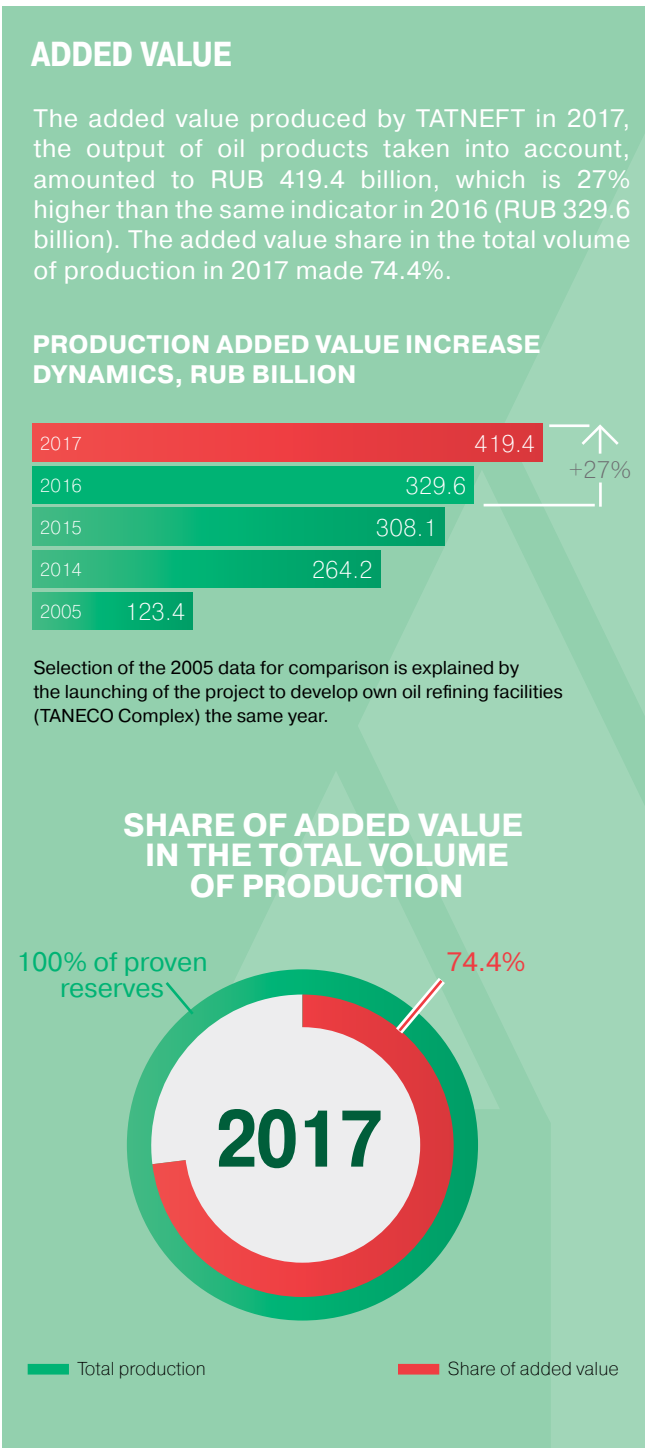
SUSTAINABLE DEVELOPMENT

Implementation of the Company's strategy provides for sustainable growth and favorable economic and social conditions for business development based on the most effective use of all types of resources, creating value for stakeholders at each stage of its activity.

The Company considers long-term prospects and current plans for its core activity to develop its own resource and production potential and improve its financial results in direct connection with various social and environmental aspects. The principles of social responsibility are integrated into the Company's business plans.

The Company understands that long-term sustainable business development is inseparable from social progress and stable development of the society and makes a significant contribution to the socioeconomic development of the regions of its activity and society as a whole. Key decisions consider social, environmental, and other possible consequences. The Company implements targeted social, infrastructural, and environmental programs as voluntary corporate initiatives based on its responsibility to employees, local communities, and the environment.

Development and implementation of programs and activities for sustainable development are carried out with the participation of all parties concerned—employees, authorities, representatives of local communities, public organizations—by means of an open dialog.



REPORT OF THE BOARD OF DIRECTORS ON STRATEGIC DIRECTIONS OF THE COMPANY'S DEVELOPMENT

MACROECONOMICS

GLOBAL OIL MARKET

In 2017, demand on the world oil market exceeded supply. This was the result of both a steady growth in oil consumption and measures to limit production adopted by a group of exporting countries.

The consequence of the change for the balance sheet was the rise in oil prices and their relative stability during the year. In 2018, the factors mentioned above remain in force, allowing to expect that the balance of the oil market will be maintained.

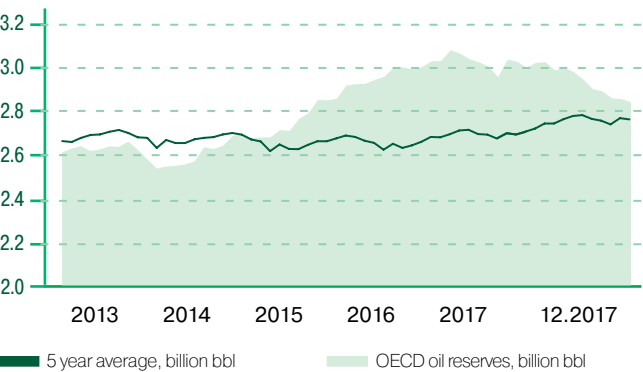
OIL MARKET STABILIZATION

According to the estimates of the International Energy Agency (IEA), in 2017, the global oil shortage averaged 0.46 million bbl/day (against an excess of 0.7 million bbl/day in 2016). At the end of the year, the shortage increased, and oil reserves in the OECD countries were already declining at a rate of about 1 million bbl/day.

This situation was a consequence of the actions of a group of oil-exporting countries, which at the end of 2016 decided to reduce production by 1.8 million bbl/day. The purpose of the agreement, one of the key participants in which was Russia, is to reduce oil reserves to an average value within five years. During 2017, the reserve excess was reduced from 340 to 74 million barrels partly due to an increase in the average OECD reserves in the preceding five years, against which the excess is determined. The aim of the agreement is expected to be reached in 2018, which may give its participants an opportunity to reconsider production benchmarks.

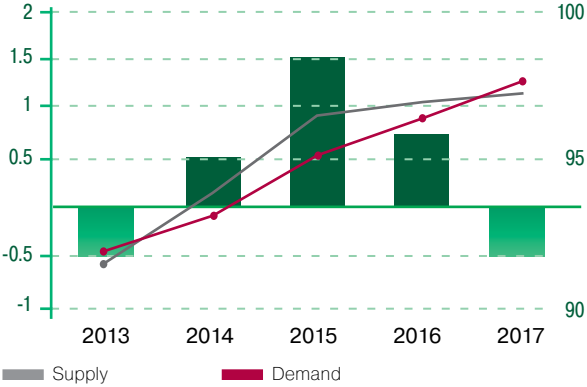
Overcoming the surplus in the physical market supported the oil prices and ensured their stability during the year. From January to the end of December 2017, spot prices for Brent oil rose by about USD 10/bbl, and the average annual price amounted to USD 54.20/bbl (against USD 43.4 in 2016). In comparison with 2016, the volatility of oil prices significantly decreased.

OECD OIL RESERVES (BILLION BBL)



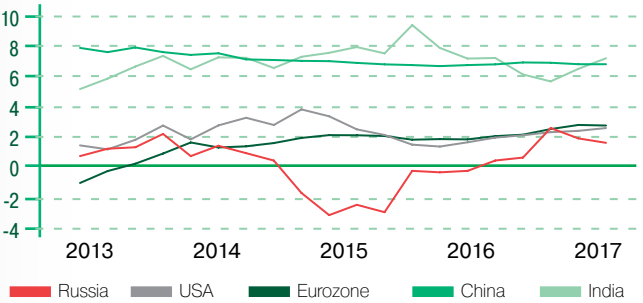
Source: U.S. Energy Information Administration

OIL MARKET BALANCE IN 2013–2017 (MILLION BBL/DAY)



Source: IEA

GDP DYNAMICS OF KEY ECONOMIES IN 2013–2017 (% YEAR ON YEAR)



The acceleration of the Western economies was partly the result of a soft monetary policy. A low inflation rate allowed the financial authorities of the United States and the eurozone to maintain low-interest rates. This, in turn, provides favorable conditions for financial markets and reduces the risk of negative developments in the world economy in the short term.

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Eurostat; National Bureau of Statistics of China; Central Statistical Organization, India; Russian Federal State Statistics Service

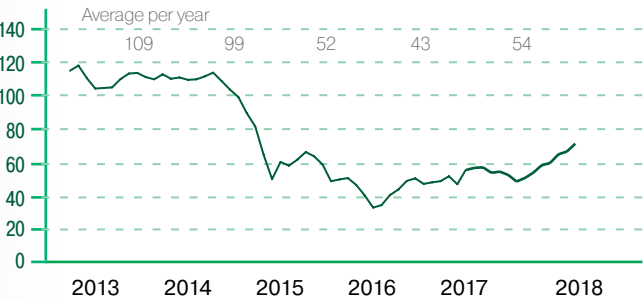
Geopolitical factors, which were often ignored by the market when oil was in excess, in 2017 began to impact prices again. Interruptions in oil supplies from Kurdistan and political events in Saudi Arabia caused a noticeable reaction of the oil market at the end of 2017. Stability of the proposal again came to the fore in determining the market conditions.

STABLE DEMAND FOR OIL

As in the previous few years, in 2017, sustainable growth of the world economy ensured a significant increase in the consumption of oil and other energy resources. According to the International Monetary Fund (IMF), looking at the results of 2017, the world economy grew by 3.7%; in 2018 and 2019, it expects the rate to rise. In these conditions, world oil consumption in 2017 maintained high growth rates, which according to the IEA amounted to 1.6 million bbl/day, after 1.2 million bbl/day in 2016. Asian countries became leaders in the increase in steel consumption—the growth in demand in the region amounted to 1 million bbl/day, which was fostered by the continued rapid growth of the economies of China and India.

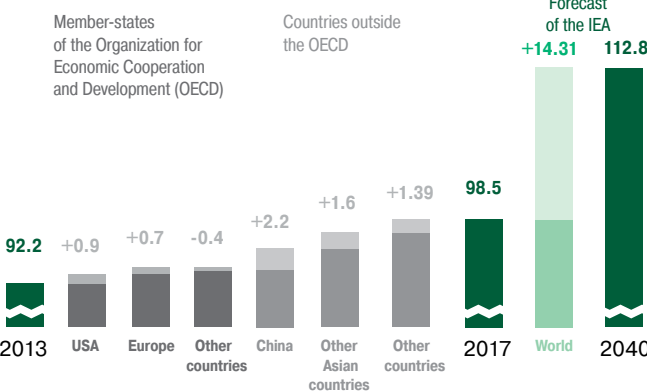
Meanwhile, the most developed countries significantly contributed to the growth of world demand for oil. The economy of the eurozone noticeably accelerated in the past year, which affected the consumption of oil products: the demand for oil in Western Europe rose by 0.3 million bbl/day. The IEA anticipates that world demand for oil will reach 100 million bbl/day in the first half of 2019.

PRICE FOR BRENT OIL IN 2013–2018 (USD/BBL)



Source: U.S. Energy Information Administration

DEMAND FOR OIL DYNAMICS BY COUNTRY/REGION IN 2013–2017 AND RELEVANT IEA EXPECTATIONS TILL 2040 (BBL/DAY)



RUSSIAN ECONOMY BEGAN TO RECOVER IN 2017. INFLATION IN 2017 WAS AT THE MINIMUM FOR THE ENTIRE NEW HISTORY OF RUSSIA—2.5%. ACCORDING TO THE DATA OF THE RUSSIAN FEDERAL STATE STATISTICS SERVICE, THE COUNTRY'S GDP INCREASED BY 1.8% IN Q3 2017 AGAINST THE SAME PERIOD OF THE PRECEDING YEAR.

Low inflation allowed the Central Bank of the Russian Federation (Bank of Russia) to significantly ease its monetary policy. The key rate of the Bank of Russia was reduced from 10% to 7.75% during the year. In early 2018, the rate reduction continued.

Stabilization of the macroeconomic picture and improvement of budget indicators enabled to increase the credit rating of the Russian Federation by leading rating agencies. The growth of oil and gas revenues and a decrease in the interest rates are creating the conditions for maintaining the positive dynamics of the Russian economy. With oil prices above USD 50/bbl, a positive growth rate of the Russian economy is anticipated in 2018.

The world economy continued to demonstrate positive dynamics in Q4 2017. Positive rates of economic growth in the US and the EU are expected at the end of the year. Relatively high rates of economic growth are maintained in the largest emerging economies, such as India and China. The situation in the global economy as a whole favors the growth of world demand for oil. The main source of growth in the oil supply by the end of 2017 within the context of the OPEC+ Agreement was US shale oil.

In the medium term, oil prices may increase due to the deferred effect of a reduction in investment from oil and gas companies in large, long-term projects, production decline at the old well stock and an increase in global consumption of liquid hydrocarbons. The growth of world demand for oil will be determined by the continuing motorization and development of industry in developing countries.

TAX POLICY AND REGULATION

Decisions in tax legislation relating to the oil industry in 2017 continued the logic of the changes that were made over the past few years. The upward coefficient to the rate of mineral extraction tax for oil in the amount of RUB 428 per tonne was extended until 2020. The schedule of changes in excise taxes for oil products was approved, stipulating, in particular, the growth of excise taxes for motor gasoline and diesel fuel until 2020. In addition, to counter the presence of surrogate fuels in the market, the notion of «medium distillates» was clarified for the purposes of excise taxation. At the end of 2017, the Government of the Russian Federation approved and submitted to the Federal Assembly the bills required for transition to the taxation of the financial result in the form of Excess-Profits Tax (EPT) for the oil industry. The purpose of the new regime, in particular, is to increase oil production in the fields that will be included in the pool of EPT pilot projects.

OIL AND CONDENSATE PRODUCTION IN 2017 AMOUNTED TO 546.8 MILLION TONNES, SLIGHTLY LOWER AS COMPARED TO 2016.

OIL AND CONDENSATE PRODUCTION
546.8 MILLION **2017**
TONNES

In 2017, the average price of Urals oil over 2017 was 53.1 USD/bbl, which is 27.3% higher than during the preceding year. The main factor for the increase in prices was the reduced oil production within the framework of the Production Restriction Agreement concluded at the end of 2016 between OPEC countries and large independent oil exporters, including Russia. The prices were supported by the decision to extend the Agreement to the end of 2018. At the same time, there was a steady increase in demand for oil from the world's largest economies. Gradual balancing of the market was fostered by a high degree of coordination of actions by the countries-parties to the Agreement. By the end of 2017, Urals oil prices rose to a two-and-a-half-year maximum, exceeding USD 66/bbl. Under the influence of the quoted oil prices, the average annual rate of the RUB against the USD strengthened by 14.9%, to 58.3 RUB/USD in 2017, affecting the ruble oil prices, which increased by 10.8% compared to the preceding year.

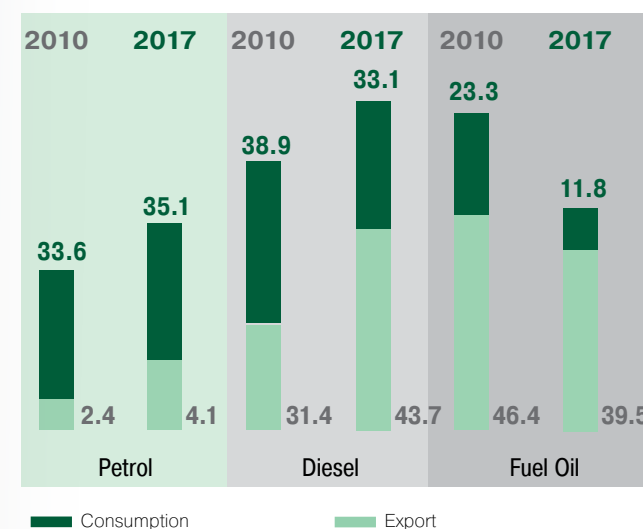
VOLUME OF OIL PRODUCTION IN RUSSIA (GAS CONDENSATE INCLUDED), MILLION TONNES

2017	546.8
2016	547.0
2014	534.0

Russia being a party to the Agreement on the restriction of oil production caused a decline in production in the Russian Federation. At the same time, the share of oil produced from hard-to-recover reserves increased.

OIL EXPORTS FROM THE RUSSIAN FEDERATION
258 MILLION TONNES **2017**

PRODUCTION AND EXPORT OF MAIN OIL PRODUCTS IN THE RUSSIAN FEDERATION IN 2010–2017, MILLION TONNES



Source: Ministry of Energy of the Russian Federation

In 2017, the volume of oil exports from the Russian Federation did not change significantly. According to the Ministry of Energy of Russia, the figure was about 258 million tonnes. However, the structure of exports changed: exports to China continued to grow against a decrease in the supplies to Europe. The year-end showed that the Russian Federation had become the main supplier of oil to China, coming way ahead Saudi Arabia.

In 2017 the volume of primary oil refining in Russia was 279.5 million tonnes. Due to the modernization of oil-refining facilities and changes in tax and customs legislation, the structure of the output of oil products continued to change: the production of fuel oil dropped drastically, and the production of aviation kerosene increased. A significant fact in the development of the Russian oil-refining industry is an increase in the average depth of processing.

The situation with domestic demand for oil products corresponded to the heterogeneous dynamics of economic indicators. Fuel consumption by road transport showed moderate growth in the range of 1%–2% at weak dynamics of household incomes and retail trade. The air transportation market was being restored more dynamically.

EXPLORATION AND PRODUCTION

SOLVING BUSINESS CHALLENGES TO IMPLEMENT THE STRATEGY ON PRODUCTION

In the reporting year, the Company analyzed and assessed the potential of the current resource base of oil reserves, having defined the boundaries of business challenges and assessed the potential for solving them. The tasks have been detailed, additional projects have been deployed in R&D and Main Engineering Solutions for studying the geological structure and selection of effective technologies for developing reserves.

Initiated and in progress:

- Project to increase the rate of production to 8% for the Vereiskian deposits
- Project to optimize the system for development of fields confined to the Tula and Bobrikov horizons
- Project on stimulation of production by drilling wells on the Tournaisian and Bashkirian stages

Work has begun on a project for active development of oil reserves in the collector layers of the Kynov horizon with cutoff values for the porosity and permeability properties.

In 2017 and the next few years, the company’s main strategic objectives in Exploration and Production are:

- Increase in oil production due to increased oil recovery at the old fields in Tatarstan due to expanded introduction of new technologies
- Active involvement in the development of a large number of super-viscous oil (SVO) deposits and reaching a production level of up to 3 million tonnes
- Implementation of a pilot project for the production of shale oil
- Growth of profitable production outside the Republic of Tatarstan (and outside Russia), including new regions
- Reduction of specific operating and investment expenses for oil production

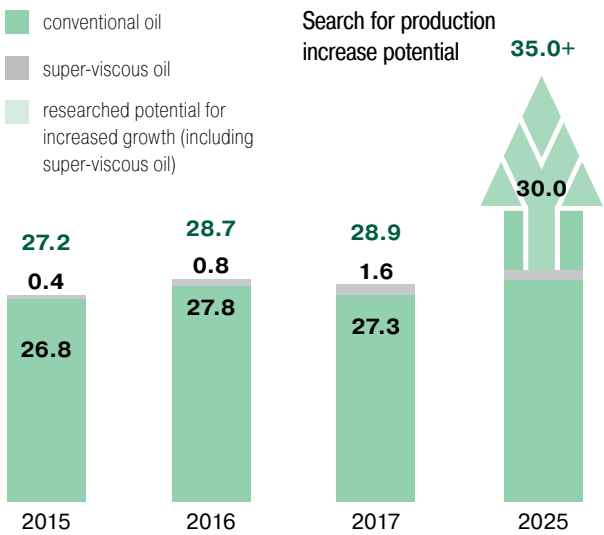
2025 STRATEGIC GOALS

Transition from maintaining a stable level of oil production to its growth.

Increase in the annual production to 30 million tonnes. Search for a growth potential of up to 35 million tonnes and higher in 2025.

Indicator	2016	2017
Total oil production, million tonnes, including:		
conventional	28.7	28.9
Oil	27.8	27.3
Super-viscous oil	0.8	1.6

VOLUME OF OIL PRODUCTION



DESPITE THE SIGNIFICANT DEPLETION OF RESERVES, THE COMPANY, EMPLOYING ADVANCED, INNOVATIVE TECHNOLOGIES, IS INCREASING ITS OIL PRODUCTION WHILE MAINTAINING A COMPETITIVE LEVEL OF COSTS.

The Company is ensuring production growth while preserving the resource and increasing the productivity of the well stock, perfecting approaches and technologies in the field of enhancing oil recovery and well repair.

The Company’s technological and economic policies support enhanced oil recovery (EOR) and its increased efficiency. In 2017, due to tertiary EOR reservoirs, the volume of additional production reached 8.7 million tonnes of oil.

The share of oil produced using EOR in 2017 made 30.5% of the Company’s total production.

The Company is developing dual completion technologies that increase the efficiency of field development. As of the end of 2017, 2,075 of the Company’s wells operate using this technology. In 2017, the PDC and P&I DC units were implemented and operated in 409 wells; since the beginning of the year the average daily oil growth per well was 5.6 tonnes. The total additional production from the PDC and P&I DC wells was 14.6 million tonnes since the commissioning of the units. The average growth in the oil production rate per well since the commissioning of the units made 4.2 tonnes/day.

In 2017, the IDC technology was introduced in 66 wells. As of the end of 2017, the IDC technology was introduced and operated in 787 of the Company’s water injection wells. Additional oil production from development wells amounted to 2.8 million tonnes since their introduction.

AT THE END OF 2017, A TOTAL OF 2,862 PDC, P&I DC, IDC UNITS WERE IN OPERATION.

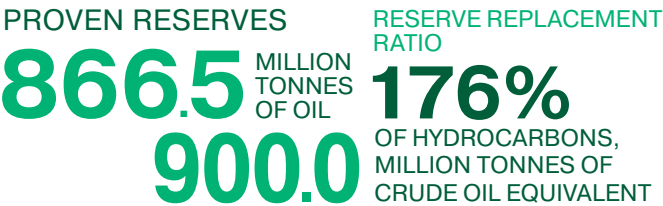
The cumulative additional production since the introduction of the PDC, P&I DC, and IDC has exceeded 17 million tonnes of oil.

One of the Company’s primary strategic goals is to move from stabilization to sustainable growth in oil production at the licensed fields in Tatarstan. In 2017, the Group increased oil production in the fields by 0.9% compared to 2016. In view of the relative depletion of the Company’s main production fields, a significant part of all oil produced by the Company in Tatarstan was obtained using various enhanced oil recovery technologies. In 2017, The Group commissioned 895 new production wells in Tatarstan.

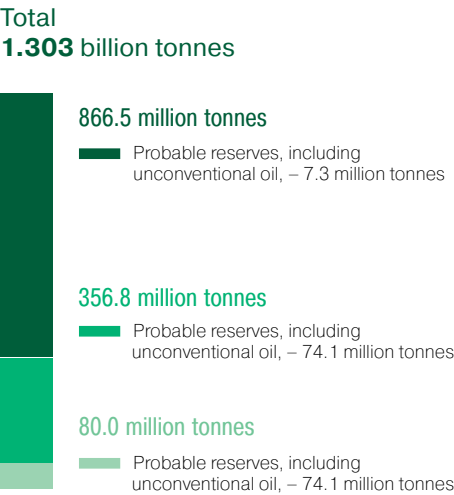
In 2017, the Company, to meet its obligations under the OPEC+ Agreement, was forced to intentionally limit the growth of oil production achieved in previous years, when TATNEFT steadily entered the list of the leaders in increasing oil production among Russian oil companies.

RESOURCE BASE

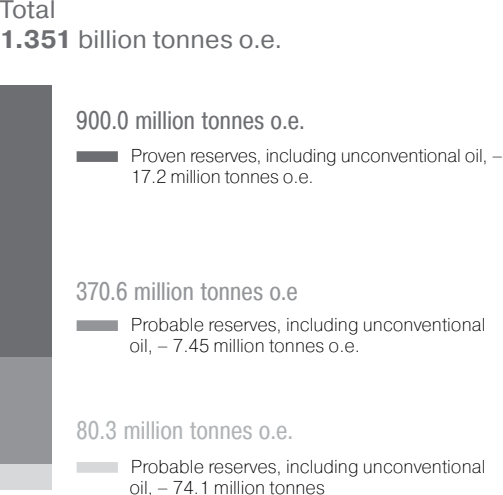
HIGH LEVEL OF HYDROCARBON RE-SOURCES — ONE OF THE COMPANY’S KEY STRATEGIC ADVANTAGES



Resource potential of the Tatneft Group



Hydrocarbon reserves of the TATNEFT Group



Total net contingent resources of the TATNEFT Group

- 1C resources: 795,398,000 barrels (oil and condensate) and 189,902 million cubic feet (gas)
- 2C resources: 1,046,870,000 barrels (oil and condensate) and 272,467 million cubic feet (gas)
- 3C resources: 1,972,670,000 barrels (oil and condensate) and 1,091,410 million cubic feet (gas)

Key priorities:

- Strengthening the resource base
- Replenishment of hydrocarbon production by industrial categories
- Preparation of the raw materials base and effective bringing of reserves into development
- Maintaining production at mature fields through the use of innovative technological solutions and ensuring planned rates of growth of production with a decrease in specific operational and investment costs

BY THE LEVEL OF HYDROCARBON RESERVES (RATIO OF THE CURRENT ANNUAL PRODUCTION TO THE SIZE OF THE RESERVES), THE COMPANY HAS A LEADING POSITION NOT ONLY IN RUSSIA, BUT GLOBALLY. THE COMPANY CONSISTENTLY MAINTAINS THE LEVEL OF REPLENISHMENT OF PRODUCTION BY THE GROWTH OF RESERVES.

OUR PLANS EMBRACE CONTINUING EXPANSION AND DIVERSIFICATION OF RESERVES BY OBTAINING ACCESS — INCLUDING BY THE ESTABLISHMENT OF STRATEGIC ALLIANCES — TO OIL AND GAS RESERVES OUTSIDE TATARSTAN.

As of December 31, 2017, the volume of proven oil reserves is 6,172 million barrels or 866.5 million tonnes, according to Miller&Lents, Ltd.

Probable oil reserves are 356.8 million tonnes. The proven reserves of hydrocarbons are 900.0 million tonnes o.e.

The License Fund of the TATNEFT Group at the end of 2017 included 87 licenses granting the right to explore and produce mineral resources, the right to geological prospecting, including the survey and evaluation of mineral deposits, exploration and extraction of mineral resources in the Russian Federation.

The potential of hydrocarbon resources includes reserves of bitumen and unconventional oil. Experimental, research, and methodological work is conducted at the Domanic and Bitum scientific testing sites, from exploration to development and exploitation of deposits. Prospects for the production of domanic oil are also determined. The Company considers unconventional reserves as an opportunity to increase production and will develop this class of resource assets as an important element of its portfolio.

The main resource base of TATNEFT is historically located in the Republic of Tatarstan. Most reserves are conventional. Search, exploration, and development of licensed hydrocarbon fields are also conducted in the Republic of Kalmykia, the Orenburg, Samara, and Ulyanovsk Regions, and the Nenets Autonomous District.

The Company’s foreign projects in Libya and Syria are suspended due to the military-political situation in these countries. The situation is monitored with the goal of resuming work after things stabilize, and the safety of the staff can be guaranteed.

TECHNOLOGIES FOR PROSPECTING FOR DEPOSITS

To prospect for deposits, a number of new technologies are used in addition to standard ones such as seismic exploration:

- Forecasting of oil-prospecting targets using artificial intelligence
- Selection of prospective targets using field geophysics and geochemistry with the complex probability parameter (CPV) of oil prospecting
- Geochemical method of prospecting for oil and gas deposits using passive adsorption of hydrocarbons
- Low-frequency seismic sounding (LFS)
- GTO LS (geological and geophysical technology to optimize the selection of well-drilling locations)
- EMS (electromagnetic sounding)
- Stratimegic, a new software package for 3D seismic data processing
- The method of NMR tomographic probing was first tested for the detection of reservoirs saturated with super-viscous oils at shallow depths.

GEOLOGICAL EXPLORATION IN THE TERRITORY OF THE REPUBLIC OF TATARSTAN

The License Fund in the Republic of Tatarstan includes 66 licenses, of which 36 are licenses for exploration and production of mineral resources, 27 are for geological exploration, including prospecting and evaluation of mineral resources, exploration and extraction of mineral resources, and 3 are for geological research, including prospecting and evaluation of mineral resources.

The volume of geological exploration work for the licensed areas provided for by licensing agreements is being fully carried out.

In 2017, construction of 9 prospecting and exploration wells was completed, 6 of them being prospecting wells, and 3 being exploration wells. Productive pools were discovered in 8 out of 9 wells.

The success rate of prospecting and exploration drilling in the Republic of Tatarstan was **89 %**.

The total volume of prospecting and exploration drilling for the reporting year was 16,003 m, with that for prospecting, 6,013 m; for exploration, 9,990 m.

IN 2017, TWO DEPOSITS WERE DISCOVERED IN THE REPUBLIC OF TATARSTAN: KLENOVOYE AND YUZHNO-FERGANSKOYE.

The **Klenovoye deposit** was discovered at prospecting well No. 2259 where oil was obtained from the carbonate sediments of the Dankovo-Lebedyansky horizon (daily oil output – 8 m3). C1 + C2 reserves amounted to 134/30 thousand tonnes of the geological/recoverable volumes.

Yuzhno-Ferganskoye deposit was discovered at prospecting well No. 886. The well is located in the southwestern part of the Agbazarovskiy licensed area. Primary C1 reserves amounted to 151/37 thousand tonnes of geological/recoverables.

Efficiency –1,953.3 RUB/tonne

Efficiency – 1,421.6 RUB/tonne

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

GEOLOGICAL AND EXPLORATION WORK IN THE REPUBLIC OF TATARSTAN

Type of work	Unit	2016	2017
Prospecting-exploration drilling	m	11,930	17,084
2D seismic exploration	line km	115	677.6
3D seismic exploration	km ²	471.7	412.2

10 structures with prospective recoverable resources in the D0 category (5,249 million tonnes) have been prepared for deep drilling.

In the reporting year, geological and exploration costs in the Republic of Tatarstan amounted to more than RUB 1.5 billion. In 2018, it is planned to invest up to RUB 1,255.3 million in geological exploration in the Republic of Tatarstan, while drilling 18,000 meters of geological material, to continue seismic exploration using 2D methods in the amount of 280 line km, 3D in the amount of 558 km² in the fields and exploration zones of the Company.

GEOLOGICAL EXPLORATION OUTSIDE THE REPUBLIC OF TATARSTAN

The License Fund outside the Republic of Tatarstan has 32 licenses, including:

- 16 licenses for oil and gas production
- 13 licenses for geological exploration and production of oil
- 3 licenses for geological research

In 2017, geological exploration was carried out by 7 subsidiaries and affiliated companies in the Samara, Ulyanovsk, and Orenburg Regions, the Nenets Autonomous District, and the Republic of Kalmykia.

OUTSIDE THE REPUBLIC OF TATARSTAN, ONE DEPOSIT—VOSTOCHNO-KARACHAYEVSKOYE—WAS DISCOVERED IN 2017

The deposit is open in the Samara Region with C1 + C2 geological reserves in the terrigenous sediments of the Upper Devonian, with 352 000 tonnes, of which **145.000 tonnes** are recoverable.

Efficiency – 1,340.7 RUB/tonne

A LICENSE WAS OBTAINED FOR THE BITUM TESTING SITE AT THE KUZMINOVSK-1 AREA OF SUB-SOILS.

The site is located in the Samara Region, with 1.76 million tonnes of promising oil resources of the D0 category and 1.6 million tonnes of forecast oil reserves of the D1L and 11.2 million tonnes of the D1 category.

It is planned to prospect the site for deposits of conventional and hard-to-recover hydrocarbon reserves.

In 2017, seismic exploration work was carried out using the 2D CDP method: 20 line km; 3D CDP method: 75 km².

The total volume of prospecting and exploration drilling for 2017 was 11,873,000 meters.

In 2018, the Company is planning prospecting and exploration drilling outside the Republic of Tatarstan on the scale of 9,964,000 tonnes of geological material, performing 74.6 km² of 3D seismic exploration work.

GEOLOGICAL AND EXPLORATION WORK OUTSIDE THE REPUBLIC OF TATARSTAN

Type of work	Unit	2016	2017
Prospecting-exploration drilling	m	27,246	11,873
2D CDP METHOD	line km	-	20
3D CDP METHOD	km²	177	75

OIL AND GAS PRODUCTION

OIL PRODUCTION BY THE TATNEFT GROUP, MILLION TONNES



DAILY AVERAGE OIL PRODUCTION RATE, THOUSAND BBL PER DAY



GAS PRODUCTION BY THE TATNEFT GROUP, MILLION M³



DAILY AVERAGE GAS PRODUCTION RATE, THOUSAND BBL O.E. PER DAY



AMOUNT OF DRILLING, THOUSAND M

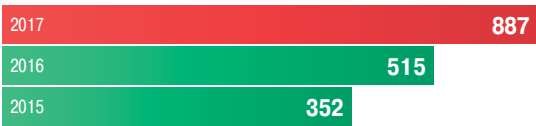
Name	2017
Amount of drilling	958.7
Amount of drilling by TATNEFT	950.5
Amount of drilling by subsidiaries	8.2
Amount of prospecting and exploration drilling:	28.1
Amount of prospecting and exploration drilling by TATNEFT	18.2
Amount of prospecting and exploration drilling by subsidiaries	9.9
Drilling by TATNEFT	968.7
Drilling by subsidiaries	18.1

OIL PRODUCTION
28.9 MILLION TONNES
564.8 THOUSAND BARRELS PER DAY
2017

CONSTRUCTION OF WELLS

752 production wells have been drilled and commissioned (including 702 wells of conventional oil and 50 wells of SVO), with a plan for 747 wells (including 697 wells of conventional oil and 50 wells of SVO). 688 wells have been commissioned for drilling and development, with the oil production rate of 5.3 tonnes/day. In 2017, the Company commissioned 575 small-hole wells (SHW), of which 570 are producing wells with an average oil production of 3.6 tonnes/day and cumulative production of 366,800 tonnes. 112 horizontal wells were drilled; their oil production was 130,300 tonnes. 71 wells were drilled with cutting of side branches and horizontal sidetracking. Wells with SB cutting and HS commissioned in 2017 produced 94,600 tonnes of oil; the average growth in oil production from the production wells commissioned in 2017 amounted to: by SB: 6.7 tonnes/day, by HS: 8.1 tonnes/day

COMMISSIONING OF NEW PRODUCTION WELLS, UNITS



STOCK OF WELLS AS OF JANUARY 1, 2018

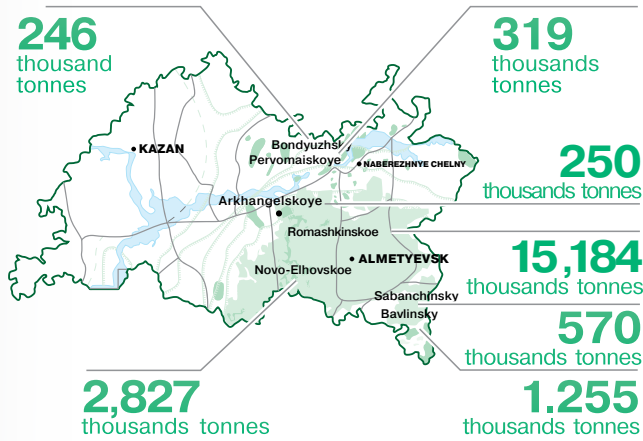
Purpose of the Stock	Number of wells
Operating production well stock	19.043
Non-operating production well stock	3.980
Development and expected development from the production well stock	9
Running production well stock	23.032

In the reporting year the average oil production rate per well of the operating stock in the Company's fields was 4.5 tonnes/day. 887 new production wells were commissioned. The average flow rate of new wells was 8.6 tonnes/day.

By the end of 2017, associated gas production by the TATNEFT Group amounted to 945.3 million m³.

The production of NGL amounted to 274,700 tonnes.

OIL PRODUCTION BY THE LARGEST FIELDS IN THE REPUBLIC OF TATARSTAN IN 2017



The Group's oil production amounted to 28.9 million tonnes, which is 0.9% higher than in 2016. Gas production in 2017 amounted to 945.3 million m3.

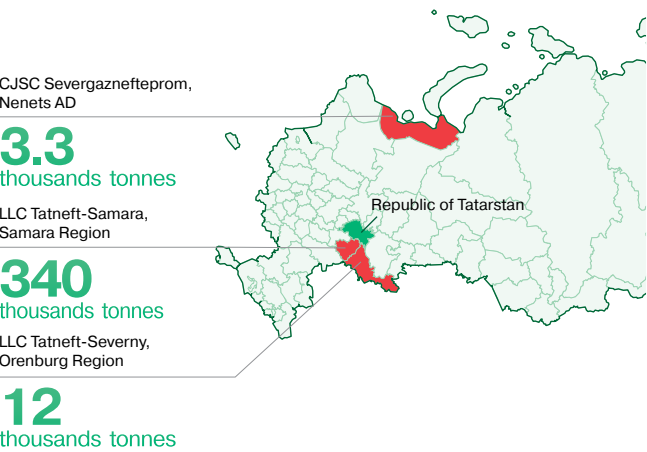
The Company produces its most significant volume at the traditional fields in the Republic of Tatarstan.

The main share of the current oil production is located at 2 unique and 5 large fields: Romashkinskoye, Novo-Yelkhovskoye, Bavlinskoye, Sabanchinskoye, Pervomayskoye, Bondyuzhskoye, Arkhangelskoye.

PRODUCTION BY THE LARGEST FIELDS IN 2017, THOUSAND TONNES

Deposits	Oil production
Romashkinskiy	15.184
Novo-Yelkhovskoye	2.827
Bavlinskoye	1.255
Bondyuzhskoye	246
Pervomayskoye	319
Sabachinskoye	570
Arkhangelskoye	250

GEOGRAPHY OF ACTIVITIES IN GEOLOGICAL EXPLORATION AND PRODUCTION OUTSIDE THE REPUBLIC OF TATARSTAN IN 2017



Outside the Republic of Tatarstan, in the Russian Federation, the Company owns licensed sites in the Samara, Orenburg, and Ulyanovsk Regions, the Nenets Autonomous District, and the Republic of Kalmykia. During 2017, 18 oil fields were exploited by the TATNEFT Group outside the Republic of Tatarstan, including 15 fields in the Samara Region, one in the Orenburg Region, and two in the Nenets Autonomous District (NAD).

In the Samara and Orenburg Regions, at the end of 2017, oil was produced from 122 wells, including 121 in the Samara Region and one in the Orenburg Region. Oil production in 2017 amounted to 340,000 tonnes in the Samara Region and 12,000 tonnes in the Orenburg Region. In the Samara Region, 7 new production wells were commissioned after drilling and development. The average production rate of new wells drilled in 2017 amounts to 5.1 tonnes/day. Two prospecting wells and one exploration well in the Samara Region and one prospecting well in the Orenburg Region were also drilled. Two exploration wells were commissioned for trial operation in the Nenets Autonomous District: Severo-Khayakhinskoye (oil production rate -- 123 tonnes/day) and Vostochno-Khayakhinskoye (oil production rate – 50 tonnes/day), and the development of three exploration wells from the Tibeyvisskoye, Khosoltinskoye, and Podveryukskoye fields. Oil production in 2017 in the Severo-Khayakhinskoye field was 2,757 tonnes, in the Vostochno-Khayakhinskoye field – 736 tonnes.

DEVELOPMENT OF SUPER-VISCOUS OIL FIELDS (SHESHMIN HORIZON)

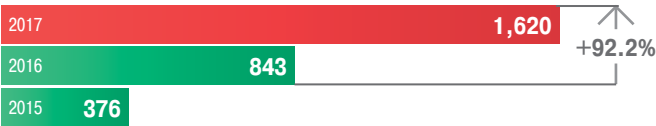
In 2017, the production of SVO was 1.6 million tonnes. By the end of the year, daily oil production reached 5,022 tonnes. Since the beginning of the pilot development, the total amount of SVO production made 3.4 million tonnes.

11 fields of super-viscous oil from the Sheshmin horizon are in development: 4 deposits of the Ashalchinskoye, 1 deposit of the Languyevskoye, 1 deposit of the Karmalinskoye, 1 deposit of the Nizhne-Karmalskoye, 1 deposit of the North Karmalinskoye, 1 deposit of the Melnichnoye, 2 deposits of the Yersubaykinskoye fields. In the reporting year, 4 SVO fields were commissioned: (Severo-Karmalinskaya, Melnichnaya, Mikhaylovskaya, Polyanskaya), one deposit was prepared for steam injection (Chumachkinskaya), and work has begun for drilling horizontal wells and location constructing at 6 additional SVO deposits (Novo-Chegodayskoye, Verkhneye, Yuzhno-Yekaterinovskoye, Vostochno-Sheshminkinskoye, Studeno-Klyuchevskoye, Averyanovskoye). Work on drilling horizontal wells and equipping the SVO fields is underway. As of January 1, 2018, the running production well stock at the SVO fields amounts to 651 horizontal wells (including 50 wells drilled in 2017) and 1,964 appraisal wells (including 158 wells drilled in 2017). 284 wells are operating, including 21 steam cyclic and 263 steam-gravity wells. 292 wells are under injection, including 272 steam injection, 16 steam-cycle, and 4 new steam wells (primary warming up of the reservoir).

In 2017, a number of experimental works were performed:

- introducing repair shanks
- conducting large-scale bottom hole treatment to create hydrodynamic communication
- carrying out interval bottom hole treatment using TAM inflatable packers
- carrying out waterproofing works through the drilled packer
- drilling a multihole well

PRODUCTION OF SVO, THOUSAND TONNES



PILOT WORKS TO DISCOVER AND DEVELOP OIL DEPOSITS IN DOMANIC SEDIMENTS

Over the past three years, the Company has been exploring and developing subsoil resources containing unconventional hard-to-recover reserves, which include Domanic productive sediments.

In the reporting year, the works were carried out in accordance with the approved «MES program of the TATNEFT Company for 2017 to discover and develop oil deposits in Domanic sediments.» Pilot projects were carried out using the technology of volumetric acid treatments and hydraulic fracturing.

One exploration well was drilled in the Yelaurskiy subsoil to study and develop bituminous carbonate reservoirs; the core recovered from the well and the well logs are currently being studied.

In 2018, implementation of pilot projects on the exploited fields continues, and it is also planned to study and develop the Domanic sediments, and bituminous collectors at the Domanic and Bitum testing sites using the allocated source of financing.

Application of differentiated mineral extraction tax rates and oil customs duty abatements present a favorable economic condition for the development of the Company’s fields. The use of reduced rates of export customs duties and a zero rate of the mineral extraction tax for super-viscous oil horizons (viscosity of 10,000 mPa*s or more) stimulates the Company’s development of SVO production.

In 2017, the Company applied the zero rate of the mineral extraction tax on super-viscous oil with a viscosity of 10,000 mPa*s and more (for reservoirs) and regarding the oil produced from Domanic sediment deposits. Furthermore, differentiated MET rates were applied with a decreasing coefficient for the subsoil with depletion of more than 80%, for small parts of the subsoil with reserves (IRR) of less than 5 million tonnes and depletion of less than or equal to 5% (according to the State Balance of Mineral Resources as of January 1, 2011), for deposits of super-viscous oil with a viscosity in reservoir conditions of more than 200 and less than 10,000 mPa*s, and for the subsoil in the NAD. Oil production from these facilities in 2017 amounted to 24 million tonnes (including SVO with a viscosity of more than 10,000 mPa*s – 1.6 million tonnes).

THE COMPANY ACHIEVES SAVINGS BY REDUCING THE PRODUCTION TAX RATE OF SUPER-VISCOUS OIL IN SOME OF ITS FIELDS AND OTHER SPECIFIC TAX INCENTIVES RELEVANT TO THE PRODUCTION AND SALE OF SUPER-VISCOUS OIL.

Federal Law No. 239-FZ dated December 3, 2012, «On Amendments to the Law of the Russian Federation ‘On the Customs Tariff’» stipulates reduced rates of export customs duties on oil with a viscosity in reservoir conditions of not less than 10,000 mPa*s.

The development of super-viscous oil reserves is one of the Company’s most capital-intensive projects. To further expand the project and develop other subsoil areas containing super-viscous oil, the management of the Company, with the assistance of the Republic of Tatarstan leaders, came up with an initiative to the Russian Government and was supported with amendments to Article 3.1 of the Law «On the Customs Tariff» on a specific procedure for calculating the rate of export customs duty for oil with a viscosity in reservoir conditions of not less than 10,000 mPa*s for a period of 120 consecutive calendar months from the start date of their application with respect to crude oil produced from a particular reservoir field of a particular hydrocarbon deposit.

Due to the nature of the raw material base, the Company retains the priority of maintaining incentive tax regimes for the developed deposits and for the deposits of super-viscous oil.

SALE OF OIL

The oil produced by the Company is sold in three areas: oil supply for Russian refineries, for export to the CIS member-states and to non-CIS countries. The Company maintains a balance of supply distribution based on strategic priorities and economic feasibility. In the reporting year about 13 million tonnes of oil were supplied to the domestic market for further processing , including 7.3 million tonnes for the TANECO Complex facilities. 4.7 million tonnes of oil was supplied as raw materials to the TAIF-NK refinery.

The volume of oil exports to non-CIS countries in 2017 was 14.3 million tonnes.

In 2017, in addition to the Transneft system, the resources of oil-producing enterprises with the participation of TATNEFT in the Orenburg and Samara Regions and the Nenets Autonomous Area in the amount of 118,200 tonnes were sold outside the Republic of Tatarstan.

The Group uses the services of Transneft JSC (Transneft), a state monopoly and operator of the Russian oil trunk pipeline system to transport oil for export.

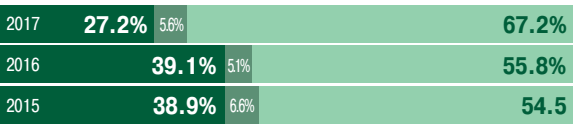
In 2017, the Group exported approximately 73% of all the crude oil it sold compared to 61% in 2016.

In 2017, the Company transported about 65% (63% in 2016) of all its oil for export via the Druzhba pipeline owned by Transneft (mainly to Poland, Germany, and Slovakia); 4% (5% in 2016) of the oil exported was shipped via the Russian ports on the Black Sea (mainly Novorossiysk), and 31% (32% in 2016) of the exported oil was shipped via the Russian ports on the Baltic Sea (mainly Primorsk).

SALE OF CRUDE OIL
BY THE GROUP, THOUSAND TONNES

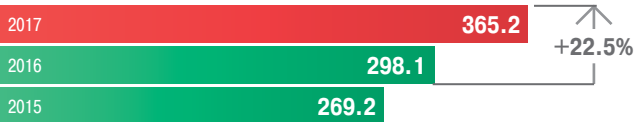


SHARES OF CRUDE OIL SALES
BY THE GROUP AND DESTINATION



for the domestic market
to CIS member states
export to foreign countries

REVENUE FROM CRUDE
OIL SALES LESS EXPORT DUTIES,
RUB BILLION



SHARE OF REVENUES FROM THE SALE OF CRUDE
OIL LESS EXPORT DUTIES
BY DESTINATION



for the domestic market
to CIS member states
export to foreign countries

SALE OF OIL PRODUCTS

The share of sale of diesel fuel produced by TATNECO on the domestic market is about 77% of total sales, with an average of about 42% for other oil companies. Thus, with 1.7% of the total volume of diesel fuel production in Russia, TATNEFT has 3.7% of the total volume of its sale on the domestic market.

All available modes of transport are used for the shipment of diesel fuel to customers: railways, the pipeline system, self-delivery by road from the refinery and regional oil depots. Motor transport is more efficient and the Company's own network is supplied mainly by direct transport from the refinery to the filling station.

The most marginal sale channel of motor gasoline on the domestic market is the gas station network. TATNEFT is the operator of a retail network in the most attractive regions of Russia in terms of capacity and dynamics of demand and has a fairly large regional network. This ensures reliable sale of most of the motor gasoline of its own production.

In 2018, the Company plans to create its own network of modern refueling complexes located at airports to sell the increasing share of jet fuel it produces.

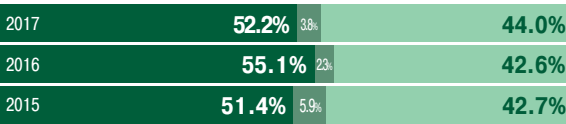
The target markets for the sale of jet fuel are the airports of Tatarstan, the Ural Federal District, and the Central Federal District. The target domestic airports are those of Kazan, Nizhnekamsk, and Bugulma. Coordination of the types of fuel for the Ministry of Defense of the Russian Federation is also being studied.

In 2017, the Group exported 5,031,000 tonnes of oil products (including 185,000 tonnes of purchased oil products) compared with 4,909,000 tonnes in 2016 (including 104,000 tonnes of purchased oil products).

SALES VOLUMES OF OIL PRODUCTS BY THE GROUP,
THOUSAND TONNES



SHARES OF OIL PRODUCTS SALES
BY DESTINATION

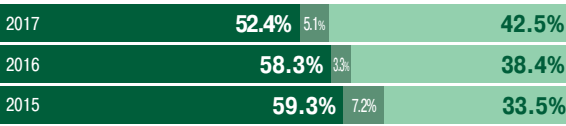


for the domestic market
to CIS member states
export to foreign countries

REVENUE FROM THE SALE OF OIL PRODUCTS
LESS EXPORT DUTIES AND EXCISES,
RUB BILLION



SHARES OF REVENUE FROM OIL PRODUCTS
SALES LESS EXPORT DUTIES
AND EXCISE DUTIES BY DESTINATION



for the domestic market
to CIS member states
export to foreign countries

OIL AND GAS PROCESSING

OIL REFINERY

In the reporting year, the Group produced 8.5 million tonnes of oil products. Oil refining facilities are working at full capacity. We have maintained our industry leadership in the refining depth at the level of 99.24%, with the light oil products output of 87.5%.

TANECO COMPLEX

The Company's main oil-refining unit. Located in Nizhnekamsk.

Put into full commercial operation in December 2011.

The processing depth is 99.2%, which is significantly higher than the average Russian level of 82.1%. The output of light oil products is 87.5%, while the average Russian level is 62.1%.

The target value of the Nelson Index after full commissioning of the TANECO Complex is 12.

In 2017, the oil-refining volume was 7.8 million tonnes. 8.2 million tonnes of oil products were produced.

MAIN PRODUCTS:

- A wide range of light hydrocarbons: 96,500 tonnes
- Natural stable gasoline: 1.6 million tonnes
- Euro-5 diesel fuel: 1.4 million tonnes
- Kerosene for technical purposes: 31,500 tonnes
- Aviation kerosene: 221,500 tonnes
- Domestic furnace fuel: 5,600 tonnes
- Gas condensate distillate medium (sulfur dioxide), type I: 1,273,000 tonnes
- Gas condensate distillate medium (sulfur dioxide), type II: 443,000 tonnes
- Gas condensate distillate medium (sulfur dioxide), type III: 867,000 tonnes
- Diesel technological fraction (DTF): 710,000 tonnes
- Vacuum gas oil/fuel oil hydrotreated/compound lubricating oils: 402,100 tonnes
- Heavy coking gas oil: 90,100 tonnes
- Coking naphtha: 197,800 tonnes
- Coke oil: 571,100 tonnes
- Technical gas granulated sulfur: 81,700 tonnes.

Target development indicators of the TANECO Complex:

- Achievement of the best technological indicators, including depth of oil refining, selection of light oil products
- Ensuring compliance of manufactured goods with the requirements of Russian and international quality standards and technical regulations
- Minimization or complete exclusion of the production of semifinished oil products
- Ensuring minimum dependence on the supply of auxiliary raw materials necessary for the production of high-quality commodity oil products and ensuring optimal energy independence of the enterprise

ON DECEMBER 11, 2017 THE 50-MILLIONTH TONNE OF CRUDE OIL WAS PROCESSED AT THE TANECO COMPLEX

2014: the initial production capacity of the ELOU-AVT-7 unit was brought to 115% of the installed design capacity.

2015: base oils production was launched; production of base oils of Group III was started.

2016: delayed coking was launched, which made it possible to avoid the production of fuel oil, to achieve the output of light oil products at a level of more than 87%, and to increase the depth of oil processing to 99.2%.

2017: a planned overhaul of the technological equipment of the Complex refinery was successfully carried out from April 15 to May 14, 2017.

Technical reequipping of a railway overpass for filling oil products ensures environmentally safe filling of oil products in an automated mode with the required capacity. The main construction and installation work has been completed on a highway overpass for filling oil products and technical reequipping of an overpass for filling light oil products into tank trucks to increase the productivity of filling tank trucks for diesel fractions.

The work was carried out as part of the necessary changes in the configuration of the automated process control system, the communication systems for technological installations, including the commissioning of new facilities and information security of the enterprise as a whole.

Slow coking units and a second hydrogen production unit have been put into commercial operation to provide hydrotreating processes.

Construction of isomerization and hydrotreating units for naphtha has been completed; construction work on hydrotreating units for diesel fuel and kerosene is at the final stage.

Landmark events of 2018 include the beginning of commissioning the ELOU-AVT-6 and the beginning of production of our own Euro-5 class motor gasoline.

With the launch of the ELOU-AVT-6 installation, the design capacity of the TANECO refining complex will increase to 14 million tonnes a year.

The commissioning of the technological units of the second phase will be carried out in stages, which will bring in additional cash flow.

The launch of light naphtha isomerization units, catalytic reforming, and a naphtha splitter section will allow to start the production of Euro-5 class motor gasoline; the launch of diesel fuel and kerosene hydrotreatment units will increase the production of Euro-5 diesel fuel and jet fuel.

One of our directions will be the creation and implementation in Russia of a new domestic technology for hydroconversion of heavy petroleum feedstock, which will allow us to achieve a processing depth of at least 95% and to carry out processing of high-viscosity oils in future. A pilot plant is planned for the TANECO Complex for the hydroconversion of heavy oil residues with a capacity of 50,000 tonnes per year, using the technology of the Institute of Chemical Technology of the Russian Academy of Sciences. Based on the results obtained, a decision will be made on whether to build an industrial hydroconversion unit with a capacity of 2.5 million tonnes per year.

Achievement of target indicators is ensured by the implementation of an investment project with the allocation of self-sufficient stages, ensuring the receipt of additional cash flow.

TECHNOLOGICAL PROCESSES OF THE TANECO COMPLEX

Technological process	Installation	Commissioning, reconstruction	Project capacity	Installed capacity	Loading 2017
Primary processing	ELOU-AVT-7	2011	7,000.0	8,642.0	7,847.8
Viscosity breaking*	WB	2011	2,400.0	2,400.0	0*
Sulfur production	UPES	2011	280.0	139.4	81.7
Naphtha stabilization unit	HC VGO (hydrocracking of vacuum gas oil)	2011	1,100.0	1,360.0	1,173.1
Hydrocracking of vacuum gas oil		2014	2,900.0	2,900.0	2,755.8
Hydrogen production	HPU (hydrogen production unit)	2014	100.0	100.0	78.7
Production	HPU (hydrogen production unit)	2017	22.0	5.6	5.6
Catalytic production of high-index oils	UPB	2015	250.0	250.0	199.7
Delayed coking	DCU (delayed coking unit)	2016	2,000.0	2,000.0	2,012.4
Stabilization of naphtha	SN	2016	600.0	600.0	221.4
Hydrofining of naphtha	HFN	2017	1,100.0	1,182.6	47.34

* In 2016, the unit was transferred into the «hot standstill» mode in connection with the launch of a delayed coking unit.

In December, at the General Assembly of ATIEL (Brussels, Belgium), TATNEFT was approved by vote as the 23rd member of the ATIEL association. TATNEFT became the third domestic company (after Lukoil and Gazprom Neft), which was included in this prestigious European organization, which includes such world oil majors as Total, BP, Chevron, Shell, Eni, Exxon Mobil, etc.

Nominations of the TANECO Complex and products released in 2017

- TATNEFT VHHI-4 isoparaffinic base oil and EURO-5 arctic diesel fuel were awarded the title of Laureates in the nomination of «Products for industrial and technical purposes» of the «Best Goods and Services of the Republic of Tatarstan» contest.
- TATNEFT HVI-2 isoparaffinic base oil and the RT and JA-1 brands of fuel for jet engines were awarded the title of Diploma winners of the first degree in the nomination «Products for industrial and technical purposes» of the «Best Goods and Services of the Republic of Tatarstan» contest.
- TATNEFT VHHI-4 isoparaffinic base oil was one of the 100 best goods of Russia in the nomination «Products for industrial and technical purposes.»
- RT brand fuel for jet engines and TATNEFT HVI-2 isoparaffinic base oil were Diploma winners of the All-Russian competition «100 best goods of Russia»
- TS-1 jet engine fuel and TANECO diesel fuel were among the winners of the qualifying round of the International Competition «Best Goods and Services – GEMMA.»
- The Testing Laboratory of Oil Products and the Laboratory of Industrial Ecological Monitoring of the central laboratory of the Complex became the winners in the nomination «The Best Tester of the Republic of Tatarstan» in 2017, as part of the «Best Goods and Services of the Republic of Tatarstan» contest.
- TANECO JSC was among the laureates of the «100 Best Organizations of Russia. Ecology and environmental management» contest. The enterprise was awarded a Diploma and a Gold Medal.

YELKHOV OPU

The unit was put into operation in 1994 (developer and supplier of Petrofac Incorporated, USA). 2015–2017, modernization.

Project capacity: 440,000 tonnes of oil per year.

The operating mode is continuous.

In 2017, the volume of oil accepted for processing made 477,000 tonnes.

224.5 tonnes of oil products were produced.

	thousand tonnes
production	2017
Diesel fuel	102,600
Gasoline Regular-92	79,700
Gasoline Normal-80	2,700
Kerosene-gas oil fraction	37,900
Sulfur	800
Solvent, industrial	900

The block oil-refining unit consists of complete units:

- Atmospheric and vacuum distillation of crude oil
- Hydrotreating of straight-run gasoline
- Catalytic reforming of gasoline
- Units for the production of a benzene-free component of commercial gasoline
- Hydrotreating diesel fuel
- Amine purification of hydrocarbon gases
- Production of elemental sulfur
- Obtaining road bitumen

The unit is small and is located on an area of 150 x 80 meters.

In addition to the unit, the EOFD includes:

- A commodity park for receiving and storing commercial products consisting of 4 RVS-5000 and 4 tanks with a volume of 200 m3
- Two units for finished product distribution
- Unit for the production of Regular-92 commercial gasoline

Quality of products: all manufactured products meet the requirements of regulatory documents.

Unleaded gasoline Regular 92 (AI-92-K5) and unleaded gasoline Normal-80 (AI-80-K5) comply with GOST R 51105, TR TS 013/2011, diesel fuel complies with GOST R 52368, TR TS 013/2011, kerosene-gas oil fraction, with STO 0215-013-60320171-2013

GAS PROCESSING

The structure of the Company includes a highly technological complex for the preparation, storage, and processing of associated petroleum gas, a wide fraction of light hydrocarbons, and the shipment of processed products.

The complex for gas-processing production consists of units for hydrogen sulfide removal, compression of oil and dry stripped gas, a cryogenic unit for deep processing of dry stripped gas, gas cleaning and drying facilities, low-temperature condensation and rectification, cascade refrigeration unit, gas fractionation units, flare facilities, a warehouse park for the reception and storage of raw materials and finished products, a loading and unloading overpass for sending products by rail.

Associated petroleum gas utilization in the Company exceeds 96%.

Associated petroleum gas is a valuable raw material for the production of a wide range of gas-processing products of the highest quality, which is further used in petrochemicals and power engineering. Products are in demand on the domestic market, in the CIS member-states and non-CIS countries.

At present, the following range of high-quality products is being produced, including the «A» and «Highest» brands:

1. Natural combustible gas supplied and transported by main gas pipelines (STO Gazprom 089-2010).

2. Hydrocarbon liquefied fuel gas for utility consumption (GOST 20448-90) is produced in three brands: PT = propane technical, MPBT = mixture of propane and butane technical, BT = butane technical.

Depending on the brand, the content of propane is 75%–40%; the rest is butane. It is used as a fuel for utility consumption and industrial purposes. It is produced by mixing fractions of propane and butanes in the ratios established for the respective brands.

3. Hydrocarbon liquefied fuel gases, GOST R 52087-2003 used as fuel for utility consumption, motor fuel for road transport, and for industrial purposes are produced in five brands: PT = propane technical, PA = propane automobile, PBA = propane-butane automobile, PBT = propane-butane technical, BT = butane technical.

It is produced by mixing fractions of propane and butanes in the ratios established for the respective brands.

- Natural combustible gas supplied and transported by main gas pipelines, STO Gazprom 089-2010. It consists mainly of methane with a small amount of ethane and propane. The lowest heat of combustion must be at least 7,600 kcal/m3, the concentration of hydrogen sulfide is not more than 0.02 g/m3. It is produced from petroleum gas by the method of stripping (removal of heavy components—liquid hydrocarbons—from petroleum gas).
- Technical sulfur, GOST 127.1-93, is used for the production of sulfuric acid, carbon disulfide, rubber products, in the pulp and paper, textile industries, and in agriculture. It is produced from hydrogen sulfide during the purification of petroleum gas by the Klaus method.
- Technical oxygen gas, GOST 5583-78, is used for gas-plasma processing of metals and other technical purposes. It is produced from atmospheric air by the method of low-temperature rectification after preliminary cleaning, drying, compression, and cooling of the air.
- Nitrogen gas, GOST 9293-74, is used to create an inert atmosphere for the production, storage, and transportation of easily oxidized products, for high-temperature metal processing, for the preservation of closed metal vessels and pipelines, and other purposes (for displacing gases from apparatuses and pipelines).
- It is produced from atmospheric air by deep cooling and separation after preliminary drying, cleaning, and compression of the air.

Strategic development objectives are improvement and modernization of the technological capacities of the gas-processing plant to increase the competitiveness of deep processing of hydrocarbon raw materials, for obtaining products with high added value.

PRODUCTION INDICATORS OF THE TATNEFTEGAZPERERABOTKA DIVISION

Name of indicators	Unit	2015	2016	2017
RECEPTION OF RAW MATERIALS				
Petroleum gas	million m³	814,568	853,733	820,07
A wide fraction of light hydrocarbons with a complex oil treatment unit	thousand tonnes	285	282.15	274,722
RAW MATERIALS PROCESSING				
Petroleum gas	million m³	805,872	845,126	808,89
A wide fraction of light hydrocarbons with a complex oil treatment unit	thousand tonnes	284,939	281,872	274,608
PRODUCTION				
Dry stripped gas	million m³	285,182	273,347	257,284
Ethane fraction	thousand tonnes	170,261	186,998	181,078
Liquefied gas, including:	thousand tonnes	439,803	462,897	441,971
propane fraction	thousand tonnes	262,702	278,432	263,543
isobutane fraction	thousand tonnes	47,35	51,252	49,098
normal butane fraction	thousand tonnes	129,751	133,213	129,33
Fractions C5 and above, including:	thousand tonnes	233,355	235,419	227,778
isobutane fraction	thousand tonnes	21,229	19,302	18,999
natural stable gasoline	thousand tonnes	212,126	216,117	208,779

At the end of 2017, the Tatneftegazpererabotka Division was awarded a first degree diploma for the «A» brand propane fraction and a second-degree diploma for the «A» brand ethane fraction in the «The Best Goods and Services of the Republic of Tatarstan» contest, in the nomination for «Products for industrial and technical purposes,» and a Diploma in the prestigious competition of the federal program «100 best goods of Russia» for the brand «A» ethane and propane fractions.

RETAIL FILLING STATIONS NETWORK

In 2017, the strategy of development of the retail sales network until 2025 was developed and approved.

As part of the approved strategy for the development of the TATNEFT retail and sales network until 2025, the task was set to ensure the 6.5-fold growth of EBITDA (from RUB 2.8 billion to RUB 18.2 billion). To do this, it will be necessary to implement a set of measures that will ensure a two-fold increase in the volume of retail sale of oil products (from 1.5 million tonnes to 3.3 million tonnes) and a 5.5-fold increase in revenues from non-fuel supply (RUB 1.02 billion to RUB 5.6 billion) and to build and reconstruct about 380 facilities, using investments in the amount of RUB 39 billion.

ENSURING GROWTH
EBITDA
6.5 times
to 2025

MAIN STRATEGIC OBJECTIVES OF THE COMPANY FOR THE «RETAIL BUSINESS» BLOCK FOR THE NEXT FEW YEARS:

- Modernization of the existing filling stations
- Expansion of the network of filling stations
- Increase in the daily flow of filling stations
- Improvement of the quality of the trade offering at filling stations, including by developing non-fuel sale items at the filling stations
- Increase in the sale of branded fuel

The retail business development priority is an increase of the network marginality based on the quality of the trade offering and the development of related services.

In accordance with the «Development of the Retail and Sale Network» investment program for the TATNEFT filling stations,10 filling stations were built and purchased in 2017 in the Russian Federation, 31 were reformatted, 28 were reequipped, and 9 land plots were purchased.

In Ukraine, 2 land plots were purchased.

The first stage of the network development plan was implemented (targeted development regions were defined), new interiors and exteriors of the filling stations were developed, and the «Automation of investment activity» project was launched.

Reconstruction of filling stations with the introduction of new formats and interiors continues, the range of products and services offered to customers is expanding, and public catering is being developed at filling stations.

2018 INVESTMENT PROGRAM

Investments are planned for the development of the sale infrastructure in the amount of RUB 4.1 billion (excluding VAT) in the Russian Federation. Investments will be mainly aimed at the formatting of 71 filling stations and the construction of 11 filling stations in Russia.

The State Duma's adoption in November 2017 of a Federal Law on additional increase in excises in 2018 (from the beginning of the year by 1,083 RUB/tonne for AB and 865 RUB/tonne for DF, and from the second half of the year by 679 RUB/tonne for AB, and by 593 RUB/tonne for DF) led to an additional increase in wholesale prices in Q4 2017.

Change in the parameters of the Great Tax Maneuver in November 2016: growth of excises against the background of reduction of duties on exports of oil products. Thus, given the containment of retail prices by state authorities, retail margins are declining.

VOLUME OF SALE OF OIL PRODUCTS THROUGH THE RETAIL DISTRIBUTION NETWORK OF THE COMPANY

Enterprises of the company's retail and sale unit are demonstrating high performance and are leaders in many regional markets of the country.

The volume of sale of oil products through the Company's retail distribution network in 2017 made 2.7 million tonnes, which is 4% more than in the preceding year, including retail sale of 5% and positive dynamics of average daily sale per filling station (+6% in 2017).

In 2017, the volume of corporate sales of oil products through the company's own retail network significantly increased (+16.7%), including through work with large transport enterprises, as a result of which contracts were concluded with such enterprises as Monopoly, Business Lines, and X5 Retail Group. In 2018, sales in this area are expected to grow to 8.4 million liters per month.

2017	Retail, tonnes	Small wholesale, tonnes	Total, tonnes
Russia	1,503,452	1,076,915	2,580,367
Ukraine	32,682	17,619	50,301
Belarus	44,281	1,751	46,032
Total	1,580,415	1,096,286	2,676,701

The retail network of TATNEFT at the end of 2017 had 685 filling stations, of which 574 were in Russia , 94 – in Ukraine, and 17 – in Belarus. The competitive advantage of the TATNEFT retail network is its scale and wide branching, with coverage of almost all the most attractive regions of Russia, primarily the Volga Region and the Central Federal District, which have high growth prospects and attractive retail margins.

The company is modernizing the retail network to improve the trade offerings, both fuel and non-fuel, to the customer. The Company's initiatives on the development of related businesses will, among other things, help increase the profitability of the retail channel.

RELATED SERVICES

The Company is developing related businesses to improve the quality of services and increase revenue. In 2017, the development of promising areas of roadside service continued, such as the organization of catering at the Company's filling stations (by the end of the year, revenue growth in this area was 38% compared to 2016), and the network of self-service car washing facilities is expanding.

As of the end of 2017, 421 stores (23 more than in 2016) and 259 cafeterias (an increase of 93) were operated at the Company's filling stations. Revenues from the sale of related products and services at the Company's filling stations increased by 14% compared to 2016 and amounted to RUB 3 billion, including RUB 2.6 billion in the Russian Federation. The main increase in the revenue was due to the use of modern filling station formats during construction and reconstruction.

NUMBER OF TATNEFT FILLING STATIONS, UNITS

2017	685
2016	689
2015	692

PETROCHEMICALS

PRODUCTION OF TECHNICAL CARBON

In 2017, the production of technical carbon made 134,000 tonnes, which is 13.5% more than in 2016. The technical carbon produced is competitive, and the quality meets the requirements of regulatory documentation and satisfies consumers. In 2017, 133,800 tonnes of technical carbon were sold, which is 12.5% more than in 2016.

SALE OF TECHNICAL CARBON, TONNES

Carbon black sales	2015	2016	2017
TATNEFT's tire business	63,135	63,372	68,867
Other consumers in the RF and the RT	27,084	23,803	17,116
Export	26,024	33,629	47,846
Total sales	116,243	118,804	133,829

TIRE BUSINESS

The volumes of production and sale of the TATNEFT tire complex on the Russian market remained stable—about 9–10 million units in 2012–2017—that is, TATNEFT's products currently claim about 20% of the Russian tire market. Overall, the volume of the Russian tire market declined from a peak of 62.3 million units in 2012 to 51.3 million units in 2017 as a result of the slowdown in economic growth in the Russian Federation (including the fall in citizens' real incomes).

After the decline of tire products on the Russian market, which has continued since 2014, by the end of 2017, it grew by 18% compared to the preceding year and was 51.3 million units in quantitative terms. In 2017 the tire complex of the Company sold 13.1 million tires. This volume of sales is the largest in the history of the Nizhnekamsk tire complex. Compared to the previous year, the sales increased by 1.1 million tires, or 9%. Nevertheless, the market share of tire products of the petrochemical complex on the domestic market by the end of the year slightly decreased (less than by 1%) to 19.3%. The tire complex of TATNEFT thus remains the key player in the Russian tire market.

The Russian tire market is characterized by a high proportion of imported products. At the same time, due to the devaluation of the Russian currency, foreign producers are trying to localize their production in the Russian Federation. As a market leader, the Company's tire manufacturing complex, intending to retain the positions it has conquered, plans to modernize and expand the existing production facilities with a focus on promising market niches: CMK and specialized tires and modern tires of the subpremium segment of the Viatti brand.

THE MAIN FACTORS THAT MAY ADVERSELY AFFECT THE DEVELOPMENT OF THE COMPANY'S TIRE BUSINESS IN THE NEXT FEW YEARS ARE:

- A sharp rise in the prices for raw materials
- A general decline in demand for tire products in Russia, primarily in the market for original equipment
- A return to the Russian market of truck tires made by Chinese manufacturers due to the strengthening of the ruble
- The launch of new tire plants in the Russian Federation; expansion and modernization of production facilities at existing Russian plants of foreign manufacturers (Nokian, Pirelli)
- Natural retirement of the automotive fleet—the target consumer of individual groups of KAMA tires (passenger and truck combined tires)

The tire business of TATNEFT was formed in 2002.

It includes the following companies:

LLC Managing Company TATNEFT-Neftekhim	Provision of services for the management of enterprises of the petrochemical complex
PJSC Nizhnekamskshina	Manufacture of tires, rubber products, and related products
LLC Nizhnekamsk Truck Tire Factory	Manufacture of tires, rubber products, and related products
LLC Nizhnekamsk Tire Plant TsMK	Manufacture of tires, rubber products
JSC Nizhnekamsk Plant of Technical Carbon	Production and sale of technical carbon
JSC Nizhnekamsk Mechanical Plant	Production of engineering products and capital repairs of tire production equipment
Yarpolimermash-TATNEFT JSC	Manufacture of tire molds, shaper vulcanizers, equipment for oil- and gas-producing enterprises, casting production
LLC Trading House Kama	Sale of automobile tires
LLC TATNEFT-Neftekhimsnab	Provision of material and technical resources for enterprises of the petrochemical complex
LLC Scientific and Technical Center Kama	Scientific research and development
LLC Energoshinservice	Provision of services

BASIC TECHNICAL AND ECONOMIC INDICATORS OF ENTERPRISES OF THE PETROCHEMICAL COMPLEX

Technical carbon production	tonnes	117,130	118,033	134,383
Manufacture of tires, total	thousand units	11,991	11,522	12,876
including truck tires	thousand units	1,743	1,613	1,848
light truck tires	thousand units	1,129	1,517	1,408
car tires	thousand units	8,042	7,154	8,230
agricultural tires	thousand units	175	176	178
other	thousand units	27	24	22
All-steel truck tires	thousand units	875	1,039	1,191
Sales of tires, total	thousand units	11,861	11,998	13,059
Revenues from sales	RUB million	38,764	41,586	48,085
Net profit	RUB million	311	854	2,391
EBITDA	RUB million	2,879	3,534	5,447

MAIN TYPES AND VOLUMES OF TIRE PRODUCTS

TIRE PRODUCTS ARE SOLD IN THREE MARKETS:

1. Market of original equipment

2. Secondary replacement market

3. Exports to CIS member-states and non–CIS countries

DYNAMICS OF SALE OF TATNEFT TIRES BY MARKETS, THOUSAND UNITS

Sale market	2014	2015	2016	2017
Secondary market	7,062	7,403	7,688	9,082
Equipment	2,385	1,761	1,181	713
Non–CIS countries	302	325	306	688
CIS member-states	2,335	2,331	2,780	2,513
Total	12,083	11,820	11,955	12,996

Without considering the restoration of All-steel tires

The Russian market is the main market for finished products and accounts for about 76% of the total sale of the tire business. In 2017, the tire business confidently increased its sale volumes in the secondary market of the Russian Federation, including through attractive incentive programs and competitive price positioning. The growth of sales in Russia’s secondary market in 2017 relative to the preceding year was 19%, which was mainly due to the sale of car and light truck tires, including tires of the Viatti brand.

The commodity distribution network covers all the constituent territories of the Russian Federation and includes more than 400 counterparties. In addition to wholesale distributors and retail trade and service networks, tire business products are also supplied to such large corporate customers as SUE Mosgortrans and others.

MARKETING SUPPORT

• Non-price programs to stimulate sales in domestic and export markets: program for extended quality assurance, free tire service.

• Brand communication strategy: advertising in the media, testing of tire products, promotion on the Viatti tires website and its mobile version, participation in exhibitions and fairs, printing, souvenir and POSM products.

The main consumers of tire products of the tire business in the primary market are the largest domestic and foreign manufacturers of automotive equipment: KAMAZ, UK GAZ Group, Volkswagen Group Rus, Ford Sollers Holding, and others. During 2017, tires were shipped to 30 automobile makers. At the end of 2017, exports went to more than 47 countries, with more than 90 counterparties. With respect to exports, the high rate of the US dollar and the euro and the active development of the markets of new countries made it possible to increase the sales of the petrochemical complex by 4%. Markets were developed in new countries and relations with former ones were renewed: Angola, Bangladesh, Belgium, Bosnia, Cyprus, Somalia, Uganda, Estonia.

PRODUCT POSITIONS IN THE RUSSIAN TIRE MARKET

Name	Unit	2014	2015	2016	2017
Russian tire market	thousand units	55,716	45,052	43,709	51,266
Sales of the petrochemical complex	thousand units	9,447	9,164	8,869	9,863
Market share of the petrochemical complex	%	17.0	20.3	20.3	19.3

At the end of 2017, the Russian market for tire products increased by 17% compared to the preceding year and amounted to 51.3 million units. All tire groups show different trends.

In the domestic market the market share of tire products of the tire business at the end of the year

was 19.3%; the decrease in the market share is due to the decrease by car factories of their initially declared demand for tire products, the reduction in the share of equipment due to low prices from competitors, as well as the increased competition from world manufacturers of tires with localized production in Russia (Nokian, Pirelli, Bridgestone, etc.).

IN 2017, THE COMPANY’S TIRE BUSINESS WAS A KEY PLAYER IN ALL MAJOR NICHES OF THE RUSSIAN TIRE MARKET.

THE DEFINITE COMPETITIVE ADVANTAGES OF THE TATNEFT TIRE BUSINESS IN GENERAL AND ITS TIRE PRODUCTS IN PARTICULAR, WHICH MAKE IT POSSIBLE TO HOLD THE POSITION OF THE LARGEST PLAYER IN THE MARKET, INCLUDE:

• Wide popularity and experience, first of all under the KAMA trademark

• Wide representation and availability of tire business products due to the developed commodity distribution network inside and outside the country

• Modern production equipment and advanced tire production technologies, which became possible thanks to the investments of the parent company, TATNEFT

• Experience of cooperation with automobile makers, which made it possible to improve the technical characteristics of products and create a deferred demand for the future

• Development of a range of products in accordance with the trends of the automotive industry and the needs of the tire market

The growth of the car tire market is connected with the improvement of the economic situation in the Russian Federation as a result of many factors: deferred demand in 2015–2016, growth of new car sales, growth of car production, etc.

The preservation of the volumes of the all-steel and combined truck tires market in 2017 in relation to 2016 can be linked with economic barriers (the continuing high dollar rate) and administrative barriers (imposed duties on Chinese-produced tires (the main competitor of the domestic manufacturers in the Russian market until the end of 2014)).

There is a positive trend when analyzing the share of the petrochemical company in the Russian market for light truck, combined truck and all-steel tires: growth or preservation of positions. Positive trends are also predicted for 2018, when it is planned to increase the sales for all groups of tires, the bulk of them coming to the Russian secondary market.

The main expected factor that may have a negative impact on the Company’s development rate in the coming years (in the tire business) is the rise of raw material prices.

ENERGY

The company’s power-generation enterprises are implementing measures to improve the reliability and efficiency of heat and electricity generation and to reduce losses and costs of energy resources.

Programs are being developed and implemented to diversify the sources of raw materials (natural gas, fuel oil, petroleum coke) at the Nizhnekamsk CHP, which will improve the operational efficiency of the station by choosing the optimal type of fuel depending on the market situation and reduce the risks of failure of electricity and heat supplies.

The company’s power-generation enterprises are implementing measures to improve the reliability and efficiency of heat and electricity generation and to reduce losses and costs of energy resources.

The electric power industry will be affected by the principle of equal profitability of natural gas supplies on the domestic and foreign markets, as stipulated in the updated «Energy Strategy of Russia until 2035.» The gradual convergence of domestic gas prices with export parity means an accelerated rise of natural gas prices for Russian consumers, including those for power-generating facilities. The surplus capacity will be reduced in the coming years by completing the construction of new power plants and the withdrawing of old facilities.

In 2017, the commissioning of generating capacities under the PSC program (Power Supply Contracts) was practically completed. In this regard, the government of the Russian Federation is discussing the PSC-2 state program, which involves large-scale modernization of heat generation facilities after 2020. This is largely due to the critical overabundance of obsolete capacity in the heat-generation system. However, large-scale commissioning of new and upgraded generating capacities alongside the low growth in demand for electricity in the Russian Federation will lead to increased competition in the industry in the medium term.

The total electricity production by the Company’s enterprises in 2017 was 1.45 billion kW•h, and the output of heat energy was 4.8 million Gcal. After the modernization of Nizhnekamsk CHP was completed, it became possible to generate some of the electricity in the condensation mode, regardless of the amount of heat supplied to consumers. This configuration of the station makes it possible to improve the operational efficiency of Nizhnekamsk CHP in the electricity market.

In the reporting year, the Company continued to develop its own electricity and heat energy complex in the «Energy» business segment, which included three enterprises:

- LLC Nizhnekamsk CHP (Production of heat and electric energy in the cogeneration mode)
- JSC Almetьевsk Heating Networks (Production of heat energy (in the form of a coolant) and electric energy, rendering services for operation of the boiler houses of the SVO NGDU Yamashneft)
- LLC TATNEFT-Energosbyt

NIZHNEKAMSK CHP

Annual electricity generation is **1.5** BILLION KW•H

In 2017, the following measures were implemented:

- The Automated Information and Analytical System for Planning and Monitoring of Operating Modes («AIAS PMM») and equipment composition of Nizhnekamsk CHP LLC was introduced, and the first year of industrial operation passed. Operational use of AIAS PMM provided a choice of the optimal equipment composition, considering the requirements of the wholesale electricity market and the power selected by consumers for heat energy in the form of steam and hot water, as much as possible in the cogeneration mode. The mode of trading in the wholesale power market with the purpose of deriving income from the price volatility of the balancing market of electric energy and power was effectively used in the process of operation of AIAS PMM.
- The purchase of gas on the exchange continued; the volume of purchase was 245,987,000 m3, making 32% of the total consumption of natural gas. At the same time, the overall effect of gas purchases on the exchange was RUB 36 million (due to the difference in prices).

Significant strategic projects

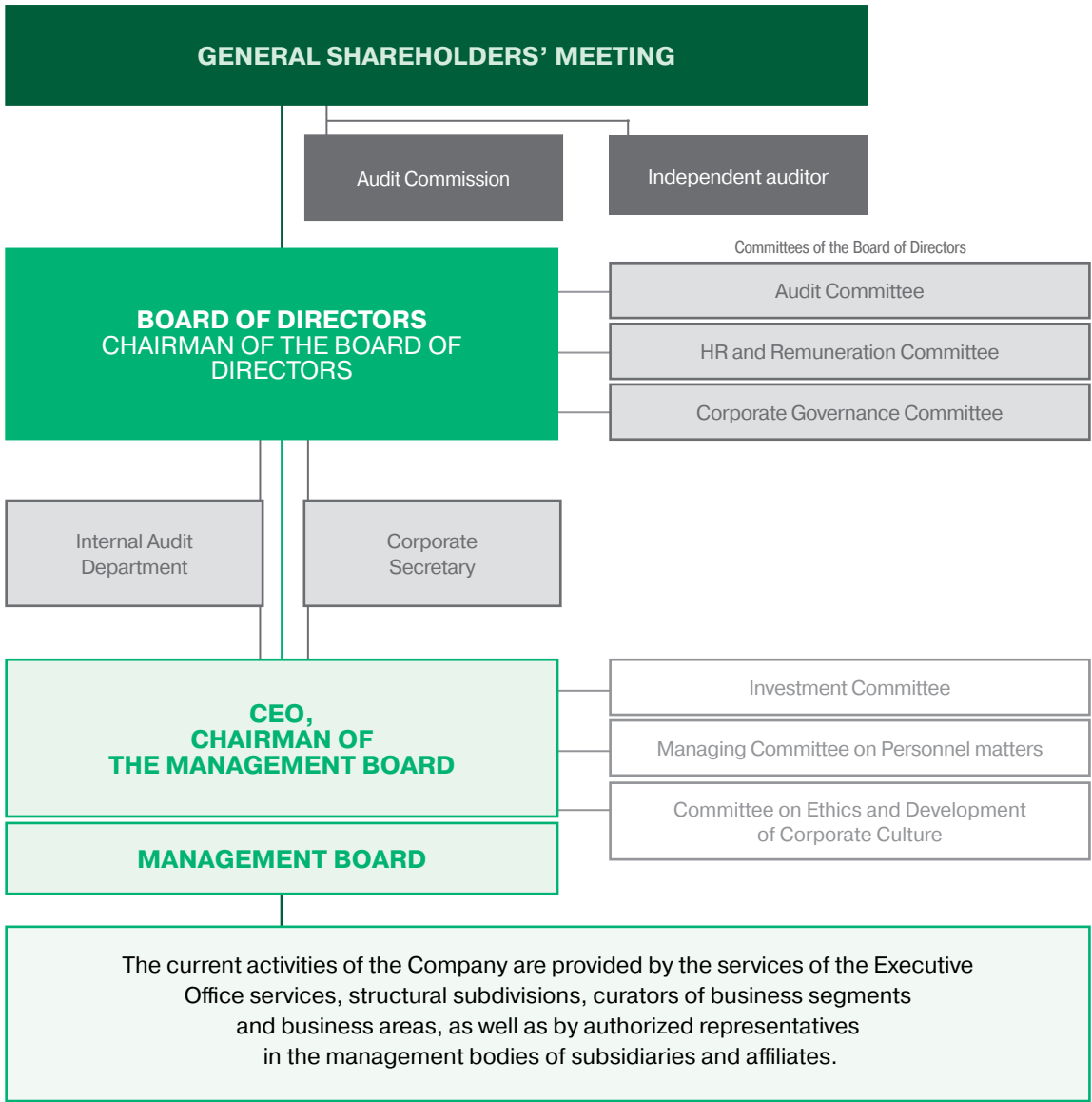
- **Project for «Reconstruction of TGME-464 installed power boiler units for burning petroleum coke in the form of dust from the delayed coking unit of TANECO JSC.»**
The goal of the project is to reduce the cost of production of electric and heat energy and to increase the competitiveness of LLC Nizhnekamsk CHP in the market for electric power and capacity.
- **Project for «Technical reequipment of the PE-580-185 st. No. 5 feeding pump with the installation of a drive steam turbine of the P-3.7-3.2/1.5 P type» with an annual effect of RUB 75 million.**
The heat-mechanical equipment installed at the station includes nine power-generating boilers of the TGME-464 type (steam output of 500 tonne/hr each and the steam parameters P = 140 ata and T = 5,600C), two peak water-heating boilers of the PTVM-180 type (heat output of 180 Gcal/hr each), and seven steam turbines.

CORPORATE GOVERNANCE



COMPANY MANAGEMENT SYSTEM

MANAGEMENT STRUCTURE



LIABILITY INSURANCE OF THE COMPANY'S MANAGEMENT BODIES' MEMBERS

THE COMPANY INSURES LIABILITY RISKS OF THE COMPANY'S MANAGEMENT BODIES' MEMBERS, INCLUDING ABROAD, ON THE TERMS AND CONDITIONS AND IN AMOUNTS CORRESPONDING TO THE INSURANCE MARKET OF SIMILAR RISKS IN THE RUSSIAN FEDERATION.

SOGAZ INSURANCE COMPANY WAS AN INSURER OF SIMILAR RISKS OF THE COMPANY DURING 2017.

The corporate governance system of the Company is aimed at preserving and multiplying assets, increasing capitalization, maintaining financial stability, profitability and sustainability of the Company, respecting the rights and interests of shareholders and all other stakeholders. The expected performance of the multilevel structure of the VIOC requires a highly effective corporate governance and control system, efficient managers and professional employees on all levels.

The Company has built a logical organizational structure supporting all levels of interaction between management and business groups. Information exchange encompasses all areas of operations of the Company.

The General Shareholders' Meeting is the supreme management body of the Company, which delegates to the Board of Directors general management powers over the Company. There are three committees under the Board of Directors: the Corporate Governance Committee, the Audit Committee, and the HR and Remuneration Committee. In 2016, the position of Corporate Secretary was introduced.

The Chief Executive Officer of the Company is the General Director of TATNEFT.

The company's collegial executive body is the Management Board headed by the General Director. The General Director and the Management Board are accountable to the Board of Directors and the General Shareholders' Meeting.

Audit Commission exercises general control over financial and economic activities of the Company.

TATNEFT is the corporate center of the Group, which coordinates the activities of enterprises forming the Company's business segments.

Responsibility for strategic planning and operational activities of the Company is divided among the Board of Directors, the General Director, and the Management Board and at the level of specific powers of business segments managers, with performance monitoring. The business segment management system is based on the KPI.

The company operates in the status of the Group. The management of the TATNEFT Group is organized basing on unified mission and development priorities of the Company with view to ensuring fair interests of all members of the Group. To ensure uniform management principles and transparency of operations of subsidiaries, the Company develops appropriate policies and regulations that form mechanisms of corporate relations. A system of unified corporate standards has also been created.

PRINCIPAL AREAS OF CORPORATE GOVERNANCE POLICIES

- Ensuring implementation of the strategy and current activities of the Company
- Improving organizational structure and implementing unified corporate standards of the TATNEFT Group
- Developing risk management and internal control system
- Improving the incentive schemes and KPI criteria for the management
- Meaningful interaction with investors, business partners, government authorities, and non-governmental organizations involved in the activities of the Company
- Implementation of the principles of information openness and transparency

GENERAL SHAREHOLDERS' MEETING

The General Meeting is the supreme management body of TATNEFT and operates in accordance with the regulatory legal acts of the Russian Federation, the Charter, and internal documents of the Company.

Overall management of the Company is delegated by the General Shareholders' Meeting to the Board of Directors.

The procedures for preparing, convening, conducting, and summing up the results of the General Shareholders' Meeting is determined by the Regulation on the General Shareholders' Meeting of TATNEFT.

The Company holds the annual General Shareholders' Meeting once a year, not earlier than two and no later than six months after the end of the fiscal year. In addition to the General Shareholders' Meeting, extraordinary meetings of shareholders may be convened. The Company provides shareholders with information regarding the agenda. The amount of information and the time of provision are selected so that they are able make create their reasonable judgement on the issues to be considered as well as to decide whether to participate in the meeting and how exactly are they will be participating in it.

The annual General Meeting necessarily considers the of issues of electing members of the Board of Directors and the Audit Commission, approval of the auditor, approval of the annual report, annual financial statements; distribution of profits, including payment (declaration) of dividends, and losses based on the results of the reporting year; and approval of internal documents regulating the proceedings of the bodies of the Company.

Shareholders make decisions regarding the most important issues regrading business of the Company. The complete list matters, decided by the General Meeting is made subject to requirements of the Federal Law «On Joint-Stock Companies.» (No. 208-FZ), December 26, 1995.

Each shareholder is entitled to participate in the meeting in person or by proxy. Board of Directors and executive bodies of the Company present at the General Shareholders' Meeting, detailed and true report on the corporate strategy and operations of the Company. The Board of Directors also prepares for shareholders reports on each item of the agenda reflecting its position and any special opinions of the members of the Board of Directors, if any.

When electing the Board of Directors, the Company provides shareholders with detailed information on the biography, background, and skills of each candidate and also seeks to ensure the presence of all candidates in person at the General Shareholders' Meeting.

Resolutions on the agenda of the General Shareholders' Meeting shall be made by ballot voting in accordance with the procedure prescribed by current legislation and the Company's Charter. When formulating the resolutions of the meeting, type of majority by which the resolution was taken must always be indicated and any special opinion must also be taken on record. The Minutes of the General Meeting shall be signed by the Chairman and the Secretary of the meeting.

During the preparation and holding of the General meeting, the shareholders of the Company are entitled to receive information about the meeting and materials pertaining to it in without any obstructions or delays, to ask questions to the Executive bodies and members of the Board of Directors, and to freely communicate with each other.

The Company provides the shareholders with accessible forms of communications, e.g. a hotline, email, or internet forum to allow shareholders to express their opinions and forward questions regarding the agenda during preparation for the General Shareholders' Meeting.

GENERAL SHAREHOLDERS' MEETINGS HELD IN 2017

Annual General Shareholders' Meeting on June 23, 2017

RESOLUTIONS ADOPTED BY THE ANNUAL GENERAL SHAREHOLDERS' MEETING

1. To approve the Company's annual report for 2016.
2. To approve the annual accounting (financial) statements for 2016.
3. To approve the distribution of profits (including the payment of dividends on shares) based on the fiscal year performance.
To pay dividends for 2016:
 - a) For preferred shares of TATNEFT in the amount of 2,281% of the nominal value of the share
 - b) For ordinary shares of TATNEFT in the amount of 2,281% of the nominal value of the shareTo set July 7, 2017, as the date on which the persons entitled to receive dividends are determined. Dividends shall be paid in cash.
4. To elect the Board of Directors of TATNEFT.
5. To elect the members of the Audit Commission of the Company.
6. To approve JSC PricewaterhouseCoopers Audit (JSC PwC Audit) as the auditor of TATNEFT for the mandatory audit of the annual financial statements for 2017 prepared in accordance with Russian and international accounting standards for one year.
7. To approve the new version of the Charter of the Public Joint-Stock Company TATNEFT.
8. To approve the new version of the «Regulations on the General Shareholders' Meeting of TATNEFT».
9. To approve the new version of the «Regulations on the Board of Directors of TATNEFT».
10. To approve the new version of the «Regulations on the General Director of TATNEFT».
11. To approve the new version of the «Regulation on the Management Board of TATNEFT».

Extraordinary General Shareholders' Meeting (in the form of absentee voting) December 12, 2017

RESOLUTIONS ADOPTED BY THE EXTRAORDINARY GENERAL SHAREHOLDERS' MEETING:

- To pay dividends for the first 9 months of 2017:
- a) For preferred shares of TATNEFT in the amount of 2,778% of the nominal value of the share
 - b) For ordinary shares of TATNEFT in the amount of 2,778% of the nominal value of the share
- To set December 23, 2017, as the date on which the persons entitled to receive dividends are determined. Dividends shall be paid in cash.

BOARD OF DIRECTORS

The Board of Directors sets the long-term targets for the Company, reviews and approves its key performance indicators and principal business goals, its strategy, and business plans with regard to the Company’s principal areas of operations.

The Board of Directors of TATNEFT carries out overall management of the Company’s activities, determines priority areas and development strategy, policies, including investment, borrowing and asset management, basic principles and approaches to the organization of internal control and risk management of the Company. It is also responsible for managing key risks of the Company affecting the achievement of its strategic goals, makes decisions on key projects and significant transactions, contributes to timely disclosure of complete and reliable information about the Company’s activities.

One of the key functions of the Board of Directors

- Formation of effective executive bodies and ensuring control over their activities.
- Board of Directors has the authority to nominate the Executive bodies, terminate their powers, and to provide incentives for Executive bodies.
- The Board of Directors uses the regular reports of the Executive bodies regarding the implementation of the Strategy and business plans to control the Company’s activities, and also monitors the improvement of the corporate governance system and practices within the Company.

The composition of the Board of Directors of the Company is based on the balance of the key knowledge, skills, and experience of the members of the Board of Directors in strategic management, corporate governance, finance, risk management, accounting, audit, and in the Company’s industry areas sufficient for making judicious and objective decisions in the interests of the Company and shareholders.

The Board of Directors plays a key role in ensuring that the Company acts in a transparent way, that the information is disclosed in a timely and complete fashion, and the shareholders can easily access documents of the Company. In the reporting year, the the Board of Directors approved new versions of the internal documents of TATNEFT: Information Policy and Rules on Information Provision to shareholders.

Powers exercisable by the Board of Directors are determined by the Charter and the Regulations on the Board of Directors and are clearly distinguished from the powers, exercised by the executive management bodies of the Company that manage its daily operations.

14 Members of the Board of Directors are elected on the General Shareholders’ Meeting by cumulative voting (the candidates who obtained the largest number of votes are elected). One member of the Board of Directors is appointed according to a special right. The Company must include the election of members of the Board of Directors into agenda of the annual General Shareholders’ Meeting. Shareholders who collectively own at least two percent of the Company’s voting shares are entitled to submit proposals for candidates for election to the Board of Directors. Such proposals must be submitted to the Company, in accordance with the Charter of TATNEFT, no later than 55 days after the end of the reporting year.

The Company ensures transparent election procedures of the Board of Directors and discloses in advance the information on the current composition of the Board of Directors and on candidates for the Board of Directors.

The Board of Directors composed of 15 members was elected on June 23, 2017, on the annual General Shareholders’ Meeting. The Board of Directors did not undergo any changes in 2017.

COMPOSITION OF THE BOARD OF DIRECTORS



Rustam Nurgaliyevich
MINNIKHANOV

Chairman of the Board of Directors

Born in 1957.
In 1978, he graduated from the Kazan Agricultural Institute.
In 1986, he graduated from the Institute of Soviet Trade.
1996 to 1998, Minister of Finance of the Republic of Tatarstan.
From July 1998 to March 2010, led the work of the government of the Republic of Tatarstan.
From March 2010, president of the Republic of Tatarstan.

Nonexecutive Director

% share in the authorized capital of the company: none
% share of the ordinary shares of the company owned by the person: none

CHAIRMAN OF THE BOARD OF DIRECTORS

The Chairman of the Board of Directors is elected and carries out its activities in accordance with the Charter, the Regulations on the Board of Directors, and the Code of Corporate Governance.

At the first meeting of the Board of Directors of TATNEFT of the annual General Shareholders’ Meeting on June 23, 2017, R. N. Minnikhanov was elected Chairman of the Board of Directors unanimously by all members of the Board of Directors, as the most respected member of the Board of Directors with highest level of professionalism and knowledge, and significant background in top-management positions, and an impeccable business and personal reputation.

The Chairman of the Board of Directors is a nonexecutive director.

The Chairman of the Board of Directors is not a member of any committees of the Board of Directors.

Principal responsibilities of the Chairman of the Board of Directors

- Managing operations of the Board of Directors
- Making proposals on the distribution of tasks among the members of the Board of Directors and Committees of the Board of Directors
- Providing an open discussion of the agenda and ensuring that all positions of the members of the Board of Directors are taken into consideration
- Identifying the key issues to be considered by the Board of Directors and selecting the optimal form of meeting to discuss them
- Representing of the Board of Directors in relations with shareholders, management, and other stakeholders

The Chairman of the Board of Directors should also create positive atmosphere of the discussion and meetings in command, and is also responsible for implementing of decisions taken by the Board of Directors.



**Nail Ulfatovich
MAGANOV**

General Director (CEO) of TATNEFT
Member of the Board of Directors of TATNEFT
Chairman of the Executive Board of TATNEFT
The chairman of the Corporate Governance Committee of the Board of Directors of TATNEFT
Born in 1958.
In 1983, he graduated from the Gubkin Moscow Institute of Petrochemical and Gas Industry.
From July 2000 till November 2013, First Deputy General Director – Head of the Division for Sales of Oil and Oil Products at OJSC TATNEFT.
Starting from November 2013, General Director of TATNEFT.

Executive Director

% share in the authorized capital of the company: 0.000176
% share of the ordinary shares of the company owned by the person: none



**Yuriy Lvovich
LEVIN**

Member of the Board of Directors of TATNEFT
Chairman of the Audit Committee of the Board of Directors of TATNEFT
Member of the HR and Remuneration Committee of the Board of Directors of TATNEFT
Born in 1953.
In 1975, he graduated from the Moscow Finance Institute.
In 1979, he graduated from the postgraduate course at the Institute of World Economy and International Relations.
Starting from 2001 Managing Partner of BVM Capital Partners Ltd.

Independent Director

% share in the authorized capital of the company: none
% share of the ordinary shares of the company owned by the person: none



**Laslo
GERECHÉ**

Member of the Board of Directors of TATNEFT
Member of the Audit Committee of the Board of Directors of TATNEFT
Member of the HR and Remuneration Committee of the Board of Directors of TATNEFT
Born in 1953.
In 1977, he graduated from the Gubkin Moscow Institute of Petrochemical and Gas Industry.
In 1995, he graduated from Oxford Business University.
From 2015 to January 1, 2017, Managing Director of MOL Oman Limited, Oman Branch.
Starting from January 1, 2017, Managing Director of G Petroconsulting Ltd

Independent Director.

% share in the authorized capital of the company: none
% share of the ordinary shares of the company owned by the person: none



**Rene Frederic
STEINER**

Member of the Board of Directors of TATNEFT
Member of the Audit Committee of the Board of Directors of TATNEFT
■Chairman of the HR and Remuneration Committee of the Board of Directors of TATNEFT
Born in 1964.
He has a higher economic education and graduated from the Higher Technical School of Zurich in 1989. Bachelor of Swiss Banking Business – Zurich.
From 2011 to present day, he is co-founder, Head of programs for direct private investment at FIDES Business Partner AG, Switzerland.

Independent Director

% share in the authorized capital of the company: none
% share of ordinary shares of the company owned by the person: none



**Radik Raufovich
GAYZATTULIN**

Member of the Board of Directors of TATNEFT
Member of the Audit Committee of the Board of Directors of TATNEFT
Born in 1964.
In 1985, he graduated from Kazan Agricultural Institute.
From June 2002 to present day, he is heading the Ministry of Finance of the Republic of Tatarstan.

Nonexecutive director

% share in the authorized capital of the company: none
% share of the ordinary shares of the company owned by the person: none



**Valeriy Yuryevich
SOROKIN**

Member of the Board of Directors of TATNEFT
Born in 1964.
In 1986, he graduated from Kazan State University.
From 2003 to present day, General Director of JSC Svyazinvestneftekhim.

Nonexecutive Director

% share in the authorized capital of the company: none
% share of the ordinary shares of the company owned by the person: none



**Azat Kiyamovich
KHAMAYEV**

Member of the Board of Directors of TATNEFT
Born in 1956.
In 1978, he graduated from Kazan Aviation Institute with degree in mechanical engineering.
In 2000, he graduated from the Faculty of Law of Kazan State University.
In December 2008, he was appointed First Deputy Minister of Land and Property Relations of the Republic of Tatarstan.
From March 2009 to present day, he has headed the Ministry of Land and Property Relations of the Republic of Tatarstan.

Nonexecutive Director

% share in the authorized capital of the company: none
% share of the ordinary shares of the company owned by the person: none



**Rinat Kasimovich
SABIROV**

Member of the Board of Directors of TATNEFT
Member of the Corporate Governance Committee of the Board of Directors of TATNEFT
Member of the HR and Remuneration Committee of the Board of Directors of TATNEFT
Born in 1967.
In 1991, he graduated from Kazan State University.
In 1994, he graduated from a postgraduate course at Kazan State Technological University.
In 1998, he had a training course in the Presidential program for management personnel.
From 2006 to June 2010, Head of the Division of Oil and Gas Chemical Complex of the staff of the Cabinet of Ministers of the RT.
Starting from June 2010, Assistant to the President of the Republic of Tatarstan.

Nonexecutive Director

% share in the authorized capital of the company: none
% share of the ordinary shares of the company owned by the person: none



**Rustam Khamisovich
KHALIMOV**

Member of the Board of Directors of TATNEFT
First Deputy General Director for Exploration and Production of Oil and Gas of TATNEFT
Born in 1965.
In 1978, he graduated from the Gubkin Moscow Institute of the Petrochemical and Gas Industry.
From 2010 to 2011, Director of the branch of OJSC TATNEFT in Libya.
From 2011 to 2015, Head of Oil and Gas Production Department of Yelkhovneft OJSC TATNEFT.
From 2015 to May 21, 2018, Deputy General Director for Development and Production of Oil and Gas of TATNEFT.
Starting from May 21, 2018, First Deputy General Director for Exploration and Production of Oil and Gas of TATNEFT.
Executive director

% share in the authorized capital of the company: 0.000056
% share of the ordinary shares of the company owned by the person: none



**Nail Gabdulbariyevich
IBRAGIMOV**

Member of the Board of Directors of TATNEFT
First Deputy General Director for Production – Chief Engineer of TATNEFT
Member of the Management Board of TATNEFT
Born in 1955.
In 1977, he graduated from Gubkin Russian State University of Oil and Gas.
From 2000 to present day, First Deputy General Director for Production – Chief Engineer of TATNEFT

Executive director

% share in the authorized capital of the company: 0.019831
% share of the ordinary shares of the company owned by the person: 0.020873



**Rais Salikhovich
KHISAMOV**

Member of the Board of Directors of TATNEFT
Deputy General Director – Chief Geologist of TATNEFT
Born in 1950.
In 1978, he graduated from the Gubkin Moscow Institute of Petrochemical and Gas Industry.
From October 1997 to present day, Deputy General Director – Chief Geologist of TATNEFT

Executive Director

% share in the authorized capital of the company: 0.01876
% share of the ordinary shares of the company owned by the person: 0.019746



**Renat Khaliullovich
MUSLIMOV**

Member of the Board of Directors of TATNEFT
Born in 1934.
In 1957, he graduated from Kazan State University.
Starting from June 2007, Consultant to the President of the Republic of Tatarstan on the development of oil and oil and gas fields, professor of the Department of Geology of Oil and Gas Geological Faculty of Kazan (Volga) Federal University.

Nonexecutive Director

% share in the authorized capital of the company: 0.057136
% share of the ordinary shares of the company owned by the person: 0.060445



Shafagat Fakhrazovich
TAKHAUTDINOV

Member of the Board of Directors of TATNEFT
Adviser to the Chairman of the Board of Directors of TATNEFT
Born in 1946.
In 1971, he graduated from the Gubkin Moscow Institute of Petrochemical and Gas Industry.
From 1999 to November 2013, General Director of OJSC TATNEFT.
From November 2013 to present day, Assistant to the President of the Republic of Tatarstan on the oil industry, Advisor to the Chairman of the Board of Directors of TATNEFT.

Nonexecutive Director

% share in the authorized capital of the company: 0.116503
% share of ordinary shares of the company owned by the person: 0.123914



Rafail Saitovich
NURMUKHAMEDOV

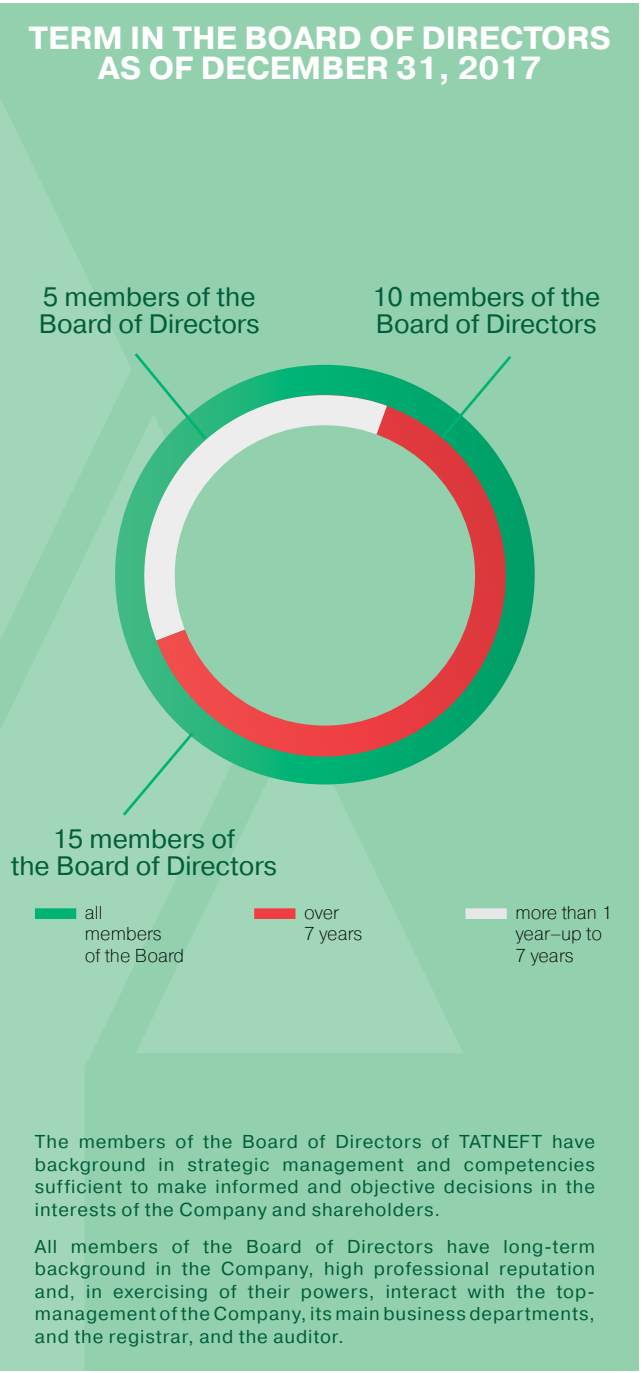
Member of the Board of Directors of TATNEFT
Head of Oil and Gas Production Department of Leninogorskneft of TATNEFT
Born in 1949.
He graduated from the Ufa Oil Institute.
From 1989 to present day, Head of Oil and Gas Production Department of Leninogorskneft of TATNEFT.

Executive Director

% share in the authorized capital of the company: 0.010465
% share of ordinary shares of the company owned by the person: 0.010107

DURATION OF WORK ON THE BOARD OF DIRECTORS

Members of the Board of Directors	number of years	year of election
Minnikhanov Rustam Nurgaliyevich	21	1997
Muslimov Renat Khaliulloovich	21	1997
Takhautdinov Shafagat Fakhrazovich	21	1997
Khisamov Rais Salikhovich	20	1998
Ibragimov Nail Gabdulbariyevich	18	2000
Maganov Nail Ulfatovich	17	2001
Gayzatullin Radik Raufovich	17	2001
Sabirov Rinat Kasimovich	13	2005
Sorokin Valeriy Yuryevich	13	2005
Khamayev Azat Kiyamovich	9	2009
Steiner René Frederic	5	2013
Gereche Laslo	3	2015
Levin Yuriy Lvovich	3	2015
Khalimov Rustam Khamisovich	3	2015
Nurmukhametov Rafail Saitovich	2	2016



BALANCED COMPOSITION OF THE BOARD OF DIRECTORS

The composition of the Board of Directors is balanced by the participation of independent, nonexecutive, and executive directors. The participation of 3 independent directors ensures objectiveness while considering various matters, and independent judgment of these directors contributes to the effectiveness of the Board of Directors. Participation of 5 executive directors in the Board of Directors ensures deep integration between the Board of Directors and executive bodies.

The Board of Directors of TATNEFT is composed of 15 directors.

INDEPENDENT DIRECTORS	3	Laslo Gereche Yu. L. Levin René Frederic Steiner
NONEXECUTIVE DIRECTORS	7	R. N. Minnikhanov R. R. Gayzatullin R. Kh. Muslimov R. K. Sabirov V. Yu. Sorokin Sh. F. Takhautdinov A. K. Khamayev
EXECUTIVE DIRECTORS	5	N. U. Maganov N. G. Ibragimov R. Kh. Khalimov R. S. Khisamov R. S. Nurmukhametov

Participation in the Board of Directors of three independent and seven nonexecutive directors ensures balance between interests of different groups of shareholders. It contributes to objectiveness of the decisions, raises confidence in the Company of investors, shareholders, and other stakeholders.

The Board of Directors makes an assessment of compliance with independence criteria for independent members of the Board of Directors. Results of a said assessment showed a breach of one criterion of independence by Yu. L. Levin, member of the Board of Directors. The breach resulted from financial operations representing the short-term placement of the Company's funds in PJSC Ak Bars Bank, where Yu. L. Levin is also member of the Board of Directors (interest in a significant counterparty). Having considered all aspects, the Board of Directors expressed the opinion that interest of Yu. L. Levin in a significant counterparty (PJSC Ak Bars Bank) is of formal nature; at the same time, Yu. L. Levin has excellent professional competence and background as well as personal responsibility, all that ensures objective character of his decisions, free from influence of other persons and fully compliant with the interests of TATNEFT and its shareholders. Having regard to that the Board of Directors passed unanimous resolution to approve Yu. L. Levin as independent director in the Board of Directors of TATNEFT for the current corporate year (Resolution of the Board of Directors of June 23, 2012).

EVALUATION OF THE PERFORMANCE OF THE BOARD OF DIRECTORS

The Company has established practice of evaluating performance of the Board of Directors as a whole, members of the Board of Directors and Committees of the Board of Directors. The evaluation is conducted on a regular basis at least once a year in the form of a formalized self-assessment procedure. Evaluation method is a survey of members of the Board of Directors regarding activities during their term of office as members of the Board of Directors of TATNEFT since their election in the corporate reporting year. The evaluation includes 50 criteria for 5 key components: competence and authority of the Board of Directors; composition of the Board of Directors; committees of the Board of Directors; procedures of the Board of Directors; annual General Shareholders' Meeting.

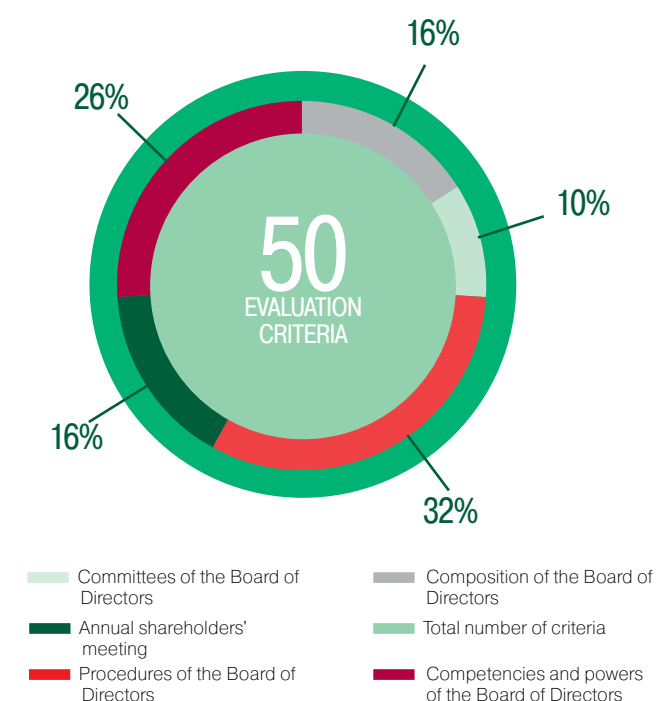
In 2018, the self-assessment of the work of the Board of Directors was carried out for the corporate reporting year from June 2017 to May 2018.

The results of the self-assessment and its analysis were considered at the internal meeting of the Board of Directors (Minutes No. 12 as of April 24, 2018).

Based on the results of the self-assessment of the Board of Directors, the performance of the Board of Directors in the corporate reporting year was approved. Overall, it was noted that the Company's corporate governance system conforms to the basic principles of the Code. Regarding some non-binding principles, the Company also adheres to established practice in accordance with the interests of the Company and its shareholders. The Company follows several principles of the Code according to historically established practice but without formalizing these principles. Draft amendments to the internal documents of the Company to give them formal shape are now in being elaborated by the Office of the Corporate Secretary in cooperation with the Corporate Governance Committee. It was also noted that the Company complies with additional provisions of international best practices for corporate governance.

At the same time, during the self-assessment by members of the Board of Directors, an opinion was expressed to further improve the procedures of the Board of Directors and corporate practices. The summarized comments regarding the activities of the Board of Directors were submitted to the Corporate Governance Committee and the HR and Remuneration Committee.

KEY COMPONENTS OF THE SELF-ASSESSMENT PROCEDURE OF THE BOARD OF DIRECTORS



Assessment of the quality of work of the Board of Directors is aimed at identifying the level of effectiveness of the Board of Directors, committees and members of the Board of Directors, ensuring compliance of its functioning to the requirements of social development, improving work of the Board of Directors, and identifying areas in which it can be improved.

THE PREVENTION OF POSSIBLE CONFLICTS OF INTEREST

Company pays extra attention to preventing or minimizing possible conflicts of interest among the members of the Board of Directors. In order to prevent potential conflicts of interest, the Company has established certain safeguards and requirements for members of the Board of Directors. Thus, in accordance with the Regulations on the Board of Directors of TATNEFT, a member of the Board of Directors should refrain from actions that will or may lead to a conflict of interest. In the reporting year, there were no conflicts of interest on the part of members of the Board of Directors.

ISSUES AND DECISIONS CONSIDERED AND TAKEN BY THE BOARD OF DIRECTORS

During 2017, the Board of Directors was considering issues related to the implementing and updating strategy and business planning, increasing production efficiency, asset management, corporate governance, internal audit, and disclosure of information.

Key decisions and issues of the Board of Directors considered in 2017.

CORPORATE GOVERNANCE

- Decisions made in preparation for the annual General Shareholders’ Meeting on the results of 2016 and the extraordinary General Shareholders’ Meeting of December 12, 2017.
- Decisions made on the composition of the Committees of the Board of Directors for the 2017 corporate year.
- The candidacy for the position of Corporate Secretary of TATNEFT was approved.
- New versions of the Corporate Governance Code of the Company, Regulations on Information Policy, and Regulations on Providing Information to Shareholders were approved.
- The report on compliance with the principles of the Corporate Governance Code was considered.
- The results of self-assessment of the work of the Board of Directors of TATNEFT were considered.
- The work of the internal audit department was considered.
- The principal areas of work of the Audit Committee of the Board of Directors of TATNEFT were considered.
- Activities of subsidiaries and affiliated companies were considered.

STRATEGY, OPERATONS, FINANCE

- The montioring report regarding performance of the key objectives of the Strategy of the TATNEFT Group 2025 was considered.
- Issues regarding sale of oil and oil and gas products under unstable prices in world markets were considered.
- The results of exploration operation in the licensed fields of the Company, oil production plans and geological and technical measures for 2018, the Company’s Work Program for 2017 for the Domanik and Bitum testing sites, and matters regarding implementation of the project for development of the SVO fields were considered.
- The Company’s IT strategy and the strategy of the energy complex of the TATNEFT Group were considered.
- Issues of the Company’s oil refining and petrochemical unit operations were considered.
- Implementation of the investment program for the TATNEFT Group was considered.
- The financial and economic performance of TATNEFT for 2016 and the IFRS consolidated financial statements of the Company for 2016 were considered.
- The issues of the distribution of profits and loss of the Company based on the 2016 performance, on the amount of dividends for 2016 and the procedure for their payment, and the determination of dividends for the first 9 months of 2017 were considered.
- Decision making on transactions in which there is an interest.
- Decision making on property assets.
- The results of the small business support corporate program were considered.
- Issues of the development of the Higher Oil School of the Almeteyevsk State Petroleum Institute were considered.

NUMBER OF MEETINGS HELD



NUMBER OF ISSUES CONSIDERED

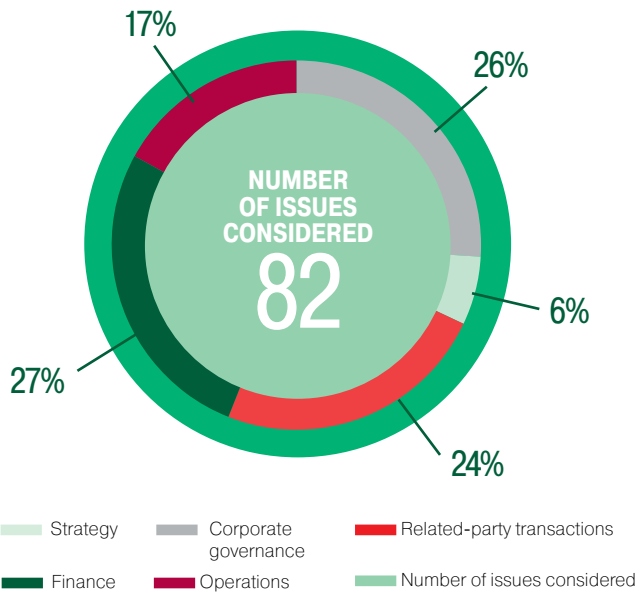


In-person meetings Absentee meetings

In 2017, there were 17 meetings of the Board of Directors, including 13 in-person and 4 absentee meetings. A total of 82 issues were considered; the overwhelming number of them at in-person meetings. Issues considered at in-person meetings related to corporate governance, the Company’s strategy, approval of interested-party transactions, decision making in preparation for the annual and extraordinary General Shareholders’ Meeting of the Company, and production issues.

The Company has mechanisms in place to provide the members of the Board of Directors with information, the scope and timing allow to make informed and objective decisions on the agenda issues

STRUCTURE OF SIGNIFICANT ISSUES CONSIDERED BY THE BOARD OF DIRECTORS IN 2017



PARTICIPATION OF THE MEMBERS OF THE BOARD OF DIRECTORS IN THE MEETINGS OF THE BOARD OF DIRECTORS

MEMBERS OF THE BOARD OF DIRECTORS	JAN 26	FEB 22	FEB 27 absentee voting	MAR 20	APR 27	MAY 17 absentee voting	MAY 26 absentee voting	MAY 27	JUN 23	JUN 23	JUL 21	AUG 24	SEP 28	OCT 26	OCT 6 absentee voting	NOV 30	DEC 22	TOTAL
R. N. Minnikhanov																		15/17
N. U. Maganov																		14/17
N. G. Ibragimov																		12/17
Yu. L. Levin																		15/17
R. R. Gayzatullin																		15/17
Laslo Gereche																		17/17
R. Kh. Muslimov																		16/17
R. K. Sabirov																		16/17
V. Yu. Sorokin																		15/17
R. S. Nurmukhametov																		15/17
Sh. F. Takhautdinov																		13/17
A. K. Khamayev																		15/17
R. S. Khisamov																		17/17
R. Kh. Khalimov																		17/17
R. F. Shtainer																		16/17

Present Absent

COMMITTEES OF THE BOARD OF DIRECTORS

In order to increase the effectiveness of decisions taken by the Board of Directors, the Company established three committees of the Board of Directors that carry out preliminarily review of the most important issues on the agenda of the meeting of the Board of Directors and prepare appropriate recommendations within their competence:

- Corporate Governance Committee
- Audit Committee
- HR and Remuneration Committee

The activities of the committees are regulated by the relevant provisions approved by the Board of Directors of TATNEFT:

- Regulations on the Corporate Governance Committee of the Board of Directors of TATNEFT
- Regulations on the Audit Committee of the Board of Directors of TATNEFT
- Regulations on the HR and Remuneration Committee of the Board of Directors of TATNEFT

Committees are fully accountable to the Board of Directors. The composition of the committees is approved by the Board of Directors of TATNEFT, with consideration given to the relevant knowledge, qualifications, and background of each candidate.

The Audit Committee and the HR and Remuneration Committee comprise significant number of independent directors.

The Audit Committee consists of three independent directors. The Chairman of the Committee Yu. L. Levin (who is deemed to be independent by special resolution of the Board of Directors) has necessary expertise in the preparation, analysis, evaluation, and audit of accounting (financial) statements. The members of the Committee have the necessary knowledge and competence to carry out preliminary consideration of issues relating to control over the financial and economic operations of the Company. The Board of Directors decided to increase the number of members of the Committee, by including additional nonexecutive director who also has expertise in preparation, analysis, evaluation, and audit of accounting (financial) statements (R. R. Gayzatullin).

The HR and Remuneration Committee of the Board of Directors of TATNEFT includes three independent directors. The Chairman of the Committee is the independent director Ren Steiner. Due to the fact that the Committee also carries out responsibilities of the Remuneration and Nominations Committee (appointments, personnel), The Board of Directors decided to increase the number of members of the Committee by including an additional nonexecutive director (R. K. Sabirov). All members of the Committee have the expertise and background relevant to the tasks of the Committee.

The Corporate Governance Committee is headed by the General Director of TATNEFT (N. U. Maganov). The members of the Committee have relevant expertise in the field of corporate law and disclosure of information, the requirements of stock market regulators to issuers, advanced standards of corporate governance and sustainable development, and qualifications, competencies, and practical experience of corporate practices.

The composition of the committees ensures objective, balanced recommendations within the areas of competence of the committees. All members of the committees have sufficient expertise and background, including practical work. Employees of the Company and third parties may attend the meetings of the committees at the invitation of the Chairman of the committee. However, they do not have voting powers on the agenda issues.

CORPORATE GOVERNANCE COMMITTEE

The Committee is a permanent committee under the Board of Directors since 2004.

The main purpose of the Committee is preliminary consideration and preparation of recommendations to the Board of Directors regarding development and improvement of the corporate governance system in the Company. The activities of the Committee conform to the legislation of the Russian Federation, the Charter of the Company, the Regulations on the Board of Directors, resolutions of the Board of Directors of the Company, this Regulation, other internal documents of the Company, and the decisions of the Committee.

COMMITTEE MEMBERSHIP

Chairman

Nail Ulfatovich Maganov, member of the Board of Directors, Chairman of the Management Board, General Director of TATNEFT

Committee members:

R. K. Sabirov, member of the Board of Directors, nonexecutive director, assistant to the president of the Republic of Tatarstan

N. Z. Syubayev, Deputy General Director for Strategic Development of TATNEFT, Ye. E. A. Tikhturov, Head of the Finance Department of TATNEFT

N. Ye. Dorpeko, Corporate consultant to the General Director of TATNEFT

V. A. Mozgovoy, assistant to the General Director for Corporate Finance of TATNEFT

V. D. Yershov, Head of the Legal Department of TATNEFT

R. M. Khisamov, corporate secretary of TATNEFT until October 22, 2017

During the corporate year, there were changes in the composition of the corporate governance Committee; as of October 22, 2017, the powers of a member of the Committee R. M. Khisamov were terminated by his death.

PRINCIPAL FUNCTIONS

The Committee initiates and organizationally ensures the improvement of corporate governance procedures, the adoption of new and updating of existing corporate documents in accordance with changes in the current legislation and in general corporate standards.

- Assisting the Board of Directors and the General Director in assessing the quality of corporate relations and the development of corporate governance in the Company
- Developing recommendations on draft internal documents aimed at improving corporate governance in the Company

ACTIVITIES OF THE CORPORATE GOVERNANCE COMMITTEE IN THE REPORTING YEAR

In 2017, there were 2 meetings of the Committee (one every six months) under the chairmanship of the General Director of the Company N. U. Maganov, with the participation of all members of the Committee.

Principal issues considered:

New versions of internal documents of the Company were preliminarily considered: Charter, Regulations on the General Shareholders' Meeting, Regulations on the Board of Directors, Regulations on the General Director, Regulations on the Management Board, Dividend Policy, and a new document—Regulation on Disclosure of Information to Shareholders.

The members of the Committee contribute on a regular basis to the development of corporate practices in the Company, interact with shareholders, members of the Board of Directors, Committees, and management on issues of corporate law and administration, and maintain a direct dialog with stock market regulators.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Committee is a permanent committee of the Board of Directors of TATNEFT since 2004.

The principal task of the Committee is to assist the Board of Directors to conduct analysis and evaluation of the financial statements of TATNEFT, to monitor accuracy and completeness of TATNEFT IFRS and RAS accounting statements, to ensure the independent audit of financial statements, to control the internal audit system, and to ensure compliance of the Company with the requirements of legislation, regulations, regulatory standards, and requirements in the preparation of financial statements, audit, and accounting.

The activities of the Committee conform to the legislation of the Russian Federation, the requirements of exchanges applicable to the Company as an issuer of securities (including outside the Russian Federation), the Company's Charter, the Regulations on the Board of Directors, decisions of the Board of Directors, the Regulations on the Committee, and other internal documents of the Company approved by the General Shareholders' Meeting of the Company and the Board of Directors as well as by decisions of the Committee. The Committee acts in the interests of the Company's shareholders.

MEMBERS OF THE COMMITTEE

Chairman:

Yuriy Lvovich Levin, member of the Board of Directors, independent director. Managing Partner of BVM Capital Partners Ltd. Member of the HR and Remuneration Committee of the Board of Directors of TATNEFT

Committee members:

Radik Raufovich Gayzatullin, member of the Board of Directors, Minister of Finance of the Republic of Tatarstan

Laslo Gereche, member of the Board of Directors, independent director. Managing Director of G Petroconsulting Ltd, member of the HR and Remuneration Committee of the Board of Directors of TATNEFT

René Frederic Steiner, member of the Board of Directors, independent director. The Head of programs on direct private investments of FIDES Business Partner AG. Chairman of the HR and Remuneration Committee of the Board of Directors of TATNEFT

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

PRINCIPAL FUNCTIONS

- Control over the completeness, accuracy, and reliability of the accounting (financial) statements of TATNEFT, including the preparation of the consolidated financial statements of the TATNEFT Group with the integration of the financial statements of Zenit Banking Group
- Coordination of activities of external auditors and the internal audit department and regular review of their reports
- Setting up independent assessment of the internal audit function and submission of proposals on improvement of the work of the internal audit division
- Verification of the independence of the external auditor
- Revision and analysis of quarterly, semiannual, and annual financial statements of TATNEFT, including the results of its inspections by the external auditor
- Assessment of candidate auditors and supplying to the Board of Directors recommendations regarding selection of independent auditors for IFRS and RAS financial statements of TATNEFT review
- Assistance to the Board of Directors in monitoring the functioning of internal control and risk management systems in TATNEFT
- Preliminary consideration of interested-party transactions, and transactions with parties related to TATNEFT that are submitted for approval to the Board of Directors of TATNEFT

ACTIVITIES OF THE COMMITTEE IN THE REPORTING YEAR

In 2017, there were 7 in-person meetings of the Audit Committee.

41 issues were considered.

Principal issues considered

Issues pertaining to review of consolidated financial statements with participation of external auditors:
12 issues

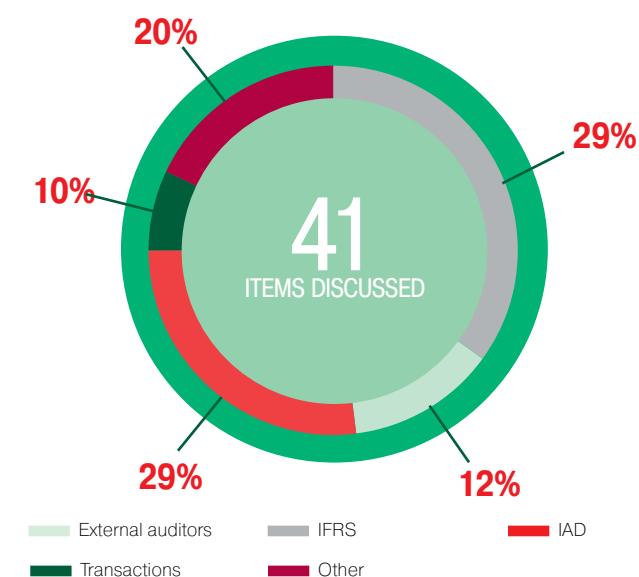
Issues pertaining to selection of external auditors and confirmation of independence of external auditors: 5 issues

Issues pertaining to activities of the Internal Audit Division (IAD): 12 issues

Issues pertaining to preliminary consideration of interested-party transactions and transactions with parties related to TATNEFT that are submitted for approval to the Board of Directors of TATNEFT:
4 issues

Other issues: 8 issues

STRUCTURE OF THE SIGNIFICANT ISSUES CONSIDERED BY THE AUDIT COMMITTEE IN 2017



Audit committee consisting of independent directors was established in the Company to carry out preliminary consideration of issues pertaining to control of financial and economic activities of the Company.

The committee promotes efficient exercise of functions of the Board of Directors pertaining to control of financial and economic activities of the Company.

Participation of independent members of the Board of Directors in meetings of the Audit Committee

Independent directors	Jan 25	Mar 10	Apr 27	Jun 23	Jul 20	Sep 26	Nov 29	Total
Yu. L. Levin	■	■	■	■	■	■	■	7
Laslo Gereche	■	■	■	■	■	■	■	7
R. F. Shtainer	■	■	■	■	■	■	■	7

HR AND REMUNERATION COMMITTEE

The HR and Remuneration Committee is a permanent committee established in 2004 to provide assistance to the Board of Directors in creating favorable conditions to attract highly qualified experts to the Company management and establishing appropriate incentives to ensure their effectiveness.

The Committee is a body of the Board of Directors for preliminary consideration of issues that fall under the Charter of the Company and Regulations on the Board of Directors under responsibility of the Board of Directors in the area of HR policy and remuneration.

The Committee also provides assistance to the Board of Directors of TATNEFT in improving and strengthening HR policy of the Company and providing staff and management with appropriate incentives mechanisms.

MEMBERS OF THE COMMITTEE

Chairman:

René Steiner, member of the Board of Directors, independent director. Head of direct private investment programs at FIDES Business Partner AG, member of the Audit Committee of the Board of Directors of TATNEFT

Committee members:

Laslo Gereche, member of the Board of Directors, independent director. Managing director at G Petroconsulting Ltd, member of the Audit Committee of the Board of Directors of TATNEFT

Yuriy Lvovich Levin, member of the Board of Directors, independent director. Managing partner at BVM Capital Partners Ltd, chairman of the Audit Committee of the Board of Directors of TATNEFT

Rinat Kasimovich Sabirov, member of the Board of Directors. Assistant to the president of the Republic of Tatarstan, member of the Committee for Corporate Governance of the Board of Directors of TATNEFT

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

PRINCIPAL FUNCTIONS IN TERMS OF REMUNERATION

- To develop and periodically review the Company policy on remuneration for members of the Board of Directors , executive bodies of the Company, and other key managers, including establishing criteria for the short-term and long-term incentives program for members of the executive bodies
- To control the implementation and functioning of the Company remuneration policy and incentives programs
- To carry out preliminary assessment of performance of executive bodies of the Company and other key managers as of at the end of the year and assessment whether the executive bodies achieved the goals set out in the the incentives program
- To establish criteria for early termination of employment agreements with members of executive bodies of the Company and other key managers, including all financial obligations of the Company and conditions of their provision
- To develop recommendations to the Board of Directors regarding setting the amount of remuneration and criteria for awarding bonus to the Company’s corporate secretary, to carry out preliminary assessment of the work of the corporate secretary as of the end of the year, and proposals on awarding bonus to him
- To prepare report on implementation of the policy on remuneration for members of the Board of Directors, members of executive bodies of the Company, and other key managers to be included in the annual report and other documents of the Company
- To supervise disclosure of information about policies and practices of remuneration and ownership of shares of the Company by the members of the Board of Directors, members of executive bodies, and other key managers in the annual report and on the corporate website.

PRINCIPAL FUNCTIONS IN TERMS OF HR (NOMINATIONS)

- To assess composition of the Board of Directors in terms of professional specialization, experience in independence of its members, their participation in the work
- To determine priority areas for strengthening of the Board of Directors
- To interact with all groups of shareholders during selection of candidates for the Board of Directors and as regards the election of candidates to the Board of Directors with a view to the fullest possible coverage of goals of the Company
- To analyse professional qualifications and independence of candidates nominated to the Board of Directors of the Company
- To develop and notify to the shareholders the recommendations regarding voting on candidates for the Board of Directors of the Company
- To develop an introductory course for familiarization of newly elected members of the Board of Directors and its chairman with information on the key assets of the Company, its strategy, business practices, and organizational structure (including presentation to key managers), and on responsibilities and procedures of the chairman and members of the Board of Directors
- To arrange annual self-assessment and/or external assessment (at least once every 3 years) of the Board of Directors, its members, and its committees in terms of the effectiveness of their work in general and in terms of the individual contribution of each director of the Board of Directors and its committees, to determine priority areas for strengthening of the Board of Directors
- To participate in the development and approval of a program of training and advanced skill development for the members of the Board of Directors, taking consideration of areas of responsibility and expertise of individual members, and to supervise implementation of this program
- To assess professional qualifications and to plan nominations of the members of executive bodies of the Company and other key managers with a view to ensure development of the Company and safeguarding continuity among these persons
- To develop recommendations for the Board of Directors regarding candidates for the post of corporate secretary of the Company
- To develop recommendations for the Board of Directors regarding candidate members of executive bodies of the Company and other key managers
- To prepare report on the performance of the Committee to be included in the annual report and other documents of the Company

ACTIVITIES OF HR AND REMUNERATION COMMITTEE IN THE REPORTING YEAR

In 2017, there were 4 meetings of the HR and Remuneration Committee. Principal issues considered:

- Effective tools of the Company staff incentive system
- Staff reserve formation in the Company
- Qualification assessment center of PJSC TATNEFT: first results and development prospects
- Company staff remuneration at year-end of 2017

CORPORATE SECRETARY



**Rustam Minnegaziyevich
KHISAMOV**

**Corporate secretary, Head of the TATNEFT Corporate Secretary's Office until
October 22, 2017**

Born in 1959.

Graduated from Kazan Financial Economic Institute. From 1876 to present day, has been working at TATNEFT.

As of 1995, Deputy Head of the Securities Department of PJSC TATNEFT.

As of 1998, Head of the Securities Department of TATNEFT.

As of December 12, 2015, Deputy Corporate Secretary – Head of the Corporate Secretary's Office.

December 26, 2016–October 22, 2017, Corporate Secretary – Head of the Corporate Secretary's Office of TATNEFT

CORPORATE SECRETARY

Since November 6, 2017, Damir Maratovich Gamirov, Deputy Head of the Corporate Secretary's Office of TATNEFT, has been acting corporate secretary.

The corporate secretary enjoys appropriate level of independence from the executive bodies of the Company and has necessary authority and resources to perform his tasks.

The corporate secretary acts in accordance with the Charter of the Company and the Regulation on the Corporate Secretary.

The goals of the corporate secretary are as follows:

- To ensure compliance with the requirements of corporate legislation, the Charter, and internal documents of the Company that guarantee implementation and protection of the rights and interests of shareholders.
- To ensure efficient corporate governance system and proper interaction of all participants of corporate relations, including subsidiaries and affiliates, to improve the investment appeal of the Company and the growth of its capitalization.
- To develop and improve corporate governance in the best interest of its shareholders

Principal functions of the corporate secretary:

- To provide for efficient realisation by the Company, its subsidiaries and affiliates of corporate procedures relating to implementation of rights of shareholders and other participants of corporate relations of the Company.
- To provide for the preparation and holding of General Shareholders' Meetings and meetings of the Board of Directors, including compilation of materials for meetings of the Board of Directors in accordance with internal documents of the Company.
- To provide for functioning of the committees of the Board of Directors of the Company and coordinating their activities.
- To provide for interaction between the Company and exchanges, the registrar, depositories, state authorities supervising corporate relations and securities market and with other professional participants of the securities market within the scope of authority vested in corporate secretary.
- To ensure compliance with the requirements for disclosure of information, provision of documents and information upon shareholders' requests, control of the effectiveness of corporate mechanisms for disclosure of information, and proper storage of corporate documents of the Company.
- To compile a list of information classified as insider information, work with insiders, control of insiders' transactions with securities of the Company.
- To ensure interaction between the Company and its shareholders and participate in preventing corporate conflicts.
- To monitor compliance of the Company with the requirements of corporate legislation, terms of internal documents of the Company, and the rights of shareholders in terms of necessary measures within the scope of authority of the corporate secretary to eliminate such violations and minimize the consequences of such violations.

Corporate Secretariat

Scope of authority of the corporate secretary's office includes maintaining effective system of interaction of all participants of corporate relations, including subsidiaries and affiliates; monitoring how the Company, subsidiaries, and affiliates follow corporate procedures relating to implementation of the rights of shareholders and other participants of corporate relations; arranging interaction between the Company and the special registrar, depositories, and state authorities authorized to regulate corporate relations and securities market, as well as with other participants of the securities market.

The corporate secretary's office secures the organization of and monitors compliance with applicable legislation of public disclosure of information, including during preparation and disclosure of information in the annual report, quarterly reports of an issuer, material facts, and documents and information associated with the issuance and circulation of securities on the organized stock market, provision of documents and information upon shareholders' requests, and proper storage of corporate documents of the Company. With aim to improve effectiveness of corporate procedures, the corporate secretary's office monitors the effectiveness of current procedures of the Company and is to prepare annual report to the Board of Directors, regarding the state of corporate governance in the Company and its prospects for its development. Report on corporate governance must be compliant with the Rules of Exchange Trade and requirements for disclosure of information on corporate governance in the Company to all interested persons.

GENERAL DIRECTOR AND THE MANAGEMENT BOARD

Responsibilities of executive bodies of the Company - that is, the General Director and the Management Board, - include efficient realisation of the Strategy, achieving of the business goal and all matters of day to day operations; except for the matters that fall into scope of responsibility of the General Shareholders' Meeting and the Board of Directors.

GENERAL DIRECTOR

The General Director is appointed by the Board of Directors.

Starting November 2013 and up to present day, Nail Ulfatovich Maganov is the General Director of TATNEFT.

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

Scope of powers of the General Director is set out in the Charter of the Company and Resolutions on the General Director of TATNEFT.

The General Director is in charge of current operations in accordance with the corporate development strategy of the Company, defines organizational structure, supervises the rational use of resources, resolves organizational issues relating to the business process management and social protection for the employees, including:

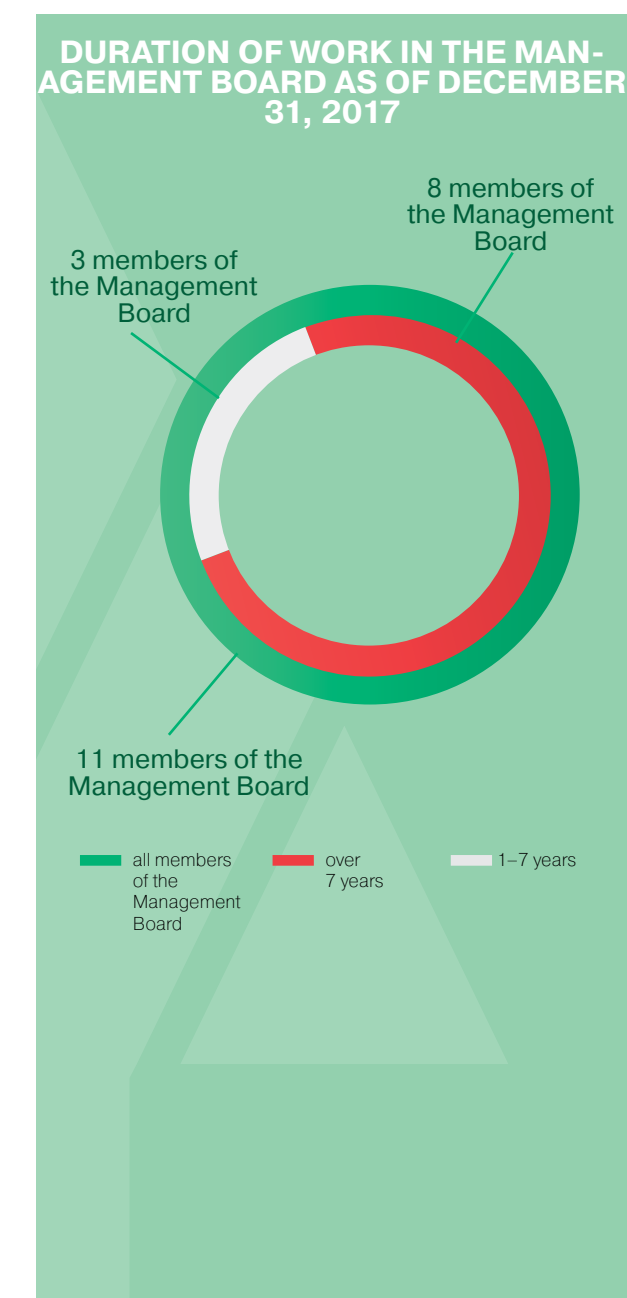
- Implementation of resolutions taken at the General Shareholders' Meeting
- Presentation to the Board of Directors of candidates to the Management Board
- Allocation of duties among the Board members
- Management of the Board as chairman at Board meetings
- Approval of internal documents of the Company, unless the approval of such internal documents fall within the scope of responsibilities of the General Shareholders' Meeting, the Board of Directors, and the Management Board according to the Company Charter
- Approval of job descriptions
- Hiring and dismissal of staff, including his own deputies
- Defining the organizational structure of the Company, approving of the organizational chart of the Company, branches, and representative offices, approval of job descriptions and wages
- Presentation to the Board of Directors of candidates to the post of First Deputy General Director
- Executing employment contracts with employees of the Company
- Managing development, execution, and performance of the Collective Agreement
- Managing and providing for favorable and safe working conditions for Company employees
- Managing accounting and reporting, including approving policies for accounting and taxation
- Managing compliance with legal requirements of the activities of the Company within the limits of his powers
- Solving other issues pertaining to current operations of the Company

MANAGEMENT BOARD

The Management Board is a collegiate executive body responsible for daily management of TATNEFT, as well as developing and implementing the general development strategy for subsidiaries of the Company. The Chairman of the Management Board is the General Director of TATNEFT. The activities of the Management Board conform to current legislation, the Charter of TATNEFT, and the Resolution on the Management Board of TATNEFT. The composition of the Management Board is determined by the Board of Directors of TATNEFT. In 2017, the Management Board of the Company consisted of 11 people.

DURATION OF WORK IN THE MANAGEMENT BOARD

Full name	Year of election	Number of years
Maganov Nail Ulfatovich	1999	19
Bakhitov Anvar Vasikhovich	2014	4
Voskoboynikov Vladlen Aleksandrovich	2005	13
Gorodniy Viktor Isakovich	1999	19
Glazkov Nikolay Mikhaylovich	2012	6
Yershov Valeriy Dmitriyevich	2001	17
Ibragimov Nail Gabbulbariyevich	1999	19
Nurmukhametov Rafail Saitovich	1999	19
Mukhamadeyev Rustam Nabiulloovich	2002	16
Tikhturov Yevgeniy Aleksandrovich	1999	19
Subayev Nurislam Zinatulovich	2014	4



Powers of the following members of the Management Board of TATNEFT are terminated starting February 26, 2018: V. I. Gorodniy and A. F. Vakhitov.

MEMBERS OF THE MANAGEMENT BOARD OF TATNEFT



**Nail Ulfatovich
MAGANOV**

General Director (CEO) of TATNEFT
Member of the Board of Directors of TATNEFT
Chairman of the Executive Board of TATNEFT
Born in 1958.
In 1983, he graduated from Gubkin Russian State University of Oil and Gas.
From July 2000 to November 2013, First Deputy General Director – Head of the Division for Sales of Oil and Oil Products at OJSC TATNEFT.
November 2013, appointed to the position of General Director of TATNEFT.

% share in the authorized capital of the company: 0.000176
% share in ordinary shares of the company owned by the person: none

GENERAL DIRECTOR

Sole executive body.
The General Director is appointed by the Board of Directors.
The General Director also is the Chairman of the Management Board of TATNEFT.

PRINCIPAL RESPONSIBILITIES OF THE GENERAL DIRECTOR

- Representing the Company and its interests
- Executing financial documents of the Company
- Making deals on behalf of the Company
- Managing property of the Company to support current operations (within the limits defined in the Charter)
- Approving organizational structure, organizational chart, executing employment contracts with employees of the Company
- Approving internal documents that regulate matters relating to day to day operations of the Company
- Presenting to the Board of Directors candidates to the Management Board. Managing the Management Board as chairman of the Management Board
- Solving other issues pertaining to current operations of the Company



**Nail Gabdulbariyevich
IBRAGIMOV**

First Deputy General Director of Production – Chief Engineer of TATNEFT
Member of the Board of Directors of TATNEFT
Born in 1955.
In 1977, he graduated from Gubkin Russian State University of Oil and Gas.
From 2000 to the present day, First Deputy General Director of Production – Chief Engineer of TATNEFT.

% share in the authorized capital of the company: 0.019831
% share of ordinary shares of the company owned by the person: 0.020873



**Nurislam Zinatulovich
SYUBAYEV**

Deputy General Director of Strategic Development of TATNEFT
Member of the Corporate Governance Committee of the Board of Directors of TATNEFT
Born in 1960.
In 1982, he graduated from Plekhanov Russian University of Economics.
From 2002 to the present day, Deputy General Director of Strategic Development of TATNEFT.

% share in the authorized capital of the company: none
% share of the ordinary shares of the company owned by the person: none



**Nikolay Mikhaylovich
GLAZKOV**

Deputy General Director for Capital Construction of TATNEFT

Born in 1960.

In 1988, he graduated from Kazan Engineering and Construction Institute.

From 2008 to 2010, Head of the Division for Capital Construction of OJSC TATNEFT.

From 2010 to present day, Deputy General Director of Capital Construction of TATNEFT.

% share in the authorized capital of the company: none

% share of the ordinary shares of the company owned by the person: none



**Rustam Nabiullovich
MUKHAMADEYEV**

Deputy General Director of General Issues of TATNEFT

Born in 1952.

In 1977, he graduated from Gubkin Russian State University of Oil and Gas.

From 2001 to December 4, 2017, Deputy General Director of TATNEFT for HR and Social Development.

From December 4, 2017 to present day, Deputy General Director of General Issues of TATNEFT.

% share in the authorized capital of the company: 0.004204

% share of ordinary shares of the company owned by the person: 0.004264



**Viktor Isakovich
GORODNIY**

Deputy General Director of TATNEFT

Born in 1952.

In 1978, he graduated from Gubkin Russian State University of Oil and Gas.

From 1995 to present day, Deputy General Director of TATNEFT.

Member of the Management Board until February 26, 2018.

% share in the authorized capital of the company: 0.000254

% share of the ordinary shares of the company owned by the person: none



**Yevgeniy Aleksandrovich
TIKHTUROV**

Head of the Financial Division of TATNEFT

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

Born in 1960.

In 1982, he graduated from the Ordzhonikidze Moscow Management Institute.

From 1995 to present day, Head of the Financial Division of TATNEFT.

% share in the authorized capital of the company: none

% share of the ordinary shares of the company owned by the person: none



**Valeriy Dmitriyevich
YERSHOV**

Head of the Legal Division of TATNEFT
Member of the Corporate Governance Committee of the Board of Directors of TATNEFT
Born in 1949.
In 1978, he graduated from Ulyanov-Lenin Kazan State University.
From 2002 to present day, Head of the Legal Division of TATNEFT.

% share in the authorized capital of the company: none
% share of the ordinary shares of the company owned by the person: none



**Rafail Saitovich
NURMUKHAMEDOV**

Head of Oil and Gas Production Department of Leninogorskneft of TATNEFT
Born in 1949.
In 1974, he graduated from Ufa Oil Institute.
From 1989 to present day, Head of the Leninogorskneft Oil and Gas Production Department of TATNEFT.

% share in the authorized capital of the company: 0.010465
% share of ordinary shares of the company owned by the person: 0.010107



**Vladlen Aleksandrovich
VOSKOBOYNIKOV**

Head of the Division for Consolidated Financial Statements of TATNEFT
Born in 1965.
In 1993, he graduated from Calgary Southern Alberta Institute of Technology.
From 2005 to present day, Head of the Division for Consolidated Financial Statements of TATNEFT.

% share in the authorized capital of the company: none
% share of the ordinary shares of the company owned by the person: none



**Anvar Vasikhovich
VAKHITOV**

Head of the Center for Development of the Oil and Gas Complex of TATNEFT Group
Born in 1951.
In 1980, he graduated from the Kazan Institute of Chemical Engineering.
From April 2014 to August 15, 2017, Director of LLC TATNEFT-Neftekhim Managing Company.
Since September 1, 2017, Head of the Center for Development of the Oil and Gas Complex of TATNEFT Group.
Member of the Management Board until February 26, 2018.

% share in the authorized capital of the company: none
% share of the ordinary shares of the company owned by the person: none

ISSUES CONSIDERED AT MEETINGS OF THE MANAGEMENT BOARD IN 2017

- Analysis of HSE indices for 2016 and goals map for 2017.
- Expected results of implementation of strategic goals for TATNEFT Group in 2016.
- Performance of the exploration and production business in 2016 and forecast of economic and production indices of the business for 2017, especially in view of decisions on temporary suspension of production.
- Overview of the oil and gas industry in 2016 and the main trends and challenges for TATNEFT Group in 2017.
- Business Service Center development program, performance in 2016, and plans for 2017.
- Issues regarding production equipment of drilling crews.
- Development program for KAMA Research and Development Center which is based on the approved «road map» 2025 for the Tire Business.
- Monitoring results of the implementation of the goals and measures of TATNEFT Group's development strategy 2025: leaders and laggards.
- Results of implementation of the Energy block strategy (as of the end of 2016 and Q1 2017).
- Implementation of the road map for development and implementation of a unified technical strategy in TATNEFT Group and results of the project for development of the innovative strategy of the Group.
- Fulfillment of TANECO construction plans and efficiency of current refinery capacity utilisation. Goals and tasks to the end of 2017.
- Results of developing and implementing the marketing strategy for sales of diesel fuel and jet fuel: Reaching end consumers in the RF and abroad.
- Results of implementation of the project for «Building a Unified Treasury Platform for TATNEFT Group.»
- Top-level strategy for development of the Group's bank assets and product line transformation.
- Strategies, results, and forecasts for operations under with view to existing restrictions of oil production.
- Modernization process of Investment planning: goals and tasks, management challenges, and the main areas for improvement, road map, and expected results.
- Goals and key steps of the IT strategy road map for 2017–2018 in the medium and long run.
- Key drivers defining the external environment and TATNEFT Group indices in 2018.
- Audit of petrochemical and tire sector enterprises and JSC TANECO in terms of implementation and application of ISO-14001 and ONSAS-18001 international standards.
- Acquisition of share in equity of TAPART Experimental Machine-Building Plant LLC.
- Equity participation of TATNEFT in TATNEFT-AZS-Siberia LLC.
- Strategy of PJSC Bank ZENIT for 3 next years.
- Project «Integrated Approach to Business Project Planning by Development Objects.»
- Project «Investment Planning Automation Based on 1C.»
- Managerial training programs for the following business areas: Exploration and production, oil and gas processing, retail network, tire business, mechanical engineering, power sector, other subsidiaries and affiliates (except for the energy block) controlled by CC CRB) of business plans for 2018 in view of achievement of the strategic goal of doubling of the value of the Company.
- Preparation of production programs.
- Preparation of investment program.
- Preparation of forecasts of financial and economic activities and business plans for 2018.
- Initiatives under IT strategy for 2017–2021 by business areas.
- TATNEFT share in authorized capital of Idea-South-East Innovation and Production Technopark LLC.
- Cessation of membership in TATNEFT-Takaral LLC.

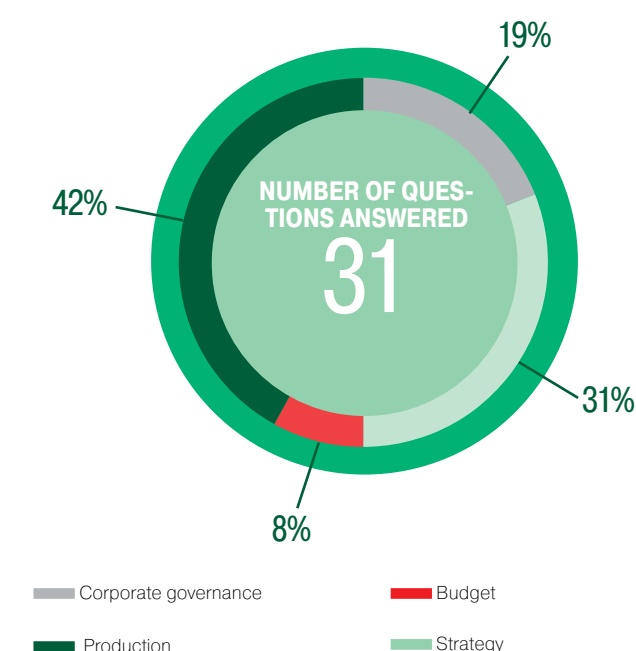
NUMBER OF MEETINGS HELD: 6

RESPONSIBILITIES OF THE MANAGEMENT BOARD

The responsibilities of the Management Board include:

- Participation in development of future and current plans for the Company
- Implementation of financial and investment programs of the Company within the limits of the powers obtained from the Board of Directors
- Taking decisions regarding establishment by the Company of other legal entities, participation and termination of participation of the Company in other organizations
- Several powers associated with development and implementation of general strategy regarding development of the Company's subsidiaries.
- Other powers in accordance with the Charter of TATNEFT

STRUCTURE OF ISSUES CONSIDERED IN 2017



Participation of Management Board members in meetings of the Management Board

Members of the Management Board	Feb 21, 2017	May 29, 2017	Jul 3, 2017	Sep 12, 2017	Dec 11, 2017	Dec 18, 2017
N. U. Maganov	Present	Present	Present	Present	Present	Present
V. A. Voskoboynikov	Present	Present	Present	Present	Present	Present
V. I. Gorodniy	Absent	Absent	Absent	Absent	Absent	Present
N. M. Glazkov	Present	Present	Present	Present	Present	Present
R. N. Mukhamadeyev	Absent	Present	Present	Absent	Present	Present
Ye. A. Tikhturov	Present	Present	Present	Present	Present	Present
N. Z. Syubayev	Present	Present	Present	Present	Present	Present
V. D. Yershov	Present	Present	Present	Absent	Present	Present
N. G. Ibragimov	Present	Present	Present	Present	Present	Present
R. S. Nurmukhametov	Present	Present	Present	Absent	Present	Present
A. V. Vakhitov	Present	Present	Present	Present	Present	Present

REMUNERATION FOR MEMBERS OF MANAGEMENT BODIES

The Board of Directors defines the Company policy on remuneration and/or reimbursement of expenses (compensation) for members of the Board of Directors, executive bodies, and other key managers of the Company.

Remuneration of members of executive bodies and other key managers of the Company is defined so that to ensure reasonable ratio between fixed and variable part of remuneration, the latter depending on performance of the Company and individual contribution of the person.

Committee for remunerations consisting of independent directors and headed by an independent director who is not the chairman of the Board of Directors was established to carry out preliminary assessment of issues relating to developing efficient and transparent remuneration practices.

While developing the remuneration system and determining the specific remuneration amount for members of management bodies of the Company, it is assumed that remuneration should be sufficient to attract, motivate, and retain persons with expertise and qualifications required by the Company.

The remuneration system is based on the rules and recommendations contained in the Corporate Governance Code in view of the Company’s current practice of calculating remuneration and compensation.

The Company seeks to establish remuneration for members of the Board of Directors depending on their contribution to the development of the Company. An adequate level of remuneration promotes involvement of highly qualified candidates and should ensure compensation for their time and efforts spent on preparation of and participation in meetings of the Board of Directors.

The management remuneration system is being formed with a view to the strategic goals of the Company, that has set the task to double the value of the Company by 2025.

The incentives for management policy of the Company is aimed at establishing a unified remuneration system with the variable part tied to key performance indicators reflecting successful achievement of the strategic goals of the Company.

Remuneration for members of the Board of Directors

Remuneration for members of the Board of Directors of TATNEFT is paid in accordance with the «Regulation on Payment of Financial Remuneration to Members of the Board of Directors and the Revision Committee of TATNEFT.» Remuneration for members of the Board of Directors consists of a fixed and a variable part. The fixed part of the remuneration is set out in the Regulation and is subject to indexing along with changes in rates and wages of TATNEFT employees.

The variable part of the remuneration for members of the Board of Directors depends on the following key indicators:

- The ratio between the capitalization level of the Company at the year-end as compared to the previous year
- The ratio between dividend expenses and net profits (as compared to the previous year)
- The size of additional profitability as compared to baseline profitability

Amounts of remuneration for members of the Board of Directors are fixed by decision of the General Shareholders’ Meeting and include, in particular:

- Remuneration for performing duties of a member of the Board of Directors
- Remuneration for performing functions of the Chairman of a committee of the Board of Directors

In 2017, the total amount of remuneration for members of the Board of Directors of the Company was RUB 167,240,111.13, including remuneration for participation in activities of the Board of Directors, salaries, bonuses, and other types of remuneration. Compensation for members of the Board of Directors of the Company was RUB 6,962,787.31.

Payments to members of the Board of Directors in 2017	RUB
Remuneration for participation in work of a management body	121,801,186.00
Salary	16,178,367.65
Bonuses	29,044,554.91
Commissions	0
Other types of remuneration	216,002.57
Compensation	6,962,787.31

Remuneration for members of the Management Board

Payments to members of the Management Board are made in accordance with the principal conditions of the agreements regarding obligations of a member of the Management Board.

In 2017, the total amount of remuneration for members of the Management Board of the Company was RUB 170,252,627.44, including remuneration for participation in the work of the Management Board, salaries, bonuses, and other types of remuneration. Compensation for members of the Management Board of the Company was RUB 786,635.

Payments to members of the Management Board in 2017	RUB
Remuneration for participation in work of a management body	8,663,911.00
Salary	80,950,652.20
Bonuses	79,525,100.72
Commissions	0
Other types of remuneration	1,112,963.52
Compensation	786,635.00

INTERNAL AUDIT

Internal audit procedures constitute an integral part of the corporate governance system and include purposeful actions of the Board of Directors and management of the Company to improve the risk management procedures and increase the probability of achievement of goals.

Internal audit is regulated by the Regulation on the Internal Audit Division of TATNEFT. The new edition of the Regulation was approved by the Board of Directors of TATNEFT, decision No. 3 of January 29, 2016.

Internal audit is carried out within the framework of the annual plan approved by the Board of Directors.

Audit reviews the system of internal control of operational efficiency, compliance with legislation and integrity of property. Audit is based on a risk-focused approach. The report stating the internal audit results is sent to the management of the Company and the Audit Committee. The internal audit division subsequently monitors activities and notifies the Company management and the Audit Committee of the Board of Directors on actions taken to eliminate the drawbacks revealed.

In 2017, 9 audits were performed. In addition, upon instructions from the Company management, the internal audit division of the Company took part in 12 unscheduled projects on various financial and economic issues. The division also conducted monitoring of planned activities following the results of the audits in 2014–2017.

Results of assessment carried out by experts of CJSC Deloitte Touche CIS show that the division generally complies with the International Professional Standards of Internal Audit and the Code of Ethics of the Institute of Internal Auditors.

INTERNAL CONTROL

Internal control is aimed to assist the executive bodies in improving effectiveness of the Company management and business operations. Corporate control is also responsible for providing methodological support to the Company management regarding compliance with the tax and accounting legislation. This area of responsibility contributes to ensuring compliance with applicable legislation and helps to mitigate tax and financial risks of the Company.

INDEPENDENT AUDITOR

In order to obtain an independent assessment of accuracy and completeness of accounting (financial) statements, the Company annually engages an external auditor to audit both its IFRS and RAS statements. Candidates to the position of external auditor of the Company undergo preliminary review by the Audit Committee of the Board of Directors of TATNEFT, following that and basing on that final recommendations are prepared to proceed to approve the external auditors according to procedures set out in applicable legislation.

JSC PricewaterhouseCoopers Audit was nominated by decision of the General Shareholders’ Meeting to be the auditor to review Company’s RAS accounting statements for 2017.

JSC PricewaterhouseCoopers Audit was nominated by decision of the General Shareholders’ Meeting to be the auditor to review Company’s IFRS consolidated statements for 2017.

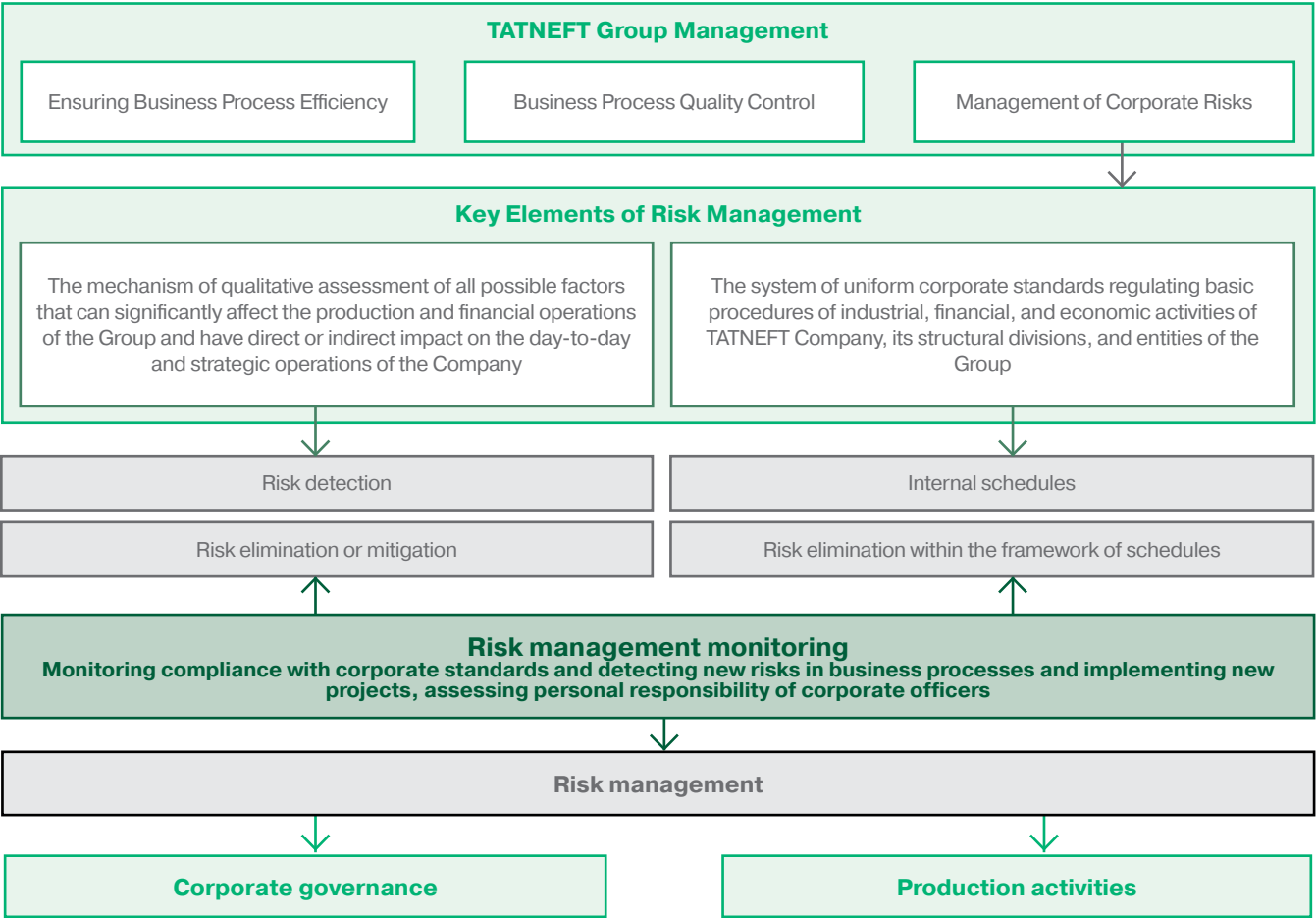
"HOT LINE"

The Company has established a special confidential channel, «the hotline», allowing an employee or a third person to report various violations relating to Company and its activities, including corruption. Calls are taken by an independent operator. In 2017, 790 calls of various nature were received and handled. Appropriate measures were taken, including introduction of new corporate standards and regulations aimed at reducing the risk of violations in production and economic activities and improving labor discipline and the responsibility of employees. Additional measures were taken to prevent previously detected violations in the future.

THE HOT LINE INFORMATION SYSTEM
HAS BEEN OPERATIONAL SINCE 2015,
PHONE 8 800 100 4112
Email TN@88001004112.ru

RISK MANAGEMENT

INTEGRATED CORPORATE RISK MANAGEMENT SYSTEM



The Company has an integrated risk management system based on analysis and assessment of possible factors that can significantly affect production performance and financial and economic activities of TATNEFT and Group entities, as well as directly or indirectly affect current operations and/or strategic plans of the Company.

Risk management policy of the Company is based on determining and preventing risks, that opens new opportunities of adjusting business planning and investment activities. Analysis of potential risks includes consideration of both external and internal factors. External factors include market, industry, social and economic, political, financial, and other factors that can influence activities of the Company and its subsidiaries and affiliates. Intracorporate factors are managerial, production-related, HR, social, environmental, and others.

Priority in risk management: development of systematic mechanisms for detection, assessment, and prevention/minimization of risks associated with activities of the Company

PONTENTIAL PRINCIPAL RISKS

Country and regional risks

The Company is incorporated and carries out most of its operations in the Russian Federation. Essential production assets of the Company are located in and principal production operations are performed in the Republic of Tatarstan, which is a constituent entity of the Russian Federation. The political situation in Russian Federation and in particular in the Republic of Tatarstan is stable. Estimated risks of possible military conflict, the imposition of state of emergency or a strike in the principal region of operations of the Company are low. However, the Company has established procedures to be used in case of emergency to reduce the impact these circumstances on life, health, and safety of the employees and residents of the regions of its principal operations, as well as on the production of the Company. The geographical region of the principal operations of the Company has low risk of natural disasters that could significantly affect normal operations. During planning and implementation of operations aimed at production, treatment, transportation and storage of oil and gas or oil and gas products, as well as materials used for production, the Company takes into consideration the geographical particularities of the region, including the climate. In case of natural disasters such as floods, earthquakes, mudslides, or hurricane winds, the Company has put in place procedures and policies aimed at prompt elimination of any negative consequences of these disasters for the operations of the Company. The Company has monitoring procedures employing most current equipment aimed at preventing negative consequences of natural disasters and warning of the population of the region where the Company conducts its operations the probability of such consequences. The region of the principal activities of the Company is not a remote one in terms of transport and other infrastructure.

Financial risks

The main financial risks of the Company's activities pertain to currency exchange rate fluctuations, inflation, and the situation on financial markets and the stability of the banking system.

Significant changes in foreign currency exchange rates led to an increase in liabilities of the Company denominated in foreign currency as well as charges, incurred in servicing these liabilities. All that results in drop of profits and reduced ability of the Company to service its debts. Significant devaluation of Russian ruble can also lead to situation where the Issuer will face additional difficulties in performing its obligations. Significant changes in foreign currency exchange rates can also adversely affect liquidity indicators of the Company. Changes in interest rates may affect the Company in particular it's ability to attract money. In particular, in case of bank loans with floating interest rate, any increase in interest rates on the international markets would result in increased interest payments, and that would negatively affect the financial situation of the Company. Drop of interest rates on the Russian market may, all other conditions being equal, reduce the efficiency of current borrowings of the Company at a fixed interest rate.

Currency risks

The Company is exposed to risks of adverse change in currency exchange rates, primarily to fluctuation of ruble to US dollar rate. This is due to the fact that significant share of the Company income is denominated in USD, while most of its expenses is in rubles. The currency structure of the Company's debt generally reflects the structure of its income, which reduces the dependency on currency exchange rate fluctuation.

Impact of inflation

Current level of inflation causes no significant negative impact on the financial situation of the Issuer. It is impossible to predict the critical level of inflation for the Company, as it is necessary, in addition to the level of consumer prices, to consider changes in the real purchasing power of the ruble, the situation on the Russian and international oil markets, and the situation on the materials and services markets for the oil industry, as well as future policy of the state regarding tariffs.

Financial markets

Current development strategy 2025 of the Company prescribes that investments into development should primarily be made out of operating income (equity capital). In some cases, the Company attracts external funds, and the ability to do so at acceptable rates and in the necessary amounts depends on the situation on the financial markets. In particular, changes in interest rates can affect the Company's ability to borrow and service its debts: in case of bank loans with floating interest rate, increase in the overall level of interest rates on the market would result in increased amounts of interest to be paid. When planning its activities and forming budgets, the Company analyses the current and forecast situation on the financial markets and maintains access to a wide range of sources of financing to ensure getting optimal conditions when borrowing funds.

The Company may occasionally place some of its own funds in financial instruments the cost of which depends on situation on the market. These financial instruments can vary in terms of their risk and profitability. The Company follows balanced strategy in placing available funds and monitors risks associated with such investments, but is unable to always ensure expected positive outcomes of these investments.

Banking system risks

The funds of the Company are held in bank accounts and deposited in the banks of the Russian Federation. The Company follows diversified approach to placing its available funds. The Company faced situations where banks holding its funds had their normal operations suspended or their licences revoked. Company employs diversification strategy and monitoring of financial situation of the banking institutions in which its funds are placed, to reduce the risk of their loss.

Being the majority shareholder of ZENIT Banking Group (ZBG), The Company assesses relevant risks. Such risks include all potential significant factors related to the situation on financial markets and stability of the banking system in case of drastic negative changes in global macroeconomic environment or the economy of the Russian Federation, possible international sanctions, higher inflation, significant currency fluctuations, and negative changes in legislation. The Company forms expert assessment of exposure to each risk, its probability and measures to mitigate and manage it. Regarding participation of the Company in corporate governance of the ZBG, its management system is being transformed to to encompass risk-based approach and an elaborated internal control system, subject to additional audit by an international consultant.

Legal risks

TATNEFT engaged into international business and, among other things, exports oil and oil products, equipment, and services outside the Russian Federation and invests funds in projects abroad. Thus any change in legislation of the Russian Federation or other countries where the Company operates, in the area of foreign exchange regulation and control, customs control or duties may create additional obstacles in repatriating funds, importing or exporting goods and equipment; it also may impose additional preliminary or follow-up procedures relating to currency transactions or customs clearance that create additional difficulties for the Company and may result in additional expenses. In the Company's view, currently the risk of negative changes in foreign exchange regulation and customs control in the Russian Federation are not significant. Considering the importance of the oil industry in the economy of the Russian Federation, tax payments of the Company are significant. Changes in tax legislation can significantly affect the operations of the Company, its profitability and financial situation and the value of its shares. The majority of taxes and duties, especially the mineral tax and customs duty on oil and oil product exports, are charged based on gross volumes (production or export), regardless of profitability of the Company's operations. Applicable legislation provides for certain tax incentives for the Company regarding these taxes and duties due to its oil production at ultra-mature

fields and development of super-viscous oil fields, where profitability largely depends on existence of oil reserves. At present, authorities of Russian Federation are defining new taxation mechanisms in oil industry, that will introduce, among other things, taxation of surplus income from selling oil and oil products. New scheme will be tested in some pilot projects. There will also be changes in oil and oil products export duties (with possible complete cancellation of that duty). These potential changes may cause positive or negative impact on the financial situation and investment projects of the Company. In order to conduct its operations the Company must obtain licenses for exploration and production of oil and gas, operation of hazardous production facilities, and other types of activities set out in applicable legislation. At present, the Company does not expect any significant changes related to licensing of exploration and production at oil and gas fields, operation of hazardous production facilities, including oil and gas treatment plants, that would result in a significant negative impact on operations of TATNEFT or its subsidiaries. The Company participates as defendant, claimant or third party in numerous court proceedings that arise in the course of its day to day operations.

Reputational risk

Due to the fact that the principal products sold by the Company (oil, oil and gas products) are homogeneous and produced in strict compliance with applicable requirements and standards, and the Company is one of the largest Russian oil companies with a history of more than 65 years, perception of the financial stability and financial situation of the Company by the main counterparties (buyers) of Company products has no significant impact on them making decisions to deal with the Company. At the same time, perception of consumers of the Company's products and the quality of its products and services affect the sales and profitability of this segment. The Company conducts ongoing monitoring of the quality of oil and gas products sold via the filling station network, continuously expanding the range of services provided at filling stations, and takes other measures to improve the quality of service. Furthermore, the Company constantly informs clients and counterparties of its activities by way of publications and press releases on the internet, in the media, as well as via mobile applications. Free call centers enable clients of the filling station network to provide feedback and complaints regarding quality of products and services. The Company has adopted and is implementing procedures aimed at prompt response to complaints and swift elimination of their causes. In addition to regular disclosure of information (obligatory and voluntary), upon request from clients and counterparties, and subject to the requirements of applicable legislation, the Company provides all necessary information on its financial situation and sustainability.

Industry risks

Risk of oil and oil product prices

Income, profitability, and future growth largely depend on current prices of oil and oil products. In the past, oil and oil product prices showed significant volatility due to multiple factors, including:

- International and regional supply and demand fluctuations (as well as expectations of future supply and demand) for oil and oil products
- Weather
- National and foreign state regulation, including export restrictions and taxes
- Prices and availability of alternative fuels
- Prices and availability of new technologies

- Ability of the members of Organization of Petroleum Exporting Countries (OPEC) and other oil-producing countries to set and maintain certain levels of production and prices
- Political and economic events in oil-producing regions, in particular the Middle East
- The international and regional economic situation

For many years, prices for crude oil and oil products were relatively high, but in recent years, they have fallen significantly. Prices for oil and oil products change in opposite directions. Price drop for oil and oil products negatively impacts performance and financial situation of the Company. Although oil prices have been more or less stable recently, they still may fall from current levels. That will result in decrease of the number of profitable oil production projects of the Company, and it will in turn result in reduced amount of sustainable reserves of the Company and reduce sustainability of prospecting and exploration programs. It should be mentioned that regardless of the development of alternative sources of energy and potential increase of the number of electric vehicles, the Company does not expect in the medium term that these will be able to significantly replace oil and oil products, while the demand for oil and oil products will continue to grow largely due to the emerging economies. Thus the Company does not expect any significant negative changes in the industry in terms of the demand structure.

Technical and technological risks

Exploration, development and fitting out of new fields, maintenance of existing wells, drilling of new ones, as well as preparation, transportation, and processing of oil and gas constitute an extremely complex and expensive process. Additional expenses are required for reservoir recovery improvement, which is especially important for the Company. In future, as fields are depleted, special methods for enhanced oil recovery will become more important. Thus, the economic effectiveness of field exploration and development will largely depend on the ability of the Company to use the most effective and affordable technologies. Being one of the innovation leaders in the industry in Russia, the Company pays special attention to development and application of cutting-edge technologies in exploration, production, preparation, transportation, and processing of oil and gas. In production, preparation, transportation, and processing of oil and gas the Company and its subsidiaries and affiliates operate complex process systems and facilities classified as hazardous production facilities. The Company takes all necessary measures to ensure safe operation of such production facilities, complies with all applicable provisions and requirements, takes advantage of the best practices in this area and provides liability insurance for a number of facilities.

Transportation

As the majority of oil production regions in Russia are located far from the main markets of oil and oil products, oil companies depend on the maturity of transport infrastructure, as well as its accessibility. The Company transports the majority of the crude oil that it sells on foreign and domestic markets via the network of major pipelines under contracts with Transneft and its subsidiary structures providing essential obligations of the parties, including the right of Transneft to mix or replace oil of the Company with oil of other producers. Significant part of the oil transported via the pipeline is headed to sea ports for subsequent transportation by sea. Russian sea terminals have certain limitations associated with geographic location, weather conditions, and capacity. Oil products inside Russia are transported mainly by rail. The railway infrastructure of the Russian Federation is owned and controlled by Russian Railways. Transneft and Russian Railways are joint

stock companies with state participation. As the above companies belong to the natural monopolies sector, their tariff policy is defined by state authorities to ensure a balance of the interests of the state and those of all parties involved in the transportation process. Tariffs of natural monopolies are set by the Federal Antimonopoly Service of the Russian Federation (FAS of Russia). Tariff rate depends on the route of transportation, size of shipment, distance to destination, and some other factors. FAS of Russia reviews tariffs at least once a year. The Company closely monitors the development and maintenance of transport infrastructure required to deliver oil and oil products to buyers, as well as the tariff policy, and actively participates in relevant industrial discussions and initiatives.

Environmental risks

The oil and gas sector of the economy is exposed to a high degree of environmental risk. And in case of environmental standards violations, there is a risk of fines. Additionally, federal and regional environmental standards can be revised and become stricter. The Company has a comprehensive program aimed at mitigating negative situations associated with industrial risks. This includes continuous monitoring, analysis, and forecasting of oil prices with relevant adjustment of strategic development plans. The Company continuously implements and introduces new technical and organizational measures to minimize the impact of technical and environmental risks.

Strategic risk

Operations and financial performance of the Company depend on multiple factors, some of them pertaining to changes in the situation in energy resources markets, state policy, primarily tax policy, development of technologies, and the situation on the labor market. Decisions of management bodies of the Company related to strategic development are prepared based on all available information relating to possible development scenarios and tend to consider all reasonably predictable potential changes and assumptions used for such planning. Given the availability of a high-tech oil production and processing base firmly established over many years, the Company has a reliable platform for development and adjusts its plans when necessary. At the same time, since implementation of its main investment projects usually takes several years, significant negative changes of the conditions that served the basis for decisions to initiate certain projects can negatively affect the performance and profitability of the Company.

Risks associated with the Issuer function

No other risks relating to Issuer function beyond those described above were identified by the Company.

INFORMATION POLICY

The information policy of the Company is aimed to provide efficient information exchange between the Company and its shareholders, investors, and other stakeholders, building of long-term, open relations with them based on trust, and general assistance in the sustainable development of the Company and the improvement of its shareholder value.

The goal of the information policy is to disclose to stakeholders the information that they need to take informed and reasonable decision regarding any actions that may affect the financial and economic situation of the Company.

The Company aims to ensure high standards of corporate governance and adheres to a transparent information policy based on the following principles:

- Regular and consistent disclosure of information regarding its main areas of activity
- Rapid disclosure of relevant information about significant events and facts pertaining to its operations
- Guaranteed accuracy and completeness of disclosed information about the Company and controlled entities that is important regarding the TATNEFT Group
- Availability of information to stakeholders and equal access to information for similar categories of stakeholders
- Integrity and accuracy of information disclosed through various means and/or in various forms, as well as comparability of figures disclosed at different times
- Provision of financial and other information free from influence of any persons or groups

The Company discloses significant information about its operations and avoids taking a merely formal approach to the disclosure of information. The Company does not avoid to disclose negative information if this information is significant for shareholders, investors, or other stakeholders. The Company tries to ensure the simultaneous and equal disclosure of significant information in the Russian Federation and abroad in accordance with the circulation of the Company's securities on foreign regulated securities markets, including in the form of foreign depository receipts. Equivalence of disclosure means that in case the information is disclosed on one regulated market in one country, similar information shall also be disclosed in other countries in whose organized markets securities of the Company circulate.

Disclosure, dissemination, and provision of information shall be in the amount, according to the procedure, and within the time limits specified in applicable Russian and foreign legislation regarding information disclosure by issuers of securities.

Information that must be disclosed under legislation of the Russian Federation shall be disclosed on the official website of the Company at TATNEFT.ru in Russian and in English, and shall also be placed in the news feed and on the website of the information agency authorized to disclose information of the Company, and using other means in accordance with applicable legislation of the Russian Federation.

Information that is subject to mandatory disclosure due to circulation of the Company's securities outside the Russian Federation shall be disclosed via an authorized information agency outside of the Russian Federation. In case any information disclosure is made outside of the Russian Federation, the Company shall also disclose this information in the Russian Federation, amount, procedures, forms and time limits of such disclosure shall be set by the Russian regulator of the securities market, including disclosure on the official website of the Company at TATNEFT.ru.

DISCLOSURE OF STATEMENTS

TATNEFT discloses annual consolidated financial statements along with auditor report and brief consolidated interim financial statements together with reports on reviews of brief consolidated interim financial statements. Annual accounting statements along with auditor report and interim accounting statements are also published.

Transparency of financial statements is one of the key elements of corporate governance. On March 28, 2018, the Company published audited annual RAS accounting statements for 2017, and on March 29, 2018, audited consolidated annual IFRS financial statements for 2017.

The annual report of the Company reflects the most important information about the performance of the TATNEFT Group by area of operations and information about corporate governance and corporate responsibility. The report is drawn up on the basis of data from consolidated IFRS financial statements of the Group in accordance with the requirements of applicable legislation regarding financial markets and subject to provisions of the Corporate Governance Code recommended by the Bank of Russia.

INFORMATION TO BE DISCLOSED

- The Charter and internal documents regulating management of the Company
- Lists of affiliated entities
- Emission documents, including issue prospectus
- Annual report
- RAS accounting statements (annual and intermediate)
- Consolidated IFRS financial statements (annual, interim)
- Quarterly reports of the securities issuer
- Notifications, including in the form of significant facts, of disclosure of insider information
- List of major transactions and interested-party transactions made in the reporting year
- Press releases regarding resolutions of management bodies
- Press releases, news of the Company
- Reports on payments to states, etc.

Regulation on the information policy of TATNEFT (new revision) approved by resolution of the Board of Directors of TATNEFT (Minutes No. 12, resolution No. 3 dated April 27, 2017)

As part of interaction with institutional investors, shareholders, and other stakeholders, in 2017, TATNEFT held regular presentations of its IFRS financial results. In addition, the Company continuously improves the transparency of its operations through regular meetings of the management with analysts of major investment banks, representatives of international investment funds, and recognized rating agencies. The management of the company during presentations at key events, especially annual general shareholders' meetings, regularly highlights the importance of close interaction with investors and shareholders and the protection of their interests.

INTERACTION WITH THE MEDIA IN 2017



Nuriya Valeyeva,
Head of Press
Relations Service

Our information and communication policy complies with the Strategy of the Company, providing stakeholders with timely and unbiased information about the production and social activity of TATNEFT



DONSKOY:
TATNEFT'S PRACTICE AIMED
AT FOREST RECOVERY
NEEDS TO BE INTRODUCED
IN EVERY COMPANY



**RUSSIAN'S TATNEFT PLANS
NEW GAS CHEMICAL PLANT**



**TATNEFT PRESENTS AT UBS
15TH GLOBAL EMERGING MARKETS
ONE-ON-ONE CONFERENCE**



**RUSSIAN TATNEFT MAY REALIZE
PETROCHEMICAL PROJECT IN UZBEKISTAN**



**TATNEFT AND EMERSON SIGN
MEMORANDUM ON COOPERATION**



**TATNEFT SHAREHOLDERS
APPROVED PAYMENT
OF INTERMEDIATE
DIVIDENDS**



**IN 2017, TATNEFT
GAINED PROFITS
OF RUB 9.3
BILLION FROM
INVENTIONS**



**TATNEFT VIRTUAL
REALITY: COMPANY
FOCUSES ON DIGITAL
TECHNOLOGY**



**TATNEFT'S
IFRS Q1 NET
PROFITS
DOUBLE**

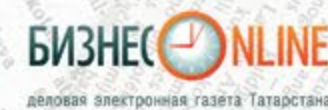
**IN 2017, OVER 300 PRESS RELEASES, OVER 5,000 PUBLICATIONS,
AND OVER 250 TV SPOTS ABOUT TATNEFT WERE PREPARED**



tatneft_official



**TATNEFT TO INVEST RUB 600 MILLION IN DEVELOPING
GAS STATION NETWORK IN THE YAROSLAVL REGION**



**NAIL MAGANOV FIGURED OUT HOW TO MAKE CITIES
OF THE REGION APPEALING TO YOUTH PEOPLE**



**LONGEVITY CENTERS:
EVEN OLD AGE WILL BE A JOY**



**TATNEFT – THE COMPANY
BUILDING THE FUTURE**



INTERACTION WITH SHAREHOLDERS

Information exchange between the Company and its shareholders is based on mutual respect, trust, responsibility, respect of the rights of the shareholders, and transparency of Company activities.

RULES OF INTERACTION WITH SHAREHOLDERS

- Guaranteed equal observation and respect of rights and legal interests of all shareholders of the Company, regardless of the size of their stock, as stipulated in applicable legislation of the Russian Federation and requirements and recommendations of regulators of stock markets in which shares of the Company circulate
- Continuous interaction between management of the Company and all shareholders to provide effective management of the Company and sustainable and dynamic development
- Continuous improvement of current and development of new mechanisms and forms of interaction with shareholders to increase its speed and quality with due regard to the new shareholders and the setting of new goals by shareholders
- Identification and settlement of all possible general and specific issues associated with the realization of shareholders' rights
- Taking all measures necessary and possible in case of any conflict between management bodies and shareholder(s) of the Company, if such conflict affects the Company, in order to fully settle the conflicts, and to introduce new rules and conditions to avoid such conflicts in future

Interaction is based on the availability of responsible managers and employees of the Company for communication with shareholders, investors, stock market analysts, and consultants of institutional investors on voting issues.

Interaction is ensured by regular conference calls to discuss operations and performance, group and individual meetings (including during investment conferences, visits to the Company, and special visits [road shows] to major international financial centers).

The continuous interaction between the management and shareholders ensures effective administration of shareholders' assets and sustainable development of the Company.

Shareholders' rights to information are observed in accordance with the Federal Law on Joint-Stock Companies, applicable legislation, the Civil Code of the Russian Federation, regulatory acts of the Bank of Russia applicable to the Company, the Charter, and internal documents of TATNEFT, in view of recommendations of the Code of Corporate Governance of the Bank of Russia, as well as the best international corporate practice.

Regulation on disclosure of information to shareholders of TATNEFT, approved by resolution of the Board of Directors of TATNEFT (Minutes No. 12, resolution No. 3 dated April 27, 2017)

OBSERVING THE LEGAL RIGHTS OF SHAREHOLDERS	INFORMATION POLICY	DIVIDEND POLICY	PREVENTION OF CONFLICTS OF INTERESTS
The Company guarantees equal observation and respect of rights and legal interests of all shareholders, regardless of the size of their stock and location, as stipulated in applicable legislation of the Russian Federation, requirements and recommendations of regulators of the stock markets on which shares of the Company circulate, and the Company Charter. Shareholders participate in activities of the Company by exercising their rights and obligations as well as on the basis of voluntary initiatives aimed at improving the management of the Company. The Company provides shareholders with access to documents in accordance with applicable legislation.	Shareholders have the right to obtain information about activities of the Company that is necessary for them to make informed and reasonable decisions. The information disclosure procedure is implemented in accordance with applicable legislation, requirements of the stock market, the Provision on Information Policy, and the Provision on the Use of Insider Information and Procedure for Notification on Securities Transactions. To ensure the highest quality of interaction with shareholders, the Company seeks to use the most reliable means and forms of communication, including cutting-edge information technology.	The Company acknowledges dividends as one of the key indicators of investment appeal of the Company and strives to increase amount of dividends by way of steady profit growth. The Board of Directors of the Company determines the amount of dividends recommended for the General Shareholders' Meeting on the basis of a financially sustainable approach to profit distribution while ensuring balance between the short-term (profit) and long-term (development of the Company) interests of the shareholders. The Company provides equal opportunities for all shareholders in exercising of their right to participate in the profits of the Company in the form of dividends.	The corporate governance system of the Company has in place steps and procedures aimed at eliminating conflicts of interests between management bodies of the Company and its shareholders as well as between shareholders, in case such conflict affects the Company. They also serve to identify and settle any potential general and specific issues associated with the rights of shareholders. There also mechanisms in place that provide for the execution of all and any measures necessary to completely settle the conflict, as well as introducing new rules and condition to avoid such conflicts in future This work is carried out in cooperation between the respective division and committees of the Board of Directors, the internal audit unit, and other competent divisions of the Company.

Office of the Corporate Secretary is responsible for interaction between the Company and shareholders.

OBSERVATION OF SHAREHOLDERS' RIGHTS TO RECEIVE DIVIDENDS

DIVIDEND POLICY

The dividend policy of the Company is based on the strict observation of rights and legal interests of shareholders and corresponds to the mission and strategic goals of the Company aimed to raise capitalization of the Company and increase dividend yield on invested capital through the effective management of shareholders' assets.

THE DIVIDEND POLICY IS BASED ON THE FOLLOWING PRINCIPLES

- The Company acknowledges dividends as one of the key indicators of investment appeal of the Company and strives to increase amount of dividends by way of steady profit growth.
- The Company creates environment that helps ensure the involvement of the management and shareholders in improving the Company's profitability (increase in net profits) and long-term value.
- The Board of Directors of the Company determines the amount of dividends recommended for the General Shareholders' Meeting on the basis of financially sustainable approach to profit distribution while ensuring balance between the short-term (profit) and long-term (development of the Company) interests of the shareholders.
- The Company provides equal conditions for all shareholders, regardless of the size of their stock and location, as well as equal treatment by the Company in the exercise of their right to participate in the Company's profits in form of dividends.
- The Company provides maximum transparency in its dividend policy.
- Decision regarding the payment of dividends, amount of dividends, and form of their payment shall be made by the General Shareholders' Meeting of the Company with reference to recommendations of the Board of Directors.

Information about decisions made by the General Shareholders' Meeting of the Company regarding payment (announcement) of dividends, their amount, and payment procedure shall be published on the official website of the Company at tatneft.ru in Russian and in English, as well as on the website of the information agency authorized to disclose information of the Company.

Rules and conditions of adopting resolution regarding the payment (announcement) of dividends, procedure for determining the amount, and the payment of dividends are set out in the Regulation on the Dividend Policy of TATNEFT approved by the Board of Directors of the Company (Minutes No. 9, Decision No. 7 dated January 30, 2018). The Regulation is based on the observation of shareholders' rights set out in applicable legislation of the Russian Federation and best practices of corporate governance.

The Company acknowledges dividends as one of the key indicators of investment appeal of the Company and strives to increase amount of dividends by way of steady profit growth. In determining the size of the dividends (per share) recommended to the General Shareholders' Meeting, the Board of Directors of the Company assesses the net profits and follows the rule that funds assigned for payment of dividends must be at least 50% of net profits as reported under Russian Accounting Standards (RAS) or IFRS, whichever is larger.

HISTORY OF DIVIDEND PAYMENTS FOR THE LAST 5 COMPLETE FISCAL YEARS

year	2012		2013		2014		2015		2016		first 9 months of 2017	
Type of shares	% of the nominal value	dividend amount	% of the nominal value	dividend amount	% of the nominal value	dividend amount	% of the nominal value	dividend amount	% of the nominal value	dividend amount	% of the nominal value	dividend amount
Total amount of dividends (RUB billion)	20.012		19.2		24.6		25.5		53.06		64.6	
Ordinary shares	860%	8.60	823%	8.23	1,058%	10.58	1,096%	10.96	2,281%	22.81	2,778%	27.78
Dividends (% of net profits)	30%		30%		30%		30%		50.6%		75%	
Date of resolution on payment of dividends	Annual General Shareholders' Meeting to review 2012 results, which took place on June 28, 2013 Minutes No. 20 dated July 2, 2013		Annual General Shareholders' Meeting to review 2013 results, which took place on June 27, 2014 Minutes No. 21 dated July 2, 2014		Annual General Shareholders' Meeting to review 2014 results, which took place on June 26, 2015, Minutes No. 22 dated July 30, 2015		Annual General Shareholders' Meeting to review 2015 results, which took place on June 24, 2016, Minutes No. 23 dated June 29, 2016		Annual General Shareholders' Meeting to review 2016 results, which took place on June 23, 2017, Minutes No. 24 dated June 28, 2017		Extraordinary General Shareholders' Meeting to review results of first 9 months of 2017, which took place on December 12 2017, Minutes No. 25 dated December 14, 2017	
The date on which persons that have (had) the right to receive dividends are (were) determined	May 13, 2013		July 16, 2014		July 15, 2015		July 8, 2016		July 7, 2017		December 23, 2017	
Date of actual payment	August 27, 2012		August 26, 2013		To the nominal holder: July 29, 2015 To the Shareholders entered in the register of shareholders: August 19, 2015		To the nominal holder: July 22, 2016 To the Shareholders entered in the register of shareholders: August 12, 2016		To the nominal holder: July 21, 2017 To the Shareholders entered in the register of shareholders: August 11, 2017		To the nominal holder: January 15, 2018 To the Shareholders entered in the register of shareholders: February 5, 2018	

Dividends paid to the shareholders of the company	RUB billion
2016	53.006

In June 2017, the level of dividend payments was approved in the amount of 50% of net profits (as of the end of 2016), and the level of dividend payments as of the end of the first 9 months of 2017 was 75% of TATNEFT's net profits under RAS.

For purposes of setting amount of dividends for the first 9 months of 2017, the Board of Directors assessed the Company's performance during the term in question, the implementation of the Strategy of the TATNEFT Group 2025 and forecast net cash flow. In accordance with the resolutions of the meetings of shareholders, RUB 53 billion was allocated for payment of dividends as a result of profit distribution for 2016, and RUB 64.6 billion for the 9 months of 2017.

TATNEFT SHARE CAPITAL STRUCTURE

As of December 31, 2017, there are 41,825 shareholders in the register of TATNEFT shareholders. The largest shareholders (nominal holders) of the Company are:

No.	Full name of the legal entity	Type of the registered person	In % of share capital	In % of voting shares
1.	Central Depository of the Republic of Tatarstan	Nominal holder	26.139806	27.905221
2.	Nonbanking Credit Organization JSC National Clearing Depository	Central Depository	62.191380	61.304919
3.	Svyazinvestneftekhim	Owner; nominal holder is the Central Depository of the Republic of Tatarstan	26.139806	27.905221
4.	The Bank of New York Mellon	Depository program account – in the central depository Nonbanking Credit Organization JSC National Clearing Depository	24.114667	25.747353

The company is not aware of the existence of shareholdings exceeding 5%, except for those disclosed in this table.

TATNEFT SHARE CAPITAL STRUCTURE AS OF DECEMBER 31, 2017

NUMBER OF SHARES	2,326,199,200
Ordinary shares	
Total	2,178,690,700
Foreign shareholders	25,761,060*
Russian shareholders	2,152,929,640
Privileged shares	
Total	147,508,500
Foreign shareholders	89,467*
Russian shareholders	147,419,033

*without ownership through Russian nominal holders

TATNEFT share capital is RUB 2,326,199,000 that consists of 2,178,690,700 registered ordinary shares and 147,508,500 registered privileged shares of the Company with the nominal value of RUB 1.

INFORMATION ON EACH CATEGORY (TYPE) OF SHARES

Full name of securities (kind and type)	Registered ordinary shares	Registered privileged shares
Form of issuance of the security	Uncertificated	Uncertificated
Volume of issuance, quantity	2,178,690,700	147,508,500
Nominal value of one (1) security (in rubles)	1.00	1.00
State registration number of securities issue	1-03-00161-A	2-03-00161-A
Information on state registration	October 26, 2001	October 26, 2001

The company is unaware of any potential obtaining by certain shareholders of a level of control disproportionate to their participation in the share capital of the Company, including on the basis of shareholders agreements or on other grounds.

STAFF OF THE COMPANY

In 2017, the average number of employees of TATNEFT was 21,124 people. The TATNEFT Group employed a total of 54,000 people (for enterprises consolidated under IFRS).

Structure of staff of TATNEFT by age in 2015–2017, %

	2015	2016	2017
Younger than 30	25.2	24.3	23.5
31–50	51.5	52.7	54
50+	23.3	23	22.5

Distribution of TATNEFT staff by country in 2015–2017, %

	2015	2016	2017
Russian Federation	99.81	99.806	99.817
Turkmenistan	0.139	0.146	0.143
Libya	0.046	0.043	0.036
Ukraine	0.005	0.005	0.004

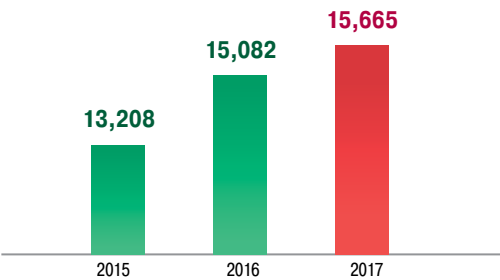
Balance of men and women in TATNEFT’s management

	2015	2016	2017
Men	82.1	82.1	81.6
Women	17.9	17.9	18.4

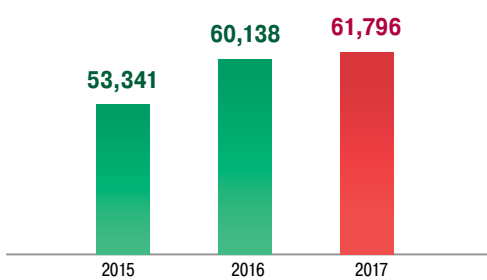
Staff turnover at TATNEFT by age and gender in 2015–2017

year	Fired, total (%)	gender		in 2015–2017, %					
		men, (%)	women, (%)	under 20 (%)	20–30 (%)	30–40 (%)	40–50 (%)	50–60 (%)	60+ (%)
2015	3.44	2.5	0.94	0.1	1.39	0.99	0.61	0.29	0.06
2016	3.13	2	1.13	0.25	1.2	0.88	0.5	0.24	0.06
2017	3.72	2.35	1.37	0.34	1.38	1.02	0.65	0.28	0.05

Payroll budget for employees of TATNEFT, RUB million



Average monthly salary of employees of TATNEFT, RUB



THE HR MANAGEMENT POLICY OF THE COMPANY IS BASED ON THE IMPORTANCE OF HUMAN RESOURCES, THE INVOLVEMENT OF PROFESSIONAL EMPLOYEES, AND THE CREATION OF FAVORABLE CONDITIONS FOR THEIR SUSTAINABLE MOTIVATION TO ACHIEVE MAXIMUM EFFECTIVENESS AND PROFESSIONAL AND PERSONAL GROWTH.

The Company has a comprehensive HR management system aimed at the maintenance of high professional level of workers and experts involved in all areas of TATNEFT Group operations.

The Company is a responsible employer. The implementation of its HR management policy is reflected in the standards that define the hiring procedures, possibilities for professional and career growth, a system of financial incentives and intangible benefits, and social support.

STAFF MOTIVATION

The Company considers salary to be an integral part of the comprehensive system of financial incentives and intangible bonuses for employees that enables the Company to maintain high competitiveness through involvement and retention of skilled and motivated employees. The main principles of the Company’s wage policy are the following: alignment with performance and goal achievement, fairness and transparency, competitive salaries.

Employees’ basic income consists of salary and a social package. Salary includes a tariff-based (fixed) part, according to the unified tariff table, and bonuses (variable). The fixed part of the salary is 60% of total amount, and the variable part is 40%.

The social package provides employees with a corresponding amount of social benefits and guarantees. Main indicators showin necessity of salary increase: consumer price index (level of inflation), minimum wages in the country, minimum consumer budget in the region, level of salaries in other companies of the industry, increased productivity in the Company.

TRAINING AND DEVELOPMENT PROGRAMS. FORMING AN EMPLOYEE RESERVE

The Company is developing a comprehensive system for continuous professional training in cooperation with relevant universities and educational establishments. The Company develops training centers, opens specialized departments at educational institutions, and organizes all types of internship for students.

The Company implements the principle of professional development and training of personnel in corporate format and improves the system of personnel training, including through work with educational organizations providing professional education, the TATNEFT training center, and a corporate university. Students and teachers of the Almet'yevsk State Petroleum Institute are invited to participate in the Company’s projects. New assessment methods for employee competencies are being introduced.

The company participates in creating professional standards and initiated opening of the Regional Center for Qualification Assessment.

In 2017, upon requests from functional area managers, the Company’s specialists upgraded their skills through more than 30 corporate programs.

Every year, managers and professionals of TATNEFT are sent for training under the Presidential Program.

To increase effectiveness of engaging staff in the achievement of strategic goals and the implementation of current plans, the Company operates a corporate social network site that allows to form project teams, ensures prompt information exchange, and organizes professional communities.

FINANCIAL RESULTS

 **TATNEFT**

www.tatneft.ru



ACCOUNTING STATEMENTS
PREPARED IN ACCORDANCE WITH
RUSSIAN ACCOUNTING STANDARDS

Independent Auditor’s Report

To the Shareholders and Board of Directors of Tatneft:

Opinion

In our opinion, the attached financial statements reflect fairly, in all material respects, the financial position of Tatneft (the «Company») as of December 31, 2017, as well as its financial results and cash flows for the year ending on that date, in accordance with the accounting rules established in the Russian Federation.

Subject of audit

- We have audited the Company’s financial statements, which include:
- Balance sheet as of December 31, 2017
 - Statement of financial results for the year ending on that date
 - Statement of changes in equity for the year ending on that date
 - Statement of cash flows for the year ending on that date
 - Explanations with respect to the balance sheet and the financial results report

Grounds for expressing the opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibility under these standards is described further in the section «Auditor’s Responsibility for the Audit of Financial Statements.»

We believe that the audit evidence we have obtained is sufficient and appropriate to provide the basis for the expression of our opinion.

Independence

We are independent of the Company, in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA) and the ethical requirements of the Code of Professional Ethics of Auditors and the Rules of Independence of Auditors and Audit Organizations applicable to our audit of accounting in the Russian Federation, and we have also fulfilled other ethical duties in accordance with these requirements and the Code of IESBA.

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Opinion

Our auditing methodology

Overview

Significance

- Materiality at the level of the Company’s accounting statements in general: RUB 7.5 billion, which represents 5% of adjusted profit before tax, excluding one-time effects of the devaluation of financial investments, the account receivable for loans issued, and changes in liabilities related to the liquidation of fixed assets and restoration of natural resources.

Key issues of the audit

- Estimation of liabilities related to the liquidation of fixed assets and restoration of natural resources.
- Investment depreciation provision in the Closed Mutual Investment Fund AK BARS – Gorizont.
- Loans issued impairment provision

Our audit methodology assumes a definition of materiality and an assessment of the risks of material accounting misstatement. In particular, we analyzed in which areas the management made subjective judgments, for example, with respect to significant accounting estimates, including the application of assumptions and consideration of future events, which, due to their nature, necessarily give rise to uncertainty. We also considered the risk of the management’s circumvention of internal controls, including, among other things, an assessment of whether there are signs of management bias that creates the risk of material misstatement due to fraud.

We defined the scope of the audit in such a way that we could perform the work in sufficient volume to express our opinion on the accounting statements as a whole, taking into account the Company’s structure, accounting processes, and controls, as well as the specifics of the industry in which the Company operates.

Materiality

The determination of the scope of our audit was influenced by our application of materiality. The audit was intended to obtain reasonable assurance that the financial statements do not contain material misstatements. Misstatements can arise as a result of fraud or mistakes. They are considered significant if it is reasonable to expect that they will affect, individually or collectively, the economic decisions of users made on the basis of these financial statements.

Based on our professional judgment, we have established certain quantitative thresholds for materiality, including for materiality at the level of the Company’s accounting as a whole, as indicated in the table below. With the help of these values and taking into account qualitative factors, we determined the scope of our audit, as well as the nature, timing, and scope of our audit procedures, and assessed the impact of distortions (individually and in aggregate), if any, on the financial statements as a whole.



Materiality at the level of accounting IN general

RUB 7.5 billion

How we defined it:

5% of adjusted profit before taxation

Justification for the level of materiality we applied:

We decided to use profit before tax as a base indicator to determine the level of materiality because we believe that this base indicator is most often considered by users to assess the Company’s activity and, furthermore, is a generally accepted benchmark. The use of adjusted profit before taxation provides a more stable basis to determine the materiality level, as it reduces the effect of volatility (which may be significant) caused by one-time factors, such as impairment losses of financial assets, receivables for loans issued, and changes in liabilities related to the liquidation of fixed assets and restoration of natural resources.

We established materiality at 5%, which falls within the range of acceptable quantitative thresholds of materiality applicable to profit-driven companies in this industrial sector and corresponds to the approach used in the previous year.

Key issues of the audit

The key issues of the audit were issues that, according to our professional judgment, were the most significant for our audit of financial statements for the current period. These issues were considered in the context of our audit of the financial statements in general and in the formation of our opinion on these financial statements, and we do not express a separate opinion on these issues.



Key audit issue

Audit procedures performed regarding the key audit issue

Estimation of liabilities related to the liquidation of fixed assets and restoration of natural resources

See Explanation 8 (table section).
Explanations II, IV.S, and IV.I3 (text) of the balance sheet and the financial results account.

The Company’s financial statements reflect the estimated liabilities related to the liquidation of fixed assets connected to exploration, development, and production activities after the end of their operation and restoration of natural resources («PforDLFA»).

The evaluation of PforDLFA is carried out by management annually and involves the use of various estimates and judgments by the management due to the complexity inherent in the assessment of future costs. The amount of the estimated liability is significant for the Company’s balance sheet; as of December 31, 2017, it amounted to RUB 38,081,000; as of December 31, 2016, it was RUB 30,406,000 (lines 430 and 1540 of the balance sheet, «Estimated liabilities»).

We paid considerable attention to the evaluation of PforDLFA in view of the materiality of this liability, and especially in connection with the PforDLFA increase during 2017 by RUB 7,675,000, which had an impact on the Company’s financial results for 2017. This increase was due to several competing factors, the most significant of which was the revision of the assumptions used in calculation; in particular, the discounted rate, the inflation rate, and the discounted period. Other changes were generally connected to the establishment of PforDLFA for newly introduced fixed assets.

We carried out the following procedures with respect to the calculation models for estimating PforDLFA:

- Verification of the arithmetic accuracy of calculations and the completeness of the data used, such as the list of objects to be decommissioned, the cost of the conservation and decommissioning of wells, the number of wells and other fixed assets, the cost of reclamation and the area of land, and the field decommissioning period (discounted period)
- Analysis of the validity of assumptions used in the calculation of PforDLFA, such as the inflation rate and the discounted rate.

Our procedures for verifying the validity of the costs of liquidating wells and other fixed assets and land reclamation that were used by the management for the PforDLFA estimation included discussion with the Company’s technical experts of the list and procedure for carrying out decommissioning and restoration work, as well as reconciliation with the standard estimates of the Company for the decommissioning of fixed assets.

The most significant effect on the change in the PforDLFA value during 2017 was the change in the discounted rate used to estimate the future cost of liquidating fixed assets. We compared the discounted rate applied by the Company’s management with the yield level of government stocks, the maturity of which is comparable to the expected deadline for the fulfillment of the provisions for decommissioning fixed assets and restoring natural resources.



Key audit issue

Expenses in the amount of RUB 2,603,000 from the computation of the discount due to the growth of the current value of PforDLFA and in the amount of RUB 3,474,000 as a result of the revised assumptions are reflected in the statement of financial results under lines 2330 «Interest payable» and 2350 «Other income,» respectively.

Audit proceduresperformed regarding the key audit issue

Also, changes in the inflation rate used to estimate the future cost of liquidating fixed assets had a significant effect on the change in value of PforDLFA in 2017. We compared the inflation rate applied by the Company's management with the forecasts of socioeconomic development prepared by the Ministry of Economic Development of the Russian Federation.
Based on the results, we came to the conclusion that the assessment of the provisions for decommissioning fixed assets and restoring natural resources as of December 31, 2017, made by the Company's management was appropriate.

Investment depreciation provision in Closed Mutual Investment Fund AK BARS – Gorizont.

SEE Explanations JV.3 3 (text) to the balance sheet and the financial results report.

As a part of long-term financial assets (line 1170 «Financial assets»)

The Company shows a 46% share in the Closed Mutual Investment Fund AK BARS – Gorizont (the «Fund») at an acquisition cost of RUB 19,784,000.

The Fund owns investments in land plots, primarily in the Republic of Tatarstan. The Company's management estimated the amount of economic benefits that the Company expects to receive from financial investments in the Fund's equity units, which are calculated on the basis of the value of its net assets, which in turn is determined on the basis of an assessment of the current market value of the land plots owned by the Fund for the reporting period. To assess the current market value of land as of December 31, 2017, the Company attracted

Our evaluation experts conducted the following procedures to analyze the appropriate approach of valuation models performed by an independent appraiser

- Comparison of assumptions used in valuation models with market indicators
- Sensitivity analysis on key assumptions (for example, the dependence of market value on the category of land plots, market prices and corrective coefficients)

Based on the results of the procedures we conducted on the independent appraiser's calculations, we came to the conclusion that, although a number of alternative assumptions can be applied to the assessment of the current market value of the Fund's land plots, the results obtained by the independent appraiser fall within a range of acceptable values. In this regard, we believe that the provision amount for investment depreciation in the Fund equity units reflected by the Company is appropriate.



Key audit issue

an independent appraiser. Based on the results of the valuation received in 2017, the Company recorded the investment depreciation provision in the Fund's equity units in the amount of RUB 6.647 million (line 2330 «Other expenses» of the financial results statement).
We paid special attention to this issue due to the fact that the amount of financial investments in the Fund is significant and the management applied significant judgments in assessing the amount of its investment depreciation provision in the Fund.

Audit proceduresperformed regarding the key audit issue

At the same time, we noted that the current market value of land owned by the Fund, to a large extent, depends on the transfer of the land's zoning category from agricultural use to industrial use. In case the process of land plots transfer to another category is not completed, the current market value of land plots may significantly decrease, which in turn may necessitate the Company to establish an additional investment depreciation provision in the Fund.

Loans issued impairment provision

(see Explanations IV.13 and IV.16.4 (text part) to the balance sheet and the financial results report.

As of December 31, 2017, as a part of other accounts receivable, payments are expected more than 12 months after the reporting date (line 1234 of the balance sheet) the Company reflects interest-free loans to other related parties of the Company in the amount of RUB 28.760 million.

In accordance with the Provision on Accounting and Reporting in the Russian Federation approved by Order of the Ministry of Finance of the Russian Federation No. 34n dated July 29, 1998, the Company sets up the provision on doubtful debts should receivables be deemed doubtful with allocation to the reserve amounts for financial results. Doubtful accounts receivable are the Company's receivables that are not repaid or are highly likely not be repaid within the terms established by the contract and are not secured by appropriate guarantees.

In order to identify doubtful accounts receivable, the Company analyzes the information on the

We have evaluated the methodology for calculating the provision for doubtful debts used by the Company for its compliance with accounting rules established in the Russian Federation.

We tested the contracts of interest-free loans issued by the Company, for which the provision for doubtful debts was set up on an individual basis. We performed the following procedures:

- Testing whether the debt was classified as doubtful
- in a timely manner
- Analyzing critical assumptions used by the Company's management when assessing the current market value of property and the rights to claim provided as collateral for the loan agreements
- Verifying the mathematical accuracy of models for expected discounted cash flows (when applicable), as well as an analysis of critical assumptions used by the Company's management in these models



Key audit issue

requests expert estimates on the market value of the collateral provided, constructs (if applicable) models of expected discounted cash flows, requests additional information on the basis of which the estimated probability of eligible debt delinquency within the contractual time period.

As a result of the valuation performed as of December 31, 2017, the Company set up the doubtful debts provision with respect to interest-free loans issued to other Related Entities in the amount of RUB 12.343 million recorded in line 3350 of «Other expenses» of the financial results statement.

We paid considerable attention to this issue due to the fact that, as of December 31, 2017, management made significant judgments in assessing the amount of the provision for interest-free loans, which is significant for the Company's accounting statements for 2017.

Audit procedures performed regarding the key audit issue

To analyze the current market value of property and claim rights that are pledged for loans granted, we have engaged our evaluation experts.

Based on the results of our procedures, we did not reveal any significant distortions in the amount of the provision for doubtful debts recognized by the Company and reflected in the accompanying financial statements.

Other Information

MANAGEMENT IS RESPONSIBLE FOR OTHER INFORMATION. OTHER INFORMATION INCLUDES THE COMPANY'S 2017 ANNUAL REPORT AND THE ISSUER'S QUARTERLY REPORT FOR Q1 2018 (BUT EXCLUDES FINANCIAL STATEMENTS AND OUR AUDIT REPORT ON THESE FINANCIAL STATEMENTS), WHICH ARE EXPECTED TO BE PROVIDED TO US AFTER THE DATE OF THIS AUDIT REPORT.

Our opinion regarding financial statements does not apply to other information, and we do not and will not provide a conclusion expressing confidence in any form regarding this information.



In connection with our audit of financial statements, our responsibility is to acquaint ourselves with the abovementioned other information when it is provided and to consider whether there are material inconsistencies between other information and financial statements or the knowledge we obtain during the audit and whether other information contains any possible material distortions.

Responsibility of management and persons responsible for corporate governance and financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting rules established in the Russian Federation and for the internal control system that management considers necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing financial statements, management is responsible for assessing the ability of the Company to maintain business continuity, for disclosure, when appropriate, of information relating to business continuity and for reporting on the basis of the assumption of business continuity, unless the management intends to liquidate the Company, to terminate its activities or when it lacks any other real alternative, except for the liquidation or termination of activities.

The persons responsible for corporate governance are responsible for the supervision of the preparation of the Company's financial statements.

Auditor's responsibility for auditing financial statements.

Our goal is to obtain reasonable confidence that financial statements do not contain material misstatements due to fraud or errors and in the issuance of an audit report containing our opinion. Reasonable confidence is a high degree of certainty, but it is not a guarantee that the audit conducted in accordance with ISA always reveals material misstatements when they are present. Misstatements may be the result of fraud or errors and are considered material if it can reasonably be assumed that individually or in combination they can affect the economic decisions of users taken on the basis of this accounting.

Within the scope the audit conducted in accordance with ISA, we apply professional judgment and maintain professional skepticism throughout the audit. In addition, we perform the following:

- Identify and assess the risks of material misstatement of financial statements due to fraud or errors; develop and conduct audit procedures in response to these risks; obtain audit evidence that is sufficient and appropriate to serve as a basis for expressing our opinion. The risk of not detecting a material misstatement as a result of dishonest actions is higher than the risk of not detecting a material misstatement as a result of an error, since dishonest actions may include collusion, fraud, intentional omission, misrepresentation or circumvention of the internal control system.



- Obtain an understanding of the internal control system that is relevant to the audit to develop audit procedures appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control system.
- Assess the appropriate nature of the accounting policies applied and the reasonableness of accounting estimates and the corresponding disclosure of information prepared by management.
- Conclude that management has accepted the assumption of business continuity and, on the basis of the audit evidence obtained, the conclusion is whether there is significant uncertainty in connection with events or conditions that may raise significant doubts about the Company's ability to continue its business. If we come to the conclusion that there is significant uncertainty, we must draw attention to the appropriate disclosure in the financial statements in our audit report, or, if such disclosure is improper, modify our report. Our conclusions are based on the audit evidence received before the date of our audit report. However, future events or conditions may lead to the Company losing the ability to maintain business continuity.
- Assess the presentation of financial statements in general, their structure and content, including disclosure of information, and also whether the accounting statements present underlying operations and events in such a way as to ensure their reliable representation.

We share information with persons responsible for corporate governance, bringing to their attention, among other things, the information about the planned scope and timing of the audit, as well as significant comments on the audit results, including significant deficiencies in the internal control system that we identify in the audit process.

We also provide parties responsible for corporate governance with a statement that we have complied with all relevant ethical requirements for independence and have informed these individuals of all relationships and other matters that can reasonably be considered influencing the independence of the auditor and, where necessary, a statement on appropriate precautions.



Among the issues that we bring to the attention of parties responsible for corporate governance, we identify the issues that were the most significant for the audit of financial statements for the current period and, therefore, were key audit issues. We describe these issues in our audit report, except in cases where public disclosure of information about these issues is prohibited by law or regulation, or when, in very rare cases, we come to the conclusion that information about an issue should not be reported in our report, as it can reasonably be assumed that the negative consequences of the communication of such information will exceed the socially significant benefit from its communication.

Head of the assignment, which resulted in the issuance of this auditor's report of an independent auditor, Maksim Timchenko

АО «Татнефть Айсун»

27 марта 2018 года
Москва, Российская Федерация

March 27, 2018
Moscow, Russian Federation



Seal JSC PricewaterhouseCoopers Audit,
OGRN 1027700148431

М.Е. Тимченко, руководитель задания (квалификационный аттестат № 01-000267),
Акционерное общество «ПрайсвотерхаусКуперс Аудит»

Maksim Timchenko, Head of the Assignment (Qualification certificate No. 01-000267),
JSC PricewaterhouseCoopers Audit

Auditee:
Tatneft
The certificate of state registration No. 632 was issued by the Ministry of Finance of the Republic of Tatarstan on January 21, 1994
The certificate of entry in the Unified State Register of Legal Entities was issued on July 18, 2002 Under No. 1021601623702
75 Lenina St., Almetyevsk, Republic of Tatarstan 423450, Russia

Independent Auditor:
JSC PricewaterhouseCoopers Audit
The certificate of state registration No. 008.890 was issued by the Moscow Registration Chamber on February 28, 1992
The certificate of entry in the Unified State Register of Legal Entities was issued on August 22, 2002 Under No. 1027700148431
Member of the self-regulated organization of auditors Russian Union of Auditors (Association)
ORNZ in the register of auditors and audit organizations 11603050547



TATNEFT FINANCIAL STATEMENTS FOR 2017

Balance Sheet

RUB thousand

ASSETS	Code Line	As of Decem-ber 31	As of Decem-ber 31	As of Decem-ber 31
I. NONCURRENT ASSETS				
Intangible assets	1110	882,443	465,285	363,181
Research and development results	1120	792,2	632,054	425,495
Intangible exploration assets	1130	4,320,885	4,288,829	4,298,721
Tangible exploration assets	1140	2,561,503	2,376,749	1,181,376
Fixed assets	1150	233,442,786	207,448,974	183,742,381
including capital work in progress	1151	100,782,153	87,916,754	79,710,681
advance payments given for procurement and construction of fixed assets	1152	4,760,324	4,575,908	8,005,128
Income-bearing investments in tangible assets	1160	4,199,156	4,776,524	2,302,366
Financial investments	1170	92,578,452	253,078,329	234,265,798
Deferred tax assets	1180	—	—	—
Other noncurrent assets	1190	51,612,371	47,200,643	37,433,580
including assets from liquidated obligations	1191	29,818,978	28,996,993	29,293,324
TOTAL for section I	1100	390,389,796	520,267,387	464,012,898
II. CURRENT ASSETS				
Inventories	1210	48,115,981	37,573,010	26,964,284
including raw materials and supplies	1211	7,054,484	5,135,287	2,823,894
production in progress costs	1212	971,862	421,525	412,249
finished products and goods for resale	1213	27,658,487	25,108,850	20,571,911
goods shipped	1214	7,669,809	2,398,102	2,615,128
other supplies and expenses	1215	4,761,339	4,509,246	541,102
Value added tax on acquired assets	1220	3,919,516	3,386,647	3,708,117
Accounts receivable	1230	267,690,805	88,128,999	106,472,523
including nondelinquent accounts receivable (due beyond 12 months after the reporting date)	1231	163,426,232	4,686,487	7,261,283
including buyers and customers	1232	718,656	436,418	128,897
advances paid	1233	205,258	822,812	1,891,842
other debtors	1234	162,502,318	3,427,257	5,240,544
including nondelinquent accounts receivable (due in the 12 months after the reporting date)	1235	104,264,573	83,442,512	99,211,240
including buyers and customers	1236	61,981,366	64,239,889	56,610,370
advances paid	1237	5,373,018	6,843,389	27,710,973
other debtors	1238	36,910,189	12,359,234	14,889,897
Financial assets (except for cash equivalents)	1240	28,418,509	55,736,376	28,266,335
Cash and cash equivalents	1250	10,866,389	21,949,639	8,393,083
Other current assets	1260	1,735,899	1,259,705	1,000,486
TOTAL for section II	1200	360,747,099	208,034,376	174,804,828
BALANCE (assets)	1600	751,136,895	728,301,763	638,817,726

Balance Sheet (continued)

RUB thousand

III. CAPITAL AND PROVISIONS

Authorized capital (share capital, registered fund, partner contributions)	1310	2,326,199	2,326,199	2,326,199
Repurchased shares	1320	(-)	(-)	(-)
Revaluation of noncurrent assets	1340	11,673,571	11,294,898	10,546,619
Capital surplus (without revaluation)	1350	318,908	320,092	441,293
Reserve capital	1360	116,31	1,328,926	1,364,610
Undistributed profit (uncovered loss)	1370	591,617,946	609,147,154	530,650,255
TOTAL for section III	1300	606,052,934	624,417,269	545,328,976

IV. LONG-TERM LIABILITIES

Loan funds	1410	370	370	1,568,072
Deferred tax liabilities	1420	10,435,625	10,272,462	8,602,514
Estimated liabilities	1430	38,026,536	30,330,233	33,486,117
Other liabilities	1450	—	392	—
TOTAL for section IV	1400	48,832,161	40,973,087	43,656,703

V. SHORT-TERM LIABILITIES

Loan funds	1510	32,212,379	4,207,953	2,396,685
Accounts payable	1520	61,779,884	56,573,009	45,497,449
including suppliers and contractors	1521	17,057,659	21,155,447	26,585,497
liabilities to state non-budgetary fund	1522	172,2	545,876	462,037
taxes and fees payable	1523	25,945,577	19,498,095	10,059,307
advances received	1524	6,957,711	8,403,106	2,939,963
profit due to shareholders (owners)	1525	6,031,506	149,472	133,304
other creditors	1526	5,615,231	6,821,013	5,317,341
Deferred revenues	1530	136,631	55,757	3,568
Estimated liabilities	1540	2,122,906	2,074,688	1,934,345
Other liabilities	1550	—	—	—
TOTAL for section V	1500	96,251,800	62,911,407	49,832,047
BALANCE (liabilities)	1700	751,136,895	728,301,763	638,817,726

PROFIT AND LOSS STATEMENT FOR 2017

Revenues	2110	581,536,880	486,176,316
Cost of revenue	2120	(377,291,746)	(312,524,760)
Gross profit (loss)	2100	204,245,134	173,651,556
Selling expenses	2210	(42,780,136)	(36,919,888)
Administrative expenses	2220	–	–
Mineral exploration and evaluation expenses	2230	-111,085	-127,769
Profit (loss) on sales	2200	161,353,913	136,603,899
Income from shareholdings	2310	5,406,388	1,593,297
Interest receivable	2320	7,611,763	4,857,244
Interest payable	2330	(2,667,738)	(3,451,408)
Other income	2340	17,001,048	64,995,252
Other expenses	2350	(56,902,170)	(71,033,928)
Earnings before tax	2300	131,803,204	133,564,356
Current income tax	2410	(31,728,773)	(27,313,688)
including permanent tax liabilities (assets)	2421	(5,531,295)	(2,270,765)
Changes in deferred tax liabilities	2430	-163,163	(1,669,948)
Changes in deferred tax assets	2450		
Miscellanea	2460	28,466	49,045
Adjusted income tax for the consolidated group of taxpayers	2465	82,482	194,284
Net profit (loss)	2400	100,022,216	104,824,049
Surplus on revaluation of noncurrent assets not included in the net income (loss) for the period	2510	474,114	1,095,374
Result from other operations not included in the net income (loss) for the period	2520	-1,184	-121,201
Total profit (loss) for the period	2500	100,495,146	105,798,222
Basic earnings per share	2900	43.73	46.57
Diluted earnings per share	2910	–	–

ESSENTIAL ASPECTS
OF THE ACCOUNTING POLICY AND PRESENTATION
OF INFORMATION IN THE FINANCIAL STATEMENTS

MAIN APPROACHES TO PREPARATION
OF THE ANNUAL FINANCIAL STATEMENTS

Financial accounting in the Company is performed in accordance with Russian Federal Law No.402-FZ of December 6, 2011 “On Accounting,” “Provision on Accounting and Reporting in the Russian Federation” approved by Order of the Ministry of Finance of the Russian Federation No. 34n dated July 29, 1998, current Russian Accounting Standards (RAS), as well as the accounting policy of the Company. The financial statements of the Company for 2017 were prepared in compliance with the aforementioned law, accounting regulations and policy. The annual financial statements for 2017 were compiled according to the forms developed and approved by the Company in accordance with the Order of the Ministry of Finance No. 66n dated July 2, 2010, “About the formats for Corporate Accounting Statements.” The data of the financial statements are presented in thousands of Russian rubles.

ASSETS AND LIABILITIES DENOMINATED
IN FOREIGN CURRENCY

Accounting of assets and liabilities denominated in foreign currencies is carried out in accordance with RAS 3/2006 “Accounting of Assets and Liabilities Denominated in Foreign Currencies” approved by Order of the Finance Ministry of the Russian Federation No. 154n dated November 27, 2006.

The exchange rate difference is reflected in the accounting and financial statements for the concerned reporting period with the due date of payment or which the financial statements were executed for.

The exchange rate difference arising from the conversion of the organization’s assets and liabilities denominated in foreign currency used for performing activities outside the Russian Federation into rubles is credited to the company’s capital surplus.

The exchange rate difference on other activities is credited to the financial results of the organization as other income and expenses. The income and expenditure based on currency exchange rate are recognized in the Profit and Loss account in lines “Other income” or “Other expenses.”

When accounting for business transactions in foreign currencies, the official exchange rate of the foreign currency to the ruble valid on the date of transaction was applied. Cash in foreign currency accounts in banks and on hand, financial assets (except shares), and settlement funds in foreign currencies (except the funds received, advances paid, and pre-payment or earnest money) are reflected in the financial statements as amounts calculated on the basis of the currency official exchange rates valid on the reporting date. The currency exchange rates amounted to RUB 57.6002 to USD 1.00 as of December 31, 2017 (RUB 60.6569 as of December 31, 2016; RUB 72.8827 as of December 31, 2015); RUB 68.8668 to EURO 1.00 (RUB 63.8111 as of December 31, 2016; RUB 79.6972 as of December 31, 2015).

INTANGIBLE ASSETS

Included in intangible assets were computer software programs; databases; inventions; useful models; trademarks and service marks; licenses for mineral geological exploration and production; licenses for mineral production, exploration and evaluation expenditures of mineral resources (transferred from the intangible exploration assets after confirmation of the commercial viability of oil production in the field).

Intangible assets are reflected in accounting records at historical value in that reporting period when the documents are received confirming the Company's exclusive rights to the results of intellectual activity or means of individualization irrespective of intangible assets used in production, performance of works or rendering of services, for administrative purposes.

The cost of intangible assets shall be repaid by the straight-line depreciation method at the rates specified on the basis of the due date of the useful life.

Depreciation is not charged for intangible assets with an indefinite period of useful life.

Depreciation is performed through the accumulation of appropriate amounts in a separate account. Depreciation on intangible assets is reflected in the accounting period which they refer to, and it is charged regardless of the company's operating results in the reporting period.

The useful life of intangible assets is annually verified for the purpose of clarification. In case of substantial change of the period duration (by more than twenty percent) within which the asset is intended to be used, its useful life is defined. The resulting adjustments are reflected in the accounting and financial statements at the beginning of the year as changes in the estimated values.

Intangible assets of homogeneous groups at fair market value are not revaluated.

EXPENSES FOR RESEARCH & DEVELOPMENT, DEVELOPMENT AND ENGINEERING WORKS

Expenses for research & development, development and engineering works are accounted for in the amount of actual expenses incurred during performance of these works.

The expenses for research & development, development, and engineering works that have produced positive results and started to be implemented are written off as expenses of ordinary activities starting with the month following the month when the company started the actual application of the mentioned work results in manufacturing (work performance, service rendering) or for administrative needs of the company.

The costs of each performed research & development, development, and engineering work for which a positive result is obtained are written off by straight-line method in even amounts throughout the useful life of the results of R&D (which should not exceed 5 years).

The expenses for research & development, development, and engineering works that have not produced positive results are written off as miscellaneous expenses in the reporting period.

EXPLORATION ASSETS

The Company includes the following exploration assets as part of tangible exploration assets:

- Expenses for acquisition and construction of prospecting, exploration and advance producing wells, and other oil field facilities
- Expenses for acquisition of and rigging equipment for prospecting, exploration, and advance producing operation wells

The Company includes the following types of exploration costs as a part of intangible exploration assets:

- Acquisition costs of licenses for geological study of subsurface, licenses for geological exploration and production of mineral resources
- Costs of prospecting, evaluation, and exploration of mineral resources: expenses for geological, geochemical, geophysical works, as well as expenses for acquiring geological information on the subsurface from third parties, including state authorities, and expenses for drilling key, appraisal and structural wells.

The Company considers the following exploration costs as expenses for regular types of activity: expenses for maintenance of the structural divisions organized solely for performance and coordination of works on exploration, evaluation and prospecting of mineral resources, as well as expenses for maintenance and repair of tangible exploration assets.

Tangible exploration assets are depreciated by straight-line depreciation method during the period of their useful life.

Depreciation costs for objects of tangible exploratory assets are included in the costs of prospecting, evaluation, and exploration of mineral resources for relevant licensed subsoil areas.

Intangible exploration assets in the form of licenses for geological subsoil study are depreciated by straight-line method during the period of their useful application. Depreciation costs for aforementioned objects are included in the costs of prospecting, evaluation and exploration of mineral resources for relevant subsoil areas.

Acquisition costs incurred for exploration and mining licenses, as well as the costs of prospecting, evaluation and exploration of mineral resources are not depreciated until the commercial feasibility of crude oil production is confirmed in the relevant licensed subsoil areas of mineral resources and the order on commercial field development is approved.

The commercial feasibility of crude oil production is considered to be confirmed at the moment of approval of the initial field development plan in the licensed subsoil area of mineral resources.

The Company performs annual verification of exploration assets depreciation as of December 31 of the calendar year, as well as in the case of cessation of their recognition when confirming commercial feasibility of oil production in the relevant licensed subsoil area.

For the purposes of verifying exploration assets for depreciation, the aforementioned assets are categorized by sub-soil areas of mineral resource indicated in the licenses.

Impairment loss of exploration assets is reflected in the profit and loss statement in the line code “Other expenses.” Furthermore, the Company applies the reversal of impairment loss to exploration assets.

The Company ceases recognition of exploration assets in relation to a certain licensed subsoil area of mineral resources when confirming commercial feasibility of oil production in the relevant licensed subsoil area or recognizing lack of prospects of mineral resources production in this area.

When confirming the commercial feasibility of oil production in the licensed subsoil area of mineral resources, the Company performs reclassification of exploration assets:

- Tangible exploration assets are included in the category of fixed assets at depreciated book value
- Intangible exploration assets are included in the category of intangible assets at depreciated book value

FIXED ASSETS

Land plots, buildings, facilities, machinery, equipment, transport vehicles and other relevant assets of over 12 months service life and cost over RUB 40,000 are reflected in the fixed assets.

The Company annually revalues fixed assets (industrial-purpose buildings; facilities, such as pipelines, machinery and equipment (except for data equipment)) based on the current value (replacement asset) value at the end of the reporting period.

The fixed assets put into operation before January 1, 2002, are depreciated at uniform depreciation rates approved by Decree No. 1072 of the USSR Council of Ministers dated October 22, 1990, "On Uniform Depreciation Rates of Full Cost Recovery of Fixed Assets of the USSR National Economy"; and those assets put into operation from January 1, 2002, are depreciated at the rates calculated on the basis of useful life determined according to the classification of fixed assets included in the depreciation groups, approved by the Provision No. 1 of the Government of Russian Federation dated January 1, 2002.

Depreciation is calculated by the straight-line method.

Buildings	25–50	8–31
Facilities, including:	10–25	2.5–31
Wells	10–15	6–14
Machinery and equipment	5–15	1–20

Depreciation is not charged on land plots and land use facilities.

Changing the historical value of fixed assets as they were included to the accounting statements is allowed in cases of further construction, further equipping, renovation, modernization, partial retirement and revaluation of the fixed assets objects.

Repair expenses of fixed assets objects are included at actual costs and referred to the reporting period in which they were done.

The line of “Capital expenditures in progress” includes the costs of construction and installation works, acquisition of buildings, facilities, equipment and other tangible objects of long-term use, materials for the construction of fixed assets, and other capital works and expenses. This line reflects the cost of capital construction projects before they are placed into operation, after which these objects are transferred into fixed assets or income-yielding investments into tangible assets.

In addition to this, the “Capital expenditures in progress” line reflects the costs associated with the lease of land for construction of future wells.

Leased fixed assets are reflected in the line “Income-bearing Investments in Tangible Assets.”

OTHER NONCURRENT ASSETS

Objects under construction are included in other noncurrent assets, which the management decided to sell.

FINANCIAL INVESTMENTS

Financial investments are accepted for accounting at original cost.

Financial assets defining the current market value are reflected in the financial statements as of the end of the reporting year at current market value by adjusting their evaluation on the previous reporting date.

Financial investments for which the current market value is not defined are reflected in financial statements as of the reporting date at original cost after deduction of the provision amount formed for their impairment. The investment depreciation provision is created based on the amount of the difference between the investment's book value and their estimated value if the results of the impairment test confirm a sustained significant decrease in the value of financial investments.

Financial investments are reflected as part of current assets if the expected duration of their possession is less than 12 months after the reporting date. Other financial investments are included in noncurrent assets.

The accounting unit of financial investments may be a contribution to the charter capital, loan agreement, bank deposit agreement, securities issue package, etc., depending on the nature of the financial investments, the procedure for their acquisition and use.

Upon disposal of financial investments for which the current market value cannot be determined, their value is formed on the basis of the assessment determined by:

- The historical value of the first-time purchased financial assets (FIFO method) upon disposal of shares or bonds
- At historical value of each unit of financial investments accounting upon disposal of promissory notes

Upon disposal of financial investments for which the current market value is not determined, their value is determined by the organization on the basis of the last assessment.

Income and expenditure stemming from the disposal of financial investments are reflected in the profit and loss statement as part of other income and expenses.

MATERIALS AND SUPPLIES INVENTORIES

The "Raw Materials and Supplies" line of the balance sheet reflects raw materials, basic and auxiliary materials, purchased semifinished products and components, fuel, packaging, spare parts, construction, and other materials.

The line of the materials and supplies inventories also reflects assets that meet the conditions necessary for the recognizing them as fixed assets valued at no more than RUB 40,000 per unit.

The materials and supplies inventories are recognized at the sum of the actual costs of their acquisition with the exception of VAT and other recoverable taxes (except as provided by the legislation of the Russian Federation). Disposal of the inventories is carried at the average cost.

The materials and supplies inventories that have run their course, wholly or partially have lost their original quality, or whose current market value is decreased, are reflected in the balance sheet less the provision for impairment of the material values.

Raw materials and materials transferred to processing on an as-needed basis continue to be accounted for in raw materials and materials of the Company separately. Monthly raw materials and materials that have passed through all processing stages are recognized as part of finished products.

FINISHED PRODUCTS, GOODS, AND SALES EXPENSES

Finished products are reflected in the balance sheet at the full actual production cost (including management expenses).

When shipping oil, petroleum products, and gas products, the valuation is carried out based on the average cost method for each group of products.

Sales expenses are written off under the Company's financial and operational activities without differentiating between sold and unsold products.

GOODS SHIPPED

The balance sheet item “Goods Shipped” reflects shipped products for which the title was not transferred to buyers.

This line also reflects real estate transferred to the buyer by a delivery certificate before state registration of the title transfer.

OTHER SUPPLIES AND EXPENSES

The line “Other supplies and expenses” includes expenses associated with the extraction of super viscous oil produced before the start of production. These expenses are written off evenly over the period of oil production at the relevant development site, but not for more than 2 years, starting from the first day of the month following the month production starts.

ACCOUNTS RECEIVABLE

Trade receivable (reflected as part of accounts receivable) is determined based on the prices established by contracts concluded between the Company and buyers (customers) taking into account all discounts (surcharges). Receivables unable to be collected are written off from the balance if they are proven to be so.

Accounts receivable that are not paid when due or which will most likely not be paid within the time frame stipulated in contracts and not secured with respective guarantees are shown after deduction of accrued provisions for doubtful debts. The provision is set up for each doubtful debt (depending on the financial condition (solvency) of the debtor and an estimated probability of debt repayment in whole or in part) on the basis of the receivables inventory, made for the last day of the reporting quarter.

Income and expenses incurred in the formation and recovery of the doubtful debts provision within one financial year are reflected in the financial results statement in the lines "Other Income" or "Other Expenses."

Advance payments issued and received are presented in the balance sheet less the value added tax (from the amount of advance payments) that is subject to deduction (payment) in accordance with tax legislation.

CASH AND CASH EQUIVALENTS

In accordance with RAS 23/2011 "Statement of Cash Flows" approved by Order No. 11n of the Ministry of Finance of Russia dated February 2, 2011, the cash equivalents include highly liquid investments that can easily be converted into the known in advance amount of cash and are subject to an insignificant risk of value change.

The Company refers the bank deposits placed for maximum period of 3 months to the cash equivalents. In the Statement of Cash Flows:

- Cash balances and cash equivalent balances in foreign currency at the beginning and at the end of the reporting period are expressed in rubles for the amount determined in accordance with RAS 3/2006 “Accounting for Assets and Liabilities Whose Value is Expressed in Foreign Currency” approved by Order No. 154n of the Ministry of Finance of Russia dated November 27, 2006. Differences arising due to the conversion of the organization’s cash flows and cash equivalents in foreign currency exchange rates on different dates are reflected in the statement of cash flows as the effects of changes in foreign exchange rates against the ruble.
- indirect taxes (VAT and excise duties) as part of the proceeds from buyers and customers, payments to suppliers and contractors and payments to the budget system of the Russian Federation or reimbursement out of it are reflected as balanced result being part of other income (payments) for the current activity in the line of “Other Income” (“Other Payments”).
- Proceeds from the sale of products and goods contain customs duties.
- interest-free loans granted to the subsidiaries and affiliated entities are mainly related to the capital investment financing, and therefore, based on the principle of rationality, the flow of all loans issued to the subsidiaries and affiliated entities is reflected in the cash flows from investment transactions.

Cash flows are reflected in the statement of cash flows on a net basis in the following cases:

- Cash receipts from certain entities stipulate relevant payments to other entities (cash flows of the commission buyer or agent in connection with the performance of commission or agency services (except for payment for services themselves); income from the counterparty against the reimbursement of utility payments and performance realization of these payments in leasing and other similar relationships, etc.)
- Cash flows are characterized by quick return, large amounts and short payback periods (purchase and resale of financial investments, short-term investments (up to three months) using the proceeds from borrowed funds, etc.)
- Cash flows on short-term deposits (more than three months but less than one year) that relate to financial investments Cash flows on deposits are disclosed in Table 3 “Financial Assets” in the Explanation to the balance sheet and financial results statement.
- Cash flows on loans received by the Company from subsidiaries that participate in the Treasury system. These loans are characterized by rapid turnover, large amounts, and short terms of return.

AUTHORIZED CAPITAL, SURPLUS CAPITAL AND RESERVE CAPITAL

Authorized capital is reflected in the amount of the nominal value of ordinary and preferred shares.

The surplus capital of the Company includes exchange differences arising from the conversion of the organization's assets and liabilities value expressed in foreign currency used to perform activities outside the Russian Federation into rubles. In addition, the amount of the revaluation less the subsequent markdown of the fixed assets as a result of the revaluation attributed to the additional capital is reflected in the line "Revaluation of noncurrent assets". Revaluation surplus in case of the fixed asset item disposal is transferred from the capital surplus to the retained net surplus of the Company.

In accordance with the legislation, the Company established a reserve fund in the amount of 5% of the authorized capital formed out of the Company's net profits. The reserve fund is intended to cover the losses of the Company, for bonds redemption, and repurchase of the Company's shares in case other funds are unavailable.

In accordance with the Constituent Documents, the Company establishes the Employee Share Ownership Fund which is formed out of the Company's net profits. Contributions to this Fund are made in accordance with the method approved by the "Tatneft Regulations on Bonus Certificates." The fund was not established in 2017.

ESTIMATED LIABILITIES

The Company acknowledges its estimated liability for remuneration payment based on the results of the year. The amount of monthly payments under the estimated liability is determined based on the monthly interest deductions and the actual salaries expense. The interest deductions under the estimated liability are calculated by the ratio of the annual planned expenditure for remuneration payment based on the results of work for the year to the planned amount of salaries expenses.

The Company also acknowledges in its accounting the estimated liability from unused vacations by employees.

The estimated liability value of unused vacations is determined based on the total number of days of the unused vacation for each employee, of the average daily earnings, and insurance premiums accrued on the specified amount.

The actual amount of the vacation allowance (including the compensation amount for unused vacation) accrued to the employee in the accounting is prescribed to the unused vacation payment due to the acknowledged amount of the estimated liability.

An inventory of the estimated liability for unused vacation payment is carried out as of the last day of each quarter. The results of this are reflected by the estimated liability adjustments.

In accordance with the requirements of the regulations (Federal Law No. 2395-1 "On Subsoil," No. 7-FZ "On Environmental Protection", etc.), the terms of license agreements for the right to use the subsoil the Company recognizes in the accounting records and financial statements the estimated provisions for decommissioning liabilities of fixed assets, as well as commitments for remediation of lands in the fields after completion of the oil and gas production.

Estimated liabilities are formed for all real estate oil & gas assets. Estimated provisions for decommissioning liabilities of the fixed assets and restoration of natural resources are calculated by groups of the fields. The value of estimated liability is recorded at the present value (discounted) cost.

Accrued estimated liabilities at initial recognition, as well as the newly introduced fixed assets are included in the “Other noncurrent assets.”

Depreciation of assets on decommissioning liabilities is accrued on a monthly basis in proportion to the oil production volume. The amount of monthly depreciation is determined for each group of the fields and Oil & Gas Production Division based on the amount of oil produced during the current month and the amount of assets on the decommissioning liabilities attributable to 1 ton of oil reserves on deposits of the group at the end of the previous reporting period.

The accrual of discount due to the increased present value as we approach the period of performance estimated liability is recorded in the financial results statement in the “Interest payable” line.

Adjustment of estimated liabilities on the fixed assets retirement and restoration of natural resources due to the review of core indicators of calculation (forecast inflation rate (based on the data of the Ministry of Economic Development of the Russian Federation), discounted rate, discounted period) is recorded in the financial results statement in the line of “Other income.”

LOANS AND BORROWINGS

In accordance with RAS 15/2008 “Accounting of expenses on loans and borrowings” approved by Order No. 107n of the Ministry of Finance of Russia dated October 6, 2008, the principal amount of the loan (credit) received from the lender is accounted in accordance with the terms of the loan agreement (credit agreement) in the amount of actually received monetary assets or in cost estimate of other items stipulated by the contract.

Loan and borrowing indebtedness as well as accrued interest is reflected in the balance sheet line of “Loan funds.”

Loan and borrowing indebtedness as well as accrued interest for accounting is subdivided into short-term indebtedness (the repayment period of which does not exceed 12 months under the terms of contract) and long-term indebtedness (the repayment period of which is over 12 months under the terms of contract).

The long-term indebtedness is transferred to short-term indebtedness at the moment when there are 365 days left before repayment of the principal amount.

Interest on received loans and borrowings is recognized as other expenses of that period in which they were made, except for the part to be included in the value of the investment asset.

Expenses on received loans and borrowing are directly attributable to acquisition and/or construction of the investment asset are included in the cost of this asset and are repaid through depreciation.

Inclusion of expenses on received loans and borrowings in the original value of the investment asset is terminated on the first day of the month following the month of accepting the asset for accounting as an object of fixed asset, intangible asset, or R&D expenses.

REVENUE RECOGNITION

Revenue from sales of goods, products (completing work, rendering services) is recognized during the product title transfer to the customers (completing work, rendering service). Revenues are reflected in the accounting statements less value added tax, excise duties, and customs duties.

Other income includes income which is not included in revenue: revenue from the sale of fixed assets, assets under construction and other assets, foreign currency, income from changes in estimates of liquidated fixed assets and restoration of natural resources, exchange differences, and other similar income.

EXPENSES

Administrative expenses include the Executive office expenses. The expenses indicated are allocated on a monthly basis between the oil-and-gas production divisions in proportion to the planned volume of oil production (in physical terms).

Administrative expenses in the oil-and-gas production divisions are distributed between the calculation items for production of oil, associated petroleum gas, production of other products (works, services) on a pro rata basis to their total production expenses less the deductions, taxes, and other obligatory payments.

Other expenses include expenses which are not related to the manufacture and sales of products, completion of work, rendering of services, purchase and sale of goods.

ACCOUNTING FOR TAXES ON PROFIT

The Company has been a responsible member of the consolidated group of taxpayers (hereinafter referred to as CGT) from January 1, 2012. In 2015, the CGT included four members. Since 2016, the list of participants has been expanded to five members.

The Company independently forms the accounting information on income tax in accordance with RAS 18/02. In this regard, the temporary and permanent differences are determined by the Company based on its revenues and expenses included in the tax base in accordance with the norms of the Tax Code of the Russian Federation. The amount of the current income tax is determined on the basis of the Company’s accounting information and reflected in the Profit and Loss Statement in line 2410 “Current income tax.” The difference between the amount of the current income tax calculated by the Company for inclusion in the consolidated tax base of the CGT and the amount of funds due and payable by the Company based on the terms of the contract on CGT establishment in the Profit and Loss Statement, is reflected in line 2465 “Adjusted tax on profit for the consolidated group of taxpayers” and included in determination of net income (loss) of the Company without participating in generating profit (loss) before taxation.

The outstanding amount of CGT income tax on CGT as a whole, to be paid by the Company as a responsible CTG participant to the budget, is reflected in the Company’s balance sheet in line 1523 of “Taxes and fees payable.”

The overpaid amounts of CGT income tax to the budget is reflected in the balance sheet in line 1238 of “Other debtors.”

The outstanding amount upon settlements with the CGT members on CGT income tax (interim payment) is reflected in the balance sheet separately in the items of the current assets in line 1238 of “Other debtors” and short-term liabilities in line 1526 of “Other creditors” of the balance sheet, respectively.

The Company as a responsible CGT member reflects the income tax assessment and payments to the participants in the framework of the contract on CGT establishment with account 78 of “Settlements with CGT members.”

When preparing financial statements, the balanced (net) amounts of deferred tax asset and deferred tax liability are reflected in the balance sheet.

CORRECTION OF ERRORS IN ACCOUNTING AND REPORTING

An error identified in accounting and financial statements is recognized to be significant if the ratio of the error to the numerical indicator of the relevant group of balance sheet items of the Company, or item of the Profit and Loss Statement of the Company for the reporting period is a minimum of five percent. Otherwise, the error is insignificant.

CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE
WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

Independent Auditor’s Report

To the Shareholders and Board of Directors of PJSC Tatneft:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PJSC Tatneft and its subsidiaries (together – the “Group”) as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group’s consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor’s Professional Ethics Code and Auditor’s Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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Our audit approach

Overview



- Overall group materiality: Russian Roubles (“RUB”) 7,500 million, which represents 4.2% of profit before tax adjusted for non-recurring effects from provisions for impairment of financial assets.
- We conducted our audit work at 4 significant reporting units.
- The group engagement team visited Group’s operations in Almetievsk, Nizhnekamsk and Moscow.
- Our audit scope addressed 98% of the Group’s total assets, 94% of the Group’s revenues and 94% of the Group’s absolute value of underlying profit before tax.

Key audit matters

- Provision for impairment of investment in Closed Mutual Investment Rental Fund AK BARS – Gorizont.
- Provision for impairment of loans issued.

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.



Overall group materiality	RUB 7,500 million
How we determined it	4.2% of profit before tax adjusted for non-recurring effects from provisions for impairment of financial assets. We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. The use of adjusted profit before tax mitigates the effect of volatility (that could be material) caused by non-recurring factors such as provisions for impairment of investments in Investment Rental Fund AK BARS – Gorizont and loans issued, and provides a more stable basis for determining materiality. We chose 4.2% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this industry sector and prior year approach.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
<i>Provision for impairment of investment in Closed Mutual Investment Rental Fund AK BARS – Gorizont</i> <i>Refer to Note 9 to the consolidated financial statements</i> The Group records its 46% interest in the Closed Mutual Investment Rental Fund AK BARS – Gorizont (hereafter – “the Fund”) within financial assets available for sale. The Fund holds investments in land located primarily in the Republic of Tatarstan. As of the reporting date, the Group has assessed the future economic benefits, which it expects to receive from investments in the Fund, calculated based on the current market value of land plots held by the Fund. The Group engaged an independent appraiser to determine the current market value of land plots as of 31 December 2017.	We utilized our valuation experts and performed the following procedures to assess the appropriateness of valuation methods used by the independent appraiser: • comparing assumptions used within the valuation models to market indicators; • performing sensitivity analysis over key assumptions (for instance dependence of market value on land category, market prices, adjusting coefficients). We have concluded that while certain alternative assumptions could be applied to current market value measurements of land, the resulting values produced by the independent appraiser fall within an acceptable range.



Key audit matter	How our audit addressed the Key audit matter
Following the valuation results, the Group recognised an impairment loss of RUB 6,647 million on its investments in the Fund (Line “Loss on impairments of property, plant and equipment and other assets” in the consolidated statement of profit or loss and other comprehensive income) for the year ended 31 December 2017. We focused on this area because of the materiality of the investments in the Fund and the significance of judgements made by management in measuring impairment of its investments in the Fund.	Based on the work performed, we did not identify any material misstatements in the amount of impairment provision recognised by the Group and disclosed in the accompanying consolidated financial statements. At the same time we note that the current market value of land held by the Fund is sensitive to the assumption of the Group’s ability to transfer land from the agricultural category to the category of industrial land. If the process of land transfer to another category is not timely finalised, the current market value of land may significantly decrease resulting in the need to recognise additional impairment provisions.

<i>Provision for impairment of loans issued</i> <i>Refer to Note 9 to the consolidated financial statements</i> At of 31 December 2017, within other long-term financial assets the Group recognises loans issued, net of impairment provision. The Group assesses the impairment provision using management’s best estimates of recoverable values. In estimating recoverable values, the Group evaluates information about each debtor’s solvency, obtains experts’ opinions on market values of collaterals, prepares discounted cash flow models, and analyses additional relevant information. For the year ended 31 December 2017, the Group recognised impairment provision charge of RUB 7,107 million on loans issued (Line “Loss on impairments of property, plant and equipment and other assets” in the consolidated statement of profit or loss and other comprehensive income). We focused on this matter because of the materiality of the impairment provision and the significance of judgements and estimates involved in its calculation.	We performed the following procedures to assess the appropriateness of valuation methods and methodology used in estimating recoverable values: • analysis of key assumptions used by the Group’s management when estimating the current market value of property and rights of claim provided as collateral under loan agreements; • review of the mathematical accuracy of discounted cash flow models (if applicable) and analysis of key assumptions used by the Group’s management in these models. We engaged our valuation experts to review the valuation of the current market value of property and rights of claim pledged as collateral with the Group for the loans issued. Based on the work performed, we did not identify any material misstatements in the amount of impairment provision recognised by the Group and disclosed in the accompanying consolidated financial statements.
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How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the geographic and management structure of the Group, the accounting processes and controls and the industry in which the Group operates.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at reporting units by us, as the group engagement team, or component teams operating under our instruction. Where the work was performed by the component team of Bank ZENIT, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group's consolidated financial statements as a whole.

We identified the following significant reporting units where we performed full-scope audit procedures: PJSC Tatneft (parent holding company, corporate centre located in Almetievsk), JSC TANECO (oil refinery subsidiary located in Nizhnekamsk), PJSC Nizhnekamskshina (tires producing subsidiary located in Nizhnekamsk) and Bank ZENIT (banking subsidiary, corporate centre located in Moscow). In addition, we performed specified audit procedures over selected financial information at a number of less significant reporting units in order to increase the level of audit comfort.

The audit work performed by the audit teams at all the components and by the corporate team enabled us to get 98% coverage of the Group's total assets, 94% coverage of the Group's revenue and 94% coverage of the Group's absolute value of underlying profit before tax.

By performing the procedures above at significant and less significant reporting units, combined with additional procedures at the Group level, we obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Other information

Management is responsible for the other information. The other information comprises "Management's discussion and analysis of financial condition and results of operations for the three months and the year ended 31 December 2017" (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and PJSC Tatneft Annual Report 2017 and Quarterly Report of the Equity Securities Issuer for the 1st quarter 2018, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report is Maxim E. Timchenko.

AO PricewaterhouseCoopers Audit

29 March 2018

Moscow, Russian Federation



M.E. Timchenko, certified auditor (licence no. 01-000267)

AO PricewaterhouseCoopers Audit

Audited entity: PJSC Tatneft

State registration certificate № 032, issued by Ministers of Finance of the Republic of Tatarstan on 22 January 1994

Certificate of inclusion in the Unified State Register of Legal Entities issued on 18 July 2002 under registration № 102500148431

423450, Russian Federation, Republic of Tatarstan, Almalyk, Lenin St., 75

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008 890 issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2000 under registration № 102700148431

Member of self-regulated organization of auditors – Russian Union of auditors – (Association)

ORNSZ is a member in the register of auditors and audit organizations

Consolidated Statement
of FINANCIAL POSITION

in millions of Russian Rubles

Assets			
Cash and cash equivalents	6	42,797	77,106
Banking: Mandatory reserve deposits with CB RF		1,916	1,988
Restricted cash		-	3
Accounts receivable, net	7	61,598	63,900
Banking: Loans to customers	8	44,495	69,103
Other short-term financial assets	9	68,925	57,931
Inventories	10	39,318	33,271
Prepaid expenses and other current assets	11	23,123	23,889
Prepaid income tax		1,027	1,058
Non-current assets held for sale	12	2,182	4,247
Total current assets		285,381	332,496
Long-term accounts receivable, net	7	3,439	1,807
Banking: Loans to customers	8	106,488	123,923
Other long-term financial assets	9	52,364	44,397
Investments in associates and joint ventures		658	639
Property, plant and equipment, net	13	651,460	583,614
Deferred income tax assets	14	1,502	2,043
Other long-term assets	15	6,162	5,678
Total non-current assets		822,073	762,101
Total assets		1,107,454	1,094,597
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	16	39,916	19,288
Accounts payable and accrued liabilities	17	47,561	45,509
Banking: Due to banks and CB RF	18	27,971	13,935
Banking: Customer accounts	19	158,436	177,422
Taxes payable	14	27,806	23,737
Income tax payable		3,563	4,511
Other short-term liabilities		1,043	1,961
Total current liabilities		306,296	286,363

Consolidated Statement of FINANCIAL POSITION (CONTINUED)

in millions of Russian Rubles

	Note	31 December 2017	31 December 2016
Long-term debt, net of current portion	16	6,896	34,842
Banking: Due to banks and CB RF	18	5,669	4,415
Banking: Customer accounts	19	478	3,292
Decommissioning provision, net of current portion	13	38,017	30,324
Deferred income tax liability	14	27,323	22,600
Other long-term liabilities	20	4,046	3,857
Total non-current liabilities		82,429	99,330
Total liabilities		388,725	385,693
Shareholders' equity			
Preferred shares (authorized and issued at 31 December 2017 and 2016 – 147,508,500 shares; nominal value at 31 December 2017 and 2016 – RR1.00)	21	746	746
Common shares (authorized and issued at 31 December 2017 and 2016 – 2,178,690,700 shares; nominal value at 31 December 2017 and 2016 – RR1.00)	21	11,021	11,021
Additional paid-in capital		84,437	85,224
Accumulated other comprehensive income		1,652	1,293
Retained earnings		624,254	615,477
Less: Common shares held in treasury, at cost (75,483,000 shares and 75,481,000 shares at 31 December 2017 and 2016, respectively)		(10,251)	(10,250)
Total Group shareholders' equity		711,859	703,511
Non-controlling interest	29	6,870	5,393
Total shareholders' equity		718,729	708,904
Total liabilities and equity		1,107,454	1,094,597

Consolidated Statement of PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

in millions of Russian Rubles

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Sales and other operating revenues on non-banking activities, net	26	681,159	580,127
Costs and other deductions on non-banking activities			
Operating expenses		(123,517)	(119,480)
Purchased oil and refined products		(70,984)	(80,166)
Exploration	13	(1,143)	(1,185)
Transportation		(35,925)	(30,478)
Selling, general and administrative		(48,327)	(46,754)
Depreciation, depletion and amortization	13	(24,885)	(21,626)
Loss on impairments of property, plant and equipment and other assets	9	(15,512)	(5,616)
Taxes other than income taxes	14	(194,316)	(126,590)
Maintenance of social infrastructure and transfer of social assets	13	(5,427)	(5,182)
Total costs and other deductions on non-banking activities		(520,036)	(437,077)
Gain on disposals of interests in subsidiaries and associates, net	27,29	109	1,951
Other operating income/(expenses), net		1,343	(917)
Operating profit on non-banking activities		162,575	144,084
Net interest, fee and commission and other operating income/ (expenses) and gains/(losses) on banking activities			
Interest, fee and commission income	24,25	30,964	7,955
Interest, fee and commission expense	24,25	(14,342)	(5,105)
Provision for loan impairment	8	(8,685)	(1,167)
Operating expenses		(7,498)	(2,258)
Loss arising from dealing in foreign currencies, net		(27)	(175)
Other operating expenses, net		(1,220)	(230)
Total net interest, fee and commission and other operating expenses and losses on banking activities		(808)	(980)
Other income/(expenses)			
Foreign exchange loss, net	30	(1,618)	(3,304)
Interest income on non-banking activities	23	6,494	5,430
Interest expense on non-banking activities, net of amounts capitalized	23	(3,095)	(3,920)
Share of results of associates and joint ventures		(10)	(339)
Total other income/(expenses)		1,771	(2,133)
Profit before income tax		163,538	140,971

Consolidated Statement

of PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

in millions of Russian Rubles

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Income tax			
Current income tax expense		(34,227)	(29,657)
Deferred income tax expense		(5,419)	(5,184)
Total income tax expense	14	(39,646)	(34,841)
Profit for the year		123,892	106,130
Other comprehensive income/(loss), net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustments		476	(1,050)
Unrealized holding gains on available-for-sale securities		133	1,338
Items that will not be reclassified to profit or loss:			
Actuarial loss on employee benefit plans	20	(250)	(634)
Other comprehensive income/(loss)		359	(346)
Total comprehensive income for the year		124,251	105,784
Profit/(loss) attributable to:			
- Group shareholders		123,139	107,389
- Non-controlling interest		753	(1,259)
		123,892	106,130
Total comprehensive income/(loss) attributable to:			
- Group shareholders		123,498	107,043
- Non-controlling interest		753	(1,259)
		124,251	105,784
Basic and diluted earnings per share (RR)			
Common	21	54.73	47.50
Preferred		54.32	47.48
Weighted average shares outstanding (millions of shares)			
Common	21	2,103	2,113
Preferred		148	148

Consolidated Statement

of CHANGES IN EQUITY

in millions of Russian Rubles

	Attributable to Group shareholders				
	Number of shares (thousands)	Share capital	Additional paid- in capital	Treasury shares	Actuarial loss on employee benefit plans
Balance at 1 January 2016	2,270,708	11,767	85,170	(3,083)	(987)
Profit for the year	-	-	-	-	-
Other comprehensive (loss)/income for the year	-	-	-	-	(634)
Total comprehensive (loss)/income for the year	-	-	-	-	(634)
Treasury shares	(19,990)	-	-	(7,167)	-
- Acquisitions	(20,196)	-	-	(7,215)	-
- Disposals	206	-	-	48	-
Business combinations	-	-	-	-	-
Acquisition of non-controlling interest in subsidiaries	-	-	54	-	-
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-
Dividends declared (Note 21)	-	-	-	-	-
Balance at 31 December 2016	2,250,718	11,767	85,224	(10,250)	(1,621)
Profit for the year	-	-	-	-	-
Other comprehensive (loss)/income for the year	-	-	-	-	(250)
Total comprehensive (loss)/income for the year	-	-	-	-	(250)
Treasury shares	(2)	-	-	(1)	-
- Acquisitions	(92)	-	-	(32)	-
- Disposals	90	-	-	31	-
Business combinations	-	-	-	-	-
-Acquisition of non-controlling interest in subsidiaries (Note 29)	-	-	(787)	-	-
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-
Dividends declared (Note 21)	-	-	-	-	-
Balance at 31 December 2017	2,250,716	11,767	84,437	(10,251)	(1,871)



Consolidated Statement of CHANGES IN EQUITY (CONTINUED)

in millions of Russian Rubles

Foreign currency translation adjustments	Attributable to Group shareholders			Non-controlling interest	Total equity
	Unrealized holding gains on available-for-sale securities	Retained earnings	Total shareholders' equity		
2,251	375	532,821	628,314	29,344	657,658
-	-	107,389	107,389	(1,259)	106,130
(1,050)	1,338	-	(346)	-	(346)
(1,050)	1,338	107,389	107,043	(1,259)	105,784
-	-	-	(7,167)	-	(7,167)
-	-	-	(7,215)	-	(7,215)
-	-	-	48	-	48
-	-	-	-	7,395	7,395
-	-	-	54	(229)	(175)
-	-	-	-	(29,855)	(29,855)
-	-	(24,733)	(24,733)	(3)	(24,736)
1,201	1,713	615,477	703,511	5,393	708,904
-	-	123,139	123,139	753	123,892
476	133	-	359	-	359
476	133	123,139	123,498	753	124,251
-	-	-	(1)	-	(1)
-	-	-	(32)	-	(32)
-	-	-	31	-	31
-	-	-	-	97	97
-	-	-	(787)	787	-
-	-	-	-	(145)	(145)
-	-	(114,362)	(114,362)	(15)	(114,377)
1,677	1,846	624,254	711,859	6,870	718,729

Consolidated Statement of CASH FLOWS

in millions of Russian Rubles

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Operating activities			
Profit for the year		123,892	106,130
Adjustments:			
Net interest, fee and commission and other operating expenses and losses on banking activities		808	980
Depreciation, depletion and amortization	26	24,885	21,626
Income tax expense	14	39,646	34,841
Loss on impairments of property, plant and equipment, other assets and disposals of interest in subsidiaries and associates	9	15,403	3,665
Effects of foreign exchange		(504)	(1,774)
Equity investments gain net of dividends received		10	339
Change in provision for impairment of financial assets		3,462	(226)
Change in fair value of trading securities		(21)	(48)
Interest income on non-banking activities		(6,494)	(5,430)
Interest expense on non-banking activities, net of amounts capitalized		3,095	3,920
Other		(538)	(3,020)
Changes in operational working capital, excluding cash:			
Accounts receivable		1,245	(5,336)
Inventories		(5,997)	(1,412)
Prepaid expenses and other current assets		66	5,326
Trading securities		(106)	(51)
Accounts payable and accrued liabilities		(6,265)	7,417
Taxes payable		4,071	6,934
Other non-current assets		375	(519)
Net cash provided by non-banking operating activities before income tax and interest		197,033	173,362
Net interest, fee and commission and other operating expenses and losses on banking activities		(808)	(980)
Adjustments:			
Provision for loan impairment	8	8,685	1,167
Other		(1,842)	(1,235)
Changes in operational working capital on banking activities, excluding cash:			
Mandatory reserve deposits with Central Bank of Russian Federation		72	4
Due from banks		8,371	2,770
Banking loans to customers		15,861	(8,651)
Due to banks and Central Bank of Russian Federation		15,181	(506)
Banking customers accounts		(18,961)	1,083
Debt securities issued		(1,098)	(1,950)
Financial assets at fair value through profit or loss		(534)	(983)
Other assets and liabilities		(2,620)	(30)
Net cash provided by (used in) banking operating activities before income tax		22,307	(9,311)
Income taxes paid		(35,144)	(26,888)
Interest paid on non-banking activities		(160)	(807)
Interest received on non-banking activities		6,236	5,015
Net cash provided by operating activities		190,272	141,371

Consolidated Statement of **CASH FLOWS (CONTINUED)** in millions of Russian Rubles

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Investing activities			
Additions to property, plant and equipment		(84,986)	(95,669)
Proceeds from disposal of property, plant and equipment		1,744	993
Net cash (outflow)/inflow on acquisition of subsidiaries	29	(3,300)	48,534
Proceeds from disposal of subsidiaries and associates, net of disposed cash	27	-	33,155
Purchase of available-for-sale financial assets		(32,399)	(7,566)
Purchase of held to maturity investments		(59,038)	(3,037)
Proceeds from disposal of available-for-sale financial assets		19,379	5,587
Proceeds from redemption of held to maturity investments		13,680	2,174
Proceeds from sale of non-current assets held for sale	12	901	110
Purchase of investments in associates and joint ventures	29	(738)	(6,700)
Proceeds from redemption of bank deposits		33,399	10,032
Placement of bank deposits		(994)	(40,096)
Proceeds from redemption of loans and notes receivable		1,343	6,151
Issuance of loans and notes receivable		(1,316)	(2,940)
Dividends received		-	1,521
Change in restricted cash		3	315
Net cash used in investing activities		(112,322)	(47,436)
Financing activities			
Proceeds from issuance of debt from non-banking activities	30	25,107	2,129
Repayment of debt from non-banking activities	30	(5,434)	(6,629)
Issuance of bonds	30	2,365	1,504
Redemption of bonds	30	(25,740)	(5,081)
Proceeds from subordinated debt		194	-
Dividends paid to shareholders		(108,479)	(24,717)
Dividends paid to non-controlling shareholders		(15)	(3)
Purchase of treasury shares		(32)	(7,215)
Proceeds from sale of treasury shares		31	48
Proceeds from issuance of shares by subsidiaries		18	-
Net cash used in financing activities		(111,985)	(39,964)
Net change in cash and cash equivalents		(34,035)	53,971
Effect of foreign exchange on cash and cash equivalents		(274)	(1,465)
Cash and cash equivalents at the beginning of the period		77,106	24,600
Cash and cash equivalents at the end of the period		42,797	77,106

Notes

to THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANISATION

PJSC Tatneft (the “Company”) and its subsidiaries (jointly referred to as “the Group”) are engaged in crude oil exploration, development and production principally in the Republic of Tatarstan (“Tatarstan”), a republic within the Russian Federation. The Group also engages in refining and marketing of crude oil, refined products as well as production and marketing of petrochemicals and since October 2016, with acquisition of the controlling interest in ZENIT Banking Group (Bank ZENIT) the Group is also engaged in banking activities (see Note 29).

The Company was incorporated as an open joint stock company effective 1 January 1994 (the “privatization date”) pursuant to the approval of the State Property Management Committee of the Republic of Tatarstan (the “Government”). All assets and liabilities previously managed by the production association Tatneft, Bugulminsky Mechanical Plant, Menzelinsky Exploratory Drilling Department and Bavlinsky Drilling Department were transferred to the Company at their book value at the privatization date in accordance with Decree No. 1403 on Privatization and Restructuring of Enterprises and Corporations into Joint-Stock Companies. Such transfers were considered transfers between entities under common control at the privatization date, and were recorded at book value.

The Group does not have an ultimate controlling party.

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

The Company is domiciled in the Russian Federation. The address of its registered office is Lenina St., 75, Almeteyevsk, Republic of Tatarstan, Russian Federation.

NOTE 2: BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements have been prepared on a historical cost basis, except for initial recognition of financial instruments based on fair value, revaluation of available-for-sale financial assets and financial instruments categorized at fair value through profit or loss.

The entities of the Group maintain their accounting records and prepare their statutory financial statements principally in accordance with the Regulations on Accounting and Reporting of the Russian Federation (“RAR”), and applicable accounting and reporting standards of countries outside the Russian Federation. A number of entities of the Group prepare their financial statements in accordance with IFRS. The accompanying consolidated financial statements have been prepared from these accounting records and adjusted as necessary to comply with IFRS. The principal differences between RAR and IFRS relate to: (1) valuation (including indexation for the effect of hyperinflation in the Russian Federation through 2002) and depreciation of property, plant and equipment; (2) foreign currency translation; (3) deferred income taxes; (4) valuation allowances for unrecoverable assets; (5) consolidation; (6) share based payment; (7) accounting for oil and gas properties; (8) rec-

ognition and disclosure of guarantees, contingencies and commitments; (9) accounting for decommissioning provision; (10) pensions and other post retirement benefits and (11) business combinations and goodwill.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Functional and presentation currency. The presentation currency of the Group is the Russian Ruble.

Management has determined the functional currency for each consolidated subsidiary of the Group, except for subsidiaries located outside of the Russian Federation, is the Russian Ruble because the majority of Group revenues, costs, property and equipment purchased, debt and trade liabilities are either priced, incurred, payable or otherwise measured in Russian Rubles. Accordingly, transactions and balances not already measured in Russian Rubles (primarily US Dollars) have been re-measured into Russian Rubles in accordance with the relevant provisions of IAS 21 “The Effects of Changes in Foreign Exchange Rates”.

Under IAS 21 revenues, costs, capital and non-monetary assets and liabilities are translated at exchange rates prevailing on the transaction dates. Monetary assets and liabilities are translated at exchange rates prevailing on the reporting date. Exchange gains and losses arising from re-measurement of monetary assets and liabilities that are not denominated in Russian Rubles are recognized in the profit or loss for the year.

For operations of major subsidiaries located outside of the Russian Federation, that primarily use US Dollar as the functional currency, adjustments resulting from translating foreign functional currency assets and liabilities into Russian Rubles are recorded in a separate component of shareholders' equity entitled foreign currency translation adjustments. Revenues, expenses and cash flows are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).

The official rate of exchange, as published by the Central Bank of Russian Federation ("CB RF"), of the Russian Ruble ("RR") to the US Dollar ("US \$") at 31 December 2017 and 2016 was RR 57.60 and RR 60.66 to US \$, respectively. Average rate of exchange for the years ended 31 December 2017 and 2016 were RR 58.35 and RR 67.03 per US \$, respectively.

Consolidation. Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group has the power to direct relevant activities of the investee that significantly affect their returns, exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a busi-

ness combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis at the non-controlling interest's proportionate share of the acquiree's net assets or at fair value.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the profit and loss for the year.

Inter-company transactions, balances and unrealized gains and losses on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the cost cannot be recovered.

Associates and joint ventures. Associates and joint ventures are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognized at cost. Dividends received from associates and joint ventures reduce the carrying value of the investment in associates and joint ventures. Other post-acquisition changes in Group's share of net assets of an associate and joint ventures are recognized as follows: (i) the Group's share of profits or losses of associates or joint ventures is recorded in the consolidated profit or loss for the year as share of result of associates or joint ventures, (ii) the Group's share of other comprehensive income is recognized in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates or joint ventures are recognized in profit or loss within the share of result of associates or joint ventures.

However, when the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group reviews equity method investments for impairment on an annual basis, and records impairment when circumstances indicate that the carrying value exceeds the recoverable amount.

Cash and cash equivalents. Cash represents cash on hand and in bank accounts and CB RF, other than mandatory reserves deposits with CB RF, which can be effectively withdrawn at any time without prior notice. Cash equivalents include highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or less from the date of purchase. Cash and cash equivalents are carried at amortised cost.

Restricted cash. Restricted cash represents cash deposited under letter of credit arrangements, which are restricted under various contractual agreements. Letters of credit are used to pay contractors for materials, equipment and services provided. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statements of financial position and of the consolidated statement of cash flows and disclosed separately.

Mandatory reserve deposits with the CB RF. Mandatory reserve deposits with the CB RF represent non-interest bearing funds placed with the CB RF that are not available to finance the Group’s day-to-day operations and, therefore, are not considered part of cash and cash equivalents. The amount to be deposited with the CB RF is calculated in accordance with the CB RF’s regulation and depends on the volume of funds attracted by the Group from its customers and banks in the course of banking activities.

Financial assets. All financial assets are initially recognized when an entity becomes a party to the contract, they are recognized at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group’s financial assets include cash and cash equivalents, restricted cash, mandatory reserve deposits with CB RF, banking customer loans, deposits, due from banks, securities, derivatives, precious metals, trade and other receivables, loans issued.

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets at fair value through profit or loss; (d) held to maturity investments. The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The Group derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Loans and receivables. Loans and receivables is a category of financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The accrued interest is included in the profit and losses for the year. The allowance for impairment of loans and receivables is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the loans and receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the financial asset’s original effective interest rate at the date of origination of the loan or receivable. The losses arising from impairment are recognized as selling, general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

Due from banks. Amounts due from banks other than those that are part of the Group are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost. Deposits, placed in the course of banking activities in other banks having maturity exceeding one working day from the balance sheet date are treated as amounts due from banks. Due from banks that mature within three months or less from the date of placement are included in cash and cash equivalents. Due from banks are initially recognized at fair value. These balances are subsequently re-measured at amortized cost at the effective interest method and are carried net of any allowance for impairment.

Loans to customers. Loans issued in the course of banking activities that have fixed or determinable payments that are not quoted in an active market are classified as loans to customers. Loans to customers are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial assets at fair value through profit or loss. A financial asset is classified at fair value through profit or loss category if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group’s documented risk management or investment strategy. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit and loss for the year. Coupon and interest earned on financial assets at fair value through profit or loss are reflected as interest, fee and commission income. Dividends received, all other elements of the changes in the fair value and gains or losses on derecognition are recorded in other operating income/(expenses) in the consolidated statement of profit or loss and other comprehensive income in the period in which they arise.

Available-for-sale financial assets. Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets include investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented within equity. Unquoted equity instruments whose fair value cannot be measured reliably are carried at cost less any impairment losses. When an investment is derecognized the cumulative gain or loss in equity is also reclassified to profit and loss for the year. Dividends on available-for-sale equity instruments are recognized in profit or loss for the year when the Group’s right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognized in other comprehensive income until the investment is derecognized or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses are recognized in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of investment securities available for sale.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the other comprehensive income) is recognized in the profit and loss for the year as a reclassification adjustment from other comprehensive income.

Held to maturity investments. Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Held to maturity investments are measured at amortized cost using the effective interest method less any impairment.

If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

Impairment of financial assets carried at amortized cost. Impairment losses are recognized in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

Repurchase agreements. Repurchase agreements (“REPO”) are used by the Group as an element of its treasury management and trading business in a course of its banking activities and are treated as secured financing transactions.

A REPO is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest.

Financial assets sold under REPO are included into financial assets at fair value through profit or loss, available-for-sale financial assets or held to maturity investments and funds received under these agreements are accounted for as amounts due to banks and CB RF and customer accounts as appropriate. Financial assets purchased under agreements to resell (“reverse repurchase”) are recorded as amounts due from banks or loans to customers as appropriate. Gain/loss on the sale of the above instruments is recognized as interest income or expense on banking activities in the consolidated statement of profit or loss and other comprehensive income based on the difference between the repurchase price accreted to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse REPO/REPO is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

Financial liabilities. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs. The Group’s financial liabilities include trade and other payables, due to banks and CB RF, banking customer accounts, debt securities and bonds issued, credit facilities, subordinated debt and other borrowings.

Financial liabilities are recognized initially at fair value. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit and loss for the year.

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Due to banks and CB RF, customer accounts and subordinated debt. Amounts due to banks and CB RF, customer accounts and subordinated debt are initially recognized in accordance with the accounting policy for financial instruments and subsequently re-measured at amortized cost. Any difference between net proceeds and the redemption value of these amounts due is recognized in the consolidated statement of profit or loss and other comprehensive income over the life of related financial liability using the effective interest method.

Debt securities and bonds issued. Debt securities issued include promissory notes and certificates of deposit issued by the Group to its customers in the course of its banking activities. Bonds issued represent securities issued by the Bank that are traded and quoted in the open market. Promissory notes carry a fixed date of repayment. These may be issued against cash deposits or as a payment instrument, which the customer can sell at a discount in the over-the-counter market. Debt securities and bonds issued are accounted for according to the same principles used for amounts due to banks and CB RF, customer accounts and subordinated debt. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount and the amount paid is recognized as a gain or loss on redemption of debt.

Non-current assets held for sale. A non-current asset is classified as held for sale if it is highly probable that the asset’s carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs of disposal. If the fair value less costs of disposal of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the consolidated statement of profit or loss and other comprehensive income as other operating income/expense. Any subsequent increase in an asset’s fair value less costs of disposal is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Precious metals. Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates, using the RR/US \$ exchange rate effective at the date. Changes in the bid prices are recorded in other operating income/expenses from banking activities.

Inventories. Inventories of crude oil, refined oil products, materials and supplies, finished goods and other inventories are valued at the lower of cost or net realizable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. The Group uses the weighted-average-cost method. Costs include both direct and indirect expenditures incurred in bringing an item or product to its existing condition and location.

Prepaid expenses. Prepaid expenses include advances for purchases of products and services, insurance fees, prepayments for export duties, VAT and other taxes. Prepayments are carried at cost less provision for impairment.

Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Prepayments for services such as insurance, transportation and others are written off to profit or loss when the goods or services relating to the prepayments are received.

If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognized in the profit or loss for the year.

Mineral extraction tax. Mineral extraction tax (MET) on crude oil is defined monthly as an amount of volume produced per fixed tax rate (RR 919 and RR 857 per ton in 2017 and 2016, respectively) adjusted depending on the monthly average market prices of the Urals blend and the RR/US \$ average exchange rate for the preceding month, taking into account the features of oil production. MET liabilities are lower for fields whose depletion rate exceeds 80% of their proved reserves as per the Russian classification of reserves and resources, as a result of using a reduction factor that depends on the level of depletion. The Company saves 3.5% at a field for each percent of depletion above the 80% threshold. In addition, lower MET is envisaged for small fields via application of a factor that characterises the volume of reserves. The amount of tax benefits for depleted and small fields is calculated using the base MET rate of RUB 559 per tonne (in 2016 - RUB 559 per tonne).

Furthermore, the zero MET tax rate is applied the production of highly viscous crude oil (with viscosity of 10,000 Megapascal second in reservoir conditions) and oil produced from Domanic productive sediments. In addition, another benefit in the form of a lower MET is available for production of highly viscous oil with viscosity in the range from 200 to 10,000 Megapascal second (in reservoir conditions) and for production of oil in the Nenets Autonomous Okrug (via application of Kkan ratio that characterises the production area and oil properties. The saving in these circumstances is calculated using the base MET tax rate of RUB 559 per tonne (in 2016 - RUB 559 per tonne).

MET is recorded within Taxes other than income tax in the consolidated statements of profit or loss and other comprehensive income.

Value added tax. Value added tax (VAT) at a standard rate of 18% is payable on the difference between output VAT on sales of goods and services and recoverable input VAT charged by suppliers. Output VAT is charged on the earliest of the dates: either the date of the shipment of goods (works, services) or the date of advance payment by the buyer. Input VAT can be recovered when purchased goods (works, services) are accounted for and other necessary requirements provided by the tax legislation are met.

Export of goods and rendering certain services related to exported goods are subject to 0% VAT rate upon the submission of confirmation documents to the tax authorities.

VAT related to sales and purchases is recognized in the Consolidated Statements of Financial Position on a gross basis and disclosed separately as Prepaid expenses and other current assets and Taxes payable.

Oil and gas exploration and development cost. Oil and gas exploration and development activities are accounted for using the successful efforts method whereby costs of acquiring unproved and proved oil and gas property as well as costs of drilling and equipping productive wells and related production facilities are capitalized.

Other exploration expenses, including geological and geophysical expenses and the costs of carrying and retaining undeveloped properties, are expensed as incurred. The costs of exploratory wells that find oil and gas reserves are capitalized as exploration and evaluation assets on a “field by field” basis pending determination of whether proved reserves have been found. In an area requiring a major capital expenditure before production can begin, exploratory well remains capitalized if additional exploration drilling is underway or firmly planned. Exploration costs not meeting these criteria are charged to expense.

Exploration and evaluation costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When indicators of impairment are present, resulting impairment loss is measured.

If subsequently commercial reserves are discovered, the carrying value, less losses from impairment of respective exploration and evaluation assets, is classified as development assets. However, if no commercial reserves are discovered, such costs are expensed after exploration and evaluation activities have been completed.

Property, plant and equipment. Property, plant and equipment are carried at historical cost of acquisition or construction less accumulated depreciation, depletion, amortization and impairment.

Proved oil and gas properties include the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. The cost of maintenance, repairs and replacement of minor items of property are expensed when incurred within operating expenses; renewals and improvements of assets are capitalised and depreciated during the remaining useful life. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Advances made on property, plant and equipment and construction in progress are accounted for within Construction in progress.

Long-lived assets, including proved oil and gas properties at a field level, are assessed for possible impairment in accordance with IAS 36 Impairment of assets, which requires long-lived assets with recorded values that are not expected to be recovered through future cash flows to be written down to their recoverable amount which is the higher of fair value less costs of disposal and value-in-use.

Individual assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets - generally on a field-by-field basis for exploration and production assets, at an entire complex level for refining assets or at a site level for service stations. Impairment losses are recognized in the profit or loss for the year.

Impairments are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed. The reversal of impairment would be limited to the original carrying value less depreciation which would have been otherwise charged had the impairment not been recorded.

Long-lived assets committed by management for disposal within one year, and meet the other criteria for held for sale, are accounted for at the lower of amortized cost or fair value, less costs of disposal. Costs of unproved oil and gas properties are evaluated periodically and any impairment assessed is charged to expense.

The Group calculates depreciation expense for oil and gas proved properties using the units-of-production

method for each field based upon proved developed oil and gas reserves, except in the case of significant asset components whose useful life differs from the lifetime of the field, in which case the straight-line method is applied.

Oil and gas licenses for exploration of unproved reserves are capitalised within property, plant and equipment; they are depreciated on straight-line basis over the period of each license validity.

Depreciation of all other property, plant and equipment is determined on the straight-line method based on estimated useful lives which are as follows:

	Years
Buildings and constructions	30-50
Machinery and equipment	10-35

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds, if any, with the carrying amount. Gains and losses are recorded in other income and expenses in the consolidated statement of profit or loss and other comprehensive income.

Capitalisation of borrowing costs on non-banking activities. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Capitalisation of borrowing costs includes capitalising foreign exchange differences relating to borrowings to the extent that they are regarded as an adjustment to interest costs. The gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity borrowed funds in its functional currency, and borrowing costs actually incurred on foreign currency borrowings.

The portion of the foreign exchange movements is estimated based on interest rates on similar borrowing in the Group's functional currency. The foreign exchange gains and losses eligible for capitalisation are assessed on a cumulative basis.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

Interest income on non-banking activities. Interest income on non-banking activities is recognized on a time-proportion basis using the effective interest method.

Employee benefits, post-employment and other long-term benefits. Wages, salaries, contributions to the social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has various pension plans covering substantially all eligible employees and members of management. The pension liabilities are measured at the present value of the estimated future cash outflows using interest rates of government securities, which have the same currency and terms to maturity approximating the terms of the related liability. Pension costs are recognized using the projected unit credit method.

The cost of providing pensions is accrued and charged to staff expense within operating expenses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income reflecting the cost of benefits as they are earned over the service lives of employees.

Remeasurements of the net defined benefit liability arose as the actuarial gains or losses from changes in assumptions and from experience adjustments with regard to post employment benefit plans are recognized immediately in other comprehensive income. Actuarial gains and losses related to other long-term benefits are recognized immediately in the profit or loss for the year.

Past service costs are recognized as an expense immediately.

Plan assets are measured at fair value and are subject to certain limitations. Fair value of plan assets is based on market prices. When no market price is available the fair value of plan assets is estimated by different valuation techniques, including discounted expected future cash flow using a discount rate that reflects both the risk associated with the plan assets and maturity or expected disposal date of these assets.

In the normal course of business the Group contributes to the Russian Federation State Pension Fund on behalf of its employees. Mandatory contributions to the Fund are expensed when incurred and are included within staff costs in operating expenses.

Stock-based compensation. The Company has a share-based compensation plan (the “Plan”) for senior management and directors of the Company. Under the provisions of the Plan, share-based bonus awards (“Awards”) are issued on an annual basis to the Company’s directors and senior management as approved by the Board of Directors. Each Award provides a cash payment at the settlement date equal to one of the Company’s common shares multiplied by the difference between the lowest share price for the preceding three years as of the grant date and the highest share price for the preceding three years as of each year-end. Share prices are measured based on the weighted average daily trading price as reported on the Moscow Exchange MICEX-RTS (MOEX). Awards are subject to individual annual performance conditions and are generally settled within 90 days after the Company’s Management Committee approval.

The Awards are recognized as expense over the annual service period, net of forfeitures, with a corresponding liability to accounts payable and accrued liabilities.

The liability at 31 December 2016 is determined based on the final expected bonus payments. For the year ended 31 December 2017 the Company’s Board of Directors did not approve the issuance of Awards.

Decommissioning provisions. The Group recognizes a liability for the fair value of legally required or constructive decommissioning provisions associated with long-lived assets in the period in which the retirement obligations are incurred. The Group has numerous asset removal obligations that it is required to perform under law or contract once an asset is permanently taken out of service. The Group’s field exploration, development, and production activities include assets related to: well bores and related equipment and operating sites, gathering and oil processing systems, oil storage facilities and gathering pipelines. Generally, the Group’s licenses and other operating permits require certain actions to be taken by the Group in the abandonment of these operations. Such actions include well abandonment activities, equipment dismantlement and other reclamation activities. The Group’s estimates of future abandonment costs consider present regulatory or license requirements, as well as actual dismantling and other related costs. These liabilities are measured by the Group using the present value of the estimated future costs of decommissioning of these assets. The discount rate is reviewed at each reporting date and reflects current market assessments of the time value of money and the risks specific to the liability. Most of these costs are not expected to be incurred until several years, or decades, in the future and will be funded from general Group resources at the time of removal.

The Group capitalizes the associated decommissioning costs as part of the carrying amount of the long-lived assets. Changes in obligation, reassessed regularly, related to new circumstances or changes in law or technology, or in the estimated amount of the obligation, or in the pre-tax discount rates, are recognized as an increase or decrease of the cost of the relevant asset to the extent of the carrying amount of the asset; the excess is recognized immediately in profit and loss.

The Group’s petrochemical, refining and marketing and distribution operations are carried out at large manufacturing facilities. The nature of these operations is such that the ultimate date of decommissioning of any sites or facilities is unclear. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obligations related to decommissioning or other disposal of these assets.

Financial guarantee contracts issued and letters of credit. Financial guarantee contracts and letters of credit issued by the Group in the course of its banking activities are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under

the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Income Taxes. Effective 1 January 2012, the Company has established the Consolidated Taxpayer Group which currently includes 5 companies of the Group. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognized in profit or loss for the year, except if it is recognized in other comprehensive income or directly in equity because it relates to transactions that are also recognized, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are recognized for all deductible or taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Where it is not probable that future taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within consolidated taxpayers group and within the individual companies of the Group.

Income tax penalties expense and income tax penalties payable are included in Taxes other than income tax in the consolidated statement of profit or loss and other comprehensive income and taxes payable in the consolidated statement of financial position, respectively. Income tax interest expense and payable are included in interest expense in the consolidated statements of profit or loss and other comprehensive income and other accounts payable and accrued expenses in the consolidated statement of financial position, respectively.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity.

Dividends paid to shareholders are determined by the Board of directors and approved at the annual shareholders’ meeting. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved.

Treasury shares. Common shares of the Company owned by the Group at the reporting date are designated as treasury shares and are recorded at cost using the weighted-average method. Gains on resale of treasury shares are credited to additional paid-in capital whereas losses are charged to additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.

Earnings per share. Preference shares are not redeemable and are considered to be participating shares.

Basic and diluted earnings per share are calculated by dividing profit or loss attributable to ordinary and preference share holders by the weighted average number of ordinary and preferred shares outstanding during the period. Profit or loss attributed to equity holders is reduced by the amount of dividends declared in the current period for each class of shares. The remaining profit or loss is allocated to common and preferred shares to the extent that each class may share in earnings if all the earnings for the period had been distributed. Treasury shares are excluded from calculations. The total earnings allocated to each class of shares are determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

Revenue recognition. Revenues from the production and sale of crude oil, petroleum and petrochemical products and other products are recognized when risks and rewards of ownership are transferred and collectability is reasonably assured. Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any discounts and other incentives. Purchases and sales of inventory which are of a similar nature and value with the same counterparty that are entered into in contemplation of one another are combined, considered as a single arrangement and netted against each other in the consolidated statement of profit or loss and other comprehensive income. Revenue includes only economic benefits which flow to the Group. Taxes and duties arising on the sale of goods to third parties do not form part of revenue.

Recognition of interest, fee and commission income and expense on banking activities. Interest income and expense are recognized on an accrual basis calculated using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Commissions and other fees are recognized when the related transactions are completed. Loan origination fees for loans issued to customers, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Other income and expenses are recognized on an accrual basis.

Once a financial asset or group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the consolidated statement of profit or loss and other comprehensive income over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the consolidated statement of profit or loss and other comprehensive income on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in the consolidated income statement when the syndication has been completed. All other commissions are

recognized when services are provided.

Transportation expenses. Transportation expenses recognized in the consolidated statements of profit or loss and other comprehensive income represent all expenses incurred by the Group to transport crude oil and other products to end customers (they may include pipeline tariffs and any additional railroad costs, handling costs, port fees, sea freight and other costs). Compounding fees are included in selling, general and administrative expenses.

Fiduciary activities. The Group provides fiduciary services to its customers in the course of its banking activities. The Group also provides depositary services to its customers which include transactions with securities on their depositary accounts. Assets and liabilities held by the Group in its own name, but on behalf of third parties, are not reported on the consolidated statement of financial position. The Group accepts the operational risk on these activities, but its customers bear the credit and market risks associated with such operations.

NOTE 4: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the amounts recognized in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management of the Group also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognized in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

- Estimation of oil and gas reserves;
- Useful life of property, plant and equipment;
- Decommissioning provisions (Note 13);
- Impairment of property, plant and equipment;
- Impairment of loans to customers on banking activities (Note 8);
- Impairment of other loans (Note 9);
- Impairment of available-for-sale equity investments (Note 9);
- Held-to-maturity financial assets (Note 9);
- Accounting of investments in CJSC “National Non-State Pension Fund”;
- Financial instruments fair value estimation.

Estimation of oil and gas reserves. Oil and gas development and production assets are depreciated on a unit-of-production (UOP) basis for each field or group of fields with similar characteristics at a rate calculated by reference to proved or proved developed reserves. Estimates of proved reserves are also used in the determination of whether impairments have arisen or should be reversed. Also, exploration drilling costs are capitalized pending the results of further exploration or appraisal activity, which may take several years to complete and before any related proved reserves can be booked.

Proved and proved developed reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of oil and gas reserves are inherently imprecise, require the application of judgment and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. The Group estimates its oil and gas reserves in accordance with rules promulgated by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE) for proved reserves.

Changes to the Group's estimates of proved and proved developed reserves affect prospectively the amounts of depreciation, depletion and amortization charged and, consequently, the carrying amounts of oil and gas properties. It is expected, however, that in the normal course of business the diversity of the Group's portfolio will limit the effect of such revisions. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related capitalized exploration drilling costs being written off in the profit and loss for the year.

Useful life of property, plant and equipment. Based on the terms included in the licenses and past experience, management believes hydrocarbon production licenses will be extended past their current expiration dates at insignificant additional costs. As a result of the anticipated license extensions, the assets are depreciated over their useful lives beyond the end of the current license term.

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

Other property, plant and equipment are depreciated on a straight-line basis over their useful economic lives. Management periodically, at the end of each reporting period, reviews the appropriateness of the assets' useful economic lives and residual values. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group and the estimated residual value.

Decommissioning provisions. Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future decommissioning provisions is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation

at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

The Group's petrochemical, refining and marketing and distribution operations are carried out at large manufacturing facilities. The nature of these operations is such that the ultimate date of decommissioning of any sites or facilities is unclear. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obligations related to decommissioning or other disposal of these assets.

Sensitivity analysis for changes in discount rate:

Information about decommissioning provision is presented in Note 13.

	Impact on decommissioning provision		
	Change in	At 31 December 2017	At 31 December 2016
Discount rate	+1%	(8,457)	(6,812)
	-1%	11,148	8,954

Impairment of property, plant and equipment. At 31 December 2017 management assessed whether there is any indication of impairment of long-lived assets. Based on the stable financial performance, absence of significant adverse changes in economic and market environment and decrease in interest rates the management believes that there is no indication of impairment as of 31 December 2017.

Impairment of loans to customers on banking activities. The Group regularly reviews its loans to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a significant impact on its financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the

basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Impairment of other loans. The Group also regularly reviews its other loans issued to assess impairment. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows for borrowers. To assess future cash flows, management of the Group analyzes the information on the debtor's solvency, requests expert estimates regarding the market value of the collateral provided, builds (where possible) models of discounted expected cash flows, requests additional information to estimate the probability of non-repayment of the relevant debt in the terms established by the contracts.

Impairment of available-for-sale equity investments. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of changes in technology or a deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows.

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity. In making this judgement, the Group evaluates its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would, therefore, be measured at fair value rather than amortised cost. Furthermore, the Group would not be able to classify any financial assets as held-to-maturity for the following two annual reporting periods.

Accounting of investments in JSC “National Non-Governmental Pension Fund”. As at 31 December 2017 and 2016 the Group has 74.46% and 69.82% of shares of JSC “National Non-Governmental Pension Fund”. The Group does not exercises neither control nor significant influence over JSC “National Non-Governmental Pension Fund”. These investments are presented within available-for-sale financial assets.

Financial instruments fair value estimation. Financial instruments that are classified at fair value through profit or loss or available-for-sale, and all derivatives are stated at fair value. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are missed, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument, in exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the consolidated statement of profit or loss and other comprehensive income on initial recognition. Subsequent gains or losses are only recognized to the extent that they arise from a change in a factor that market participants would consider in setting a price.

Information on fair value of financial instruments where estimate is based on assumptions that do not utilize observable market prices is presented in Note 30.

NOTE 5: ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

A number of amendments to current IFRS and annual improvements became effective for the periods beginning on or after 1 January 2017 but did not have any significant impact on the Group's consolidated financial statements:

- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 require disclosure of a reconciliation of movements in liabilities arising from financing activities, that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The Group has provided the required disclosure in these consolidated financial statements in Note 30.
- Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12).

Certain new standards, interpretations and amendments to standards have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Group has not early adopted.:

IFRS 9, Financial Instruments: Classification and Measurement (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect contractual cash flows, it may be carried at amortized cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' contractual cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVTPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is no recycling of fair value gains and losses to profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- FRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a ‘three stage’ approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- IFRS 9 sets out special rules for measuring the loss allowance and recognising interest revenue in respect of purchased or originated assets that are credit impaired at initial recognition (purchased or originated credit impaired or “POCI” assets). At initial recognition, POCI assets do not carry an impairment allowance. Instead, lifetime expected credit losses are incorporated into the calculation of the effective interest rate (EIR). Favourable changes in lifetime expected credit losses since initial recognition of POCI assets are recognised as an impairment gain, even if the favourable changes are more than the amount previously recognised in profit or loss as impairment losses. This is a different presentation from IAS 39, under which reversals of impairment relate only to amounts previously recognised in profit or loss as impairment losses.

The main changes expected from adoption of IFRS 9 by the Group are the following:

- Current classification of the Group’s financial assets will be changed into three measurement categories: those to be measured subsequently at fair value (either through profit and loss or other comprehensive income), and at amortised cost. For the debt instruments the decision is to be made depending on (i) the objective of the entity’s business model and (ii) either the asset’s contractual cash flows represent solely payments of principal and interest.
- Current model for recognition of impairment losses will be changed into the expected credit losses (ECL) model.
- Changes in the fair value of financial liabilities designated at FVTPL that are attributable to changes in the instrument’s credit risk, which will be presented in other comprehensive income rather than profit or loss.
- The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group’s disclosures about its financial instruments in the year of the adoption of the new standard.

Based on the analysis of the Group’s financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the impact from the adoption of the new standard on 1 January 2018 on the Group’s consolidated financial statements could be significant primarily due to the effect of the new standard on the financial instruments held by Bank ZENIT Group. Based on the available information as at 30 September 2017 and the current status of implementation, the management of the Bank ZENIT expects that the effect of the initial application of IFRS 9 will reduce the amount of equity held by shareholders of Bank ZENIT by no more than RR 9 billion, primarily due to the application of IFRS 9 impairment requirements of transition from the model of incurred losses to the model of expected credit losses.

The actual effect of adoption of IFRS 9 effective 1 January 2018 may differ from the above estimates as a result of changes in the balance sheet position, market conditions and projected economic assumptions.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must gen-

erally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognized at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

In accordance with the transition provisions in IFRS 15 the Group has elected simplified transition method with the effect of transition to be recognised as at 1 January 2018 in the consolidated financial statements for the year-ending 31 December 2018 which will be the first year when the Group will apply IFRS 15.

The Group plans to apply the practical expedient available for simplified transition method. The Group applies IFRS 15 retrospectively only to contracts that are not completed at the date of initial application (1 January 2018).

Based on the analysis of the Group’s revenue streams for the year ended 31 December 2017, individual contracts’ terms and on the basis of the facts and circumstances that exist at that date, in view of simplified transition method application, an impact on the Group’s consolidated financial statements from the adoption of the new standard on 1 January 2018 is not significant.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRIC 23, Uncertainty over Income Tax Treatments (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of

the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation.

The Group is currently assessing the impact of new standards on its consolidated financial statements.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22, Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts.
- Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRS 17, Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds.
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

- Annual Improvements to IFRSs 2015-2017 cycle - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur.

NOTE 6: CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	At 31 December 2017	At 31 December 2016
Cash on hand and in banks	29,219	40,847
Term deposits with original maturity of less than three months	11,906	22,744
Due from banks	1,672	13,515
Total cash and cash equivalents	42,797	77,106

Term deposits with original maturity of less than three months represent deposits placed in banks in the course of non-banking activities. Due from banks represent deposits with original maturities of less than three months placed in the course of banking activities in banks other than those that are part of the Group. The fair value and credit quality analysis of cash and cash equivalents is presented in Note 30.

NOTE 7: ACCOUNTS RECEIVABLE

Short-term and long-term accounts receivable comprise the following:

	At 31 December 2017	At 31 December 2016
Short-term accounts receivable:		
Trade receivables	58,696	61,295
Other financial receivables	5,025	4,037
Other non-financial receivables	191	202
Less provision for impairment	(2,314)	(1,634)
Total short-term accounts receivable	61,598	63,900
Long-term accounts receivable:		
Trade receivables	2,055	1,581
Other financial receivables	3,165	334
Less provision for impairment	(1,781)	(108)
Total long-term accounts receivable	3,439	1,807
Total financial assets within trade and other receivables	65,037	65,707

Fair value of short-term and long-term accounts receivable is presented in Note 30.

Analysis by credit quality of trade and other receivables is as follows:

	At 31 December 2017		At 31 December 2016	
	Trade receivables	Other receivables	Trade receivables	Other receivables
<i>Neither past due nor impaired</i>				
international crude oil and oil products traders	14,188	-	17,079	
Russian crude oil and oil products traders	5,392	-	7,783	-
Russian refineries	12,933	-	14,054	-
central and eastern Europe refineries	14,383	-	11,183	-
Russian tire dealers and automotive manufacturers	3,718	-	2,862	-
Russian construction companies	625	-	1,172	-
unrated	7,512	4,678	6,646	4,170
<i>including related parties</i>	<i>2,374</i>	<i>590</i>	<i>1,072</i>	<i>527</i>
Total neither past due nor impaired	58,751	4,678	60,779	4,170
<i>Past due but not impaired</i>				
less than 90 days overdue	279	67	646	24
91 to 180 days overdue	45	11	42	-
over 180 days overdue	-	26	-	46
Total past due but not impaired	324	104	688	70
<i>Individually determined to be impaired (gross)</i>				
less than 90 days overdue	-	-	-	-
91 to 180 days overdue	-	-	-	-
over 180 days overdue	1,676	3,599	1,409	333
Total individually impaired	1,676	3,599	1,409	333
Less provision for impairment	(1,676)	(2,419)	(1,409)	(333)
Total	59,075	5,962	61,467	4,240

Movements in the provision for impairment for trade and other receivables are as follows:

	2017		2016	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Provision for impairment at 1 January	(1,409)	(333)	(1,517)	(451)
Provision for impairment during the year	(302)	(2,371)	(167)	(140)
Amounts written off during the year as uncollectible	-	-	165	25
Foreign exchange gain	25	-	103	-
Change in Group structure	10	285	7	7
Provision for impairment at 31 December	(1,676)	(2,419)	(1,409)	(333)

NOTE 8: BANKING: LOANS TO CUSTOMERS

	At 31 December 2017	At 31 December 2016
Loans to legal entities	122,699	159,170
Loans to individuals	35,566	35,017
Loans to customers before impairment	158,265	194,187
Provision for impairment	(7,282)	(1,167)
Total loans to customers	150,983	193,020
Less: long term loans	(112,579)	(125,090)
Less: provision for long term loans impairment	6,091	1,167
Total short term loans to customers and current portion of long term loans to customers	44,495	69,100

In 2016 additional provision for impairment of loans to customers of RR 1,167 million was accrued since acquisition of control over Bank ZENIT in October 2016.

As at 31 December 2017 and 2016 the Group granted loans to 17 and 36 customers totalling RR 50,314 million and RR 78,955 million respectively, which individually exceeded 5% of the Bank ZENIT equity.

As at 31 December 2017 and 2016, the total amount of pledged loans to legal entities is RR 3,297 million and RR 7,246 million and loans to individuals is RR 5,985 million and RR 5,435 million respectively. The loans are pledged against the funds accounted within Due to banks and CB RF (Note 18).

The analysis of changes in provision for loan impairment for the year ended 31 December 2017 is presented in the table below:

	Loans to legal entities	Loans to individuals	Total
Provision for loan impairment at 1 January 2017	(1,030)	(137)	(1,167)
Net provision charge for loan impairment during the period	(8,194)	(491)	(8,685)
Loans and advances to customers written off during the period	-	41	41
Cession	2,336	26	2,362
Forex translation	167	-	167
Provision for loan impairment at 31 December 2017	(6,721)	(561)	(7,282)

Risk concentrations by customer industry within the customer loan portfolio are as follows:

	At 31 December 2017		At 31 December 2016	
	Carrying value	Share in customer loan portfolio, %	Carrying value	Share in customer loan portfolio, %
Trade	28,480	18.00%	37,883	19.51%
Manufacturing	24,676	15.59%	34,895	17.97%
Construction	23,996	15.16%	33,733	17.37%
Services	29,298	18.51%	33,811	17.41%
Food	3,547	2.24%	4,983	2.57%
Finance	7,907	5.00%	6,765	3.48%
Agriculture	1,187	0.75%	2,653	1.37%
Oil and gas	1,376	0.87%	1,629	0.84%
Individuals, including:	35,566	22.47%	35,017	18.03%
mortgage loans	23,347	14.75%	23,182	11.94%
consumer loans	10,634	6.72%	10,105	5.20%
car loans	999	0.63%	973	0.50%
plastic cards overdrafts	585	0.37%	638	0.33%
other	1	0.00%	119	0.06%
Other	2,232	1.41%	2,824	1.45%
Total loans to customers before impairment	158,265	100%	194,193	100%

Loans to customers' credit quality analysis is presented in Note 30.

NOTE 9: OTHER FINANCIAL ASSETS

Short-term other financial assets comprise the following:

	At 31 December 2017	At 31 December 2016
Loans and receivables:	1,873	42,976
Notes receivable	1	3
Loans (net of provision for impairment of RR 0 million and RR 5 million as of 31 December 2017 and 2016)	455	1,107
Bank deposits (net of provision for impairment of RR 5,547 million and RR 5,400 million as of 31 December 2017 and 2016)	2	32,206
Due from banks	956	3,022
REPO with banks	459	6,638
Financial assets at fair value through profit or loss:	8,501	8,190
held by the Group	6,006	8,190
pledged under sale and repurchase agreements	2,495	-
Available-for-sale financial assets:	10,656	4,254
held by the Group	6,680	4,254
pledged under sale and repurchase agreements	3,976	-
Held to maturity investments:	47,895	2,511
held by the Group	32,362	2,511
pledged under sale and repurchase agreements	15,533	-
Total short-term financial assets	68,925	57,931

Other long-term financial assets comprise the following:

	At 31 December 2017	At 31 December 2016
Loans and receivables:	13,406	4,484
Notes receivable (net of provision for impairment of RR 318 million as of 31 December 2017 and 2016)	455	455
Loans to employees (net of provision for impairment of RR 1,420 million and RR 1,476 million as of 31 December 2017 and 2016)	1,558	1,018
Other loans (net of provision for impairment of RR 7,894 million and RR 0 million as of 31 December 2017 and 2016)	10,866	2,284
Bank deposits	300	500
Due from banks	227	227
Available-for-sale financial assets	31,049	31,864
held by the Group	31,049	31,864
pledged under sale and repurchase agreements	-	-
Held to maturity investments	7,909	8,049
held by the Group	7,909	8,049
pledged under sale and repurchase agreements	-	-
Total long-term financial assets	52,364	44,397

Fair value, credit quality and maturity analysis for financial assets are presented in Note 30.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit and loss held by the Group comprise the following:

	At 31 December 2017	At 31 December 2016
Held-for-trading:		
Russian government and municipal debt securities	1,564	1,928
Corporate debt securities	4,265	5,673
Corporate shares	177	589
Total financial assets at fair value through profit and loss	6,006	8,190

Corporate bonds consist of Russian Ruble, US Dollar and Euro denominated bonds and Eurobonds issued by Russian banks and companies. These bonds mature from 2018 to 2034. The annual coupon rates on these securities range from 4.1% to 13.0%, and yields to maturity vary from 2.8% to 10.4%.

Municipal bonds consist of Russian Ruble denominated bonds issued by regional and municipal authorities of the Russian Federation and mature from 2018 to 2024. The annual coupon rates on these securities range from 7.3% to 11.8%, and yields to maturity vary from 6.1% to 8.5%.

Federal loan bonds consist of Russian Ruble denominated government securities issued by the Ministry of Finance of the Russian Federation, which are commonly referred to as "OFZ" and Russian Federation Eurobonds. These bonds mature from 2019 to 2033. The annual coupon rates on these securities vary from 2.5% to 12.8%, and yield to maturity vary from 4.2% to 9.5%.

Corporate shares include quoted shares of Russian companies and banks.

Financial assets at fair value through profit and loss pledged under sale and repurchase agreements are comprised of the following:

	At 31 December 2017	At 31 December 2016
Held-for-trading:		
Russian government and municipal debt securities	1,022	-
Corporate debt securities	1,473	-
Total financial assets at fair value through profit and loss	2,495	-

Due to banks in amount of RR 1,795 million were collateralized by these securities.

Available-for-sale financial assets

Available for sale financial assets held by the Group comprise of the following:

	At 31 December 2017	At 31 December 2016
Russian government and municipal debt securities	1,723	543
Corporate debt securities	10,226	7,822
Corporate shares	12,824	8,150
Investment fund units	12,956	19,603
Total available-for-sale financial assets held by the Group	37,729	36,118

Corporate bonds consist of Russian Ruble, US Dollar and Euro denominated bonds and Eurobonds issued by Russian banks and companies. These bonds mature from 2018 to 2032. The annual coupon rates on these securities range from 0.5% to 15%, and yields to maturity vary from 9.3% to 31.1%.

Municipal bonds consist of Russian Ruble denominated bonds issued by regional and municipal authorities of the Russian Federation and mature in 2020. The annual coupon rate on these securities is 8.2% and yield to maturity is 8.3%.

Federal loan bonds consist of OFZ and Russian Federation Eurobonds and mature in 2028. The annual coupon rates on these securities vary from 7.1% to 12.8%, and yield to maturity vary from 4.2% to 7.9%.

Corporate shares include quoted and unquoted shares of Russian companies and banks. At 31 December 2016 unquoted securities included investment in AK BARS Bank ordinary shares (8.6%) in the amount of RR 2,300 million. In June 2017 the Company acquired of 5 billion of AK BARS Bank's ordinary shares with par value of RR 1 per share that were placed via additional share issuance of AK BARS Bank. As a result of this transaction, the Group's share in AK BARS Bank increased to 17.24% (RR 7,300 million).

Investment fund units are solely presented with investment in closed mutual investment rental fund AK BARS – Gorizont. The main assets of this fund are the land plots located in Tatarstan Republic. The Group does not exercise significant influence over this investment and therefore accounts for it as an available-for-sale investment. For the year ended 31 December 2017 the Group recognized loss on impairment of investment in closed mutual investment rental fund AK BARS - Gorizont in the amount RR 6,647 million.

Available for sale financial assets pledged under sale and repurchase agreements comprise of the following:

	At 31 December 2017	At 31 December 2016
Russian government and municipal debt securities	1,052	
Corporate debt securities	2,924	-
Total available-for-sale financial assets pledged under sale and repurchase agreements	3,976	-

Due to banks in amount of RR 3,387 million were collateralized by these securities.

Held to maturity investments

Held to maturity investments held by the Group comprise of the following:

	At 31 December 2017	At 31 December 2016
Municipal debt securities	3,970	483
Corporate debt securities	36,301	10,077
Total held to maturity securities held by the Group	40,271	10,560

Municipal bonds consist of Russian Ruble denominated bonds issued by regional and municipal authorities of the Russian Federation and mature from 2018 to 2025. The annual coupon rates on these securities range from 7.7% to 14.2%, and yields to maturity vary from 8.6% to 9.7%.

Corporate bonds consist of Russian Ruble, US Dollars and Euro denominated bonds and Eurobonds issued by Russian banks and companies. These bonds mature from 2018 to 2032. The annual coupon rates on these securities range from 0.5% to 13.1%, and yields to maturity vary from 2.6% to 10%.

Held to maturity investments pledged under sale and repurchase agreements comprise of the following:

	At 31 December 2017	At 31 December 2016
Municipal debt securities	2,191	-
Corporate debt securities	13,342	-
Total held to maturity securities pledged under sale and repurchase agreements	15,533	-

Due to banks in amount of RR 14,575 million were collateralized by these securities.

NOTE 10: INVENTORIES

	At 31 December 2017	At 31 December 2016
Materials and supplies	13,692	9,696
Crude oil	8,745	9,996
Refined oil products	12,541	9,087
Petrochemical supplies and finished goods	4,340	4,183
Other	-	309
Total inventories	39,318	33,271

NOTE 11: PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets are as follows:

	At 31 December 2017	At 31 December 2016
Prepaid export duties	3,003	4,490
VAT recoverable	6,817	5,375
Advances	10,534	11,475
Prepaid transportation expenses	1,247	1,679
Other	1,522	870
Prepaid expenses and other current assets	23,123	23,889

NOTE 12: BANKING: NON-CURRENT ASSETS HELD FOR SALE

	2017	2016
At 1 January	4,247	-
Additions as a result of acquisition of subsidiary	-	4,347
Addition by taking possession of collateral	2,231	217
Impairment	(1,105)	(159)
Reclassifications	(2,294)	-
Disposal as a result of sale	(897)	(158)
At 31 December	2,182	4,247

As at 31 December 2017 and 2016 non-current assets held for sale include real estate which the Group received in the course of its banking activities by taking possession of collateral held as security for loans and receiving other property. The carrying amount of non-current assets held for sale will be recovered through a sale transaction.

The property in the amount of RR 897 million has been converted into cash during the year ended 31 December 2017 with a gain of RR 4 million.

NOTE 13: PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Buildings and constructions	Machinery and equipment	Construction in progress	Total
Cost					829,844
As of 31 December 2015	359,901	186,248	147,972	135,723	829,844
Additions	19	-	1	92,780	92,800
Disposals	(497)	(1,358)	(524)	(1,995)	(4,374)
Changes in Group structure (Note 29)	(58,426)	(3,257)	(20,776)	(230)	(82,689)
Transfers	36,742	15,869	4,852	(57,463)	-
Changes in decommissioning provision	(6,253)	-	-	-	(6,253)
As of 31 December 2016	331,486	197,502	131,525	168,815	829,328
Depreciation, depletion and amortisation					
As of 31 December 2015	171,366	32,194	68,506	-	272,066
Depreciation charge	10,723	4,693	7,900	-	23,316
Disposals	(370)	(831)	(453)	-	(1,654)
Changes in Group structure (Note 29)	(29,214)	(2,078)	(16,722)	-	(48,014)
As of 31 December 2016	152,505	33,978	59,231	-	245,714
Net book value					
As of 31 December 2015	188,535	154,054	79,466	135,723	557,778
As of 31 December 2016	178,981	163,524	72,294	168,815	583,614
Cost					
As of 31 December 2016	331,486	197,502	131,525	168,815	829,328
Additions	-	-	-	88,514	88,514
Disposals	(697)	(599)	(954)	(1,760)	(4,010)
Changes in Group structure	-	214	(647)	5	(428)
Transfers	46,438	(1,045)	15,015	(60,408)	-
Changes in decommissioning provision	5,101	-	-	-	5,101
As of 31 December 2017	382,326	196,072	144,939	195,168	918,505
Depreciation, depletion and amortisation					
As of 31 December 2016	152,505	33,978	59,231	-	245,714
Depreciation charge	11,328	4,852	7,440	-	23,620
Disposals	(610)	(123)	(924)	-	(1,657)
Changes in Group structure	-	25	(657)	-	(632)
Transfers	5,133	(4,968)	(165)	-	-
As of 31 December 2017	168,356	33,764	64,925	-	267,045
Net book value					
As of 31 December 2016	178,981	163,524	72,294	168,815	583,614
As of 31 December 2017	213,970	162,308	80,014	195,168	651,460

Within construction in progress there are advances for construction of RR 10,047 million and RR 7,329 million at 31 December 2017 and 2016, respectively.

As stated in Note 3, the Group calculates depreciation, depletion and amortization for oil and gas properties using the units-of-production method over proved or proved developed oil and gas reserves depending on the nature of the costs involved. The proved or proved developed reserves used in the units-of-production method assume the extension of the Group's production license beyond their current expiration dates until the end of the economic lives of the fields as discussed below in further detail.

The Group's oil and gas fields are located principally on the territory of Tatarstan. The Group obtains licenses from the governmental authorities to explore and produce oil and gas from these fields. The Group's existing production licenses for its major fields expire, after their recent extension, between 2026 and 2038, with other production licenses expiring between 2018 and 2044. The economic lives of many of the Group's licensed fields extend beyond these dates. Under Russian law, the Group is entitled to renew the licenses to the end of the economic lives of the fields, provided certain conditions are met. Article 10 of the Subsoil Law provides that a license to use a field "shall be" extended at its scheduled termination at the initiative of the subsoil user if necessary to finish production in the field, provided that there are no violations of the conditions of the license. The legislative history of Article 10 indicates that the term "shall" replaced the term "may" in August 2004, clarifying that the subsoil user has the right to extend the license term so long as it has not violated the conditions of the license. In August 2006, the term of the Group's license to produce oil and gas from the Group's largest field, Romashkinskoye, was extended through 2038. And the license to produce oil and gas from the Group's second largest field, Novo-Elkhovskoe, was extended through 2026. The Group's right to extend licenses is, however, dependent on the Group continuing to comply with the terms of the licenses, and management has the ability and intent to do so.

Management plans to request the extension of the licenses that have not yet been extended. The Group's current production plans are based on the assumption, which management considers to be reasonably certain, that the Group will be able to extend all existing licenses.

These plans have been designed on the basis that the Group will be producing crude oil through the economic lives of the fields and not with a view to exploiting the Group's reserves to maximum effect only through the license expiration dates.

Management is reasonably certain that the Group will be allowed to produce oil from the Group's reserves after the expiration of existing production licenses and until the end of the economic lives of the fields. "Reasonable certainty" is the applicable standard for defining proved reserves under the SEC's Regulation S-X, Rule 4-10.

Exploration and evaluation assets included in Oil and Gas assets above, net book value:

At 1 January 2016	7,045
Additions	3,076
Reclassification (to)/from development assets	6,948
Charged to expense	-
At 31 December 2016	17,069
Additions	2,091
Reclassification (to)/from development assets	(640)
Charged to expense	-
At 31 December 2017	18,520

For the years ended 31 December 2017 and 2016, operating and investing cash flows used for exploration and evaluation activities amounted to RR 1,143 million and RR 2,091 million and RR 1,185 million and RR 3,076 million, respectively.

Social assets. During the years ended 31 December 2017 and 2016 the Group transferred social assets with a net book value of RR 9 million and RR 264 million, respectively, to local authorities. At 31 December 2017 and 2016 the Group held social assets with a net book value of RR 6,025 million and RR 5,954 million, respectively, all of which were constructed after the privatization date.

The social assets comprise mainly dormitories, hotels, gyms and other facilities. The Group may transfer some of these social assets to local authorities in the future, but does not expect these to be significant. The Group incurred social infrastructure expenses of RR 5,418 million and RR 4,918 million for the years ended 31 December 2017 and 2016, respectively, for maintenance that mainly relates to housing, schools and cultural buildings.

Decommissioning provisions.

The following tables summarize the Group's decommissioning provisions and decommissioning costs activities:

	2017	2016
Balance, beginning of period	30,406	33,417
Unwinding of discount	2,603	3,271
New obligations	1,905	770
Release of existing obligations	(31)	(29)
Changes in estimates	3,196	(7,023)
Balance, end of period	38,081	30,406
Less: current portion of decommissioning provisions (Note 17)	(64)	(82)
Long-term balance, end of period	38,017	30,324

In 2017 and 2016 the Group recorded the change in estimate for oil and gas properties decommissioning primarily due to the change in discount rate and expected long-term inflation rate.

Key assumptions used for evaluation of decommissioning provision were as follows:

	At 31 December 2017	At 31 December 2016
Discount rate	7.70%	8.56%
Inflation rate	4.00%	4.30%

Income tax expense comprises the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Current income tax expense	(34,227)	(29,657)
Deferred income tax expense	(5,419)	(5,184)
Income tax expense for the year	(39,646)	(34,841)

Presented below is reconciliation between the provision for income taxes and taxes determined by applying the statutory tax rate 20% to income before income taxes:

	Year ended 31 December 2017	Year ended 31 December 2016
Profit before income taxes	163,538	140,971
Theoretical income tax expense at statutory rate	(32,708)	(28,194)
Increase due to:		
Non-deductible expenses, net	(7,076)	(5,484)
Unrecognized deferred tax assets	-	(1,163)
Other	138	-
Income tax expense	(39,646)	(34,841)

At 31 December 2017 no provision has been made for taxable temporary differences on RR 39,570 million (2016: RR 35,385 million) of undistributed earnings of certain subsidiaries. These earnings have been and will continue to be reinvested. These earnings could become subject to additional tax of approximately RR 2,363 million (2016: RR 2,191 million) if they were remitted as dividends.

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for statutory tax purposes. Deferred tax assets (liabilities) are comprised of the following:

	At 31 December 2017	At 31 December 2016
Tax loss carry forward	3,517	3,736
Decommissioning provision	7,603	6,065
Prepaid expenses and other current assets	166	304
Long-term investments	74	85
Other	2,001	886
Deferred income tax assets	13,361	11,076
Property, plant and equipment	(36,681)	(29,145)
Inventories	(1,914)	(1,896)
Accounts receivable	(494)	(413)
Long-term investments	(11)	(166)
Other liabilities	(82)	(13)
Deferred income tax liabilities	(39,182)	(31,633)
Net deferred tax liability	(25,821)	(20,557)

Deferred income taxes are reflected in the consolidated statement of financial position as follows:

	At 31 December 2017	At 31 December 2016
Deferred income tax asset	1,502	2,043
Deferred income tax liability	(27,323)	(22,600)
Net deferred tax liability	(25,821)	(20,557)

Deferred tax assets are recognized for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the unused tax losses/credits can be utilized.

Tax losses carry forward. At 31 December 2017, the Group had recognized deferred income tax assets of RR 3,517 million (RR 3,736 million at 31 December 2016) in respect of unused tax loss carry forwards of RR 17,587 million (RR 18,680 million at 31 December 2016). Starting from 1 January 2017 the amendments to the Russian tax legislation became effective in respect of tax loss carry forwards. The amendments affect tax losses incurred and accumulated since 2007 that have not been utilised. The ten year expiry period for tax loss carry-forwards no longer applies. The amendments also set limitation on utilisation of tax loss carry forwards that will apply during the period from 2017 to 2020. The amount of losses that can be utilised each year during that period is limited to 50% of annual taxable profit. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments including expectations regarding the Group's ability to generate sufficient future taxable income and the projected time period over which deferred tax benefits will be realized.

The Group doesn't have any unrecognised potential deferred tax assets in respect of deductible temporary differences.

The Group is subject to a number of taxes other than income taxes, which are detailed as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Mineral extraction tax	186,585	119,393
Property tax	5,896	5,623
Penalties and interest	123	-
Other	1,712	1,574
Total taxes other than income taxes	194,316	126,590

For mineral extraction tax for fields whose depletion rate exceeds a certain threshold the Group received a benefit of approximately RR 30.4 billion and RR 23.2 billion for the years ended 31 December 2017 and 2016, respectively.

At 31 December 2017 and 2016 taxes payable were as follows:

	At 31 December 2017	At 31 December 2016
Mineral extraction tax	20,030	14,652
Value Added Tax	2,789	2,707
Export duties	1,344	1,277
Property tax	774	1,128
Other	2,869	3,973
Total taxes payable	27,806	23,737

NOTE 15: OTHER LONG-TERM ASSETS

Other long-term assets are as follows:

	At 31 December 2017	At 31 December 2016
Prepaid computer programs	1,321	1,721
Precious metals	248	974
Prepaid license agreements	7	11
Other long-term assets	4,586	2,972
Total other long-term assets	6,162	5,678

NOTE 16: DEBT

	At 31 December 2017	At 31 December 2016
Short-term debt		
Bonds issued	6,836	3,903
Debt securities issued	3,330	4,894
US \$2.0 billion 2010 credit facility	-	830
US \$75 million 2011 credit facility	1,508	2,001
US \$144.5 million 2011 credit facility	2,917	3,584
EUR 55 million 2013 credit facility	2,364	2,925
RR 40,000 million 2017 credit facility	20,955	-
Other debt	2,006	695
Total short-term debt	39,916	18,832
Current portion of long-term debt	-	456
Total short-term debt, including current portion of long-term debt	39,916	19,288
Long-term debt		
Bonds issued	906	28,795
Subordinated debt	4,492	4,497
Debt securities issued	98	-
Other debt	1,400	2,006
Total long-term debt	6,896	35,298
Less: current portion of long-term debt	-	(456)
Total long-term debt, net of current portion	6,896	34,842

Fair value of debt is presented in Note 30. Maturity and currency analysis of debt is presented in Note 30. Debt issued to related parties is presented in Note 27.

Credit facilities. In June 2010, the Company entered into a triple (3, 5 and 7 year) tranches secured credit facility for up to US \$2 billion arranged by Barclays Bank PLC, BNP Paribas (Suisse) SA, Bank of Moscow, Bank of Tokyo-Mitsubishi UFJ LTD, Citibank N.A., Commerzbank Aktiengesellschaft, ING Bank N.V., Natixis SA, Nordea Bank, The Royal Bank of Scotland N.V., Sberbank, Société Générale, Sumitomo Mitsui Finance Dublin LTD, Unicredit Bank AG, VTB Bank and WestLB AG. The loan is collateralized with the contractual rights and receivables under an export contract between Tatneft and Tatneft Europe AG under which Tatneft supplies no less than 750,000 metric tons of oil in a calendar quarter. 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 facility was fully repaid in June 2017.

In November 2011, TANECO entered into a US \$75 million credit facility with equal semi-annual repayments during ten years. The loan was arranged by Nordea Bank AB (Publ), Société Générale and Sumitomo Mitsui Banking Corporation Europe Limited. The loan bears interest at LIBOR plus 1.1% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios.

In November 2011, TANECO entered into a US \$144.5 million credit facility with equal semi-annual repayments during ten years with the first repayment date on 15 May, 2014. The loan was arranged by Société Générale, Sumitomo Mitsui Banking Corporation Europe Limited and the Bank of Tokyo-Mitsubishi UFJ LTD. The loan bears interest at LIBOR plus 1.25% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios.

In May 2013, TANECO entered into a Euro 55 million credit facility with equal semi-annual repayment during ten years. The loan was arranged by The Royal Bank of Scotland plc and Sumitomo Mitsui Banking Corporation Europe Limited. The loan bears interest at LIBOR plus 1.5% per annum. In accordance with credit facility terms repayment of the debt is performed in USD. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios. In May 2016 this credit facility was assigned to Citibank Europe plc, UK Branch with credit facility details remaining.

In December 2017 the Company entered into revolving credit facility with differentiated interest rates for up to RR 40,000 million. The credit facility is arranged by Sberbank and expires in 2020. In December 2017 the Company received a loan under this credit facility at rates ranging from 6.91% to 7.44% per annum which matures in 2018.

Bonds issued. At 31 December 2017 and 2016 bonds issued are bonds denominated in Russian Rubles issued by Bank ZENIT that mature between 2018 and 2025. At 31 December 2017 and 31 December 2016 the annual coupon rates on these securities range from 8.5% to 10.75% and 8.5% to 12.5% respectively, and yields to maturity vary from 7.9% to 9.69% and from 7.5% to 12.3% respectively. The majority of bonds allow early repurchase at the request of the bond holder as set in the respective offering documents. In addition, the issuer at any time with the consent of the bond holder, may purchase / repay the bonds early with the possibility of subsequently placing the bonds in the market. Such purchase / repayment of the bonds does not constitute an early redemption.

Subordinated debt. At 31 December 2017 and 2016 subordinated debt is presented with three subordinated loans raised by Bank ZENIT. Subordinated loans bear interest at rates ranging from 6.5% to 8.81% and mature from 2019 to 2024 at 31 December 2017 and at rates ranging from 6.4% to 7.1% and mature from 2019 to 2024 at 31 December 2016.

In relation to two of subordinated loans maturing in 2021 and 2024 bearing an interest rate of 8.81% the Group is obliged to comply with certain financial covenants. At 31 December 2017 the Group was in compliance with these covenants.

In September 2015 Bank ZENIT received Federal government bonds (OFZ) under the loan agreement with the Deposit Insurance Agency (DIA) in the amount of RR 9,933 million. Federal government bonds received from the Deposit Insurance Agency is accounted as off-balance sheet item. The funding increased capital (calculated in accordance with the requirements of the CBR) and step up lending to companies operating in priority sectors of economy, small and medium-sized businesses, as well as mortgage lending.

Debt securities issued. At 31 December 2017 debt securities are promissory notes issued by Bank ZENIT at a discount to nominal value and interest bearing promissory notes denominated in Russian Rubles and US Dollars with effective interest rates from 1.4% to 10.05% and from 1.4% to 2% respectively. Maturity dates of these promissory notes vary from 2018 to 2028. At 31 December 2016 debt securities are promissory notes issued by Bank ZENIT at a discount to nominal value and interest bearing promissory notes denominated in Russian Rubles, US Dollars and Euro with effective interest rates from 3.99% to 10.73%, from 2% to 5.99% and from 1.65% to 2.8% respectively. Maturity dates of these promissory notes varied from 2017 to 2028.

As at 31 December 2017 and 2016 non-interest-bearing promissory notes of the aggregate nominal value of RR 505 million and RR 915 million respectively were issued by the Group for settlement purposes and mature primarily on demand.

NOTE 17: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	At 31 December 2017	At 31 December 2016
Trade payables	22,366	25,575
Dividends payable	6,032	149
Other payables	3,400	430
Total financial liabilities within trade and other payables	31,798	26,154
Salaries and wages payable	3,374	4,555
Advances received from customers	8,003	10,361
Current portion of decommissioning provisions (Note 13)	64	82
Other accounts payable and accrued liabilities	4,322	4,357
Total non-financial liabilities	15,763	19,355
Accounts payable and accrued liabilities	47,561	45,509

The fair value of each class of financial liabilities included in short-term trade and other payables at 31 December 2017 and 2016 is presented in Note 30.

NOTE 18: BANKING: DUE TO BANKS AND CB RF

	At 31 December 2017	At 31 December 2016
Term deposits from other banks	5,994	11,810
Term deposits from CB RF	6,826	6,080
REPO	19,757	-
Correspondent accounts and other banks' overnight deposits	1,063	460
Total due to banks and CB RF	33,640	18,350
Less: long term due to banks and CB RF	(5,669)	(4,415)
Total short term of due to banks and CB RF	27,971	13,935

Included in amounts due to banks as at 31 December 2017 and 2016 are RR 16,514 million and RR 12,510 million of correspondent accounts and term deposits from three Russian banks, which individually exceeded 5% of the Bank ZENIT equity. Term deposits from the CB RF mature from 5 March 2018 to 18 September 2020. The interest rates on term deposits from CB RF range from 6.5% to 10.75%. As at 31 December 2017 and 2016 term deposits in the amount of RR 8,157 million and RR 10,974 million are collateralized with loans to customers in the amount of RR 9,282 million and RR 12,669 million discussed in Note 8.

As at 31 December 2017 RR 19,757 million of due to banks was received under sale and repurchase agreements, fair value of securities pledged amounts to 22,004 million (Note 9).

NOTE 19: BANKING: CUSTOMER ACCOUNTS

	At 31 December 2017	At 31 December 2016
State and public organizations		
Current / settlement accounts	612	739
Term deposits	639	4,457
Other legal entities		
Current / settlement accounts	19,963	21,022
Term deposits	27,390	44,640
Individuals		
Current / settlement accounts	12,489	11,578
Term deposits	97,821	98,278
Total customer accounts	158,914	180,714
Less: long-term customer accounts	(478)	(3,292)
Total short-term customer accounts	158,436	177,422

Within customer accounts at 31 December 2017 and 2016 there are RR 8,171 million and RR 31,432 million of current/ settlement accounts and term deposits from 3 and 11 customers respectively, which individually exceeded 5% of the Bank ZENIT equity.

Risk concentrations by customer industry within customer accounts are as follows:

	At 31 December 2017		At 31 December 2016	
	Carrying value	Share in customer loan portfolio, %	Carrying value	Share in customer loan portfolio, %
Individuals	110,310	69.41%	109,856	60.79%
Finance	11,709	7.37%	34,953	19.34%
Oil and gas	2,575	1.62%	3,193	1.77%
Trade	6,051	3.81%	7,358	4.07%
Services	13,165	8.28%	8,368	4.63%
Manufacturing	7,581	4.77%	5,176	2.86%
Construction	5,257	3.31%	6,456	3.57%
Other	2,266	1.43%	5,354	2.97%
Total customer accounts	158,914	100%	180,714	100%

NOTE 20: OTHER LONG-TERM LIABILITIES

Other long-term liabilities are as follows:

	At 31 December 2017	At 31 December 2016
Pension liability	4,040	3,856
Other long-term liabilities	6	1
Total other long-term liabilities	4,046	3,857

Pension liabilities

The Group has various pension plans covering substantially all eligible employees and members of management. The amount of contributions, frequency of benefit payments and other conditions of these plans are regulated by the “Statement of Organization of Non-Governmental Pension Benefits for OAO Tatneft Employees” and the contracts concluded between the Company or its subsidiaries, management, and the JSC “National Non-Governmental Pension Fund” (the Fund). In accordance with these contracts the Group is committed to make certain contributions on behalf of all employees and guarantees a minimum benefit upon retirement. Contributions or benefits are generally

based upon grade and years until official retirement age (age 60 for men and 55 for women), and in the case of management are based upon years of service. In accordance with the provisions of collective agreements concluded on an annual basis between the Company or its subsidiaries and their employees, the Group is obligated to pay certain post-employment benefits, the amounts of which are generally based on salary grade and years of service at the time of retirement.

Principal actuarial assumptions are as follows:

	At 31 December 2017	At 31 December 2016
Discount rate	7.38%	8.33%
Rate of increase in salary levels	6.01%	7.23%
Actuarial rate of NPF	3.0%	3.0%
Statutory insurance contributions rate	30.77%	31.73%

Management has assessed that reasonable changes in the principal significant actuarial assumptions will not have a significant impact on the consolidated statements of profit of loss and other comprehensive income or the liability recognized in the consolidated statement of financial position.

Amounts recognized in the consolidated statement of financial position:

	At 31 December 2017	At 31 December 2016
Present value of defined benefit obligation	5,717	5,442
Less: Fair value of plan assets	(1,677)	(1,586)
Net defined benefit liability	4,040	3,856

Change in the defined benefit obligation amount:

	2017	2016
Defined benefit obligation at beginning year	5,442	5,834
Effect of exchange rate changes	(11)	(38)
Current service cost	119	151
Interest cost	340	566
Benefits paid	(455)	(604)
Remeasurement (gains)/losses:		
Actuarial (gains)/losses arising from changes in financial assumptions	(77)	775
Actuarial losses arising from changes in demographic assumptions	295	11
Actuarial losses/(gains) – Experience	64	(95)
Disposal of subsidiaries (Note 29)	-	(1,158)
Defined benefit obligation at the end of the year	5,717	5,442

The amounts recognized in profit or loss are as follows:

	2017	2016
Service cost	119	151
Net interest expense	208	376
Remeasurement losses/(gains):		
Actuarial (gains)/losses arising from changes in financial assumptions	(20)	141
Actuarial losses arising from changes in demographic assumptions	54	3
Actuarial gains – Experience	(29)	(125)
Disposal of subsidiaries (Note 29)	-	(711)
Total included in ‘employee benefits expense’	332	(165)

The amounts recognized in other comprehensive income are as follows:

	2017	2016
Remeasurement (gains)/losses:		
Actuarial (gains)/losses arising from changes in financial assumptions	(57)	634
Actuarial losses arising from changes in demographic assumptions	241	8
Actuarial losses – Experience	77	30
Effect of exchange rate changes	(11)	(38)
Total included in other comprehensive income	250	634

Reconciliation of the opening and closing balances of plan assets’ fair value:

	2017	2016
Plan assets at beginning of year	1,586	1,963
Interest income	132	190
Contributions	136	183
Benefits paid	(193)	(305)
Actuarial gain	16	2
Disposal of subsidiaries (Note 29)	-	(447)
Plan assets at year end	1,677	1,586

The annual contributions made by the Group are managed by the Fund. The primary investment objectives of the Fund are to achieve the highest rate of total return within prudent levels of risk and liquidity, to diversify and mitigate potential downside risk associated with the investments, and to provide adequate liquidity for benefit payments and portfolio management.

Plan assets structure:

	At 31 December 2017	At 31 December 2016
Russian corporate bonds and equity securities of Russian issuers	57.99%	49.36%
Russian government and regions bonds	17.83%	11.86%
Bank deposits	21.97%	27.87%
Foreign government securities	2.11%	6.61%
Other	0.1%	4.3%
Total plan assets	100%	100%

Based on Group’s best estimate expected contributions to be paid during the next annual reporting period are RR 668 million.

NOTE 21: SHAREHOLDERS’ EQUITY

Authorized share capital. At 31 December 2017 and 2016 the authorized share capital consists of 2,178,690,700 voting common shares and 147,508,500 non-voting preferred shares; both classes of shares have a nominal value of RR 1.00 per share. All issued shares are fully paid. The nominal value of authorised share capital differs from its carrying value due to effect of the hyperinflation of capital contributions made before 2003.

Golden share. Tatarstan holds a “Golden Share” – a special governmental right – in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and Revision Commission of the Company and to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization and “major” and “interested party” transactions as defined under Russian law.

The Golden Share currently has an indefinite term. The Tatarstan government also controls or exercises significant influence over a number of the Company’s suppliers, contractors and customers (see also Note 1).

Rights attributable to preferred shares. Unless a different amount is approved at the annual shareholders meeting, preferred shares earn dividends equal to their nominal value. The amount of a dividend for a preferred share may not be less than the amount of a dividend for a common share. Preferred shareholders may vote at meetings only on the following decisions:

- the amendment of the dividends payable per preferred share;
- the issuance of additional shares with rights greater than the current rights of preferred shareholders; and
- the liquidation or reorganization of the Company.

The decisions listed above can be made only if approved by 75% of preferred shareholders.

Holders of preferred shares acquire the same voting rights as holders of common shares in the event that dividends are either not declared, or declared but not paid, on preferred shares. On liquidation, the shareholders are entitled to receive a distribution of net assets. Under Russian Joint Stock Companies Law and the Company's charter in case of liquidation, preferred shareholders have priority over shareholders holding common shares to be paid declared but unpaid dividends on preferred shares and the liquidation value of preferred shares, if any.

Amounts available for distribution to shareholders. Amounts available for distribution to shareholders are based on the Company's non-consolidated statutory accounts prepared in accordance with RAR, which differ significantly from IFRS (see Note 2). Russian legislation identifies the basis of distribution as the current period net profit calculated in accordance with RAR. However, this legislation and other statutory laws and regulations dealing with distribution rights are open to legal interpretation. For the years ended 31 December 2017 and 2016, the Company had a statutory current profit of RR 100,022 million and RR 104,824 million, respectively.

In December 2017 the shareholders of the Company approved the payment of interim dividends for the nine months ended 30 September 2017 in the amount of RR 27.78 per preference and ordinary share. Dividends were paid in the fourth quarter of 2017 and first quarter 2018. In June 2017 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2016 in the amount of RR 22.81 per preference and ordinary share. In June 2016 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2015 in the amount of RR 10.96 per preference and ordinary share.

Earnings per share. Preference shares are not redeemable and are considered to be participating shares. Basic and diluted earnings per share are calculated by dividing profit or loss attributable to ordinary and preference shareholders by the weighted average number of ordinary and preferred shares outstanding during the period. Profit or loss attributed to equity holders is reduced by the amount of dividends declared in the current period for each class of shares. The remaining profit or loss is allocated to common and preferred shares to the extent that each class may share in earnings if all the earnings for the period had been distributed. Treasury shares are excluded from calculations. The total earnings allocated to each class of shares are determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

	Year ended 31 December 2017	Year ended 31 December 2016
Profit attributable to Group shareholders	123,139	107,389
Common share dividends	(106,900)	(23,116)
Preferred share dividends	(7,462)	(1,617)
Income available to common and preferred shareholders, net of dividends	8,777	82,656
Basic and diluted:		
Weighted average number of shares outstanding (millions of shares):		
Common	2,103	2,113
Preferred	148	148
Combined weighted average number of common and preferred shares outstanding	2,251	2,261
Basic and diluted earnings per share (RR)		
Common	54.73	47.50
Preferred	54.32	47.48

Non-controlling interest. Non-controlling interest is adjusted by dividends paid by the Group's subsidiaries amounting to RR 15 million and RR 3 million at 31 December 2017 and 2016, respectively.

NOTE 22: EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December 2017	Year ended 31 December 2016
Wages and salaries	31,135	29,569
Statutory insurance contributions	8,872	8,656
Share-based Awards granted to directors and employees (Note 3)	-	1,215
Pension costs – defined benefit plans (Note 20)	332	(165)
Other employee benefits	1,390	2,043
Total employee benefit expense	41,729	41,318

Employee benefit expenses are included in operating expenses, selling, general and administrative expenses and maintenance of social infrastructure and transfer of social assets, other expenses and operating expenses on banking activities in the consolidated statements of profit or loss and other comprehensive income.

NOTE 23: INTEREST INCOME AND INTEREST EXPENSE ON NON-BANKING ACTIVITIES

Interest income on non-banking activities comprises the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Interest income from loans and receivables	6,319	5,084
Unwinding of the present value discount of long-term financial assets	175	346
Total interest income	6,494	5,430

Interest expense on non-banking activities comprises the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Bank loans	425	564
Unwinding of the present value discount of decommissioning provision	2,603	3,271
Unwinding of the present value discount of long-term financial assets and liabilities	67	85
Total interest costs recognized in profit or loss	3,095	3,920

NOTE 24: INTEREST INCOME AND EXPENSE ON BANKING ACTIVITY

	Year ended 31 December 2017	Year ended 31 December 2016
Interest income		
Interest income on assets recorded at amortized cost:		
Loans to customers	22,644	5,804
Due from banks	1,820	645
Held to maturity investments	1,209	209
Correspondent accounts	40	6
Total interest income on financial assets recorded at amortized cost		
Interest income on assets at fair value through profit or loss		
Financial assets held-for-trading	528	147
Total interest income on assets at fair value through profit or loss	528	147
Interest income on assets at fair value through OCI		
Available for sale financial assets	1,080	243
Total interest income on assets at fair value through OCI	1,080	243
Total interest income	27,321	7,054
Interest expense		
Interest expense on liabilities recorded at amortized cost:		
Term deposits of individuals	(5,771)	(1,988)
Term deposits of legal entities	(2,674)	(1,430)
RUR-denominated bonds issued	(2,011)	(1,032)
Subordinated debt	(921)	(399)
Term placements of banks	(1,736)	(425)
Debt securities issued	(117)	(105)
Interest expense on liabilities recorded at amortized cost	(13,230)	(5,379)
Total interest expense	(13,230)	(5,379)
Net interest income	14,091	1,675

NOTE 25: FEE AND COMMISSION INCOME AND EXPENSE ON BANKING ACTIVITY

	Year ended 31 December 2017	Year ended 31 December2016
Settlement transactions	2,048	479
Cash transactions	607	170
Operations with foreign currencies	396	100
Guarantees issued	319	80
Transactions with securities	24	6
Asset management	12	4
Other	237	62
Total fee and commission income	3,643	901
Settlement transactions	(797)	(221)
Cash transactions	(124)	(35)
Transactions with securities	(65)	(19)
Operations with foreign currencies	(21)	(8)
Commission on guarantees received	(8)	(1)
Other	(97)	(20)
Total fee and commission expense	(1,112)	(304)
Net fee and commission income	2,531	597

NOTE 26 SEGMENT INFORMATION

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the Board of Directors and the Management Committee and for which discrete financial information is available.

Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

The Group's business activities are conducted predominantly through four main operating segments:

- Exploration and production consists of exploration, development, extraction and sale of own crude oil. Intersegment sales consist of transfer of crude oil to refinery and other goods and services provided to other operating segments,
- Refining and marketing comprises purchases and sales of crude oil and refined products from third parties, own refining activities and retailing operations,
- Petrochemical products include production and sales of tires and petrochemical raw materials and refined products, which are used in production of tires,
- Banking segment includes operations of Banking Group ZENIT.

Other sales include revenues from ancillary services provided by the specialized subdivisions and subsidiaries of the Group, such as sales of oilfield equipment and drilling services provided to other companies in Tatarstan, revenues from the sale of auxiliary petrochemical related services and materials as well as other business activities, which do not constitute reportable business segments.

The Group evaluates performance of its reportable operating segments and allocates resources based on segment earnings, defined as profit before income taxes and non-controlling interest not including interest income, expense, and gains from equity investments, other income (expenses) and foreign exchange loss or gain. Intersegment sales are at prices that approximate market. Group financing (including interest expense and interest income) and income taxes are managed on a Group basis and are not allocated to operating segments.

For the year ended 31 December 2017, revenues of RR 72,733 million or 11% and of RR 71,616 million or 11% of the Group's total sales and operating revenues is derived from two external customers.

For the year ended 31 December 2016, revenues of RR 79,257 million or 14% of the Group's total sales and operating revenues is derived from one external customer.

These revenues represent sales of crude oil and are attributable to the exploration and production segment and refining and marketing segment. Management does not believe the Group is dependent on any particular customer.

Segment sales and other operating revenues. Reportable operating segment sales and other operating revenues are stated in the following table:

	Year ended 31 December 2017	Year ended 31 December 2016
Exploration and production		
Domestic own crude oil	91,781	86,486
CIS own crude oil	20,781	16,572
Non-CIS own crude oil	244,947	173,371
Other	4,131	4,601
Intersegment sales	113,245	94,592
Total exploration and production	474,885	375,622
Refining and marketing		
<i>Domestic sales</i>		
Crude oil purchased for resale	418	14,498
Refined products	126,576	123,743
Total Domestic sales	126,994	138,241
<i>CIS sales</i>		
Refined products	12,267	6,979
Total CIS sales ⁽¹⁾	12,267	6,979
<i>Non-CIS sales</i>		
Crude oil purchased for resale	7,289	7,165
Refined products	102,809	81,608
Total non-CIS sales ⁽²⁾	110,098	88,773
Other	7,670	7,008
Intersegment sales	1,031	2,271
Total refining and marketing	258,060	243,272
Petrochemicals		
Tires – domestic sales	35,655	32,861
Tires – CIS sales	8,648	8,443
Tires – non-CIS sales	2,255	1,709
Petrochemical products and other	3,091	2,250
Intersegment sales	973	929
Total petrochemicals	50,622	46,192
Banking		
Interest income	27,321	7,054
Fee and commission income	3,643	901
Total banking	30,964	7,955
Total segment sales	814,531	673,041
Corporate and other sales	12,841	12,833
Elimination of intersegment sales	(115,249)	(97,792)
Total sales and other operating revenues	712,123	588,082

(1) - CIS is an abbreviation for Commonwealth of Independent States (excluding the Russian Federation).

(2) - Non-CIS sales of crude oil and refined products are mainly made to Germany, Switzerland, Netherlands and United Kingdom based traders and Poland based refineries.

Segment earnings.

	Year ended 31 December 2017	Year ended 31 December 2016
Segment earnings.		
Exploration and production	172,731	146,618
Refining and marketing	15,969	13,899
Petrochemicals	2,409	1,463
Banking	(3,155)	(980)
Total segment earnings	187,954	161,000
Corporate and other	(26,187)	(17,896)
Other income/(expenses)	1,771	(2,133)
Profit before income tax	163,538	140,971

For the year ended 31 December 2017 corporate and other loss includes loss on recognition of impairment of investment in closed mutual investment rental fund AK BARS - Gorizont (Note 9), impairment of loans issued and allowance for doubtful account accrual. For the year ended 31 December 2016 corporate and other loss includes loss on deconsolidation of subsidiaries (Note 29), gain on disposal of interest in associate and impairment of bank deposits (Note 30).

Segment assets.

	At 31 December 2017	At 31 December2016
Assets		
Exploration and production	340,525	300,673
Refining and marketing	366,804	356,191
Petrochemicals	26,820	29,977
Banking	251,444	298,025
Corporate and other	121,861	109,731
Total assets	1,107,454	1,094,597

As of 31 December 2017 and 31 December 2016 corporate and other includes RR 33,496 million and RR 27,471 million of property, plant and equipment, RR 23,556 million and RR 25,216 million of available-for-sale investments, RR 23,994 million and RR 0 million of investments held to maturity and RR 12,208 million and RR 50,762 million of bank deposits, respectively.

The Group's assets and operations are primarily located and conducted in the Russian Federation.

Segment depreciation, depletion and amortisation and additions to property, plant and equipment.

	Year ended 31 December 2017	Year ended 31 December 2016
Depreciation, depletion and amortization		
Exploration and production	13,850	11,848
Refining and marketing	8,434	7,120
Petrochemicals	1,781	1,852
Banking	244	56
Corporate and other	576	750
Total segment depreciation, depletion and amortization	24,885	21,626
Additions to property, plant and equipment		
Exploration and production	41,313	47,694
Refining and marketing	39,246	34,433
Petrochemicals	2,428	1,193
Banking	2,489	-
Corporate and other	8,117	3,273
Total additions to property, plant and equipment	93,593	86,593

For the years ended 31 December 2017 and 2016 additions to property, plant and equipment of exploration and production segment are shown net of RR (5,101) million and RR 6,253 million, respectively, associated with changes in the decommissioning provision.

NOTE 27: RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions are entered into in the normal course of business with associates, joint ventures, government related companies, key management personnel and other related parties. These transactions include sales and purchases of refined products, purchases of electricity, transportation services and banking transactions. The Group enters into transactions with related parties based on market or regulated prices.

Associates, joint ventures and other related parties

The amounts of transactions for each period with associates, joint ventures and other related parties are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Revenues and income		
Sales of refined products	11	975
Other sales	255	1,019
Interest income	139	2,113
Costs and expenses		
Other services	896	1,231
Other purchases	574	5,055

On 17 March 2016 the Group acquired a 25% minus 1 share voting interest in Nizhnekamskneftekhim for total cash consideration of RR 19,850 million which was paid in December 2015. 26 December 2016 the Group sold its share in Nizhnekamskneftekhim for RR 32,000 million, received in December 2016. RR 9,800 million gain on sale is presented within gain on disposals of interests in subsidiaries and associates of consolidated statement of profit or loss and other comprehensive income. During 2016 the Group received dividends from Nizhnekamskneftekhim in the amount of RR 1,521 million net of RR 227 million income tax withheld at source. Also in October 2016 the Group increased its share in PJSC Bank ZENIT and, as a result, obtained control. Starting October 2016 the Group consolidates PJSC Bank ZENIT as subsidiary (Note 29).

At 31 December 2017 and 2016 the outstanding balances with associates, joint ventures and other related parties were as follows:

	At 31 December 2017	At 31 December2016
Assets		
Accounts receivable	534	675
Loans to customers	20	-
Other financial assets		
Financial assets at fair value through profit and loss	-	146
Other loans receivable	-	361
Prepaid expenses and other current assets	553	469
Due from related parties short-term	1,107	1,651
Long-term accounts receivable	280	142
Loans to customers	21	-
Other financial assets		
Available-for-sale	3,400	3,758
Other loans receivable	2,443	2,022
Due from related parties long-term	6,144	5,922

	At 31 December 2017	At 31 December2016
Liabilities		
Accounts payable and accrued liabilities	(169)	(47)
Customer accounts	(1,711)	(812)
Due to related parties short-term	(1,880)	(859)
Customer accounts	(165)	
Debt		
Other debt	-	(33)
Due to related parties long-term	(165)	(33)

Russian Government bodies and state organizations

At 31 December 2017 and 2016 the outstanding balances with Russian Government bodies and state organizations were as follows:

	At 31 December 2017	At 31 December 2016
Assets		
Cash and cash equivalents	12,678	19,899
Banking: Mandatory reserve deposits with CB RF	1,916	1,988
Accounts receivable	2,306	1,720
Loans to customers	2,415	2,279
Other financial assets		
Bank deposits	1	409
Available-for-sale	8,006	1,452
Held to maturity	37,795	571
Financial assets at fair value through profit and loss	5,095	3,138
Other loans receivable	120	290
Prepaid expenses and other current assets	6,579	9,052
Due from related parties short-term	76,911	40,798
Long-term accounts receivable	1,086	-
Loans to customers	1,991	-
Other financial assets		-
Available-for-sale	10,680	5,027
Held to maturity	6,781	3,453
Other loans receivable	174	238
Advances for construction	3,510	-
Due from related parties long-term	24,222	8,718

	At 31 December 2017	At 31 December2016
Liabilities		
Accounts payable and accrued liabilities	(873)	(961)
Banking: Due to banks and CB RF	(4,771)	(4,700)
Banking: Customer accounts	(2,418)	(4,061)
Debt		
Other debt	(21,580)	(3)
Due to related parties short-term	(29,642)	(9,725)
Debt		
Subordinated debt	(2,141)	(2,140)
Other debt	(13)	-
Banking: Due to banks and CB RF	(2,055)	(9,624)
Due to related parties long-term	(4,209)	(11,764)

The amounts of transactions for each period with Government bodies and state organizations are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Sales of crude oil	-	567
Sales of refined products	11,093	10,501
Other sales	4,476	3,994
Interest income	4,132	585
Interest expense	1,484	460
Purchases of refined products	34,461	21,941
Purchases of electricity	14,384	12,897
Purchases of transportation services	26,729	22,272
Other services	4,426	3,943
Other purchases	1,340	1,735

In April 2016 the Group purchased 20 million treasury shares from the company related to Russian Government bodies and state organizations in the amount R\$ 7,168 million.

Compensation to key management personnel

As of 31 December 2017 and 2016 total remuneration, including pension cost, for key management personnel was RR 903 million and RR 1,677 million, respectively.

For the year ended 31 December 2016, the Company issued 2.1 million Awards to key management personnel, which were settled at a price of RR 252.81 per Award. The amount of related compensation expense recognized in selling, general and administrative expenses of the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016 was RR 534 million. For the year ended 31 December 2017 the Company's Board of Directors did not approve the issuance of Awards to key management personnel.

At 31 December 2017 and 2016 key management personnel customer accounts in Bank ZENIT amounted to RR 26,312 million and RR 21,667 million, respectively.

NOTE 28: CONTINGENCIES AND COMMITMENTS

Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. Tax, currency and customs legislation is sometimes subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The Russian economy showed signs of recovery in 2017, after the economic downturn of 2015 and 2016. The Russian economy is negatively impacted by a fluctuation of oil prices and ongoing political tensions.

The ongoing uncertainty and volatility of the financial markets and other risks could have significant negative effects on the Russian financial and corporate sectors. Management determined provisions for impairment by considering the economic situation and outlook at the end of the reporting period.

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

Capital commitments. As of 31 December 2017 and 31 December 2016 the Group has outstanding capital commitments of approximately RR 42,758 million and RR 46,176 million, respectively, mainly for the construction of the TANECO refinery complex. These commitments are expected to be paid between 2018 and 2020.

Management believes the Group's current and long-term capital expenditures program can be funded through cash flows generated from existing operations as well as lines of credit available to the Company. The TANECO refinery project has been funded from the Company's cash flow with the support of the bank facilities (Note 16).

Management believes the Company has the ability to obtain syndicated loans and other financings as needed to continue funding the TANECO refinery project, refinance any maturing debts as well as finance business acquisitions and other transactions that may arise in the future.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	At 31 December 2017	At 31 December 2016
Less than one year	160	481
More than one year and less than five years	97	1,115
More than five years	45	21
Total operating lease commitments	302	1,617

Credit related commitments. The credit related commitments comprise loan commitments, letters of credit and guarantees. The contractual commitments represent the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. In general, certain part of Group's import letters of credit are collateralised with cash deposits or collateral pledged to the Group and accordingly the Group normally assumes minimal risk.

Outstanding credit related commitments are as follows:

	At 31 December 2017	At 31 December 2016
Loan commitments	26,421	24,885
Guarantees issued	14,525	15,211
Import letters of credit	1,676	1,082
Total credit related commitments before impairment	42,622	41,178
Less: allowance for credit related commitment impairment	(66)	(988)
Less: client funds held as security for guarantees issued	(658)	(354)
Less: client funds held as security for import letter of credit	(250)	(751)
Total credit related commitments	41,648	39,085

Taxation. The Russian tax legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of the legislation, as applied to the transactions and activities, may be challenged by the tax authorities. The tax authorities may take a different position in their interpretation of the legislation, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

Tax authorities have completed the tax review of the Company's consolidated taxpayers group for the 2013 and 2014. The results of this review did not have a material effect on the Group's results of operations or cash flows.

Tax authorities are currently reviewing the operations of the Company and its subsidiaries for the years ended 31 December 2013 and 2014. While the results of that review have not been finalized, management expects the ultimate outcome will not have a material effect on the Group's results of operations or cash flows.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), with certain specific features. This legislation allows tax authorities to assess additional taxes for controllable transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's length basis.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such prices could be challenged. Management believes that its pricing policy is arm's length and it has implemented internal processes to be in compliance with the new transfer pricing legislation. The Group believes that its interpretation of the new legislation is appropriate and the Group's tax position will be sustained.

Environmental contingencies. The Group, through its predecessor entities, has operated in Tatarstan for many years without developed environmental laws, regulations and the Group's policies. Environmental regulations and their enforcement are currently being considered in the Russian Federation and the Group is monitoring its potential obligations related thereto. The outcome of environmental liabilities under proposed or any future environmental legislation cannot reasonably be estimated at present, but could be material. Under existing legislation, however, management believes that there are no probable liabilities, which would have a material adverse effect on the operating results or financial position of the Group.

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

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

Transportation of crude oil. The Group transports substantially all of the crude oil that it sells in export and local markets through trunk pipelines in Russia that are controlled by Transneft, the state-owned monopoly owner and operator of Russia's trunk crude oil pipelines. The Group's crude oil is blended in the Transneft pipeline system with other crude oil of varying qualities to produce an export blend commonly referred to as Urals. There is currently no equalization scheme for differences in crude oil quality within the Transneft pipeline system and the implementation of any such scheme or the impact of it on the Group's business is not currently determinable.

Ukratnafta. 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 Ukratnafta and seizure of shares of the Group in Ukratnafta. In July 2014 the arbitral tribunal is-

sued 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 (Ukratnafta). 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 consolidated financial statements.

The Group is constantly monitoring the security and political situation in Libya, and plans to resume its operations once the conditions permit to do so.

As of 31 December 2017 the Group had approximately RR 5,759 million of assets associated with its Libyan operations of which RR 5,545 million is related to capitalized exploration costs, RR 210 million of inventories and RR 4 million of cash. As of 31 December 2016 the Group had approximately RR 5,752 million of assets associated with its Libyan operations of which RR 5,532 million is related to capitalized exploration costs, RR 210 million of inventories and RR 10 million of cash.

NOTE 29: PRINCIPAL SUBSIDIARIES

Set out below are the Group's principal subsidiaries at 31 December 2017. The subsidiaries as listed below (except for Nizhnekamskshina) have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals to the voting rights held by Group. Nizhnekamskshina has share capital consisting of ordinary and preference shares. 85% of voting right are held by the Group, and 15% of voting rights are held by non-controlling interests. The country of incorporation or registration is also their principal place of business. For all principal subsidiaries the country of incorporation is the Russian Federation, except for Tatneft Europe AG, which is incorporated in Switzerland.

Name of entity	Principal activity	At 31 December 2017		At 31 December 2016	
		% of ownership Interest held by the Group	% of ownership Interest held by the NCI	% of ownership Interest held by the Group	% of ownership Interest held by the NCI
Bank ZENIT	Banking operations	71,89	28,11	50	50
Tatneft Europe AG	Export oil sales	100	-	100	-
TANECO	Oil refinery	100	-	100	-
Nizhnekamskshina	Tires production	82	18	82	18
Nizhnekamskiy zavod shin CMK	Tires production	100	-	100	-
Trade House Kama	Tires sales	100	-	100	-
Tatneft AZS-Centr	Oil products sales	100	-	100	-
Tatneft AZS-Zapad	Oil products sales	100	-	100	-

In June 2016, the Group increased its equity share in Bank ZENIT through a subscription to the bank's additional share issuance for a cash consideration of RR 6,700 million. As a result of the transaction the Group increased its share in Bank ZENIT from 24.56% to 48.79% as of 30 June 2016. The Group continued to exercise significant influence and applied the equity method of accounting for its investment in Bank ZENIT.

In October 2016, as a result of the mandatory offer procedure in accordance with the Federal Law “On Joint Stock Companies”, the Group acquired additional 1.64% interest in Bank ZENIT for cash consideration of RR 327 million increasing its interest to 50.43% and, as a result, obtained control over Bank ZENIT in October 2016.

At 31 December 2016 the Group had finalized purchase price allocation and in accordance with IFRS 3 “Business Combinations” recognized the acquired assets and liabilities at fair value. The fair values of assets and liabilities acquired are based on discounted cash flow models and market quotes.

Purchase consideration of RR 7,605 includes cash for the 1.64% interest in Bank ZENIT acquired in October 2016 in the amount of RR 327 million and fair value of previously held 48.79% interest accounted for using the equity method in the amount of RR 7,278. As a result of the Group obtaining control over Bank ZENIT, the Group's previously held 48.79% interest was remeasured to fair value, resulting in a loss of RR 2,746 recognized in share of results of associates and joint ventures in the statement of profit or loss and other comprehensive income for year ended 31 December 2016.

In June 2017 the Group acquired an additional issuance of 14 billion ordinary shares of its consolidated subsidiary PJSC Bank ZENIT with par value of RR 1 per share. The additional shares issuance was placed via closed subscription in favour of Tatneft. As a result of this transaction, after giving effect to Bank ZENIT new share issuance, the Group's share in Bank ZENIT increased from 50.43% to 71.8992%. The difference between fair value of consideration paid and carrying value of minority interest of RR 787 million has been charged to additional paid-in-capital within shareholders' equity.

Gain attributable to total non-controlling interest for the year ended 31 December 2017 is RR 753 million, of which RR 577 million is attributed to Bank ZENIT. Loss attributable to total non-controlling interest for the year ended 31 December 2016 is RR 1,259 million, of which RR 790 million is attributed to Bank ZENIT. As of 31 December 2017 and 2016 accumulated non-controlling interest in Bank ZENIT was RR 7,973 million and RR 6,605 million respectively.

On 1 January 2016 several entities of the Group ceased to meet the power criteria for consolidation under IFRS 10 “Consolidated financial statements” and were deconsolidated as of that date. The Group did not have any direct or indirect ownership in the deconsolidated entities but exercised control over them in prior years. Deconsolidation resulted in one-off loss on disposal in amount of RR 8,745 million recorded within gains/(losses) on disposals of interest in subsidiaries and associates in the consolidated statement of profit or loss and other comprehensive income. Non-controlling interest in the consolidated statement of financial position as at 31 December 2016 decreased by RR 29,878 million.

The summarised financial information relating to the subsidiaries with material non-controlling interest was as follows:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (Loss)
Year ended 31 December 2017						
Bank ZENIT Group	123,503	129,344	211,321	13,148	35,414	1,146
Nizhnekamskshina PJSC	1,135	4,195	6,789	-	16,652	167
Total	124,638	133,539	218,110	13,148	52,066	1,313
Year ended 31 December 2016						
Bank ZENIT	152,090	145,708	231,257	53,837	7,955	(2,086)
Nizhnekamskshina	2,413	3,652	4,034	3,584	15,407	(287)
Total	154,503	149,360	235,291	57,421	23,362	(2,373)

The table below summarises the Group's exposure to foreign currency exchange rate risk as of 31 December 2017.

	Russian Ruble	US Dollar	Other	Total
Financial assets				
Cash and cash equivalents				
Cash on hand and in banks	21,748	4,255	3,126	29,219
Term deposits with original maturity of less than three months	11,906	-	-	11,906
Due from banks	1,501	171	-	1,672
Restricted cash	-	-	-	-
Banking: Mandatory reserves with CB RF	1,916	-	-	1,916
Accounts receivable				
Trade receivables	34,733	23,934	408	59,075
Other financial receivables	5,751	14	6	5,771
Banking: Loans to customers	136,085	13 958	940	150,983
Other financial assets				
Bank deposits	302	-	-	302
Due from banks	330	1285	27	1,642
Notes receivable	456	-	-	456
Loans to employees	1,558	-	-	1,558
Other loans	10,769	552	-	11,321
Financial assets at fair value through profit or loss	6,147	2,354		8,501
Available-for-sale financial assets	37,681	3,520	503	41,705
Held to maturity investments	48,831	6,974	-	55,805
Total financial assets	319,714	57,018	5,100	381,832
Financial liabilities				
Trade and other financial payables				
Trade payables	21,543	352	471	22,366
Dividend payable	6,032	-	-	6,032
Other payables	3,312	88	-	3,400
Debt				
Bonds issued	7,742	-	-	7,742
Subordinated debt	2,161	2,331	-	4,492
Debt securities issued	1,491	1,937	-	3,428
Credit facilities	20,955	6,789	-	27,744
Other debt	1,556	1,486	364	3,406
Banking: Due to banks and CB RF	31,233	1,758	649	33,640
Banking: Customer accounts	125,344	27 208	6 362	158,914
Other short-term liabilities	256	-	-	256
Total financial liabilities	221,625	41,949	7,846	271,420
Net balance sheet position	98,089	15,069	(2,746)	110,412

The table below summarises the Group's exposure to foreign currency exchange rate risk as of 31 December 2016.

	Russian Ruble	US Dollar	Other	Total
Financial assets				
Cash and cash equivalents				
Cash on hand and in banks	21,348	13,628	5,871	40,847
Term deposits with original maturity of less than three months	22,744	-	-	22,744
Due from banks	13,496	6	13	13,515
Restricted cash	3	-	-	3
Banking: Mandatory reserves with CB RF	1,988	-	-	1,988
Accounts receivable				
Trade receivables	32,805	27,214	1,448	61,467
Other financial receivables	4,240	-	-	4,240
Banking: Loans to customers	173,725	18,568	733	193,026
Other financial assets				
Bank deposits	32,706	-	-	32,706
Due from banks	6,758	2,621	508	9,887
Notes receivable	458	-	-	458
Loans to employees	1,018	-	-	1,018
Other loans	3,391	-	-	3,391
Financial assets at fair value through profit or loss	6,168	2,005	17	8,190
Available-for-sale financial assets	32,596	3,489	33	36,118
Held to maturity investments	3,847	6,713	-	10,560
Total financial assets	357,291	74,244	8,623	440,158
Financial liabilities				
Trade and other financial payables				
Trade payables	24,302	941	332	25,575
Dividend payable	149	-	-	149
Other payables	404	26	-	430
Debt				
Bonds issued	32,698	-	-	32,698
Subordinated debt	2,060	2,437	-	4,497
Debt securities issued	2,265	2,629	-	4,894
Credit facilities	-	6,415	2,925	9,340
Other debt	1,951	750	-	2,701
Banking: Due to banks and CB RF	10,989	653	6,708	18,350
Banking: Customer accounts	142,404	29,724	8,586	180,714
Other short-term liabilities	1,398	-	-	1,398
Total financial liabilities	218,620	43,575	18,551	280,746
Net position	138,671	30,669	(9,928)	159,412

For the year ended 31 December 2017 the Group recognized RR 10,257 million and RR 11,875 million foreign exchange gains and losses respectively in the consolidated statement of profit or loss and other comprehensive income (for the year ended 31 December 2016: RR 17,170 million and RR 20,474 million, respectively).

The following table presents sensitivities of profit and loss and equity to changes in US Dollar exchange rates applied at the end of the reporting period relative to Russian Ruble:

	Year ended 31 December 2017		Year ended 31 December 2016	
	Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
US Dollar strengthening by 10%	1,501	1,200	3,067	2,453
US Dollar weakening by 10%	(1,501)	(1,200)	(3,067)	(2,453)

b) Interest rate risk.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates.

Non-banking operations interest rate risk management

The majority of the Group's borrowings is at variable interest rates (linked to the LIBOR rate). To mitigate the risk of significant changes in the LIBOR rate, the Group's treasury function performs periodic analysis of the interest rate environment. The Group does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, the Group performs periodic analysis of the current interest rate environment and depending on that analysis at the time of raising new debts management makes decisions whether to obtain financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

Banking operations interest rate risk management

The majority of the Group's interest rate sensitive banking financial assets and liabilities are at fixed rates. Therefore, the Group's interest rate risk arises primarily from unmatched positions on maturities of assets and liabilities carried at fixed rates.

Management of interest rate risk is performed through analysis of the structure of assets and liabilities by re- pricing dates. Interest rates that are contractually fixed on both assets and liabilities may be renegotiated before any new credit tranche is issued to reflect current market conditions. All new credit products and transactions are assessed in respect of interest rate risk upfront, prior to starting these transactions.

Additionally, as disclosed in the maturity analysis below, the maturity dates applicable to the majority of the Group's assets and liabilities are relatively short-term and that provides the Group with a certain level of flexibility to react to changing market conditions.

The Group's overall interest rate risk is monitored by Assets and liabilities committee ("ALCO") which reviews the structure of assets and liabilities, current and projected interest rates. Treasury departments are responsible for day-to-day management of the interest rate mismatch, preliminary approval of interest rates on projected transactions, preparation and submission for approval suggestions on acceptable interest rate levels by instrument and duration. Risk man-

agement departments review current interest rate gaps and assess resulting effects of interest rate risk on the Group's interest margin and economic capital.

The Group's approach to interest rate risk assessment is based on advisory materials of the Basel Committee on Banking Supervision, CB RF regulations and IFRS. The methodology is designed based on the current experience of mathematical simulation models of interest rate sensitive assets and liabilities and dynamics of interest rates using the series models, which consider major statistical regularities.

An automated procedure of interest rate risk assessment designed in accordance with the above methodology uses scenario simulation of fluctuations of interest rate sensitive assets and liabilities depending on the model of volume and term structure of assets and liabilities. The new methodology provides that interest rate risk, with adequacy confirmed by results of back-testing, is assessed as Value at Risk ("VaR") estimation with 99 percent confidence level for a one-year holding period. The given VaR-estimation of the Group interest rate risk includes the risk of new interest rate, basis risk, yield curve risk and optional risk.

The quantitative estimation of interest rate risk is carried out using stress-models which quantify the change in net interest margin due to fluctuations of interest rate sensitive assets and liabilities. For this purpose the Group identifies interest rate sensitive assets and liabilities and assesses the level of interest rate sensitivity by each asset or liability. The analysis is made by currencies on an annual horizon and is based on certain assumptions in respect of expected fluctuations of interest rates and most sensitive stress scenario. The results are used for on-going interest margin monitoring and regulation and are included in the quarterly report on the Group's consolidated risks.

Interest rate risk analysis on banking and non-banking operations of the Group

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 2 years	From 2 to 5 years	More than 5 years	Non-sensitive	Total
31 December 2017								
Total financial assets	77,018	34,751	37,788	20,230	53,781	56,817	101,447	381,832
Total financial liabilities	65,755	82,390	50,466	6,847	5,512	3,489	56,961	271,420
Net interest sensitivity gap	11,264	(47,639)	(12,678)	13,383	48,269	53,328	44,486	110,412
31 December 2016								
Total financial assets	43,011	66,740	63,016	25,130	75,899	40,544	125,818	440,158
Total financial liabilities	33,040	73,097	53,797	11,847	15,040	32,371	61,554	280,746
Net interest sensitivity gap	9,971	(6,357)	9,219	13,283	60,859	8,173	64,264	159,412

The table below summarises the effective average year end interest rates, by major currencies (US Dollars, Russian Rubles), for financial instruments outstanding as of 31 December 2017 and 2016. The analysis has been prepared on the basis of weighted average effective interest rates for the various financial instruments using year-end contractual terms and conditions.

	At 31 December 2017		At 31 December 2016	
	Russian Ruble	US Dollar	Russian Ruble	US Dollar
Financial assets				
Cash and cash equivalents				
Cash on hand and in banks	7,31%	0,76%	2,00%	0,13%
Term deposits	7,39%	-	10,34%	-
Due from banks	7,40%	-	10,30%	2,50%
Banking: Loans to customers	11,71%	6,91%	12,48%	6,64%
Other financial assets				
Bank deposits	13,00%	-	10,83%	6,50%
Due from banks	8,18%	1,14%	12,90%	4,00%
Notes receivable	0,10%	-	0,10%	-
Loans to employees	3,19%	-	3,19%	-
Other loans	8,32%	-	3,75%	6,20%
Financial assets at fair value through profit or loss	9,31%	6,44%	10,81%	5,62%
Available-for-sale financial assets	8,31%	8,10%	9,84%	6,70%
Held to maturity investments	9,33%	8,92%	6,52%	6,51%
Financial liabilities				
Debt				
Bonds issued	9,90%	-	11,33%	-
Subordinated debt	7,10%	8,80%	11,90%	7,95%
Debt securities issued	5,40%	1,90%	8,65%	4,00%
Credit facilities	7,17%	3,10%	-	2,93%
Other debt	1,90%	2,90%	4,77%	2,61%
Banking: Due to banks and CB RF	7,90%	2,50%	10,10%	2,09%
Banking: Customer accounts	7,40%	1,70%	10,15%	2,62%

The following table presents a sensitivity analysis of interest rate risk on banking and non-banking financial assets and liabilities:

	Year ended 31 December 2017		Year ended 31 December 2016	
	Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
Increase by 100 basis points	(659)	(527)	(951)	(761)
Decrease by 100 basis points	659	527	951	761

c) Commodity and financial instruments price risk

Commodity price risk management

Commodity price risk is the risk or uncertainty arising from possible movements in prices for crude oil and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows. The Group's overall strategy in production and sales of crude oil and related products is centrally managed. Substantially all the Group's crude oil export sales to Europe are sold under long-term contracts.

The Group assesses on a regular basis potential scenarios for future fluctuation in commodity prices and their impacts on operational and investment decisions.

However, in the current environment management estimates may materially differ from actual future impact on the Group's financial position. Actual results, and the impact on the Group's operations and financial position, may differ from management's estimates of potential scenarios.

Financial instruments price risk management

Financial instruments price risk is the risk that movements in market prices resulting from factors associated with an issuer of financial instruments (specific risk) and general changes in the market prices of financial instruments (general risk) will affect the fair value or future cash flows of a financial instrument and, as a result, the Group's profitability.

Financial instruments price risk for financial instruments held within the Group's financial assets at fair value through profit or loss is managed: (a) through maintaining a diversified structure of portfolios; and (b) by setting position limits (i.e. limits restricting the total amount of an investment or maximum mismatch between respective assets and liabilities) as well as stop-loss and call-level limits, in addition to these, the Group sets limits on a maximum duration of debt financial instruments. When necessary the Group establishes margin and collateral requirements.

Financial instruments price risk is managed primarily through daily mark-to-market procedures, sensitivity analysis and control of limits established for various types of financial instruments.

VaR estimates in respect of financial assets at fair value through profit or loss and available-for-sale financial assets as of 31 December 2017 and 2016 are as follows:

	Year ended 31 December 2017		Year ended 31 December 2016	
	Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
Fixed income securities price risk	105	84	153	122
Total price risk	105	84	153	122

Credit risk

Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations.

Non-banking activities credit risk management

Credit risk arises from cash and cash equivalents, bank deposits, loans and notes receivables, as well as credit exposures to customers including outstanding trade and other receivables.

Credit risks related to accounts receivable are systematically monitored taking into account the customer's financial position, past experience and other factors. Management systematically reviews ageing analysis of receivables and uses this information for calculation of provision for impairment. A significant portion of the Group's accounts receivable is due from domestic and export trading companies. The Group does not always require collateral to limit the exposure to loss; however, in most cases letters of credit and prepayments are used, especially with respect to accounts receivables from non-CIS sales of crude oil. The Group operates with various customers and a substantial part of its sales relate to major customers. Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

The Company performs an ongoing assessment and monitoring of the risk of default. In addition, as part of its cash management and credit risk function, the Company regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash.

The Group deposits available cash mostly with financial institutions in the Russian Federation. To manage this credit risk, the Group allocates its available cash to a variety of Russian banks. Management periodically reviews the credit worthiness of the banks in which it deposits cash.

Banking activities credit risk management

The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower, group of borrowers and industry sector are described in the Credit Policies, which are approved by Management Boards, and are reviewed on a regular basis. The credit risk exposure is monitored on a regular basis to

ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

The Group is generally exposed to credit risk through its financial assets and contingent liabilities. The Group's maximum exposure to credit risk, ignoring the fair value of any collateral, is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

In accordance with the Group's collateral policies and procedures the Group may securitize its loans by multi- collateral, i.e. to take different types of collateral in order to secure the same loan, in these cases the value of collateral taken by the Group may exceed amounts lent to the customer. Therefore, maximum credit risk exposure on such loans is limited to the amount of loan balances outstanding at reporting dates.

For risk management purposes, credit risk arising from positions held-for-trading and other financial instruments at fair value through profit and loss is managed and reported as a market (financial instruments prices) risk.

In order to optimize the decision-making process on taking credit risk the Group established several credit committees with different levels of responsibilities. Credit committees and their level of responsibility in respect of approval of maximum exposures on a borrower or group of related borrowers are as follows:

	Maximum exposure allowed to be approved
Assets and Liabilities Management Committee	More than RR 600 million
Credit committee	RR 600 million
Credit committee on small and medium business borrowers	RR 100 million
Credit committee on retail lending	RR 14 million

Exposure to credit risk is managed through regular analysis of the ability of borrower and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits, where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate or personal guarantees. The Group implements a continuous monitoring system of risk factors on substandard loans.

Internal instructions to assess potential borrowers are developed and applied for each segment of lending activities including lending to legal entities, individuals, small and medium-size enterprises and certain others.

The decision making process within the Group is designed to ensure a thorough risk assessment is performed before any credit risk is taken and on all transactions submitted for approval. Therefore, an initiator of the transaction prepares a resume with a description of the suggested project, ensures (where appropriate) that an independent assessment of the collateral and its quality is performed and forwards all transaction related documentation to the risk management department, which is responsible for the independent risk assessment of the project itself, the transaction structure and the assessment of the adequacy of limits, terms and conditions associated with the transaction. The risk management department formulates its own conclusion on the project, which is submitted for approval along with all other transaction related documents.

The core procedure to assess credit risk associated with corporate lending is the analysis of corporate borrowers' financial statements for the latest available four quarters, their market position, business developments, organizational

and functional structure, business cycle and cash flows, transparency of shareholders (owners) as well as reputational risks of the borrowers.

Underwriting procedures with respect to individual borrowers are built to minimize internal costs in order to maximize financial results taking into account potential risks. These procedures are based on certain rating techniques such as scoring methods that allow the minimization of credit risks both on a separate loan and on a portfolio basis. The rating accounts for the financial position of an individual borrower as well as the specifics of each credit product. However, the portion of loans to individuals issued purely using scoring models is still insignificant.

The majority of loans to individuals are approved by specialized credit committees which include transaction initiators and representatives of units responsible for risk assessment, control and monitoring. Such underwriting procedures allow a flexible combination of formalized techniques and non-formalized knowledge of experts which is adequate for the current retail lending operations and provide a good basis for further development of retail business.

The Group securitizes its credit risk exposure by taking guarantees and collateral.

If a guarantee is taken the Group assesses a guarantor's financial stability and business profile in a similar manner to the assessment of a borrower described above.

The assessment of collateral is performed internally by special divisions responsible for collateral assessment and control. They use several methodologies developed for each type of collateral. Valuations performed by third parties, including independent appraisal firms authorized by the Group, may serve as additional data for such assessment. The Group usually requires collateral to be insured by insurance companies authorized by the Group.

Collateral is not generally held over amounts due to banks, except where securities are held as a part of reverse re-purchase and sale transactions.

The Group measures and monitors credit risk on corporate portfolios by individual corporate exposure and estimates quantitative parameters of credit risk such as expected and unexpected losses on credit exposures. These calculations are based on internal ratings of creditworthiness assigned to each corporate borrower. The internal rating system is regularly updated and developed. The information accumulated over this period provides a sound ground for assessment of ratings migration and allows the Group to calibrate corresponding parameters of default probability. While the revision of a recovery number in classes of corporate borrowers is performed the historical data on losses is taken into consideration. In the final calculations of losses on loans, liquid and reliable collateral is considered.

The Group uses the following rating categories for the analysis of credit quality of loans to customers:

- Rating I - standard quality transaction: low probability of default on the transaction due to stable financial position of the borrower allowing generation of cash flows sufficient for meeting requirements of analyzed transaction;
- Rating II - stable quality transaction: average probability of default due to acceptable quality of the borrower's cash flows, however, the borrower's financial position and its performance against business plans require closer monitoring;
- Rating III - middle and low quality transaction: middle and high probability of default because of non- stable financial position of the borrower, or the lack of or poor quality of collateral; and
- Rating IV - non-recoverable loans which may be collected through legal procedures, claims to guarantors or realization of collateral but expected results of these collection procedures are uncertain.

The Group does not enter into transactions with an initial rating of III or IV.

Procedures on subsequent monitoring of credit risk include:

- analysis of actual exposures versus established limits;
- control over compliance with internal policies, procedures, instructions and orders issued by respective management bodies;
- review of corporate borrowers' quarterly financial statements and, where appropriate, actual performance versus business plans;
- control over existence and valuation of collateral taken;
- monitoring of business, economic and political events in order to assess whether these events can negatively affect (a) an industry or a region where the Group's corporate borrowers operate; (b) the reputation of these corporate borrowers and of the Group itself;
- monitoring of macroeconomic parameters in order to assess adequacy of risk assessment associated with corporate lending portfolios and to validate scoring models used for retail lending programs; and
- portfolio analyses showing trends in default rates, concentrations/diversifications by borrowers or groups of borrowers, products, industries, countries, etc.

Attention is paid to improve efficiency of distressed debt collection and to protect the Group against illegal actions. Distressed debt collection procedures are initiated if loans are overdue by more than 30 days. These procedures include the Group's proprietary techniques and the best practices of international and Russian banks in this area such as debt restructuring, searching for evading debtors and their property, claims to property and earnings and actions against lending fraud. Debt collection procedures are performed on the basis of current Russian legislation and international standards in close interaction with legal and law enforcement authorities.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group applies the same credit policies in making conditional obligations as it does for off-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

The Group also uses several types of limits on amounts due from other banks such as maximum credit exposure on counterparty and on a group of transactions with tins counterparty including lending, purchase and sale of securities, currency and other financial assets if these transactions may cause a credit risk. In order to establish these limits the Group uses credit quality assessment procedures similar to the ones applicable to corporate borrowers discussed above.

For more detailed analyses please refer to https://www.zenit.ru/rus/about_bank/disclosure/financial-statements/

Credit risk analysis on banking and non-banking operations of the Group

The following table represents aggregate amounts affecting overall credit risk of the Group as of 31 December 2017:

	Maximum exposure to credit risk	Offset	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Cash and cash equivalents	42,797	-	42,797	-	42,797
Restricted cash	-	-	-	-	-
Banking: Mandatory reserves with CB RF	1,916	-	1,916	-	1,916
Accounts receivable	64,846	-	64,846	-	64,846
Banking: Loans to customers	150,983	-	150,983	(141,716)	9,267
Other financial assets	121,289	-	121,289	(11,751)	109,538
Total balance sheet credit risk	381,831		381,831	(153,467)	228,364
Loan commitments	26,421	-	26,421	(1,294)	25,127
Guarantees issued	13,801	-	13,801	(2,934)	10,867
Import letters of credit	1,426	-	1,426	(551)	875
Total off-balance sheet credit risk	41,648	-	41,648	(4,779)	36,869
Total credit risk	423,479	-	423,479	(158,246)	265,233

The following table represents aggregate amounts affecting overall credit risk of the Group as of 31 December 2016:

	Maximum exposure to credit risk	Offset	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Cash and cash equivalents	77,106	-	77,106	-	77,106
Restricted cash	3	-	3	-	3
Banking: Mandatory reserves with CB RF	1,988	-	1,988	-	1,988
Accounts receivable	65,707	-	65,707	-	65,707
Banking: Loans to customers	193,026	-	193,026	(162,258)	30,768
Other financial assets	102,328	-	102,328	(6,639)	95,689
Total balance sheet credit risk	440,158	-	440,158	(168,897)	271,261
Loan commitments	24,885	-	24,885	(2,094)	22,791
Guarantees issued	13,869	-	13,869	(5,431)	8,438
Import letters of credit	331	-	331	(161)	170
Total off-balance sheet credit risk	39,085	-	39,085	(7,686)	31,399
Total credit risk	479,243	-	479,243	(176,583)	302,660

The table below shows credit quality by class of loans to customers as of 31 December 2017:

	Loans to legal entities	Loans to individuals	Total
Neither past due nor impaired			
- rating I	76,256	23,473	99,729
- rating II	6,085	10,082	16,167
- rating III	5	19	24
- rating IV	-	15	15
Total neither past due nor impaired	82,346	33,589	115,935
Past due but not impaired			
- less than 30 days overdue	9	49	58
- 30 to 90 days overdue	52	41	93
- 91 to 180 days overdue	-	47	47
- 181 to 360 days overdue	-	52	52
- more than 360 days overdue	-	470	470
Total past due but not impaired	61	659	720
Individually impaired			
- not overdue	38,734	-	38,734
- less than 30 days overdue	29	98	127
- 30 to 90 days overdue	48	81	129
- 91 to 180 days overdue	49	94	143
- 181 to 360 days overdue	788	104	892
- more than 360 days overdue	645	940	1,585
Less: provision for impairment	(6,721)	(561)	(7,282)
Total loans to customers	115,979	35,004	150,983

The table below shows credit quality by class of loans to customers as of 31 December 2016:

	Loans to legal entities	Loans to individuals	Total
Neither past due nor impaired			
- rating I	111,316	31,615	142,931
- rating II	17,139	541	17,679
- rating III	-	875	875
- rating IV	-	272	272
Total neither past due nor impaired	128,455	33,302	161,757
Past due but not impaired			
- less than 30 days overdue	285	27	312
- 30 to 90 days overdue	4	40	44
- 91 to 180 days overdue	15	93	108
- 181 to 360 days overdue	2	137	139
- more than 360 days overdue	3	275	278
Total past due but not impaired	309	572	880
Individually impaired			
- not overdue	27,012	-	27,012
- less than 30 days overdue	68	53	121
- 30 to 90 days overdue	233	81	314
- 91 to 180 days overdue	524	186	710
- 181 to 360 days overdue	335	274	609
- more than 360 days overdue	2,104	686	2,790
Less: provision for impairment	(1,030)	(137)	(1,167)
Total loans to customers	158,009	35,017	193,026

The Group uses the following rating categories for the analysis of credit quality of assets other than loans to customers and accounts receivable:

- investment grade ratings classification referred to as Aaa to Baa3 for Moody's Investment Services, as AAA to BBB- for Fitch Rating and as AAA to BBB- for Standard and Poor's Rating, respectively;
- non-investment (speculative) grade ratings classification referred to as Ba1 to C for Moody's Investment Services, as BB- to B- for Fitch Rating and as BB- to D for Standard and Poor's Rating, respectively.

The table below shows credit quality of assets other than loans to customers and accounts receivable as of 31 December 2017:

	Investment grade rating	Non-investment grade rating	Unrated	Total
Cash and cash equivalents				
Cash on hand and in banks	3,114	9,188	16,917	29,219
Term deposits	8,012	3,859	35	11,906
Due from banks	-	1,672	-	1,672
Restricted cash	-	-	-	-
Banking: Mandatory reserves with CB RF	-	-	1,916	1,916
Other financial assets				
Bank deposits	-	1	301	302
Due from banks	-	1,613	-	1,613
Notes receivable	-	-	456	456
Other loans	-	-	3,260	3,260
Financial assets at fair value through profit or loss	1,952	3,191	3,358	8,501
Available-for-sale financial assets	4,360	12,509	11,870	28,739
Held to maturity investments	21,681	29,924	4,200	55,805
Past due but not impaired	-	-	-	-
Individually impaired				
Other financial assets				
Bank deposits	-	-	5,547	5,547
Due from banks	-	30	-	30
Notes receivable	-	-	318	318
Loans to employees	-	-	2,978	2,978
Other loans	-	-	15,955	15,955
Financial assets at fair value through profit or loss	-	-	298	298
Available-for-sale financial assets	-	318	19,602	19,920
Held to maturity investments	-	-	-	-
Less: provision for impairment	-	(348)	(22,114)	(22,462)
Total credit risk	39,119	61,957	64,897	165,973

The table below shows credit quality of assets other than loans to customers and accounts receivable as of 31 December 2016:

	Investment grade rating	Non-investment grade rating	Unrated	Total
Cash and cash equivalents				
Cash on hand and in banks	16,014	948	23,885	40,847
Term deposits	-	13,585	9,159	22,744
Due from banks	2,066	-	11,449	13,515
Restricted cash	-	3	-	3
Banking: Mandatory reserves with CB RF	-	-	1,988	1,988
Other financial assets				
Bank deposits	-	32,206	500	32,706
Due from banks	3,447	5,000	1,440	9,887
Notes receivable	-	-	458	458
Other loans	-	-	3,391	3,391
Financial assets at fair value through profit or loss	1,900	3,528	2,762	8,190
Available-for-sale financial assets	2,743	3,208	27,876	33,827
Held to maturity investments	3,774	4,632	2,153	10,559
Past due but not impaired	-	-	-	-
Individually impaired				
Other financial assets				
Bank deposits	-	5,400	-	5,400
Due from banks	-	-	-	-
Notes receivable	-	-	318	318
Loans to employees	-	-	2,494	2,494
Financial assets at fair value through profit or loss	-	-	23	23
Available-for-sale financial assets	-	3,585	-	3,585
Held to maturity investments	-	602	-	602
Less: provision for impairment	-	(7,287)	(1,827)	(9,114)
Total credit risk	29,944	65,410	86,069	181,423

Within short term bank deposits there are RR 5,400 million of deposits placed with Tatfondbank. Starting from 15 December 2016 a three-month moratorium on satisfying claims of creditors was imposed on Tatfondbank. DIA has been authorized to perform duties of a temporary administration for a period of six months. Subsequently, in March 2017, by the order of CB RF the license to conduct banking operations was withdrawn from Tatfondbank. At 31 December 2017 and 2016 the Group created a provision for impairment of deposits placed with Tatfondbank in the amount of RR 5,400 million.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Non-banking operations liquidity risk management

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In managing its liquidity risk, the Group maintains adequate cash reserves and debt facilities, continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities.

The Group prepares various financial plans (monthly, quarterly and annually) which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities for a period of 30 days or more. To fund cash requirements of a more permanent nature, the Group will normally raise long-term debt in available international and domestic markets.

Banking operations liquidity risk management

It is unusual for banks ever to be completely matched on maturities of assets and liabilities since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

The Group's approach to liquidity management is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due under both ordinary and stressed conditions, without incurring unacceptable losses or damaging the Group's reputation.

The Group endeavors to maintain a stable and diversified funding base including core corporate and individual customer accounts; short-, medium- and long-term loans from other banks; promissory notes and bonds issued. On the other hand, the Group tends to keep diversified portfolios of liquid and highly liquid assets in order to be able to settle unforeseen liquidity requirements in an efficient and timely manner.

Key parameters in liquidity risk management such as the structure of assets and liabilities, composition of liquid assets and acceptable liquidity risks are established by ALCO. ALCO sets and reviews limits on liquidity gaps which are assessed on the basis of liquidity stress-tests in regard to medium- and long-term liquidity. These tests are performed using the following information:

- current structure of assets and liabilities including any known renewal arrangements as at the date of the respective test;
- amounts, maturity and liquidity profiles of transactions projected by business units;

- current and projected characteristics of liquid assets which include, apart from cash and cash equivalents, amounts due from other banks and certain financial assets held-for-trading; and
- relevant external factors.

The resulting models allow for the assessment of future expected cash flows due to projected future business and different crisis scenarios. While managing liquidity risk treasury departments of the Group distinguish liquidity required within a current business day and term liquidity with a 1-year horizon. For managing current liquidity (with a 1-day horizon) the following methods are used:

- reallocation of cash between accounts with other banks;
- collection of information from business and other supporting units on large transactions (both proprietary and customer based);
- purchase and sale of certain financial assets in liquid portfolios;
- accelerating closure of trade positions;
- estimation of minimum expected cash inflow during a business day; and
- daily control over the balance of cash and estimated liabilities to be settled on demand.

For managing term liquidity treasury departments of the Group use liquidity graphs that reflect volume and time of liquidity mismatches (surpluses or deficiencies). These liquidity graphs, in essence, present projected cash flows estimated with due regard for expected maturities of assets and liabilities. The Group sets limits on acceptable accumulated liquidity mismatches which are calculated by using the following instruments:

- discounts to assets are applied to recognize market risk in case of accelerated realization of respective assets; and
- models showing cash flow fluctuations due to accelerated settlement of liabilities.

In the normal course of business, liquidity reports covering the current and projected structure of assets and liabilities as well as future expected cash flows are submitted to ALCO once every two weeks. Decisions on liquidity management made by ALCO are implemented by treasury departments within their duties and responsibilities, in addition to this, ALCO reviews and approves model of maturity for the minimum required daily balances of current accounts by currencies on the basis of analysis of historical dynamics.

Liquidity analysis for banking and non-banking operations of the Group

The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments as of 31 December 2017:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Financial liabilities					
Trade and other financial payables					
Trade payables	22,366	-	-	-	22,366
Dividend payable	6,032	-	-	-	6,032
Other payables	3,400	-	-	-	3,400
Debt					
Bonds issued	8,369	-	-	-	8,369
Subordinated debt	528	2,588	2,955	2,102	8,173
Debt securities issued	3,364	84	24	4	3,476
Credit facilities	28,349	-	-	-	28,349
Other debt	2,039	15	1,597	-	3,651
Banking: Due to banks and CB RF	29,695	344	5,575	20	35,634
Banking: Customer accounts	170,337	2,600	224	-	173,161
Other short-term liabilities	256	-	-	-	256
Credit related commitments (Note 28)	12,924	6,381	6,647	469	26,421
Total	287,659	12,012	17,022	2,595	319,288

The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments as of 31 December 2016:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Financial liabilities					
Trade and other financial payables					
Trade payables	25,575	-	-	-	25,575
Dividend payable	149	-	-	-	149
Other payables	430	-	-	-	430
Debt					
Bonds issued	9,471	8,734	13,866	23,146	55,217
Subordinated debt	223	224	3,940	1,552	5,939
Debt securities issued	4,713	94	36	29	4,872
Credit facilities	9,781	-	-	-	9,781
Other debt	1,224	219	1,173	625	3,241
Banking: Due to banks and CB RF	5,551	9,369	6,240	-	21,160
Banking: Customer accounts	200,234	8,728	8,183	-	217,145
Other short-term liabilities	1,398	-	-	-	1,398
Credit related commitments (Note 28)	26,127	5,465	6,231	1,262	39,085
Total	284,876	32,833	39,669	26,614	383,992

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The estimated fair values of financial instruments are determined with reference to various market information and other valuation techniques as considered appropriate.

The different levels of fair value hierarchy have been defined as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities that Group has the ability to assess at the measurement date. For the Group, Level 1 inputs include held-for-trading financial assets that are actively traded on markets.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. For the Group, Level 2 inputs include observable market value measures applied to available for sale securities.

Level 3 – Unobservable inputs for the asset or liability. These inputs reflect the Group's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Recurring fair value measurements

The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	At 31 December 2017				At 31 December 2016			
	Fair value			Carrying value	Fair value			Carrying value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss	8,096	-	405	8,501	7,759	-	431	8,190
Available-for-sale financial assets	16,944	8,998	15,763	41,705	9,509	2,300	24,309	36,118
Investment property			871	871	-	-	877	877
Total	25,040	8,998	17,039	51,077	17,268	2,300	25,617	45,185

The description of valuation technique and description of inputs used in the fair value measurement for Level 2 and Level 3 measurements at 31 December 2017 and 2016:

	Fair value hierarchy	Valuation technique and key input data
Available-for-sale financial assets	Level 2, Level 3	Quoted prices for similar investments in active markets, net assets valuation, comparative (market) approach Publicly available information, comparable market prices
Investment property	Level 3	Market data on comparable objects adjusted in case of differences from similar objects

There were no changes in valuation technique for Level 2 and Level 3 recurring fair value measurements during the year ended 31 December 2017 (2016: none).

There have been no transfers between Level 1, Level 2 and Level 3 during the period.

Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets and liabilities not measured at fair value are as follows:

	At 31 December 2017				At 31 December 2016			
	Fair value			Carrying value	Fair value			Carrying value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Assets								
Cash and cash equivalents								
Cash on hand and in banks	-	29,219	-	29,219	-	40,847	-	40,847
Term deposits	-	11,906	-	11,906	-	22,744	-	22,744
Due from banks	-	1,672	-	1,672	-	13,515	-	13,515
Restricted cash	-	-	-	-	-	3	-	3
Banking: Mandatory reserve deposits with CB RF	-	-	1,916	1,916	-	-	1,988	1,988
Accounts receivable								
Trade receivables	-	-	59,075	59,075	-	-	61,467	61,467
Other financial receivables	-	-	5,771	5,771	-	-	4,240	4,240
Banking: Loans to customers	-	-	150,983	150,983	-	-	193,026	193,026
Other financial assets								
Bank deposits	-	302	-	302	-	32,706	-	32,706
Due from banks	-	1,642	-	1,642	-	9,887	-	9,887
Notes receivable	-	-	456	456	-	-	458	458
Loans to employees	-	-	1,558	1,558	-	-	1,018	1,018
Other loans	-	-	11,321	11,321	-	-	3,391	3,391
Held to maturity investments	55,805	-	-	55,805	10,560	-	-	10,560
Total financial assets	55,805	44,741	231,080	331,626	10,560	119,702	265,588	395,850

	At 31 December 2017				At 31 December 2016			
	Fair value			Carrying value	Fair value			Carrying value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Trade and other financial payables								
Trade payables	-	-	22,366	22,366	-	-	25,575	25,575
Dividend payable	-	-	6,032	6,032	-	-	149	149
Other payables	-	-	3,400	3,400	-	-	430	430
Debt								
Bonds issued	7,742	-	-	7,742	32,698	-	-	32,698
Subordinated debt	-	-	4,492	4,492	-	-	4,497	4,497
Debt securities issued	-	-	3,428	3,428	-	-	4,894	4,894
Credit facilities	-	-	27,744	27,744	-	-	9,340	9,340
Other debt	-	-	3,406	3,406	-	-	2,701	2,701
Due to banks and CB RF	-	33,640	-	33,640	-	18,350	-	18,350
Customer accounts	-	158,914	-	158,914	-	180,714	-	180,714
Other liabilities	-	-	256	256	-	-	1,398	1,398
Total financial liabilities	7,742	192,554	71,124	271,420	32,698	199,064	48,984	280,746

The carrying amounts of financial assets and liabilities carried at amortized cost approximates their fair values. The fair values in Level 2 fair value hierarchy were estimated using the discounted contractual cash flows and observable interest rates for identical instruments. The fair values in Level 3 fair value hierarchy were estimated using the discounted cash flows and observable interest rates for similar instruments with adjustment to credit risk and maturity.

Reconciliation of liabilities arising from financing activities of the Group

	Liabilities arising as a result of financial activities			
	Short-term and long-term debt	Bonds issued	Subordinated debt	Total
At 31 December 2016	12,041	32,698	4,497	49,236
Cash flow movement, including:				
Proceeds from issuance of debt	25,107	-	-	25,107
Repayment of debt	(5,434)	-	-	(5,434)
Issuance of bonds	-	2,365	-	2,365
Redemption of bonds	-	(25,740)	-	(25,740)
Interest accrued	425	2,011	921	3,357
Interest paid	(160)	(2,011)	(921)	(3,092)
Financial expenses:				
Foreign currency profit	(504)	-	(298)	(802)
Other non-cash flows	(325)	(1,581)	293	(1,613)
At 31 December 2017	31,150	7,742	4,492	43,384

Management of Capital

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and increase shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Group defines capital under management as equity as shown in the consolidated statement of financial position. The amount of capital that the Group managed as of 31 December 2017 was RR 711,859 million (2016: RR 703,511 million). The Group manages capital for banking and non-banking operations separately.

Non-banking operations capital management

The Group considers equity and debt to be the principal elements of capital management. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, revise its investment program, attract new or settle existing debt or sell certain non-core businesses.

The Group monitors capital on the basis of its gearing ratio.

	Year ended 31 December 2017	Year ended 31 December 2016
Consolidated total borrowings excluding borrowings of Bank ZENIT:	31,410	12,301
Credit facilities	27,744	9,340
Other debt	3,406	2,701
Notes payable	260	260
Consolidated shareholders' equity	711,859	703,511
Debt to capital employed ratio, % (Consolidated total borrowings / Consolidated shareholders' equity)	4%	2%

Banking operations capital management

The Group's policy on capital management is to maintain a strong capital base in order to support further business development of the Group and to satisfy requirements set by regulatory authorities.

The Group has been developing procedures for the economic capital calculation on the basis of best international risk management practices.

The CB RF establishes and controls capital adequacy requirements.

The Group also monitors capital requirements set by the CB RF for credit institutions. Under the current capital requirements banks have to maintain a ratios of capital to risk-weighted assets ("statutory capital ratios") above the prescribed minimum levels. The CB RF sets the following mandatory capital ratios requirements for core capital, Tier 1 and total capital: 4.5%, 6% and 8% respectively. As of 31 December 2017 and during the period from Bank ZENIT acquisition till 31 December 2017 the Group complied with the statutory requirements related to the capital ratio.

In September 2015 Bank ZENIT received five subordinated loans totalling RR 9,933 million from DIA within the Russian Federation Government programme for additional capitalisation of Russian banks. Under the terms of these subordinated loan agreements DIA paid these loans by securities (OFZ of five series), that should be returned upon maturity of the subordinated loans. These subordinated loans mature from January 2025 to November 2034 and bear interest equal to OFZ coupon rate plus 1%. In accordance with IAS 39 “Financial Instruments: Recognition and Measurement” if securities are loaned under an agreement to return them to the transferor, they are not derecognized because the transferor retains substantially all the risks and rewards of ownership. Accordingly, the obligation to return the securities should not be recognized. Therefore, OFZ and the subordinated loan received from DIA are not recognized within assets and liabilities in the consolidated statement of financial position. In accordance with the Bank of Russia’s Regulation No. 395-P these subordinated loans accounted for in capital adequacy ratio calculation in accordance with Bank of Russia’s Regulation No. 395-P.

SOCIAL RESPONSIBILITY AND INTERACTION WITH STAKEHOLDERS



GOALS AND PRIORITIES OF TATNEFT’S SOCIAL POLICY IN OPERATING REGIONS

THE COMPANY DEVELOPS AND IMPLEMENTS ITS SOCIAL PROGRAMS BASED ON THE FOLLOWING PRINCIPLES

IMPACT

Funds spent on implementing programs should make a meaningful impact in solving problems. The programs’ results are subject to regular assessment and reporting.

SIGNIFICANT

The Company aspires to make its social programs as relevant to society’s urgent needs as possible in a timely and targeted manner.

STRUCTURE

Social programs are structured and systematic.

OPEN

The Company strives to develop and implement social programs based on dialog and collaboration with stakeholders.

COMPANY SOCIAL PROGRAMS AREAS

Tatneft’s social programs focus on children and young people, war and labor veterans, those in need of medical care and rehabilitation, foster children, as well as other vulnerable social groups.

- Developing city and town infrastructures
- Supporting healthcare in the Republic of Tatarstan
- Promoting education
- Supporting cultural initiatives
- Promoting faith-based initiatives
- Maternity and childhood support program
- Targeted civic support
- Supporting sports and fitness programs
- Supporting hockey initiatives

The main social programs are implemented in regions where the Company operates.

A list of Company social projects is available at tatneft.ru

Key stakeholders are divided into two groups according to their degree of influence on the activity of the Tatneft Group and the degree of the Company’s influence on their livelihoods. Groups with substantial influence include stakeholders which can substantially influence the activity of the Tatneft Group or whose interests are substantially affected by the Company’s activity. These are internal stakeholders, shareholders and investors, consumers and clients, business partners, and public authorities. Groups with limited influence include public organizations, investment analyst companies and credit rating agencies, media organizations, specialized institutions of higher and intermediate vocational education, and local companies. These are stakeholders whose interests can be partially affected by the Company or which can indirectly influence the Company

Ensuring a high level of corporate social responsibility is a strategic initiative and the most important principle of the Company's work. It includes transparency and ethical behavior that contributes to sustainable development and is consistent with legislation and international regulations.

Since 2005, the Company has promoted sustainable development and social responsibility, following the principles of GRI.

Implementation of GRI Principles

INTERACTION WITH STAKEHOLDERS	The Company makes considerable efforts to engage stakeholders in a discussion of issues related to preparing the report, such as defining the Report's content, selecting performance indicators, etc. To do that, the Company is consulting with stakeholder representatives, holding conferences and seminars, and conducting surveys.
CONTEXT OF SUSTAINABLE DEVELOPMENT	Information on the Company's activity results is presented in the Report in close connection with its contribution to sustainable development. The Report presents all significant issues, indexes and initiatives related to maintaining economic stability, improving environmental safety, and enhancing social stability.
SIGNIFICANCE	We aim to include in the Report only issues, questions and indicators that are important to stakeholders and are able to influence their decisions. When determining the significance of issues, factors such as the Company's goals and objectives, risks and opportunities, industry problems, and a number of other factors are taken into account.
COMPREHENSIVENESS	The Company is committed to the fullest disclosure of information in the economic, environmental and social spheres. The totality of issues reflected in the Report is sufficient to enable users of the Report to assess the Company's performance in general and its contribution to sustainable social development.
BALANCED APPROACH	In a quest to remain balanced, the Report reflects both favorable performance results and challenges facing the Company. The degree of attention paid to various issues is proportional to their relative importance.
TRACKING RESULTS	The Report compares performance results from year to year. An explanation is provided for each significant change concerning the boundaries, scope or reporting period. The indicators included in the guidelines and technical protocols of GRI were used when preparing the Report to compare the Company's effectiveness with other companies' results.
ACCURACY	We aim to ensure that the information presented in the Report is accurate and sufficiently detailed so that stakeholders can use it to make decisions with a high degree of confidence. The margin of error in quantitative data is minimal. Relationships and specific values used in the Report are supplemented with corresponding absolute values. Data is presented using conventional international units and calculated using standard coefficients.
TIMELINESS	The Company understands the need to provide timely information in the Report. As such, the Report is published once a year on the eve of the annual General Shareholders' Meeting.
CLARITY	We make efforts to ensure that the information presented in the Report is clear, understandable and useful for various stakeholders. The Report contains a list of abbreviations explaining scientific and technical terms and abbreviations.
RELIABILITY	Information and data of the Report are based on internal documentation, which can be evaluated by independent parties. Information that cannot be supported by documentation is not included in the Report.

Ensuring a high level of corporate social responsibility is a strategic initiative and the most important principle of the Company's work. It includes transparency and ethical behavior that contributes to sustainable development and is consistent with legislation and international regulations.

BASIC PRINCIPLES OF TATNEFT'S CORPORATE SOCIAL RESPONSIBILITY

- The Company acts in accordance with the Social Charter of Russian Business and the Universal Declaration of Human Rights. We presume that everyone should have all the rights and freedoms set forth therein without distinction of any kind, such as race, color, sex, language, religion, political or other convictions, national or social origin, property, birth, or other status.
- The Company does not allow any form of harassment or discrimination. The Company respects the rights of each employee to collective representation, including labor unions, while excluding any possibility of a hostile, humiliating or insulting atmosphere for human dignity.
- Relations between shareholders, members of the Board of Directors, and the executive directorate of the Company are built on mutual trust and respect, conscientious fulfillment of duties thereof and realization of rights.
- The Company equally respects the rights of its shareholders, regardless of the number of shares owned by them or where they are located. We maintain an effective dialogue with them, seek to justify their trust by fulfilling the stated obligations to develop the Company and ensuring the level of dividend payments.
- The Company seeks to maintain a reasonable balance between short-term and long-term financial results of its operations and ensure a high credit rating and a proper level of liquidity of securities.
- The Company openly informs shareholders, partners, employees, and other interested parties of its activities, ensuring the exercise of their right to receive full and reliable information in a regular and timely manner and in the forms established by current legislation and internal documents of the Company.

Company presence in business and public organizations

Chamber of Commerce and Industry of the Russian Federation

All-Russian Association of Employers of the Oil and Gas Industry Russian Union of Industrialists and Entrepreneurs (RSSP)

The Union of Oil and Gas Producers of Russia Moscow International Petroleum Club (MMNK)

Russian Institute of Directors (RID)

National Council on Corporate Governance (NCCG)

Moscow Exchange Share Issuers Committee

Russian National Committee of the World Petroleum Council (RNC WPC).

CORPORATE STANDARDS AND REGULATIONS ON INTERACTION WITH SHAREHOLDERS

Shareholders	Regulatory documents
All shareholders	Charter of Tatneft
	Corporate Governance Code of Tatneft
	Development strategy of the Tatneft Group for the period up to 2025
	Regulations on the Information Policy of Tatneft
	Operating procedure of the "Hot Line" of Tatneft Company
	Policy of the Tatneft Group in the field of industrial safety, labor protection and environment
	Anticorruption policy of Tatneft Company
Shareholders	Regulation on the General Shareholders' Meeting of Tatneft
	Regulation on the Board of Directors of Tatneft
	Regulations on the committees of the Board of Directors of Tatneft
	Regulation on the Corporate Secretary
	Regulation on the dividend policy of Tatneft
	Regulation on provision of information to shareholders of Tatneft
	Regulation on the use of insider information and the procedure for informing about transactions with securities
Employees	Tatneft Code of Corporate Culture
	Human resources policy
	Standard of staff recruitment and transfer to another job
	Regulation on mentorship
	Standard of work with the personnel reserve
	Personnel appraisal standard
	Training and development of personnel standard
	Labor discipline standard
	Employee awarding standard
	Standard for providing information on the turnover rate
	Internal code of conduct for employees
	Regulation for preparing and holding employee conference
	Regulation on the insurance of employees against occupational accidents
	Regulation on the organization of employee health and resort treatment and recreation
	Regulation on the industrial safety management system
	Production safety management system
	Regulation on industrial control over compliance with industrial safety requirements at hazardous production facilities
	Procedure for organizing preliminary and periodic medical examinations of employees engaged in heavy, harmful work and work with hazardous and/or dangerous production factors
	System of personal responsibility of workers for the safety of work
Regulation on the allocation of loan funds for the construction of individual housing and equity participation in the housing construction (with other legal entities that carry out housing construction)	
Trade union	Collective agreement standard
	Regulation on the committee (commission) on labor protection
	Labor protection agreement
Veterans and pensioners	Regulation on the organization of non-state pension provision for employees
	Regulation on the organization of health and resort treatment of nonworking pensioners and disabled workers
	Corporate project of targeted assistance to pensioners

Shareholders	Regulatory documents
Business partners	Standard on the procedure for registration of suppliers of goods (works, services)
	Regulation of material and technical support of structural subdivisions and subsidiaries
	Regulation on the organization of contract work
	Regulation on the organization of procurement of goods using an electronic trading platform
	Regulation on work in "Tatneft's trading and purchasing platform" system
	Corporate standard on the procedure for accreditation of potential suppliers when organizing the purchase of goods using the electronic trading platform
	Regulation on the order of interaction of the Company's subdivisions for the consideration of complaints coming to Tatneft's trading and purchasing platform hot line
	Regulation on the organization, management, and automated recording of claims and lawsuits
	Regulation on the organization of procurement of goods from enterprises producing unique (custom-made) goods (manufacturers-monopolists)
	Regulation on organization of safe production of works performed by third parties at the Company's facilities
	Standard of the organization "Requirements in the field of ensuring environmental safety to the organizations involved in the work and provision of services at the Company's facilities"
	Standard of interaction of the Company with external service enterprises in providing services
	Standard of the Company's investment and technical policy on expansion of the types and improvement of the quality of oil services
	Regulation on the introduction and approval of changes made to the schemes of production facilities that define the boundaries of the responsibility sections of service companies and structural divisions in providing services to the Company
	Regulation on customer information technology service
Regulation on the bidding process (tender) for placing orders for the supply of goods, performing work, providing services for the Company's needs	
Regulation on precompetitive and postcompetitive work arrangements for the supply of goods, performing works, providing services for the Company's needs	
Regulation on organizing the marketing evaluation of materials and equipment with material and technical support	
Consumers	Regulation on "Tatneft" trademark and the rules of its use
	Standard "Production control of products and technological processes"
	Standard "Final inspection and testing of products"
	Procedure for consideration of claims and requests of consumers of tire products
	Procedure for collecting and processing information on the customer satisfaction
	Charter of customer service at gas stations
	Rules of the Company's trading practices with respect to the sale of diesel fuel in the Russian Federation
Local communities and public organizations	Agreements with city and township administrations in regions of operation
	Regulation on work with alumni of boarding schools and orphans in specialized education institutions
	Corporate project on supporting development of small and medium business of the Republic of Tatarstan
	Regulation on the Company's participation in public organizations

CORPORATE RESPONSIBILITY

- The Company is a responsible partner of the government, business community, citizens, society and in all regions where it operates.
- As an employer, taxpayer, nature and subsoil user, the Company takes its responsibilities in good faith and rationality. We contribute to the economic and social development of the regions where we operate and create favorable living conditions.
- The Company cooperates and consults with partners, contractors, civic representatives, communities where we operate, and all who cooperate with the Company on all socially significant issues related to the Company's activity.

The Company respects culture and traditions, dignity and human rights in all regions of its operations.

BUSINESS PARTNERS, SUPPLIERS, CONTRACTORS

The Company aims to create and maintain long-term and stable relations with business partners, suppliers, counterparties, investors and other stakeholders based on mutual trust, full commitment, openness and flexibility, exchange of experience and mutual support.

The Company undertakes to adhere to these principles of mutual benefit and develop business relations taking into account the interests of all its partners, counterparties, and stakeholders.

The Company does not enter into relations with persons using illegal and/or unethical methods of doing business.

The Company never hires agents to commit acts contrary to the above principles and requirements.

The Company makes decisions on the acquisition or sale of goods or services, placing orders and contracts by assessing their quality and price, as well as comparing proposals of the competing organizations. To avoid a conflict of interests, employees of the Company interacting with customers and suppliers are obliged to avoid any participation in the preparation and adoption of a decision in which they are interested directly or indirectly.

In its activities, the Company is guided by legislation that regulates competition, supports free competition and entrepreneurship, and pursues a fair open policy with respect to the competing organizations.

EMPLOYEES

A high level of professionalism of employees, their adherence to the corporate interests, responsibility and trustworthiness, as well as desire and ability to work as a team are the key to successful activity and development of the Company. That is why the Company strives to create all the necessary conditions for comfortable workplace, while fulfilling the potential of each employee.

The Company's objectives with regard to employees are as follows:

- Attraction and consolidation of bright, talented people—the best professionals
- Creating the most favorable conditions for professional growth and creative development of employees, providing a comfortable work environment based on mutual trust and respect
- Combining the professional skills, abilities and creative potential of the Company's employees, which will allow the Company to build a corporate culture based on a solid foundation and stimulating new opportunities for development of the highly efficient business
- Developing each employee's personal sense of responsibility for operational activities and the Company's reputation
- Creating an effective system of compensation for employees, which will allow an objective assessment of each employee's contribution

The Company lays a great emphasis on the tolerance and formation of an auspicious psychological climate in the workforce. Trust is built on mutual respect and tolerance, regardless of an employee's position. Everyone is valued for professionalism, knowledge, experience, and interest in development and growth.

Employees are entitled to conduct an open and constructive discussion of the quality and effectiveness of their work, the work of their division, and the Company as a whole. They are also empowered to make proposals aimed at improving the efficiency of team work. At the same time, employees have the right to rely on the reasonable and necessary attention of the Company to their personal circumstances while performing their official duties.

All employees, regardless of their positions, are obliged to:

- Use the Company's assets only to strengthen and develop the Company's business, without seeking self-profit by abusing their official position.
- Strictly adhere to the requirements of legislation, this Code and other local regulations, which are included in employment contracts with them.
- Fulfill their official work duties in full, reasonably and conscientiously.

The Company takes care of the well-being and social security of its employees and their families, provides various forms of insurance, and implements social programs. The Company supports veterans, pensioners, disabled workers, and families of workers injured while at work.

COLLECTIVE AGREEMENT

Tatneft takes care of the well-being and social security of its employees and their families. The Company provides employees with a package of social benefits and guarantees. Obligations for their provision are stated in the Collective Agreement, annually concluded between Tatneft and the workforce and covering all employees and nonworking pensioners of the Company.

THE COLLECTIVE AGREEMENT INCLUDES:

- Benefits and guarantees for employees
- Social protection of young employees
- Support of veterans and pensioners

The structure of social benefits and guarantees is defined by the Standard of the Collective Agreement of Tatneft Group of Companies, which serves as guidelines for all Tatneft enterprises.

IN 2017, THE AMOUNT OF PAYMENTS MADE UNDER THE FOLLOWING ARTICLES WAS AMENDED AND INCREASED:

- Amount of the lump-sum material assistance to each employee parent for each newborn or adopted child
 - Amount of material assistance for the burial of relatives
 - Amount of material assistance for funeral expenses to employees' (pensioners') families
 - Amount of material assistance to orphans
 - Amount of material assistance to large families
 - Settlement rates for lump-sum material assistance for annual vacation
- Amount of material assistance to disabled children
 - Amount of material assistance to single-parent families not receiving alimony
 - Settlement rates of the lump-sum material assistance to employees and pensioners who celebrate milestone ages
 - Amount of material assistance for the first marriage of an employee

KEY BENEFITS AND GUARANTEES TO EMPLOYEES:

- Material assistance to employees on parental leave for children under the age of 3
 - Material assistance for the birth or adoption of a child under the age of 14
 - Provision of up to three working days for paternal while saving the average monthly salary upon their newborn's discharge from the hospital
 - Material assistance in case of death of close relatives of the employee
 - Material assistance for funeral expenses to the employee's family in the event of their death
 - Material assistance to orphans under the age of 18 who lost both parents if one of them was a Tatneft employee
 - Material assistance to large families
 - Material assistance to employees who have dependent children under the age of 18
 - Material assistance in retirement
- Lump-sum payment related to the provision of annual paid leave
 - Provision of female employees with children under the age of 16 inclusive (disabled children under the age of 18) at least two free hours a week or one free day per month
 - Material assistance to an orphan child under the age of 18 whose parents (or one of them) died while on the job for Tatneft
 - Material assistance to single-parent families
 - Material assistance to employees related to reaching a milestone age
 - Material assistance upon the birth of twins or triplets in the family
 - Allocation of funds:
 - For the purchase of New Year's gifts for the children of Tatneft employees
 - For women on International Women's Day (March 8)

MAIN BENEFITS FOR YOUNG EMPLOYEES:

- Interest-free loan for the purchase of furniture and essential goods
- Material assistance to employees released from work as a result of being conscripted to the Armed Forces of the Russian Federation upon returning to their former job
- Material assistance for an employee's first marriage

MAIN BENEFITS FOR PENSIONERS AND VETERANS

- Material assistance on Victory Day (May 9) to veterans of World War II, their widows, and homeland workers
 - Quarterly material assistance to nonworking pensioners who worked at Tatneft for 10 years or more and retired before the creation of NNPF
 - Providing employees who have been working for 10 years or more at Tatneft the possibility of early retirement at the Company's expense while preserving the benefits and guarantees of the Company's pensioners
- Material assistance in case of death of close relatives of the pensioner
 - Material assistance for funeral expenses to the pensioner's family in the event of their death
 - Material assistance to pensioners related to reaching a milestone age
 - Allocation of funds for the Day of the Elderly; to women for International Women's Day (March 8); and, for the Day of Disabled Persons.

VOLUNTARY HEALTH INSURANCE

Since 1997, Tatneft has been implementing a voluntary health insurance program in which the Company's employees may receive quality medical services and, if necessary, take a course of health resort rehabilitation. In 2017, 21,166 employees were insured and RUB 365.0 million were allocated to the program. Tatneft organizes and pays for medical and other services under four programs:

Outpatient care, In-patient care, Rehabilitation treatment, and Comprehensive medical care.

To reduce infectious diseases, seasonal immunization (vaccinations against seasonal influenza and tick-borne encephalitis) was carried out within the program. In addition, Tatneft employees received a cancer screening to detect cancer at an early stage.

HOUSING POLICY

Tatneft is an active participant and the main payer of the social housing mortgage program in the Republic of Tatarstan.

In 2017, 678 apartments measuring a combined 51,000 square meters and valued at RUB 1.6 billion were built for Tatneft employees.

Out of the total number of housing units commissioned, 40 individual housing units have been built in the township of Karabash for workers living in the rural areas. Currently, all houses are inhabited by the Company's employees.

In 2017, an initial contribution of RUB 450.4 million was paid on behalf of Company employees, including RUB 240 million for employees of structural divisions.

30% of the commissioned apartments are allocated to young families. 26 of them also needed to furnish the apartment. RUB 7.9 million was spent to purchase furniture for these families.

6,013 people have applied to receive housing under the social mortgage program in the oil region as of January 1, 2018.

Construction of houses under the social mortgage program will be continued in 2018.

Construction will be carried out in nearly all cities of the south-east of the republic where the Company operates and employees live, depending on the number of participants in the social mortgage program and the need for housing.

According to the housing construction program, 11 multi-apartment houses (1,065 apartments) are planned for 2018. They will cover a total area of 65,100 square meters and cost RUB 2,048.6 million.



ORGANIZATION OF HEALTH RESORT HOLIDAYS FOR EMPLOYEES

Tatneft has 11 health and recreation resorts on the balance sheet of its structural divisions and subsidiaries. In 2017, 2,855 employees of Tatneft’s structural subdivisions who work with occupational hazards enjoyed the Company’s health and recreation resorts. At Park Foros LLC (city of Yalta), 1,919 workers and members of their families completed health rehabilitation.

In a number of the Company resorts, treatment is provided to the protected categories of Russian citizens, children, and citizens that need rehabilitation treatment per

doctor’s advice.

As part of the VHI contract, Tatneft structural subdivision employees engaged in work with occupational hazards complete rehabilitation treatment in Tatneft’s health and recreation resorts.

Tatneft took part in the 17th All-Russian Forum “Health Resort-2017” (city of Ufa). In the competition held under the forum, the Company’s social facilities were awarded with medals and diplomas.

INCLUSION OF WORKERS IN SPORTS AND HEALTHY LIVING

The Company has created an atmosphere where playing sports is an integral part of the everyday life of oil workers. Modern indoor ice rinks and sports complexes are built in each city of the Company’s operational area. In the Republic of Tatarstan, 16 indoor ice rinks were constructed, and 92 youth hockey clubs are paid for by Tatneft. Funds are allocated annually for the purchase of hockey uniforms for youth teams and for the salaries of coaches and staff units serving these rinks. In general, more than 5,000 teenagers are training in youth clubs and hockey leagues where they live. Tournaments are held between domestic hockey teams for prizes provided by Tatneft, as well as for the prizes from Oil and Life magazine. Ice hockey competitions among amateur Tatneft teams have been held since 2011.

In 2017, the 30th corporate Spartakiada Games of Tatneft took place involving more than 10,000 employees. Com-

petitions were held in 12 sports. RUB 8.03 million was allocated for Spartakiada Games in 2017.

Sports facilities are provided to oil workers in the cities of southeast Tatarstan as part of a national plan to promote healthy living.

In 2017, 25,514 people visited Tatneft’s ski complex.

During the summer, the Company provides employees with an opportunity to spend an active holiday together with their families in recreation centers located on the banks of the Kama River and Karabash Reservoir. In 2017, 12,916 employees and their families enjoy company-sponsored rest and relaxation.



HIGH-TECH MEDICAL CARE

Thanks to significant financial investments from Tatneft, the Program for the creation and commissioning of the regional medical diagnostic center of Tatneft and Almet'yevsk Medical Unit for the provision of high-tech medical care (HTMC) for cardiovascular surgery, traumatology and orthopedics, ophthalmology and urology to the population of the southeastern region of our Republic. This is a large and modern multidisciplinary medical and preventive care institution with highly qualified human potential which is equipped with the latest medical equipment.

In recent years, the clinic has implemented many modern high-tech methods of diagnosis and treatment, municipal and regional programs to improve the provision of medical care to patients with cardiovascular diseases. Moreover, highly qualified specialists have been trained in the world's best clinics.

Every year since 2008, state quotas are allocated for the Medical Unit for high-tech operations to the residents of 10 districts of the southeast Republic of Tatarstan in the areas of cardiovascular surgery, traumatology-orthopedics and neurosurgery, which are successfully implemented.

In 2016, Tatneft and Almet'yevsk Medical Unit opened the first innovative hybrid operating theater for high-tech cardiovascular operations in the Republic of Tatarstan and the Volga Federal District and a presentation of navigation systems for neurosurgical interventions and radiofrequency ablation operations. Main activities: hybrid cardiosurgery; radiofrequency ablation of cardiac arrhythmias using the CARTO 3 nonfluoroscopic navigation system; neurosurgery using neuronavigation equipment.

This area features modern and promising medical methods. Use of minimally invasive surgical technologies and the availability of modern equipment from the world's leading manufacturers allow the specialists of the Cardiovascular Surgery Department of the Medical Unit to carry out complex surgeries for patients with cardiovascular diseases.

In 2017, a total of RUB 291.7 million was allocated for implementation of the government order for providing a high-tech medical care for residents of south-east Republic of Tatarstan. Specialists of the Medical Unit fully implemented the government order.

Since the opening of the Regional Medical Diagnostic Center, about 2,000 open-heart surgeries, 16,652 coronary angiographies, 5,547 coronary artery stents, 729 pacemakers, 558 radiofrequency ablation surgeries, more than 440 endoprosthetics of large joints, and about 8,000 microinvasive surgeries in the anterior and posterior segments of the eye have been performed. New surgical interventions using hybrid technologies are being introduced and implemented, such as transcatheter aortic valve replacement and operations on large vessels and the heart. To date, 66 such surgeries have been performed.

In 2018, financial resources for fulfillment of the government order to provide HTMC for residents of the south-east Republic of Tatarstan are planned at a price of RUB 335.5 million.



CHILDREN'S REST AND RELAXATION

Within the framework of the Maternity and Childhood Protection Program, the Company annually organizes rest and relaxation for children of workers in thirteen children's health camps containing 2,736 beds. All camps have modern comfortable buildings, sports halls, playgrounds, swimming pools and are equipped with necessary inventory and staffed with qualified personnel.

In accordance with the decision of the Company's management, "The Tatneft League of Children Camps" project was launched on May 1, 2017. Project objectives: creating the Company's own system of training managerial and pedagogical staff for implementation of shifts; creating a unified methodology for organizing and conducting shifts in various areas (artistic, linguistic, sports, scientific and technical, military and patriotic) built on the values of the Tatneft Company, developing communications between children's camps, conditions for cooperation and exchange of experience, etc. On the whole, the project implementation made it possible to raise the quality level of children summer vacations and rest and relaxation. The project also made it possible to develop the unified strategy for the development of children's rest and relaxation at Tatneft, taking into account modern requirements for children's recreation, developing traditions of the republic and the Company, as well as national traditions. The project started successfully in 2017, and its implementation continues in the off-season.

In 2017, similar to prior years, a separate program for children's military and patriotic education was created at Tatneft's children recreation camps. Events were conducted by the mobile teams of the Sons of the Fatherland Center for Assistance and Development of Patriotic and Sports Education of Youth.

Moreover, children are engaged in work. Labor education is also an area of special focus at children's camps.

The camps also include ecological classes, lectures from medical workers, classes on traffic rules and many more subjects. In general, the health of the children staying in the Company's recreation camps improve and they see great progress.

So, in July 2017, at the Solnechnyy and Friendship children's summer camps, a large educational event was held—the 4th Republican Open Field Olympiad of Young Geologists. Understanding the importance of geological science, Tatneft seeks to get gifted children interested in this subject and promotes their professional self-determination. The Company helps popularize this profession, which is of such importance to the oil industry, by providing comprehensive support to the Olympiad of Young Geologists. The Olympiad is to be held at our children's camps for the second year.

The recreation program at children's camps includes sports events and the Ready for Labor and Defense program. At seven of Tatneft children's camps, modern football pitches were built this year in compliance with the requirements for professional sports grounds.

Each camp had its own mini-stable where two ponies lived, and the children had the opportunity not only to communicate with animals, but also to look after them and learn a work ethic. This is part of a large: Project on the Development of Equestrian Sports and Horse Breeding in the Southeast of Tatarstan. This part of the project enables children staying at the summer camp to get involved in horse riding.

In addition to children of employees of commercial businesses, this year children of state workers from the municipal regions of the oil region of the republic had the opportunity to stay at the Company's children's camps. The Company has, as a rule, allocated 340 tickets to them and also partly financed their cost.

In recent years, the number of children staying at summer camps has increased thanks to the construction of additional dormitory blocks at the children's camps and major repair work carried out on existing buildings.

In 2017, in accordance with the children's recreation program at the Company's recreation camps, 11,105 children stayed at the camps in four rotations.

YOUTH POLICY

The youth organization at Tatneft Company has more than 26,500 young workers, of which 7,350 are employees of the structural divisions, 7,050 are employees of the subsidiaries, 12,100 are employees of the oil service industry plants and organizations, and others.

In 2017, The corporate youth organization implemented a number of new projects aimed at increasing the effectiveness of work with young people, reducing inefficient spending, and increasing the involvement of young people in scientific, creative and innovatory work.

Two large youth educational forums were organized—Upstream and Downstream. During these forums business leaders and specialists delivered a speech in front of the young people about the Company’s development strategy; specialists in the field of project management and lean production from the Corporate University of Tatneft and Business Technologies Center (city of Saint Petersburg). At these forums, young people had the opportunity to gain new knowledge and skills, to become part of one team and offer their ideas on road maps for implementing the business development strategy.

The high level and expediency of the scientific and educational events in this format have been confirmed by the

results at the all-Russian level. Winners of the Upstream forum took part in the Youth Day of the Russian Energy Week. Based on the results of the project session, a team of young employees of Tatneft took first place out of the teams of young specialists from industrial energy companies. The winners received their awards from the Deputy Minister of Energy of the Russian Federation Anton Iniutsyn. Another of our teams took second place in the Case-in Championship in the league of young specialists (Moscow).

More than 13,000 innovative proposals were submitted by young workers in 2017, and 102 patents were granted.

The Company pays particular attention to solving youth social issues. This year 398 young workers have bought apartments via the mortgage lending system. More than 1,200 people received interest-free loans to purchase furniture and essential commodities worth a total of more than RUB 120 million.

To implement the Tatneft youth program, RUB 37 million was allocated in 2017.



DEVELOPMENT OF EQUESTRIAN SPORTS

In 2017, Tatneft continued to implement the program: Development of Equestrian Sports and Horse Breeding in the Southeast of the Republic of Tatarstan for 2016–2020. The program’s main objectives are as follows:

- Promotion of horse riding, equestrian sports, increase in the number of people interested in horses and equestrian sports
- Threefold increase in the number of children involved in horse riding and equestrian sports by 2020
- Increase in the number of sportspersons with ranks and sporting achievements
- Increase in the level of sportsperson training for participation in All-Russian and international competitions
- Staging regional, interregional, all-Russian and international competitions in the southeast of the Republic of Tajikistan on an annual basis starting in 2017; creation of the necessary infrastructure for this purpose in the context of the show jumping, dressage, and triathlon disciplines
- Organization and development of hippotherapy in equestrian sport schools
- Development of sport horse breeding, provision of equestrian sports schools with the necessary number of high-quality horses

Starting in early June, a pilot project was implemented at the children’s camps of Tatneft Company in which mini-stables were built in each summer camp, ponies were brought in, and activities for children with ponies were organized aimed at increasing the level of interest among children in equestrian sport.

A number of events dedicated to ponies, such as In Pursuit of Ponies, Best Pony Photo, Best Drawing, a presentation about the history of equestrian sport, and Brain Ring were included in the grid-plan for changing children’s summer camp programs. Also mandatory activities were included with the existing qualified trainers of the Tatneft equestrian center. The children enjoyed participating in the events.

This project has had a positive effect on the number of children who wish to take classes at the Tatneft equestrian center. The equestrian center management team

has noted that there has been an increase in the number of children enrolling in the center to take regular classes.

All the ponies have now been transported to the equestrian center, and children are taking part in activities and classes. They are also training to take part in competitions in show jumping, racing, and race sulkies.

In 2017, regular competitions were organized at the Tatneft equestrian center according to the calendar plan. In addition, four two-day Olympic equestrian competitions were held, including show jumping and dressage, in the equestrian centers of Almetyevsk, Yelabuga, and Aktyubinsk.

In 2017, Tatneft was the general sponsor of the Republic of Tatarstan Championship in Equestrian Sport and the Republic of Tatarstan Cup in Show Jumping and Dressage. The Company also provided financial assistance for the traditional Baiga public holiday in the village of Verkhny Koran, Leninogorsk District. Races are held of Tatar horses.

Tatneft has established a production plant in the city of Bugulma for the Butsefal equestrian center and is reconstructing the equestrian school with an indoor arena, ring entrance, stables, administration and amenity block at its own expense.

In 2017, the Company repurchased the property of the Nurlatsky stud farm. At the moment repair work is underway of the stud farm estate with the aim of improving the infrastructure to rear young racehorses. In addition, construction of the equestrian sports indoor arena is underway, after which an equestrian sports school will be set up at the stud farm.

So favorable conditions are being created for equestrian sports in both Bugulma and Nurlat.

Thanks to the implementation of the equestrian sports and horse breeding development program in the southeast of the Republic of Tatarstan, interest in this sport has increased significantly, especially among children.

CORPORATE SOCIAL PROJECTS REGISTER 2017

IN MANY TOWNS AND VILLAGES OF THE SOUTHEAST OF THE REPUBLIC, TATNEFT PLANTS ARE THE MAIN EMPLOYERS. IN ALMETYEVS, LENINOGORSK, AZNAKAYEVO, BAVLY, JALIL, YELABUGA, AND OTHER VILLAGES AND TOWNS, TATNEFT PLANTS PROVIDE TENS OF THOUSANDS OF PEOPLE WITH MODERN WORKPLACES AND FAIR WAGES AND CONTRIBUTE THE MAJORITY OF THE TAXES TO THE LOCAL BUDGET, WHICH ENSURES THE FULL AND TIMELY PAYMENT OF PENSIONS TO VETERANS AND WAGES TO PUBLIC SECTOR EMPLOYEES.

Social Investments Direction	Project name	Place of implementation
Program to facilitate the development of town and village infrastructure	Major road repair work	Almetyevsk, Aznakayevsk, Bugulminsk, Aktanyshsk, Nurlatsk municipal districts
	Provision of urban amenities to inner yard territories	Almetyevsk, Leninogorsk, Yelabuga, Karabash in Bugulma District
	Installation of 25 children's playgrounds in the courtyards of the town, installation of 7 children's playgrounds in the village of Sarmanovo	Almetyevsk Aznakayevsk municipal district
	Provision of urban amenities	the village of Abdrakhmanovo
	Construction of intra-district water, gas, electricity networks, and intradistrict thoroughfares in the Alsu housing development	Almetyevsk
	Reconstruction of the gas supply system in Staryy Zavod	Almetyevsk municipal district
	Repair and provision of urban amenities in the village of Urmanayevo	Aznakayevo
	Reconstruction of October Square	Bavly
	Repair of the Investigative Committee building	Leninogorsk

Social Investments Direction	Project name	Place of implementation
Large-scale environmental program	to replace water mains	the village of Karashay-Saklovo in the Sarmanovskiy municipal district, the village of Staryy Kuvak in the Leninogorsk municipal district, the village of Abdrakhmanovo in the Almetyevsk municipal district
	Installation of filters to purify drinking water	the villages of Yelkhovo and Nizhneye Abdulovo in the Almetyevsk municipal district
	Creation of green, water protection zones, parks, and avenues	oil region of the Republic of Tatarstan
	Provision of urban amenities (bringing up to standard) of the Almetyevsk Reservoir	Almetyevsk
	provision of clean drinking water	oil region of the Republic of Tatarstan
	Acquisition of flowering ornamental trees for planting along central streets	Almetyevsk
	Reconstruction of the Cascade of Ponds	Almetyevsk
	reconstruction of the lower lake	Leninogorsk
	Construction of the Central Town Park	Nizhnekamsk
	Reconstruction of two parks	the village of Sarmanovo
	Work to reduce groundwater by cleaning and deepening the flood plain of the Little Danube River in the village of Kulsharipovo	Almetyevsk municipal district
	Program to support health care	Refurbishment of the Almetyevsk Central District Hospital (central district hospital)
Reconstruction of the pediatric department at the Almetyevsk Children's Hospital with the perinatal center		Almetyevsk
Purchase of medical equipment for the Federal Rescue Service of Tatneft and the Almetyevsk Children's Outpatient Clinic		Almetyevsk
Purchase of a radiotherapeutic complex in the oncology dispensary		Almetyevsk
Purchase of medical clothing and surgical underwear for medical centers		oil region of the Republic of Tatarstan
Program to support program	Reconstruction, repair, and improvement of the infrastructure of educational institutions at all levels (from kindergartens to universities)	oil region of the Republic of Tatarstan
	Refurbishment and equipping of secondary schools, gymnasiums, and lyceums	Almetyevsk, Sarmanovsk, Cheremshansk municipal districts
	Modernization and equipping of departments, training laboratories, repair of student hostels and purchase of equipment, inventory for canteens at the Almetyevsk State Petroleum Institute	Almetyevsk
	Refurbishment and purchase of kitchen equipment for secondary school No. 21	Almetyevsk
	Repair of the building at the Rodnichok children's summer camp	Leninogorsk
	Refurbishment of Verkhnemakhtaminsk secondary school	Almetyevsk municipal district
	Asphalting of the school grounds and improvement of the sports ground, construction of a race track at Almetyevsk secondary school No. 1	Almetyevsk
	Purchase of a mini-tractor for the Bugulma boarding school, multimedia projector with a screen for school No. 12	Almetyevsk

Social Investments Direction	Project name	Place of implementation
Maternity and childhood care program	Under the «Help to get ready for school» campaign, backpacks, and sports suits for large and poor families were purchased	Almetyevsk
	Refurbishment of 6 kindergartens, kindergarten Ulybka, kindergarten Zolotoy Uley, kindergarten Solnyshko	Almetyevsk, Aznakayevo, Bugulma, the village of Sarmanovo
Program to support health care	Allocation of funds for the health resort rehabilitation of nonworking pensioners of structural divisions and plants of Tatneft Group	oil region of the Republic of Tatarstan
	Provision of financial assistance to the town associations for disabled people of the Republic of Tatarstan according to their applications	oil region of the Republic of Tatarstan
	Payment of public utilities for local societies for disabled people, various activities for the disabled	Almetyevsk municipal district
	Allocation of funds to purchase a minibus converted to transport disabled people	Almetyevsk municipal district
	Under the Active Longevity program, Active Longevity Centers have been established and equipped with adapted fitness machines for the elderly	Almetyevsk, Leninogorsk, Aznakayevo, Jalil in the Sarmanovo municipal district
	Allocation of funds to set up the production of wax candles for Almetyevsk Rehabilitation and Production Enterprise Southeast (Society of the Blind) LLC	Almetyevsk
	Provision of financial assistance to the local public organization for veterans (pensioners)	Almetyevsk municipal district
	Provision of material assistance to participants of the Second World War, widows, homefront workers (pensioners of Tatneft Group plants) for Victory Day in the Great Patriotic War.	oil region of the Republic of Tatarstan
	Construction of bicycle paths (work continued)	Almetyevsk
	Construction of multifunctional sports complex with swimming pools	Almetyevsk, Agryz
Program to support sport and develop physical culture	Reconstruction and repair of the Energetik stadium	Bugulma
	Refurbishment of the Shinnik sports complex	Nizhnekamsk
	Installation of hockey rinks with changing rooms and lighting	Yutazinsk, Almetyevsk municipal districts
	Installation of barrier fences at the Strela Sports School ice rink	Kazan
	Repair of the Sports School building	Bugulma, Leninogorsk
	Major repair work of the hockey court infrastructure and construction of multi-field sports fields with artificial grass	the village of Abdrakhmanovo and Nizhneye Abdulovo in the Almetyevsk municipal district
	Purchase of sports equipment for Devon Sports School	N. Maktama in the Almetyevsk municipal district
	Installation of artificial ice in the culture and leisure park	Almetyevsk
	Support for children's and youth boxing, wrestling, swimming, volleyball, karate, figure skating, equestrian sports, chess.	oil region of the Republic of Tatarstan
	On five sites prepared in squares and parks, Green Fitness classes were continued, including dancing exercises, yoga, zumba, callanetics, and a number of other sports.	Almetyevsk

Social Investments Direction	Project name	Place of implementation
Program to support farming and agriculture	Allocation of funds for the development of agriculture	Almetyevsk, Agryz, Aznakayevo, Aksubayevsk, Aktanyshsk, Bavlinsk, Bugulminsk, Yelabuga, Zainsk, Leninogorsk, Mendeleyevsk, Menzelinsk, Muslyumovsk, Novosheshminsk, Nurlatsk, Sarmanovsk, Tukayevo, Cheremshansk, Utazinsky
Program to support culture	Participation in the implementation of a large-scale project to restore the ancient town of Bulgar. The construction of a hotel with a bathing zone (counterpart to the historical White Chamber of Bulgar of the 14th century) has been continued.	Bulgar
	Refurbishment of culture centers	Bavly, Karabash in the Bugulma municipal district, the village of Staryy Menzelyabash in the Sarmanovsk municipal district, the village of Cheremshan, the village of Yersubaykino in the Almetyevsk
	Refurbishment of Children Music School No. 1	Almetyevsk
	Provision of financial assistance to maintain the Neftche Culture Center in Almetyevsk and the Almetyevsk Drama Theater	Almetyevsk
	Purchase of concert and baby grand pianos for cultural institutions	oil region of the Republic of Tatarstan
	Purchase of musical instruments, stage costumes for a drumming group from the Almetyevsk Music College	Almetyevsk
	Purchase of a car for the Almetyevskiy Tatar State Drama Theater	Almetyevsk
	Allocation of funds to hold cultural events and celebrate Victory Day and Sabantuy in the regions of the oil region	oil region of the Republic of Tatarstan
	Continuation of the Cultural Environment urban project aimed at the development of a creative urban environment	Almetyevsk
	Allocation of funds for the construction of the second building of the Saint Guryi of Kazan Orthodox Gymnasium	Kazan
Program to promote spiritual revival	Allocation of funds to stage the Republican Iftar, for an international research and training conference devoted to the 160th anniversary of the birth of the famous Tatar theologian and educator G. Barudi	Kazan
	Provision of charitable assistance to the Spiritual Administration of the Muslims	Almetyevsk, Sarmanovsk, Bavlinsk, Bugulminsk municipal districts
	Allocation of funds to complete the painting of the Cathedral of the Kazan Madonna Icon	Almetyevsk
	Allocation of funds for the reconstruction of the church in the village of Novaya Mikhaylovka	Almetyevsk municipal district
	Allocation of funds for the improvement of Bigash cemeteries	Almetyevsk municipal district
	Allocation of funds for the construction of mosques in the Alsu housing development	Almetyevsk, Minnibayevo
	Allocation of funds to purchase church plate for the Church in the village of Karabash	Bulguminsk municipal district
	Collective agreement	oil region of the Republic of Tatarstan
Personnel social guarantees program	Nongovernmental pension provision program	oil region of the Republic of Tatarstan
Occupational safety and health	Purchase of workwear	oil region of the Republic of Tatarstan

ACTIVITIES OF TRADE UNION ORGANIZATIONS

The conscientious work of the Tatneft personnel, consistent implementation of measures to preserve the financial and economic sustainability of the company enabled the obligations of the collective agreement of Tatneft to be fulfilled in 2017.

Meanwhile, the achieved level of social protection of employees, including youth, and nonworking pensioners of the Company was ensured, including voluntary medical insurance, construction of housing under the mortgage lending program, organization of summer camps for the children of employees, the provision of pensions, etc.

The Tatneft trade union committee, its primary trade union organizations on the basis of the Federal Law “On Trade Unions, Their Rights and Guarantees of Activity,” the Labor Code of the Russian Federation, and the collective agreement ensure:

- Representation and protection of social and labor rights and the interests of trade union members
- Monitoring of compliance with labor legislation of the Russian Federation
- Organization of sporting and recreation activities for the workforce

The administration and trade union committee of Tatneft organized and staged:

- A conference of the Tatneft workforce, where the collective agreement of the Company was concluded for 2017
- A meeting of the permanent labor safety commissions of Tatneft and PTC, its structural subdivisions and subsidiaries following the results of work in 2017

The interregional trade union organization of Tatneft has 138,595 trade union members, of whom 88,272 are employed, 44,886 are unemployed pensioners, 5,437 are students of Almetьевsk State Petroleum Institute, Almetьевsk Polytechnic College, Leninogorsk Oil Technical College, and Bugulminsk Engineering College, and 35,701 are young working persons. Primary unified and primary trade union organizations numbering 163 entities operate in structural divisions, service management companies, and subsidiaries located in Tatarstan and beyond, and 4 entities are students of Almetьевsk State Petroleum Institute, Almetьевsk Polytechnic College, Leninogorsk Oil Technical College and Bugulminsk Engineering College.

The composition of the trade unionists, numbering 12,475 people, is as follows: 167 heads of primary trade union organizations, 5,266 chairpersons of trade union committees, 2,651 trade union groups, 1,257 trade union committee members, 2,083 members of all committees

of the trade union committee and 376 members of the audit commissions of primary trade unions, 2,655 trade union committee members and 2,760 labor protection commissioners.

The trade union committee carried out work to attract more members to the trade union of the Interregional Trade Union Organization of Tatneft. In 2017, trade union organizations were created which were part of the Interregional Trade Union Organization of Tatneft: LLC Nurlatsky stud farm, Private Educational Institution Tatneft – School.

Admission to the trade union is carried out on a voluntary basis through the personal application of the employee. Newly-admitted employees are brought up to speed, the trade union committee provides information about its activities and sections of the collective agreement, and the level of interest of the employer in social activities, sports, and other activities is revealed.

Sociological surveys are regularly conducted among employees to determine the degree of satisfaction with workplace management and safety, and the quality of work carried out by trade union committees. Legal consultations are held. There is a “helpline” in the trade union committee, to where every member of the trade union can call and explain their problem. In the primary trade unions, the reception of trade union members to discuss private matters was organized.

The work of the Tatneft trade union committee, consisting of 51 trade union members, was carried out in accordance with the approved annual plan in full compliance with the Union’s Statute, the requirements of higher trade union bodies, the Federal Law On Trade Unions, Their Rights and Guarantees of Activities, and the Labor Code of the Russian Federation.

9 commissions of the Tatneft trade union committee carry out work to monitor the fulfillment of the obligations of the Collective Agreement.

Trade union employees are routinely involved in conducting preventive measures related to labor protection and summarizing the results of tenders:

- “To maintain the aesthetic state of well-maintained springs and improve the water quality”
- “The best recreational camp of structural divisions and subsidiaries”

Members of the trade union committee and members of the commissions of the Tatneft trade union committee participated in work on planned issues. Resolutions were adopted on all the issues discussed.

Representatives of the Tatneft trade union took part in the meetings of the Presidium and Plenums of the Russian Council of the Oil and Gas Trade Union, seminars of the International Trade Union Confederation, meetings of the Federation of Trade Unions of the Republic of Tatarstan, and meetings at the plants of the Tatneft production group.

In July 2017, at a high organizational level, the administration and the Tatneft trade union committee organized a children’s recreation camps festival which was attended by more than 1,000 children from Tatneft Company’s 13 children’s recreation camps.

The trade union committee organized cultural, sports and recreational events during the summer and winter arrivals at the Tatneft recreation centers. The trade union commit-

tees annually organize “Health Days,” concert programs for employees and their families from May to September in the city park named after the 60th anniversary of Tatarstan oil. The trade union committees organized trips for plant employees to Tatneft’s health and recreation resorts and beyond. They held Christmas parties for the children of plant employees.

Meetings of the conciliation commission for the development of the collective agreement of Tatneft for 2018 were organized and held, where the proposals of the Company’s employees for the purpose of entering into a collective agreement were examined.

The Tatneft interregional trade union organization on the principles of social partnership takes part in the formation and implementation of Tatneft’s social strategy.

PROTECTION OF THE RIGHTS OF TRADE UNIONS FOR SAFE WORK

One of the main areas of focus of the work of the Tatneft trade union organization is the protection of workers’ rights to ensure that they work in conditions that meet health and safety requirements and public control over compliance with labor protection legislation.

This joint work is carried out on the basis of collective agreements, on the principles of social partnership between the administrations of Tatneft and its subsidiaries and other plants, on the one hand, and representatives of employees—the trade union committees of Tatneft and the plants of the Tatneft Group, the technical labor inspectorate, and the authorized trade union for labor protection, on the other hand.

At conferences and meetings of the workforce, on the basis of the results of work for 2017, the implementation of collective bargaining agreements, including the obligations of labor protection agreements, was accepted by the administrator and the trade union committee.

At the meetings of the Tatneft trade union committee and its presidium, the issues prepared by the trade union committee on labor protection were examined.

The chief technical labor inspector of the trade union conducted 45 inspections of the conditions and workplace safety at plants, their subdivisions, compliance with labor protection legislation, implementation of collective agreements and labor protection agreements at plants where union members work. Violations found during the inspections are eliminated.

In accordance with the Labor Code of the Russian Federation, about 900 commissioners exercise trade union control in the field of labor protection at the plants of Tatneft. The obligatory participation of authorized persons in administrative and public multistage control is reflected in the Regulation on Industrial Safety and Labor Protection Management System in Tatneft. Labor inspectors carried out inspections of the workplace conditions at the plants. Any issues that arose were dealt with in a timely manner.

WORK WITH YOUNG TRADE UNION MEMBERS

The trade union committees of primary trade union organizations pay special attention to working with young trade union members. Commissions on working with young people operate effectively.

The Tatneft trade union committee sends funds from the employer to organize cultural, sports, health, and other collective activities with young workers.

A section dedicated to the young employees of the company is highlighted in the Collective Agreement. All youth leaders are members of the trade union committees of the plants. Representatives of the youth organizations of plants help draw up the Collective Agreement.

Young trade unionists actively and successfully participate in all competitive and educational events of the Federation of Trade Unions of the Republic of Tatarstan and Neftegazstroyprofsoyuz of Russia. In September, 2017 in Kazan, the youth leaders of Tatneft participated in the youth meeting: Youth Policy of Neftegazstroyprofsoyuz of Russia: dreams and reality organized by NGSP of Russia.

Special attention is paid to military patriotic education. So with the assistance of the trade union committee in 2017, the Courage Track event was held for the first time at which an exhibition of weapons was held. The competitions were dynamic, the fights were exciting, and they allowed all participants to test themselves and their team.

The young trade unionists actively and successfully participate in all competitive events of the Federation of Trade Unions of the Republic of Tatarstan. In 2017, the creative youth of the Company's plants took part in the V Republican TV Festival of Creativity of Working Youth: Our Time – Beznen Zaman, at which young members of the trade union won a number of prizes in various categories.

LEGAL PROTECTION OF TRADE UNION MEMBERS

In 2017, legal work was continued aimed at protecting the rights of union members and providing legal assistance.

According to the annual schedule, a “visiting legal consultation office” was open. Consultations were provided by the chairman of the Tatneft trade union committee and the general legal adviser. During the reporting period, consultations were provided in the towns of Bavlly, Yelabuga, Leninogorsk, Nurlat, Aznakayevo, Nizhnekamsk, Bugulma, and the workers’ village of Jalil. Issues addressed by the employees included staff cuts, the transfer of employees, certification, the awarding of titles, and others.

In addition to the activities of the legal consultation office, work was carried out with letters and inquiries of trade union members, explanations and consultations were given to more than 650 trade union members. The trade union committee has a “hotline” where every trade union member can call and receive consultations or practical assistance on their issue.

The commission of the trade union committee on legal protection of trade union members verified compliance with labor legislation in LLC TNG-Group and LLC Tatneftodor in terms of adherence to the working time regime, provision of annual paid holidays, payment for overtime work, and work on weekends and nonworking holidays. Five inspections were conducted at NGDU Aznakayevskneft, NGDU Yelkhovneft, NGDU Yamashneft, LLC UK Tatneft Neftekhim, and JSC Nizhnekamskstekhuglerod. In July 2017, at NGDU Leninogorskneft, a seminar was held for the chairmen of the primary united, primary trade union organizations on the following subject: "On Law Enforcement Practice for Compliance with the Labor Code of the Russian Federation and Corporate Standards."

PROFESSIONAL DEVELOPMENT OF TRADE UNIONISTS

One of the important areas of focus is cooperation in this field with the Federation of Trade Unions of the Republic of Tatarstan and the Russian Council of Neftegazstroyprofsoyuz, regional trade union training centers to whose seminars dedicated specialists were sent to.

This year particular attention was paid to the training of all full-time trade union workers under the 40-hour labor protection program.

In primary trade union organizations, work with the active trade unionists was conducted. Overall this year more than 10,000 trade active unionists were involved in all forms of training.

CHARITABLE ACTIVITIES

ODARENNYE DETI (GIFTED CHILDREN) FOUNDATION

THE ODARENNYE DETI (GIFTED CHILDREN) FOUNDATION WAS CREATED IN MARCH 2004. THE FUND'S ACTIVITIES COVER NINE MUNICIPAL AREAS OF THE REPUBLIC OF TATARSTAN, INCLUDING THE PRODUCTION AREA OF TATNEFT: AZNAKAYEVSK, ALMETYEVSK, BAVLINSK, BUGULMINSK, NIZHNEKAMSK, LENINOGORSK, ZAINSK. NURLATSK. SARMANOVSK (WORKERS' VILLAGE OF JALIL).

In 2017, charitable foundation funds were allocated to support participants in various scientific forums: conferences, subject and inter-subject Olympiads, master classes in academic subjects.

during the year the following events were held:

- Meeting of BF prize-winners in Nizhnekamsk with the participation of 200 pupils and 50 mentors.
- Winter school for candidates to enter the All-Russian Olympiad national teams for 40 pupils from the southeast of the Republic of Tatarstan
- at the joint venture Zdorovye of Almetyevsk. Four participants from Almetyevsk, Bugulma, Nizhnekamsk, and Nurlat were winners and prize-winners of the republican stage in mathematics and physics.
- The research and training conference «Pupils for science in the 21st century» with the participation of more than 300 participants in the correspondence round, 119 participants with reports on the on-site tour in Almetyevsk.
- With the support of the charitable foundation, a team of young geologists and members of the geological study group from Almetyevsk took part in the Open Geological Olympiad in Moscow, the Geosphere Olympiad in Saint Petersburg, and the autumn School-Academy of Young Geologists in Gagra, Abkhazia. They took 2nd place in the Republican Field Geological Olympiad. Participants joined the national team at the international competitions in Kazakhstan. Also, a team of young geologists and members of the geological group from Nizhnekamsk received assistance from the charitable foundation in preparation for the Field Geological Olympiad where they took 3rd place.

Material assistance was provided to the Young Engineers Station of Almeteyevsk to participate in team competitions in airplane-modelling in Novosibirsk, car-modeling in Vladimir, and ship-modeling in Arkhangelsk, from where the participants returned as prize-winners. All-Russian competitions of young ship modelers were held at Almeteyevsk, for which the charity fund Gifted Children of Tatneft established special prizes.

Two teams of pupils: Grades 7–8 from Bugulma and grades 9–11 from Almetyevsk took part in the International Test-Rating Olympiad Gluon in Protvino, Moscow Region. Both teams were winners in their age group and received personal prizes.

Team of pupils from the workers' village Jilil was the winner of the International Asian Multidisciplinary Olympiad in Russia, and thanks to the material assistance of the charitable foundation it was able to take part in the competition in China.

The charitable foundation was one of the cofounders of the regional and republican scientific conferences of pupils in Leninogorsk, Aznakayevo, Sarmanovo, allocating funds to purchase prizes for the winners. Material assistance was provided to individual participants of the All-Russian and Volga region research and training conference of pupils from the general educational institutions of the southeast of the Republic of Tatarstan. Also, the foundation supported gifted students in their preparation for the All-Russian Olympiad of Pupils: Path to the Olympus held at Moscow universities in which 67 students took part.

Following the results of the scientific forums, all the prizewinners at the republican and Russian level and their mentors received material assistance from the fund at the spring meetings in the municipal districts of the oil province of the Republic of Tatarstan. In 2017, the charitable foundation provided material assistance in the form of a quarterly scholarship to gifted pupils from low-income families.

MILOSERDIYE (MERCY) CHARITABLE FOUNDATION

THE MERCY CHARITABLE FOUNDATION WAS CREATED IN 1999. OBJECTIVES OF THE FOUNDATION: SUPPORT FOR EDUCATION, SCIENCE, CULTURE, HEALTH, SPORT, SOCIAL SUPPORT FOR LOW-INCOME SEGMENTS OF THE POPULATION.

The Mercy Foundation carries out its activities in all regions of the Republic of Tatarstan and beyond. The appearance of the villages and towns of the republic is changing with the support of the Foundation. The fund provides a great deal of assistance to develop sport, especially children’s hockey, and to build new hockey grounds in all areas of the south-east of the republic.

The Mercy Charitable Foundation supports the work of the Rukhiyat and Gifted Children Foundations. The Foundation provides assistance on a permanent basis to children from low-income families, identifies gifted children and sends them to various republican, Russian and international competitions and Olympiads where the children represent the Republic of Tatarstan.

Particular attention is paid to the preservation and support of religious institutions. Recipients of the charitable help provided by the fund include various public organizations both and in and outside the Republic of Tatarstan. The Mercy Charitable Foundation renders all kinds of assistance to the Ministry of Internal Affairs of the Republic of Tatarstan. The Foundation pays special attention to labor veterans of Tatneft.

The Mercy Charitable Foundation allocates significant funds for the economic support of people who gave their strength and youth to help establish the oil industry of the republic.

This is the targeted policy of the Company, aimed at improving the living standards of veterans who worked in the oil industry. Mercy, together with the Tatneft trade union, helps organize trips for labor veterans to health resorts where, apart from high quality leisure activities, performances of professional and amateur artists and creative teams are organized for them. Other types of material assistance are provided to veterans. Annually considerable funds are allocated to pensioners to celebrate International Women’s Day and the Day of the Elderly and to participants of the war, homefront workers, and widows—on Victory Day. In addition, the Company pays for expenses borne by veterans related to expensive drugs, surgery, the purchase of hearing aids, and dental services.



THE RUKHIYAT FOUNDATION

THE RUKHIYAT FOUNDATION FOR SPIRITUAL REVIVAL WAS ESTABLISHED BY TATNEFT IN 1997 TO PROMOTE THE SPIRITUAL REVIVAL AND CULTURAL LIFE OF THE OIL REGION OF THE REPUBLIC OF TATARSTAN, IDENTIFY AND SUPPORT TALENTED CHILDREN OF THE OIL REGION OF THE REPUBLIC OF TATARSTAN, ORGANIZE CULTURAL AND EDUCATIONAL WORK, ETC.

The work of the Rukhiyat Foundation is aimed at promoting the cultural life of the oil region of the Republic of Tatarstan. The Foundation supports creative intellectuals, is engaged in publishing, works with writers and poets, artists, and cultural figures.

In the 21 years since it was established, the Foundation has issued more than 200 book titles with a total circulation of more than 350 thousand copies. Since 2006, the outstanding poets and writers of the Republic of Tatarstan have been awarded the S. Suleymanova literary prize, and young scholars have received scholarships.

In these years, about 50 thousand young talents from 7–18 years old have taken part in the Children’s Creativity Festival: Land of the Singing Nightingale, many of whom were awarded a scholarship and with the support of the Company continued their musical education, and some of them became professional artists and art school teachers.

Since 2016, together with the Vladimir Spivakov International Charitable Foundation, the cultural and educational project: The Academy of the Vladimir Spivakov Foundation, Children for Children. Tatarstan, was implemented, at which master classes of famous musicians, painters, and choreographers of the Russian Federation are held.

Based on the project results, talented children and creative teams of the oil region of the Republic of Tatarstan are awarded the Vladimir Spivakov Foundation scholarship and invited to participate in the festival Moscow Meets Friends.



INDUSTRIAL SAFETY. ENVIRONMENTAL POLICY

COMPANY POLICY IN THE FIELD OF INDUSTRIAL SAFETY, LABOR AND ENVIRONMENTAL PROTECTION

THE COMPANY CARRIES OUT HEALTH, SAFETY, AND ENVIRONMENTAL ACTIVITIES IN COMPLIANCE WITH THE REQUIREMENTS OF THE APPLICABLE FEDERAL LAWS AND RULES, TAKING INTO ACCOUNT THE REQUIREMENTS OF INTERNATIONAL DOCUMENTS

The health, safety, and environmental policy of the Company is aimed at ensuring safe working conditions, protecting the health of workers and people living in the areas of the Company’s operations, and compliance with the established permissible environmental impact standards, the subsequent reduction of the human impact on the ecosystem in the area of its operations through the implementation of new technologies, equipment, and materials, increasing the process control automation level, the rational use of natural resources, and minimizing of oil and gas losses.

THE FUNDAMENTAL HEALTH, SAFETY, AND ENVIRONMENTAL PRINCIPLES OF THE COMPANY ARE AS FOLLOWS:

- To recognize the constitutional right of people to safe working conditions and a healthy environment
- To save energy and rationally use natural resources during oil production operations
- To adopt managerial and investment decisions based on multioptional scenarios, taking into account industrial and environmental safety priorities
- To give priority to preventive measures over response actions to eliminate any negative environmental impact

THE COMPANY MAKES THE FOLLOWING COMMITMENTS:

- To ensure safe working conditions, protect the health of personnel and the population living in regions where the Company operates
- To decrease the human impact on the environment
- the rational use of natural resources.



INDUSTRIAL SAFETY AND OCCUPATIONAL HEALTH

THE COMPANY’S PRIORITIES IN INDUSTRIAL SAFETY ARE TO:

- Identify and assess industrial hazards and risks, work out measures to manage, and mitigate significant operational risks
- Carry out preventive measures to prevent the possibility of emergency situations, and should it happen, take measures to mitigate the impact of the emergency situation on the environment
- Carry out measures to prevent injuries and occupational diseases
- Provide health, safety, and environmental training and skill development for the Company’s personnel
- Require that the contractors carrying out work at the Company’s production facilities comply with the health, safety, and environmental requirements of the Company
- Maintain an open dialogue with all the Company’s stakeholders in respect of health, safety, and the environment
- Maintain and continuously improve the Integrated Health, Safety, and Environment Management System
- Ensure compliance of the Integrated Management System with the international occupational health and safety standards ISO 45001:2018 and the environmental guidelines ISO 14001:2015
- Report to the public on the Company’s health, safety, and environmental activities

In order to comply with the requirements of the international standard OHSAS 18001, the Company is implementing a Health, Safety, and Environment Program to prevent injuries, reduce risks and the accident rate, and contingent losses for 2016 through 2018. The program is aimed at preserving life and health, improving the working conditions of employees, reducing the accident rate, significant industrial risks, enhancing the operational safety of equipment, and improving the fire protection condition of facilities.

In 2017, RUB 2.9 billion was spent by the structural divisions of Tatneft to comply with the requirements of the Program. More than RUB 600 million was allocated to carry out measures provided for by occupational health agreements in the structural divisions of Tatneft. The average cost per employee amounted to RUB 29,000.

MINIMUM OCCUPATIONAL
INJURIES IN 2014–2017

2017	2	0,1
2016	3	0,14
2015	6	0,3

Fr. Rate (Frequency Rate) – number of injuries per 1,000 employees.
The data concern TATNEFT

Occupational health expenditure,
RUB **611.7** million
in 2017

occupational health expenditure
per one employee **29** thous.rub.

In 2015–2017, no fires were registered in structural divisions of Tatneft.

ENVIRONMENTAL MANAGEMENT SYSTEM

Certified in 2006, the Tatneft Integrated Health, Safety, and Environment Management System (HSE MS) successfully passed in 2017 through the recertification audit for compliance with the requirements of the international standards
ISO 14001:2004
OHSAS 18001:2007

Pursuant to the standard ISO 14001:2004, by which the Tatneft Environmental Management System has been certified for compliance, the Company uses the methodology of «sequential procedures» that provides for subsequent actions to be taken based on the data obtained according to the previous level's result.

INDUSTRIAL ENVIRONMENTAL MONITORING

THE TATNEFT INDUSTRIAL ENVIRONMENTAL MONITORING (IEM) SYSTEM IS IMPLEMENTED IN THE FOLLOWING PRINCIPAL AREAS:

- Taking measurements and samples related to environment protection
- The maintenance of databases of sources of environmental impact and setting, with processing and analysis of the obtained data
- Determination of impact source conformity with environmental requirements
- Analysis and forecast of environmental setting in regions of operations
- Development of the IEM system in new operating areas

THE IEM SYSTEM PROVIDES FOR THE FOLLOWING TYPES OF MONITORING:

- The monitoring of sources of environmental impact (emission and discharges of pollutants and waste waters)
- The monitoring of the condition of environmental components (atmospheric air, surface and underground waters, lands and soils, geological environment)
- Two-level supervisory control over compliance with the requirements of environmental legislation

The scientific and methodological support of the environmental activity of the Company is provided by the institute TATNIPIneft and a number of other scientific and research organizations and higher educational establishments in Tatarstan and the Russian Federation.

ENVIRONMENTAL SECURITY MEASURES

In 2017, Tatneft continued its dedicated work on a consistent basis to improve the environmental safety of oil production processes.

The Company is particularly focused on environmental activities to reduce harmful emissions into the atmosphere, discharges of pollutants into underground and surface water bodies, soil and subsoil and to ensure compliance with the established norms of permissible impact on the environment. Primarily, all these are ensured by maintaining the technical condition of the oil-field equipment at the appropriate level and implementing advanced and innovative environmental technologies as well as through activities, such as:

- The implementation of technology to capture light hydrocarbon fractions released from storage tank equipment (vapor recovery units)
- Reducing flared associated petroleum gas volumes
- Associated petroleum gas cleaning at desulphurization units
- Repair and replacement of tanks and other storage tank equipment and application of anticorrosive coating and equipping with means of electrochemical protection
- Overhaul and replacement of commercial oil and gas pipelines
- Reconstruction of oil treatment facilities with the optimization of the technological process and product streams
- Construction of storm water drain at industrial facilities for the collection and disposal of wastes
- Mud pit lining and equipping rigs with waterproof circulating systems
- Overhaul and replacement of oil pipelines and their tread and inhibitory protection
- Equipping well-servicing and improvement crews with special equipment to prevent fluid spills
- Monitoring production casings of wells for integrity and behind-casing cross-flows
- Sealing of production casings, bringing top of cement to surface behind the surface and production casings
- Running in additional (intermediate) casings
- Increase in the lifetime of downhole equipment using protective coatings, packers, tread protection, corrosion inhibitors, and the cathodic protection of casing wells

ATMOSPHERIC AIR PROTECTION

For the purpose of protecting the gas pipeline from corrosion, works such as the introduction of active electrochemical protection, the delivery of corrosion inhibitors, the use of corrosion-resistant tubes to replace gas pipelines as well as an overhaul (replacement) of worn-out sectors were performed.

For the sustainable use of associated petroleum gas (APG), compliance with the established standards of maximum permissible emissions (MPE) of pollutants into the air, the further reduction of pollutant emissions into the atmosphere, and the reduction of greenhouse gas emissions in 2017:

- An overhaul of 11.9 km of gas pipelines was accomplished.
- The reconstruction of flare units at NGDU facilities was continued to provide soot-free combustion.
- Construction was completed of the gas gathering system of Tatneftegazpererabotka Division (UTNGP) from the facilities NGDU Yamashneft and NGDU Yelkhovneft of Tatneft.
- Construction continued on the all-factory flare system of the Minnibayevskiy Gas Processing Plant of UTNGP of Tatneft.

Thanks to the focused efforts made to reduce associated petroleum gas (APG) flaring at flare facilities, in 2017, the APG utilization efficiency calculated for Tatneft, pursuant to RF Governmental Regulation No. 1148 dated November 8, 2012, was 96.16%. This made it possible to reduce the harmful emissions of pollutants and greenhouse gases from APG combustion and dispersion.

Application of light hydrocarbon fraction capture technology (vapor recovery units) helped to reduce carbon emissions by more than 3.4 times as compared with emissions in 1991. Currently, Tatneft's facilities operate 44 vapor recovery units.

The total emissions of pollutants into the air for 2017 was 86,396 tons, which is 5,121 tons above the indicator for 2016. This is primarily the result of preventive maintenance at facilities of the Tatneftegazpererabotka Division (UTNGP) of Tatneft in 2017.

As a result of the air protection measures implemented by the Company for the period from 1990 to 2017, the total emissions of pollutants into the air from stationary sources were reduced by 2.8 times.

To monitor compliance with the sanitary norms and regulations for air protection in populated areas as well as part of the substantiation (defining) of the sizes of sanitary buffer zones, atmospheric air was monitored in population areas located within the area of the Company's operations and the sanitary buffer zones of the production facilities.

The air basin was analyzed for 33 ingredients (hydrocarbons, hydrogen sulfide, nitrogen dioxide, carbon monoxide, etc.) with simultaneous meteorological observations through measuring wind speed and direction, temperature, and relative humidity.

WATER CONSERVATION AND SUSTAINABLE USE, SUBSURFACE PROTECTION

In 2017, a considerable amount of effort was made to improve the reliability of various-application pipelines and well designs. To ensure the leak-free operation of oilfield facilities, the Company applies the technology to:

- Protect pipes against corrosion with polyethylene lining and paint coating application
- Manufacture corrosion-resistant pipes
- Construct pipelines with effective internal and external insulation and welding joint protection

To ensure the stable and smooth operation of production facilities while improving their industrial and environmental safety, in 2017, the Company manufactured 565.5 km of corrosion-resistant pipes (MPT, TPC). Cathodic protection was applied to 12 well casings, and 365 km of pipelines were furnished with electrochemical protection. Diagnostic tests of over 3,556 km of pipelines were conducted.

To protect the oilfield equipment against corrosion, the Company tested and adapted dozens of chemical reagent brands. Currently, only high-efficient and technologically sound corrosion inhibitors are used based on recent unification results. In 2017, over 5,706 tons of high-efficient corrosion inhibitors were used.

The inner surfaces of 53 process tanks (vertical stainless steel tanks and horizontal flow setting tanks) were lined with anticorrosion coating at the crude oil gathering and treatment facilities of the oil and gas field operating divisions. 45 vertical steel tanks were repaired. Diagnostic tests were run in 548 bullet tanks and 115 vertical steel tanks.

To protect the land, surface, and underground waters, 125.5 km of oil pipelines for the oil gathering and treatment system and 87.8 km of water lines for the reservoir pressure maintenance system were overhauled using corrosion-resistant pipes.

To ensure the conservation and sustainable use of water resources, the Company continued:

- The technical reequipping of the recycling water supply system of 7/8 of the plant UTNGP
- The construction of modular sewage disposal plants for the recycling water supply system of gas processing facilities of UTNGP
- The overhaul of hydraulic structures and special foundations of NGDU Prikamneft

In 2017, Tatneft continued the implementation of promising technologies of the reservoir pressure maintenance (RPM) systems aimed at decreasing power consumption and increasing production efficiency. In 2017, the implementation of the «Concept of RPM System Development for the period from 2016 through 2020» was continued, as was work for the protection of downhole equipment of water injection wells from the impact of high pressure and corrosion failure and the complex optimization of RPM processes.

For the protection of subsoil and fresh underground waters, the implementation of highly-reliable packers and corrosion-resistant oil well tubing is being continued. In 2017, 420 highly-reliable packers were implemented. In total, 7,623 water injection wells are equipped with various-type packers which constitutes 77.6% of the existing fund of water injection wells.

Tatneft ensures water management in compliance with the requirements of the Water Code of the Russian Federation and the Federal Law «On Subsoil.» In 2017, the use of surface water bodies was carried out on the basis of 146 water use agreements concluded with the Ministry of Ecology and Natural Resources of the Republic of Tatarstan (including 17 agreements concluded in 2017) and 11 resolutions on assignment for use of surface water bodies (including 7 resolutions made in 2017). In 2017, Tatneft performed underground water abstraction operations on the basis of 41 subsoil use licenses.

There is a network in place of local observation points to monitor water bodies within Tatneft license areas. In 2017, the observation system consisted of 2,117 observation points to monitor surface and underground water bodies.

During the course of industrial management of environmental protection for the whole of 2017, the Company carried out over 110 thousand analyses of natural water, including 11,500 chemical analyses of water samples that were run by LLC UPTZh dlya PPD's chemical analysis laboratory.

Industrial environmental monitoring of the condition of water bodies is carried out by 12 chemical analytical laboratories of structural divisions of the Company and by laboratories of third-party organizations: LLC UPTZh dlya PPD, the Federal State-Funded Healthcare Institution Hygienic and Epidemiological Center in the Republic of Tatarstan, etc. Water analysis is conducted to check the following parameters that are typically influenced by oil production: chloride ion, sulfate ion, total hardness, hydrocarbonates, pH, calcium, anionic surfactants, and crude oil and petroleum products in a dissolved and emulsified state.

Based on the results of laboratory studies, the water quality in major rivers within the area of the Company's operations was stable in 2017. The content of chlorides, crude oil and petroleum products in a dissolved and emulsified state in major rivers and in the vast majority of springs did not exceed the maximum permissible concentrations (MPC) of harmful substances. Now the concentrations of these harmful substances are steadily decreasing in underground waters.

In 2017, for the twenty-second consecutive time since 1995, Tatneft organized and held the annual contest «Maintaining the Beauty of Landscaped Water-Spring Sites and Improving Water Quality.»

Within the territory of the Company's operations, over 500 springs were cleared, captured, and architecturally completed with the resources of the company's divisions.

THE IMPORTANT SOCIAL PROJECT OF RECENT YEARS BECAME THE PROVISION OF FRESH POTABLE WATER TO RESIDENTS OF THE REGION.

IN 2017, OVER RUB 133.5 MILLION WAS ALLOCATED FOR THIS PURPOSE.

THE CONSERVATION AND SUSTAINABLE USE OF LAND AND FOREST RESOURCES

The Company addresses the issues of the sustainable use of land resources and soil pollution prevention with the utmost care.

The land protection measures provide for using modular build rigs equipped with tank circulation systems with three-stage mud cleaning systems. This helps prevent liquid spillage on the land surface and eliminate the construction of earth pits as well as provide for the reliable protection of fertile lands on well-site areas against contamination from drilling fluids and formation waters.

To create a favorable environment within its operating area and higher greenhouse gas absorption, beginning in 2000, Tatneft has realized special activity programs for planting greenery in by-road lanes along highways and oilfield roads in the oil-producing regions of Tatarstan. TATNEFT's personnel planted over 488 thousand seedlings of trees and shrubs including 15,530 seedlings in 2017.

During the reporting year, extensive work was carried out to reduce the agricultural land allotment for the construction of oil facilities and to restore the fertility of the disturbed land, which became possible due to pad drilling and well pad construction techniques.



PRODUCTION AND CONSUMPTION WASTE HANDLING ACTIVITIES

One of Tatneft’s environmental priorities is the reduction of the human-induced impact on the environment through the selective accumulation, collection, and disposal of wastes generated during oil production processes.

The Company established a complex system to collect and recycle production and consumption wastes, using them as a raw material for producing marketable products.

In 2017, Tatneft carried out hazardous waste handling activities based on the license to carry out activities for waste detoxification and disposal of I-IV classes of danger No. 16-00158 dated December 31, 2015, issued by the Federal Service for the Supervision over Natural Resources Management (Rosprirodnadzor).

OIL SPILL EMERGENCY PREVENTION AND RESPONSE SYSTEM

The system of prevention and response to emergency situations (ES) due to oil spills and the protection of people and the environment from their harmful impact is implemented in Tatneft in two focus areas: a complex of engineering and organizational measures, which are aimed at enhancing production equipment reliability, timely oil spill detection, and minimizing the resulting damages, as well as a set of measures to immediately respond to this type of emergency.

Pursuant to RF governmental Regulations No. 613 dated August 21, 2000, «On Urgent Measures to Prevent and Eliminate Spills of Oil and Petroleum Products» and No. 240 dated April 15, 2002, «On the Procedure for Organizing Measures to Prevent and Eliminate Spills of Oil and Petroleum Products in the Russian Federation,» «Oil Spills Prevention and Response Plans» were developed at Tatneft’s structural divisions in accordance with the established procedure which was approved by the Emergency Ministry of the Russian Federation. The plans include calculations of the number of personnel and equipment and resources required to eliminate an oil spill. The contents of the Plans meet the requirements of regulatory legal documents. Irreducible material stocks were secured, including for the elimination of oil spills in water bodies. 1,900 meters of booms, 15 skimmers, and 10 tons of sorbent are available.

Contingency accident saving groups with the right to perform operations for the localization and liquidation of oil spills and gas hazard operations were established in oil and gas producing directorates of the Company and certified by the industry certification commission. These groups are equipped with trained personnel, machinery, and special equipment sufficient for the localization and liquidation of oil spills (skimmer oil collecting units for the collection of oil and petroleum products from water surface, booms, special equipment for the chassis of high floatation vehicles, pump trucks, tank cars, vacuum units, motorized cranes, freight transport, excavators, bulldozers, and equipment and materials pursuant to the requirements of statutory documents).

ENVIRONMENTAL CULTURE PROMOTION AND ENVIRONMENTALISTS TRAINING AND DEVELOPMENT

In 2017, forty-six (46) employees of Tatneft’s structural divisions were trained in a 112-hour program «Professional Training of Persons to have a Permit for Hazardous Waste Management» to ensure environmentally sound management of waste production and consumption. Thirty (30) employees of the Company were trained in the 72-hour program «Ensuring Environmental Safety for Managers and Specialists of the General Business Management System». One (1) employee completed the training program «Ensuring Environmental Safety by Managers and Specialists of Environmental Services and Environmental Control Systems.»

In accordance with Tatneft’s commitment to maintain an open dialog with all stakeholders with regard to the Company’s environmental activities, the Company interacts with mass media, holds round tables devoted to environmental issues and press tours at the Company’s facilities. The technological processes are covered in an easy-to-understand form in mass media, seminars of engineers and ecological events are being held, stakeholders are informed with respect to the audit and certification of the integrated management system for health, safety and environment; performance assessments by experts dealing with the environmental risks in the Company are provided.



FUNDS COMMITTED TO ENSURE ECOLOGICAL SAFETY AND ENVIRONMENTAL PROTECTION

The Company’s total investments in environmental safety activities across all sources of funding

in 2017 amounted to RUB 7,345.881 million, including:

investments allocated to ensure environmental protection and the sustainable use of natural resources, RUB 1,913.119 million in 2016, this amounted to RUB 7,269.149 million, including:

investments allocated to ensure environmental protection and the sustainable use of natural resources, RUB 1,196.447 million.

INTERNAL DOCUMENTS OF THE COMPANY AIMED AT ENSURING INDUSTRIAL AND OCCUPATIONAL SAFETY

- Regulation on the industrial safety management system
- Regulation on industrial control over compliance with industrial safety requirements at hazardous production facilities

These regulations set the uniform procedure for the management of industrial, fire, electric power, radiation safety, occupational safety and production control in all structural divisions and subsidiaries of Tatneft.

ANNEXES



REPORT ON COMPLIANCE WITH THE PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

ON THE RESULTS OF THE REPORTED CALENDAR YEAR OF 2017 AND THE ENDING REPORTING CORPORATE YEAR OF JUNE 2017 / JUNE 2018

This report on the compliance with the principles and recommendations of the Bank of Russia’s Corporate Governance Code is submitted for preliminary consideration to the Audit Committee of the Board of Directors of PJSC TATNEFT, to be considered, taking into account the remarks and comments of the Audit Committee, by the Corporate Management Committee of the Board of Directors of PJSC TATNEFT.

The report will be submitted to the Board of Directors of PJSC TATNEFT at a meeting in May 2018 based on the minutes of the decisions of the Audit Committee and the Corporate Management Committee to confirm that the data in this report contain complete and reliable information on the Company’s compliance with the principles and recommendations of the Corporate Governance Code of the Public Joint Stock Company TATNEFT in 2017.

INTRODUCTION:

This Report was formulated in accordance with Chapter 70 of the Bank of Russia Regulation No. 454-P of December 30, 2014 “On Disclosure of Information by the Issuers of Equity Securities” and reflects the Company’s compliance with the principles and recommendations of the Corporate Governance Code (hereinafter also referred to as the Code) recommended by the Bank of Russia for use by Joint-Stock Companies having securities admitted to organized trading.

The text of the Corporate Governance Code is posted on the official Internet website of the Bank of Russia: http://www.cbr.ru/finmarkets/files/common/letters/2014/inf_apr_1014.pdf.

As a methodology for assessing the observance of the Corporate Governance Principles by PJSC TATNEFT, the recommendations were set out in Bank of Russia Letter No. IN-06-52 / 8 of February 17, 2016 “On disclosure of observance of the principles and recommendations of the Corporate Governance Code in the annual report of a public joint stock company“.

Following the approval of the Board of Directors the report shall be posted on the Company’s official Internet website at www.tatneft.ru.

No.	Corporate Governance Principle	Criteria for Assessing Compliance with the Principle of Governance	Status of Compliance with the Principle of Corporate Governance	Explanations for Deviations from the Criteria for Assessing Compliance with the Corporate Governance Principle
1	2	3	4	5
1.1.	The Company shall ensure equal and fair treatment of all shareholders in the exercise of their right to participate in the management of the Company.			
1.1.1.	The Company shall create the best possible conditions for shareholders to participate in the general meeting and develop informed positions on issues on its agenda and to coordinate the Company’s actions, as well as an opportunity to express their opinions on the issues being discussed.	1. The internal document of the Company approved by the General Meeting of the Shareholders and regulating the procedures for holding General Meetings, is publicly available. 2. The Joint Stock Company provides an affordable way of communicating with the Company, such as a hotline, e-mail, allowing the shareholders to express their opinion and forward questions regarding the agenda for the General Meeting in preparation. These actions used to be taken by the Company shortly before each General Meeting that took place in the reporting period.	☒ complied with ☐ partial compliance ☐ no compliance	
1.1.2.	The procedure to notify the shareholders on a General Meeting to be held and to provide materials for the coming General Meeting gives the shareholders the opportunity to properly prepare for participation in the General Meeting.	1. The Company posted a notice on holding a General Meeting of the Shareholders on the Internet website at least 30 days before the date of the relevant General Meeting. 2. The communication on holding the meeting provided information on the meeting venue and documents required for admission to the premises. 3. The shareholders were provided with access to the information about the persons proposing the agenda and nominating candidates to the Board of Directors and the Audit Committee of the Company.	☒ complied with ☐ partial compliance ☐ no compliance	

1	2	3	4	5
1.1.3.	During the preparation and holding of the General Meeting, the shareholders had the opportunity to receive information about the meeting and materials to it with no hindrance and in a timely manner, to pose questions to the executive bodies and to communicate with each other.	1. During the reporting year, the shareholders were offered the opportunity to pose questions to members of the Company’s executive bodies and the Company’s Board of Directors shortly before and during the Annual General Meeting. 2. The Board of Directors’ position on each item of the agenda of the General Meetings held during the reporting period (including dissenting opinions incorporated in the Minutes) was included in the materials prepared for the General Meeting of the Shareholders. 3. The Company enabled access of the shareholders to the list of persons entitled to participate in the General Meeting from the date of its receipt by the Company, in all instances of holding General Meetings in the reporting year.	☒ complied with ☐ partial compliance ☐ no compliance	Notes to p. 2: The Board of Directors actually discusses the items of the agenda of the general meetings of the Company shareholders and approves the agenda of the meetings, in so doing stating the position of the Board of Directors. During the reporting period no dissenting opinions of the members of the Board of Directors were registered.
1.1.4.	The exercise of the shareholder’s right to demand convocation of the General Meeting, nominate candidates for the management bodies and carry proposals for inclusion in the agenda of the General Meeting shall not be accompanied by unjustified complexities.	1. In the reporting period, the shareholders had the opportunity, for at least 60 days after the end of the relevant calendar year, to submit proposals for inclusion in the agenda of the annual General Meeting. 2. In the reporting period, the Company did not refuse to accept proposals on the agenda or nominees for the bodies of the Company due to misprints or other insignificant shortcomings in the shareholder’s proposal.	☒ complied with ☐ partial compliance ☐ no compliance	The Company proceeds from the principle of sufficiency of the 55 days term, as defined by the Regulations on the General Meeting of Shareholders of PJSC TATNEFT
1.1.5.	Each shareholder had the opportunity to freely exercise the right to vote in the manner simplest and most convenient for him/her.	1. The Company’s internal documents (internal policy) contain provisions according to which each participant of the General Meeting can request a copy of the ballot certified by the counting commission.	☒ complied with ☐ partial compliance ☐ no compliance	
1.1.6.	Procedures for holding a General Meeting set by the Company shall provide an equal opportunity for all persons present at the general meeting to express their opinions and ask questions that might be of interest to them.	1. When holding a General Meeting of the Shareholders in the form of a meeting (joint attendance of the shareholders) during the reporting period, sufficient time was provided for the reports on the agenda items and for discussion of the relevant issues. 2. The candidates for management and control bodies of the Company were available to answer questions from the shareholders at the meeting at which the participants voted for or against the nominees to the relevant positions. 3. In the reporting period the Board of Directors, when making decisions related to the preparation and conduct of the General Meeting of the Shareholders, considered the issue of using telecommunication devices to provide remote access to the shareholders for participation in the General Meeting.	☒ complied with ☐ partial compliance ☐ no compliance	
1.2	The shareholders shall be given an equal and fair opportunity to participate in the Company’s profits distribution through receiving dividends			
1.2.1.	The Company developed and implemented a transparent and clear mechanism for determining the amount of dividends and their payment.	1. The Company developed the dividend policy, had it approved by the Board of Directors and made it publicly known. 2. If the dividend policy of a company uses the company’s reporting indicators to determine the amount of dividends, then the relevant provisions of the dividend policy take into account consolidated financial statements	☒ complied with ☐ partial compliance ☐ no compliance	
1.2.2.	The Company shall not decide on the payment of dividends, unless such decision, formally not violating the restrictions established by law, is economically unjustified and can lead to the formation of a false image of the Company’s activities.	1. The Company’s dividend policy contains clear indications of financial/economic circumstances in which the Company should not pay dividends.	☒ complied with ☐ partial compliance ☐ no compliance	
1.2.3.	The Company shall not allow deterioration of the existing dividend rights of its shareholders.	1. In the year under review, the Company did not take any actions leading to a deterioration in the dividend rights of the existing shareholders. 2. The history of dividend payments reflects the Company’s consistency in ensuring a high level of the dividend yield, while maintaining a balance of short-term (receiving the income in the form of dividend payments) and long-term (investing in the development of the Company) profits.	☒ complied with ☐ partial compliance ☐ no compliance	

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1.2.4.	The Company shall strive to exclude the shareholders' use of any other ways of generating profit (income) from the Company in addition to dividends and the Company's liquidation value distribution.	1. In order to exclude any other ways of the shareholders' generating profit (income) from the Company in addition to the dividends and the liquidation value distribution, internal documents of the Company establish control mechanisms that ensure the procedure of timely identification and approval of transactions with persons affiliated with majority shareholders having the right to use the votes falling on the voting shares), in cases where the law does not formally recognize such deals as related party transactions.	☒ complied with ☐ partial compliance ☐ no compliance	
1.3.	The system and practice of the Corporate governance ensure equal terms and conditions for all shareholders owing shares of the same category (type), including minority (small) and foreign shareholders, and equal treatment of them by the Company.			
1.3.1.	The Company shall create conditions for fair treatment of each shareholder by the Company's management bodies and supervisory persons, in particular, ruling out the possibility of abuse of any minority shareholders by majority shareholders.	1. During the reporting period, the procedures for managing potential conflicts of interest of majority shareholders were effective, and the Board of Directors paid due attention to all and any conflicts arising between shareholders, if any.	☒ complied with ☐ partial compliance ☐ no compliance	
1.3.2.	The Company shall not perform any actions, which will or might result in artificial reallocation of the corporate control.	1. There were no quasi-treasury shares, nor did they participate in the voting during the reporting period.	☐ complied with ☒ partial compliance ☐ no compliance ☒ complied with ☐ partial compliance ☐ no compliance	The Company shall not perform any actions, which will or might result in artificial reallocation of the corporate control. The structure of the equity capital is such that 61% of the voting shares are in free circulation among minority shareholders. The aggregate quasi-treasury block of shares of the Company makes the minimum 3.19% of the voting shares, so that voting by these shares can have no significant impact on the voting results. The voting for the candidates to the management and control bodies is performed on a proportional basis for each candidate, which gives no unfair preference to any of them. The voluntary nature of this approach is equal to voluntary waiver of voting by the quasi-treasury block of shares in principle. Proceeding from the above, the Company believes that it fully abides by the concept of the requirement to perform no actions which will or might result in artificial reallocation of the corporate control.
1.4.	The shareholders shall be provided with reliable and effective ways of recording the rights to their shares, as well as the possibility of unhindered and easy disposal of them.			
1.4.1.	The shareholders shall be provided with reliable and effective ways of recording the rights to their shares, as well as the possibility of unhindered and easy disposal of them.	1. The quality and reliability of activities carried out by the Company's Registrar in keeping the register of securities' owners correspond to the needs of the Company and its shareholders.	☒ complied with ☐ partial compliance ☐ no compliance	
2.1	The Board of Directors shall carry out the strategic management of the Company, define major principles and approaches to organizing the Company's risk management and internal control system, monitor the activities of the Company's executive bodies, and also exercise other key functions.			
2.1.1	The Board of Directors shall be responsible for making decisions related to the appointment and dismissal of members of the executive bodies, including due to their improper performance of their duties. The Board of Directors shall also ensure that the Company's executive bodies act in accordance with the approved development strategy and the main lines of the Company's business.	1. The Board of Directors has the authority stipulated in the Articles of Association to appoint, discharge from office and determine the terms of contracts with respect to the members of the executive bodies. 2. The Board of Directors considered the report of the sole executive body and members of the collegial executive body on the implementation of the Company's strategy.	☒ complied with ☐ partial compliance ☐ no compliance	

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2.1.2.	The Board of Directors shall set the basic long-term targets for the Company's activities, and shall assess and approve its key performance indicators and principal business goals, as well as its strategy and business plans with regard to the Company's principal areas of operations.	1. During the reporting period, the Board of Directors considered the issues related to the implementation and actualization of the strategy, approval of the Company's financial and economic plan (budget), as well as considered the criteria and indicators (including interim ones) of the strategy and business plans implementation.	☒ complied with ☐ partial compliance ☐ no compliance	
2.1.3.	The Board of Directors shall define the principles and approaches to the organization of the risk management and internal control system in the Company.	1. The Board of Directors defined the principles and approaches to the organization of the risk management and internal control system in the Company 2. The Board of Directors performed the assessment of the Company's risk management and internal control system during the reporting period.	☒ complied with ☐ partial compliance ☐ no compliance	
2.1.4.	The Board of Directors shall define the Company's policy of remuneration and (or) reimbursement of expenses (compensations) to the members of the Board of Directors, executive bodies and other key executives of the Company.	1. The Company developed and implemented a policy (policies) approved by the Board of Directors for the compensation and reimbursement of the members of the Board of Directors, executive bodies and other key executives of the Company. 2. During the reporting period, the meetings of the Board of Directors considered issues related to this policy (policies).	☒ complied with ☐ partial compliance ☐ no compliance	
2.1.5.	The Board of Directors shall play a key role in preventing, identifying and resolving internal conflicts among the Company's bodies, the shareholders and employees of the Company.	1. The Board of Directors plays a key role in preventing, identifying and resolving internal conflicts. 2. The Company has created a system for identifying transactions related to conflicts of interest and a system of measures aimed at resolving such conflicts.	☒ complied with ☐ partial compliance ☐ no compliance	
2.1.6.	The Board of Directors shall play a key role in ensuring transparency of the Company, timeliness and completeness of the Company's information, disclosure and easy access of the shareholders to the documents of the Company.	1. The Board of Directors has approved a Regulation on the information policy. 2. Persons responsible for the implementation of the information policy were determined by the Company.	☒ complied with ☐ partial compliance ☐ no compliance	
2.1.7.	The Board of Directors shall exercise control over the practice of corporate governance in the Company and shall play a key role in major corporate events of the Company.	1. During the reporting period, the Board of Directors considered the issue of corporate governance practices in the Company.	☒ complied with ☐ partial compliance ☐ no compliance	
2.2.	The Board of Directors shall be accountable to the Company's shareholders.			
2.2.1.	Information on the work of the Board of Directors shall be disclosed and provided to the shareholders.	1. The annual report of the Company for the reporting period includes information on the attendance of the meetings of the Board of Directors and the Committees by individual directors.	☒ complied with ☐ partial compliance ☐ no compliance	
2.2.2.	The Chairman of the Board of Directors shall be available to communicate with the shareholders of the Company.	1. There is a transparent procedure implemented in the Company that provides the shareholders with the opportunity to send questions to the Chairman of the Board of Directors and express their position.	☒ complied with ☐ partial compliance ☐ no compliance	
2.3.	The Board of Directors shall be an effective and professional management body of the Company, capable of making objective independent judgments and decisions that are in the best interests of the Company and its shareholders.			
2.3.1.	Only persons with an impeccable business and personal reputation and possessing the knowledge, skills and experience necessary to make decisions within the competence of the Board of Directors required for the effective performance of its functions, may be elected as the Board of Directors' members.	1. The procedure accepted in the Company for evaluation of the performance of the Board of Directors includes, among other things, assessing the professional qualifications of the members of the Board of Directors. 2. In the reporting period, the Board of Directors (or its nominations committee) evaluated the candidates to the Board of Directors in terms of their having the necessary experience, knowledge, business reputation, lack of conflict of interest, etc.	☒ complied with ☐ partial compliance ☐ no compliance	

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2.3.2.	The members of the Company's Board of Directors shall be elected through a transparent procedure that allows the shareholders to obtain information about the candidates sufficient to form an idea about their personal and professional qualities.	1. At all General Meetings of the Shareholders held during the reporting period with an agenda including election of the members of the Board of Directors, the Company provided the shareholders with biographical data of all candidates for the membership in the Board of Directors, results of evaluation of such candidates made by the Board of Directors (or its nominations committee), as well as information on the candidates' compliance with independence criteria, in accordance with recommendations 102 - 107 of the Code, and the written consent of the candidates to be elected to the Board of Directors.	☒ complied with ☐ partial compliance ☐ no compliance	
2.3.3.	The composition of the Board of Directors shall be balanced in terms of its members' qualifications, their experience, knowledge and business qualities, and the Board shall enjoy confidence of the shareholders.	1. As part of the procedure for evaluating the Board of Directors' work in the reporting period, the Board of Directors analyzed its own needs in terms of professional qualifications, experience and business skills.	☒ complied with ☐ partial compliance ☐ no compliance	
2.3.4.	The quantitative composition of the Board of Directors shall enable it to organize the activities of the Board of Directors in the most efficient manner, including the possibility of forming committees of the Board of Directors, and assure that the substantial minority shareholders of the Company may elect a candidate to the Board of Directors who they vote for.	1. As part of the evaluation procedure for the Board of Directors in the reporting period, the Board of Directors considered the issue of the quantitative composition of the Board of Directors in compliance with the needs of the Company and the interests of the shareholders.	☒ complied with ☐ partial compliance ☐ no compliance	
2.4.	The Board of Directors shall include a sufficient number of independent directors.			
2.4.1.	An independent director shall be a person who has sufficient professional skills, experience and independence to form his/her own position, is able to make objective and conscientious judgments that are independent of the influence of the executive bodies of the Company, certain groups of shareholders or other parties concerned. However, it should be noted that, under normal circumstances, a candidate (elected director) cannot be regarded as independent if he is connected with the Company, a substantial shareholder, a material trading partner or a competitor, or connected with the Government.	1. During the reporting period, all independent members of the Board of Directors met all the independence criteria specified in recommendations 102-107 of the Code, or were deemed independent by the decision of the Board of Directors.	☒ complied with ☐ partial compliance ☐ no compliance	
2.4.2.	An assessment shall be made of the compliance of the candidates for the membership in the Board of Directors with independence criteria, and a regular analysis of independence of the independent Board of Directors members shall be carried out. In the performance of such an assessment, the content should prevail over the form.	1. During the reporting period, the Board of Directors (or the committee on nominations to the Board of Directors) formed an opinion on the independence of each candidate to the Board of Directors and presented the relevant conclusion to the shareholders. 2. During the reporting period, the Board of Directors (or its nomination committee) at least once examined the independence of the current members of the Board of Directors, whom the Company indicated as independent directors in its annual report. 3. The Company has developed procedures that determine the necessary actions of a member of the Board of Directors in the event that he/she ceases to be independent, including the duty to promptly inform the Board of Directors thereof.	☒ complied with ☐ partial compliance ☐ no compliance	
2.4.3.	Independent directors shall account for at least one-third of all directors elected to the Board.	1. Independent directors account for at least one-third of all directors elected to the Board.	☐ complied with ☒ partial compliance ☐ no compliance	There are three independent directors in the composition of the Board of Directors. The Company believes that the composition of the Board of Directors is optimal for ensuring the interests of all groups of the Company's shareholders.
2.4.4.	Independent directors shall play a key role in preventing internal conflicts in the Company and in its performance of material corporate actions.	1. Independent directors (who have no conflict of interest) preliminarily assess the material corporate actions associated with a possible conflict of interests, and the results of such an assessment are submitted to the Board of Directors	☒ complied with ☐ partial compliance ☐ no compliance	

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2.5.	The Chairman of the Board of Directors shall contribute to the most efficient implementation of the functions assigned to the Board of Directors.			
2.5.1.	An independent director shall be elected to the position of the Chairman of the Board of Directors, or a senior independent director out of the independent directors shall be appointed to coordinate the work of independent directors and interact with the Chairman of the Board of Directors.	1. The Chairman of the Board of Directors is an independent director, or a senior independent director is defined among the independent directors. 2. The role, rights and duties of the Chairman of the Board of Directors (and the senior independent director, if applicable) are duly determined in the internal documents of the Company.	☐ complied with ☒ partial compliance ☐ no compliance	In the year under review, the Chairman of the Board of Directors was a non-executive Director, and there was no senior director determined among the independent directors. The Chairman of the Board of Directors was elected unanimously by all Members of the Board of Directors, as the most authoritative member of the Board of Directors, possessing due professional skills and knowledge. The Company assumes that all members of the Board of Directors have equal rights, and also takes into account the fact that the independent directors did not determine the senior independent director.
2.5.2.	The Chairman of the Board of Directors shall provide for a constructive atmosphere for holding meetings, free discussion of issues on the agenda of the meeting, monitoring the implementation of the decisions taken by the Board of Directors.	1. The efficiency of the Chairman of the Board of Directors was evaluated within the framework of the procedure for assessing the effectiveness of the Board of Directors in the reporting period.	☒ complied with ☐ partial compliance ☐ no compliance	
2.5.3	The Chairman of the Board of Directors shall take the necessary measures for timely provision to the Board of Directors of information necessary for making decisions on the agenda items.	1. The duty of the Chairman of the Board of Directors to take measures to ensure timely provision of materials to the members of the Board of Directors related to the agenda of the Board of Directors is fixed in the documents of the Company.	☒ complied with ☐ partial compliance ☐ no compliance	
2.6.	The members of the Board of Directors shall act in good faith and reasonably in the interests of the Company and its shareholders on the basis of sufficient knowledge, with due care and diligence.			
2.6.1.	The members of the Board of Directors shall make decisions taking into account all information available, in the absence of a conflict of interest, with equal treatment of the Company's shareholders, in the normal course of business risk.	1. The Company's internal documents establish that a member of the Board of Directors must notify the Board of Directors if he/she has a conflict of interest with respect to any item on the agenda of the meeting of the Board of Directors or before the Board of Directors begins discussion on the corresponding item of the agenda. 2. The Company's internal documents provide that a member of the Board of Directors must refrain from voting on any issue in which he/she has a conflict of interest. 3. The Company has established a procedure that allows the Board of Directors to receive professional advice on matters within its competence, at the expense of the Company.	☒ complied with ☐ partial compliance ☐ no compliance	
2.6.2	The rights and duties of the members of the Board of Directors shall be clearly articulated and established in the internal documents of the Company.	1. The Company adopted and published an internal document clearly defining the rights and duties of the members of the Board of Directors.	☒ complied with ☐ partial compliance ☐ no compliance	
2.6.3	The members of the Board of Directors shall have enough time to fulfill their duties.	1. The individual attendance of the meetings of the Board of Directors and its committees, as well as the time devoted to preparing for participation in the meetings, was taken into account in the evaluation procedure of the Board of Directors in the reporting period. 2. In accordance with the internal documents of the Company, members of the Board of Directors are obliged to notify the Board of Directors of their intention to become members of the management bodies of other organizations (other than the controlled and dependent organizations of the Company), as well as the fact of such an appointment.	☒ complied with ☐ partial compliance ☐ no compliance	
2.6.4	All the members of the Board of Directors shall have equal access to the Company's documents and information. Sufficient information about the Company and the work of the Board of Directors shall be provided to the newly elected members of the Board of Directors as soon as possible.	1. In accordance with the internal documents of the Company, the members of the Board of Directors have the right to access documents and make inquiries concerning the Company and its controlled entities, and the Company's executive bodies are obliged to provide the relevant information and documents. 2. There is a formalized program of familiarization for newly elected members of the Company	☒ complied with ☐ partial compliance ☐ no compliance	

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2.7	The meetings of the Board of Directors, preparation for and participation in them by the members of the Board of Directors ensure effective functioning of the Board of Directors.			
2.7.1.	The meetings of the Board of Directors shall be held as necessary, taking into account the scale of activities and the Company's tasks in a certain period.	1. The Board of Directors held at least six meetings in the reporting year.	☒ complied with ☐ partial compliance ☐ no compliance	
2.7.2.	The procedure for preparing and holding meetings of the Board of Directors shall be set in the Company's internal documents, which provide for the members of the Board of Directors to properly prepare for the meeting.	1. The Company has approved an internal document that defines the procedure for preparing and holding meetings of the Board of Directors, which also stipulates that a notice of the meeting should be made, as a rule, at least 5 days before the date set for holding the meeting.	☒ complied with ☐ partial compliance ☐ no compliance	
2.7.3.	The form of the meeting of the Board of Directors shall be determined taking into account the importance of the issues on the agenda. The most important issues shall be resolved at the meetings in the form of joint presence.	1. The Company's Articles or internal documents stipulate that the most important issues (according to the list given in Recommendation 168 of the Code) should be considered at the meetings of the Board held in the form of joint presence.	☒ complied with ☐ partial compliance ☐ no compliance	
2.7.4.	Decisions on the most important issues of the Company shall be taken at the meeting of the Board of Directors by a qualified majority or a majority of all elected members of the Board of Directors.	1. The Company's Articles stipulate that decisions on the most important issues set out in Recommendation 170 of the Code should be taken at a meeting of the Board of Directors by a qualified majority of not less than three-quarters of the votes, or by a majority of all elected members of the Board of Directors.	☐ complied with ☒ partial compliance ☐ no compliance	The principle is actually complied with. Decisions on the most important issues of the Company shall be taken at the meeting of the Board of Directors by a qualified majority or a majority of all elected members of the Board of Directors.
2.8.	The Board of Directors shall establishes Committees for preliminary consideration of the most important issues of the Company's business.			
2.8.1	It is recommended to establish an Audit Committee consisting of independent directors for the preliminary consideration of issues related to the control over the financial and economic activities of the Company.	1. The Board of Directors established an Audit Committee consisting entirely of independent directors. 2. The Company's internal documents define the tasks set out before the Audit Committee, including the tasks contained in Recommendation 172 of the Code. 3. At least one member of the Audit Committee, who is an independent director, has sufficient experience and knowledge required for the preparation, analysis, assessment and audit of the accounting (financial) statements. 4. During the reporting period meetings of the Audit Committee were held at least once a quarter.	☐ complied with ☒ partial compliance ☐ no compliance	The presence of three independent (one recognized independent) directors and one non-executive director having extensive experience and necessary competencies.
2.8.2.	It is recommended to establish a Remuneration Committee consisting of independent directors and headed by an independent director who is not the Chairman of the Board of Directors for preliminary consideration of issues related to the formation of an effective and transparent remuneration practice.	1. The Board of Directors established the Remuneration Committee consisting of independent directors only. 2. The Chairman of the Remuneration Committee is an independent director who is not the Chairman of the Board of Directors. 3. The tasks of the Remuneration Committee are defined in the internal documents of the Company, including the tasks contained in Recommendation 186 of the Code.	☐ complied with ☒ partial compliance ☐ no compliance	The presence of three independent (one recognized independent) directors and one non-executive director having extensive experience and necessary competencies.
2.8.3.	It is recommended to establish a Nomination Committee (appointments, cadres) for preliminary consideration of issues related to the HR planning (succession planning), professional composition and efficiency of work of the Board of Directors, with the majority of its members being independent directors.	1. The Board of Directors established the Nomination Committee (or its tasks specified in Recommendation 186 of the Code are implemented within the framework of another Committee) with the majority of its members being independent directors. 2. The internal documents of the Company define the tasks of the Nomination Committee (or the corresponding Committee with a combined functionality).	☒ complied with ☐ partial compliance ☐ no compliance	
2.8.4	Given the scale of the activities and the level of risk, the Company's Board of Directors shall make sure that the composition of its Committees fully meets the objectives of the Company. Additional Committees either were to be established or were not deemed necessary (Strategy Committee, Corporate Management Committee, Ethics Committee, Risk Management Committee, Budget Committee, Health, Safety and Environment Committee, etc.).	1. In the reporting period, the Board of Directors of the Company considered the issue of the consistency of its Committees with the tasks of the Board of Directors and the objectives of the Company. Additional committees were either established, or they were deemed not necessary.	☒ complied with ☐ partial compliance ☐ no compliance	

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2.8.5.	The Committees' composition should be defined in a way allowing for a comprehensive preliminary discussion of the issues to be considered, taking into account different opinions.	1. The committees of the Board of Directors are headed by independent directors. 2. The Company's internal documents (policies) include the provisions according to which persons not being members of the Audit Committee, the Nomination Committee or the Remuneration Committee, may attend the meetings of the Committees upon the invitation of the Chairman only.	☒complied with ☐partial compliance ☐no compliance	
2.8.6	Chairmen of the Committees shall regularly inform the Board of Directors and its Chairman about the work of their Committees.	1. During the reporting period, Chairmen of the Committees regularly reported on the work of the Committees to the Board of Directors.	☒complied with ☐partial compliance ☐no compliance	
2.9	The Board of Directors provides for the assessment of the work of the Board of Directors, its Committees and their members.			
2.9.1	The performance evaluation of the Board of Directors shall be aimed at determining the degree of effectiveness of the Board of Directors, the Committees and the members of the Board of Directors, their relevance for the development needs of the Company, revitalization of the Board of Directors and identification of the areas in which their activities improved.	1. Self-assessment or external evaluation of the Board of Directors operation in the reporting period included evaluation of the work of the Committees, individual members of the Board of Directors and the Board of Directors as a whole. 2. The results of the self-assessment or external evaluation of the Board of Directors conducted during the reporting period were considered at the meeting of the Board of Directors held in the form of joint presence.	☒complied with ☐partial compliance ☐no compliance	
2.9.2	Evaluation of the work of the Board of Directors, Committees and members of the Board of Directors shall be carried out on a regular basis at least once a year. An independent external organization (consultant) shall be invited for assessing the quality of work of the Board of Directors at least once every three years.	1. The Company invited an independent external organization (consultant) to evaluate the quality of the work of the Board of Directors at least once during the last three reporting periods.	☐complied with ☒partial compliance ☐no compliance	Over the past three years, the Company has not brought an external organization for independent evaluation of the work of the Board of Directors, since this procedure would have involved additional costs.
3.1	The Company's Corporate Secretary shall conduct effective current interaction with its shareholders, and coordinate the actions of the Company to protect the rights and interests of the shareholders, supporting effective operation of the Board of Directors.			
3.1.1	The Corporate Secretary shall have the knowledge, experience and qualifications that are sufficient to fulfill the duties assigned to him/her, have an impeccable reputation and shall enjoy the confidence of the shareholders.	1. An internal document was adopted and disclosed in the Company: Regulation on the Corporate Secretary. 2. The biographical information on the Corporate Secretary with the same level of detail as for the members of the Board of Directors and the executive management of the Company has been placed on the Company's website and in the Company's Annual Report.	☒complied with ☐partial compliance ☐no compliance	
3.1.2	The Corporate Secretary shall be sufficiently independent from the executive bodies of the Company and shall have the necessary powers and resources to carry out the tasks assigned to him/her.	1. The Board of Directors approves the appointment, removal from office and additional remuneration of the Corporate Secretary.	☒complied with ☐partial compliance ☐no compliance	
4.1	The level of remuneration paid by the Company shall be sufficient to attract, motivate and retain individuals who are qualified and competent for the Company. The remuneration to the members of the Board of Directors, executive bodies and other key executives of the Company shall be paid in accordance with the Company's remuneration policy.			
4.1.1	The level of remuneration provided by the Company to the members of the Board of Directors, executive bodies and other key executives shall create sufficient motivation for their effective work, allowing the Company to attract and retain competent and qualified specialists. However, the Company shall avoid setting the compensation level any higher than necessary or create an unjustifiably large gap between the remuneration levels of these individuals and the employees of the Company.	1. The Company has adopted an internal document (policy) for the remuneration of the members of the Board of Directors, executive bodies and other key management personnel, which clearly outlines the approaches to the remuneration for these individuals.	☒complied with ☐partial compliance ☐no compliance	

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4.1.2	The Company's compensation policy has been devised by the Remuneration Committee and approved by the Company's Board of Directors. The Board of Directors, with the support of the Remuneration Committee, shall oversee implementation of the remuneration policy in the Company, and, if necessary, shall revise and correct it.	1. During the reporting period, the Remuneration Committee reviewed the remuneration policy (policies) and practices of its (their) implementation and, if necessary, submitted appropriate recommendations to the Board of Directors.	☒ complied with ☐ partial compliance ☐ no compliance	
4.1.3	The Company's remuneration policy shall contain transparent mechanisms for determining the remuneration of the members of the Board of Directors executive bodies and other key executives of the Company, as well as regulate all types of payments, benefits and privileges granted to these persons.	1. The Company's remuneration policy contains transparent mechanisms for determining the remuneration of the members of the Board of Directors, executive bodies and other key executives of the Company, and also regulates all types of payments, benefits and privileges granted to these persons.	☒ complied with ☐ partial compliance ☐ no compliance	
4.1.4	The Company shall define a policy of expenses reimbursement (compensation), which shall specify the list of expenses to be reimbursed, and the level of service that the members of the Board of Directors, executive bodies and other key executives of the Company can claim. Such a policy can be an integral part of the Company's remuneration policy.	1. The remuneration policy (policies) or other internal documents of the Company set the rules for compensating the expenses of the members of the Board of Directors, executive bodies and other key executives of the Company.	☒ complied with ☐ partial compliance ☐ no compliance	
4.2.	The remuneration system for the members of the Board of Directors shall ensure that the financial interests of the directors should be in line with the long-term financial interests of the shareholders.			
4.2.1.	The Company shall pay a fixed annual fee to the members of the Board of Directors. The Company shall not pay remuneration for participation in separate meetings of the Board or committees of the Board of Directors. The Company shall not apply forms of short-term motivation or any additional material incentives to the members of the Board of Directors.	1. The fixed annual remuneration was the only monetary form of remuneration for the members of the Board of Directors for their work on the Board during the reporting period.	☒ complied with ☐ partial compliance ☐ no compliance	
4.2.2	Long-term holding of the Company's shares shall be the best way conducive to the convergence of the financial interests of the members of the Board of Directors with the long-term interests of the shareholders. At the same time, the Company shall not stipulate the rights to sell shares by achieving certain performance indicators, and the members of the Board of Directors shall not participate in option programs.	1. If an internal document (documents): such as the Company's policy (policies) stipulate provision of the Company's shares to the members of the Board of Directors, the rules for holding the shares by the members of the Board of Directors should be set and disclosed, aimed at encouraging long-term holding of such shares.	☒ complied with ☐ partial compliance ☐ no compliance	
4.2.3	The Company shall not provide for any additional payments or compensation in the event of early termination of the powers of any members of the Board of Directors in connection with transfer of control over the Company or due to other circumstances.	1. The Company does not provide for any additional payments or compensation in the event of early termination of the powers of members of the Board of Directors in connection with the transfer of control over the Company or other circumstances.	☒ complied with ☐ partial compliance ☐ no compliance	
4.3.	The remuneration system for the members of the executive bodies and other key executives of the Company shall provide for the dependence of the reward on the results of the Company's operation and their personal contribution to achieving this result.			
4.3.1	Remuneration of the members of the executive bodies and other key executives of the Company shall be determined in such a way as to ensure a reasonable and justified ratio of the fixed part of the remuneration and the variable part of the remuneration depending on the results of work of the Company and the personal (individual) contribution of the employee to the final results.	1. During the reporting period, annual performance indicators approved by the Board of Directors were used to determine the amount of the variable compensation due to the members of the executive bodies and other key management personnel of the Company. 2. In the course of the latest evaluation of the remuneration system for the members of the executive bodies and other key management personnel, the Company and the Board of Directors ascertained that an effective ratio of the fixed part of the remuneration and the variable part of the remuneration are applied in the Company. 3. There is a procedure existing in the Company ensuring the return to the Company of bonus payments illegally received by the members of the executive bodies and other key management personnel of the Company.	☒ complied with ☐ partial compliance ☐ no compliance	

1	2	3	4	5
4.3.2	The Company has implemented a program of long-term motivation of the members of the executive bodies and other key executives of the Company using the Company's shares (options or other derivative financial instruments, with the Company's shares as their underlying assets).	1. The Company introduced a long-term motivation program for members of the executive bodies and other key executives of the Company using the shares of the Company (financial instruments based on the shares of the Company). 2. The program of long-term motivation of the members of executive bodies and other key executives of the Company provides that the right to sell the shares and other financial instruments used in such a program may be exercised only after three years from the date of their issue. At the same time, the right to sell these securities is conditioned by the achievement of certain performance indicators of the Company.	☒ complied with ☐ partial compliance ☐ no compliance	
4.3.3	The amount of compensation ("golden parachute") paid by the Company in case of early termination of the powers given to the members of executive bodies or key executives on the initiative of the Company and in the absence of unfair acts on their part shall not exceed twice the value of the fixed portion of their annual remuneration.	1. The amount of compensation ("golden parachute") paid by the Company in the event of early termination of the powers given to the members of the executive bodies or key executives on the initiative of the Company and in the absence of unfair acts on their part did not exceed twice the fixed part of their annual remuneration in the reporting period.	☒ complied with ☐ partial compliance ☐ no compliance	
5.1.	The Company shall establish an efficient risk management and internal control system aimed at ensuring reasonable confidence in achieving the goals set for the Company.			
5.1.1	The Company's Board of Directors shall define the principles and approaches to the organization of the risk management and internal control system in the Company.	1. The functions of various management bodies and divisions of the Company in the system of risk management and internal control are clearly defined in the internal documents/corresponding policies of the Company, approved by the Board of Directors.	☒ complied with ☐ partial compliance ☐ no compliance	
5.1.2	The Company's executive bodies shall ensure creation and maintenance of an effective risk management and internal control system in the Company.	1. The Company's executive bodies ensured distribution of functions and authorities with regard to risk management and internal control among the subordinate managers (heads) of departments and divisions accountable to them.	☒ complied with ☐ partial compliance ☐ no compliance	
5.1.3	The system of risk management and internal control in the Company shall ensure an objective, fair and clear picture of the current state and prospects of the Company, the Company's integrity and transparency of its reporting, as well as the soundness and reasonableness of the risks accepted by the Company.	1. The Company has adopted a policy on combating corruption. 2. There is an accessible way established in the Company to inform the Board of Directors or the Audit Committee of the Board of Directors on violations of law, internal procedures, the Code of Ethics of the Company.	☒ complied with ☐ partial compliance ☐ no compliance	
5.1.4	The Company's Board of Directors shall take the necessary steps to ensure that the current risk management and internal control system complies with the Board of Directors' principles and approaches to its organization and functions effectively.	1. During the reporting period, the Board of Directors or the Audit Committee of the Board of Directors evaluated the effectiveness of the Company's risk management and internal control system. Information on the main results of such evaluation is included in the annual report of the Company.	☒ complied with ☐ partial compliance ☐ no compliance	
5.2.	The Company shall organize internal audit for regular independent evaluation of the reliability and effectiveness of the risk management and internal control system, and the Corporate Governance practice.			
5.2.1	It is recommended that internal audits be performed by a separate structural division (internal audit department) to be established by the Company or by retaining an independent outside body. The functional and administrative accountability of the internal audit division shall be differentiated. The internal audit division shall be functionally accountable to the Board of Directors.	1. A separate structural division for performing internal audit functions has been established in the Company and is functionally accountable to the Board of Directors or the Audit Committee, or an independent external organization with the same principle of accountability has been invited.	☒ complied with ☐ partial compliance ☐ no compliance	

1	2	3	4	5
5.2.2	The Internal Audit Division shall evaluate the effectiveness of the internal control system, as well as that of the risk management system, and the corporate governance system. The Company shall apply generally accepted activity standards in the area of internal audit.	1. The effectiveness of the internal control and risk management system was assessed during the reporting period within the framework of internal audit. 2. The Company applies commonly accepted approaches.	☒ complied with ☐ partial compliance ☐ no compliance	
6.1.	The Company and its activities shall be transparent to the shareholders, investors and other interested parties.			
6.1.1	The Company shall develop and implement an information policy ensuring efficient exchange of information between the Company, its shareholders, investors, and other interested parties.	1. The Board of Directors of the Company has approved the information policy of the Company developed in accordance with the recommendations of the Code. 2. The Board of Directors (or one of its Committees) considered issues related to the Company's compliance with its information policy at least once during the reporting period.	☒ complied with ☐ partial compliance ☐ no compliance	
6.1.2	The Company shall disclose information on the corporate governance system and practice, including detailed information on the compliance with the principles and recommendations of the Code.	1. The Company discloses information on the Company's corporate governance system and the general principles of the corporate governance applied in the Company, including the information disclosed on the Company's Internet website. 2. The Company discloses information on the composition of the executive bodies and the Board of Directors, independence of the members of the Board and their membership in the Committees of the Board of Directors (as defined by the Code). 3. In the event that there is a person controlling the Company, Company publishes a memorandum of supervisory authority regarding the plans of such a person with respect to corporate governance in the Company.	☒ complied with ☐ partial compliance ☐ no compliance	
6.2	The Company shall timely disclose full, up-to-date and reliable information about the Company to ensure the possibility for the Company's shareholders and investors to make informed decisions.			
6.2.1	The Company shall disclose information in accordance with the principles of regularity, consistency and efficiency, as well as availability, reliability, completeness and comparability of the data disclosed.	1. The Company's information policy identifies the approaches and criteria for identifying information that can have a significant impact on the Company's valuation and the value of its securities and procedures that ensure timely disclosure of such information. 2. In the event that the Company's securities are traded in foreign organized markets, the disclosure of material information in the Russian Federation and in such markets is carried out synchronously and is the same during the reporting year. 3. If foreign shareholders own a significant number of the Company's shares, then information disclosed during the reporting year shall be not only in Russian, but also in one of the most common foreign languages.	☒ complied with ☐ partial compliance ☐ no compliance	
6.2.2	In disclosing information the Company shall avoid a formal approach and shall disclose significant information about its activities, even if the law does not provide for the disclosure of the same.	1. During the reporting period, the Company was disclosing its annual and semi-annual financial statements prepared in accordance with IFRS. The annual report of the Company for the reporting period includes annual financial statements prepared in accordance with IFRS, together with an audit report. 2. The Company discloses full information on the Company's capital structure in accordance with Recommendation 290 of the Code in the annual report and on the Company's Internet website.	☒ complied with ☐ partial compliance ☐ no compliance	
6.2.3	The Company's annual report, as one of the most important tools of the Company's information exchange with shareholders and other interested parties, shall contain information making it possible to assess the Company's performance results for the year.	1. The annual report of the Company contains information on the key aspects of the Company's operations and its financial results. 2. The Company's annual report contains information on the environmental and social aspects of the Company's activities.	☒ complied with ☐ partial compliance ☐ no compliance	
6.3.	The Company shall provide information and documents at the request of the shareholders in accordance with the principles of equal and unhindered accessibility.			
6.3.1	The Company shall provide information and documents at the request of the shareholders in accordance with the principles of fairness and ease of access.	1. The Information Policy of the Company defines an easy procedure for providing the shareholders with access to information, including information on entities controlled by the Company, at the request of the shareholders.	☒ complied with ☐ partial compliance ☐ no compliance	
6.3.2	It is recommended that when providing information to the shareholders the Company shall maintain a reasonable balance between the interests of individual shareholders and the interests of the Company which is interested in preserving confidentiality of important commercial information that may have a significant impact on the Company's competitiveness.	1. During the reporting period, the Company did not refuse to satisfy the shareholders' requests for information, or such refusals were justified. 2. In the instances determined by the Information Policy of the Company, the shareholders are warned about the confidential nature of the information provided and assume responsibility for maintaining its confidentiality.	☒ complied with ☐ partial compliance ☐ no compliance	

1	2	3	4	5
7.1.	Actions that shall or may materially affect the structure of the Company's share capital and financial position and, accordingly, the shareholders' position (material corporate actions) shall be carried out on fair terms ensuring compliance with the rights and interests of the shareholders as well as other parties concerned.			
7.1.1	Material corporate actions shall be deemed to include reorganization of the Company, acquisition of 30 per cent or more of the Company's voting shares (takeover), making major transactions, increasing or reducing the Company's share capital, listing and delisting of the Company's shares, as well as other actions, which might result in material changes in the rights of the shareholders or infringement of their interests. It is recommended that the Company's Articles of Association shall define a list (criteria) of transactions or other actions deemed to be material corporate actions, and refer the consideration of such actions to the competence of the Company's Board of Directors.	1. The Company's Articles determine a list of transactions or other actions that are material corporate actions and the criteria for their determination. Decisions on material corporate actions are within the competence of the Board of Directors. In cases where the implementation of these corporate actions is directly attributed by law to the competence of the General Meeting of the Shareholders, the Board of Directors provides appropriate recommendations to the shareholders. 2. As a minimum, the Company's Articles consider the following events to be material corporate actions: reorganization of the Company, acquisition of 30 percent or more of the Company's voting shares (takeover), performance of substantial transactions by the Company, increase or decrease in the capital of the Company, listing and delisting of the Company's shares.	☐ complied with ☒ partial compliance ☐ no compliance	Complied with in practice. The list of material corporate actions is defined by the Company in chapter 9 of the Corporate Governance Code approved by the Board of Directors on 20.03.2017. The Articles of Association of the Company refer the decisions on the issues connected with material corporate actions to the competence of the Company's Board of Directors. The Company plans to list such transactions and other actions in its Articles of Association In 2019, and draw an Order of major transactions of PJSC Tatneft and have it approved by the Board of Directors in 2018.
7.1.2	The Board of Directors shall play a key role in making decisions or recommendations concerning material corporate actions. The Board of Directors shall base its position on the opinion of the Company's independent directors.	1. The Company provides for a procedure whereby the independent directors can declare their opinion on any material corporate actions prior to their approval.	☐ complied with ☒ partial compliance ☐ no compliance	Complied with in practice. There were no material corporate actions during the reporting period. It is planned to have this procedure formalized by an internal document of the Company in 2019.
7.1.3	When taking material corporate actions, which would affect the rights or legitimate interests of the shareholders, it is recommended that equal terms and conditions be guaranteed for all shareholders; if the statutory machinery designed to protect the shareholders' rights proves insufficient, then additional measures shall be introduced to protect the said rights and legitimate interests. In such instances, the Company shall comply with formal requirements of the law and with the corporate governance principles set out in this Code.	1. The Company's Articles, taking into account the specifics of its activities, set the criteria for classifying the Company's transactions as material corporate actions at a level below the statutory minimum. 2. During the reporting period, all material corporate actions went through the approval procedure prior to their implementation.	☐ complied with ☒ partial compliance ☐ no compliance	Actually complied with. Pursuant to Chapter 9 of the Corporate Governance Code approved by the Board of Directors on 20.03.2017, material corporate actions of the Company mean the actions that shall or may materially affect the structure of the Company's share capital and financial position and, accordingly, the shareholders' position, and consequently they shall be carried out on fair terms ensuring compliance with the rights and interests of the shareholders as well as other parties concerned. There were no material corporate actions during the reporting period. It is planned to have this procedure formalized by an internal document of the Company in 2019.
7.2.	The Company shall provide a procedure for taking material corporate actions that enables its shareholders to receive full information about such actions in due time and influence them, and also guarantee that the shareholder rights are observed and duly protected when such actions are taken.			
7.2.1	Information on the performance of material corporate actions shall be disclosed with an explanation of the reasons, conditions and consequences of committing such actions.	1. During the reporting period, the Company disclosed in a timely manner and in detail the information on any material corporate actions of the Company, including the grounds and timing of such actions.	☒ complied with ☐ partial compliance ☐ no compliance	
7.2.2	The rules and procedures related to the Company's performance of material corporate actions shall be formulated in the Company's internal documents.	1. Internal documents of the Company provide for the procedure for engaging an independent appraiser to determine the value of property disposed of or acquired by a major transaction or a related party transaction. 2. Internal documents of the Company provide for the procedure for engaging an independent appraiser to estimate the cost of acquiring and repurchasing the shares of the Company. 3. The internal documents of the Company provide for an expanded list of grounds, on which the members of the Board of Directors of the Company and other persons provided for by the law are recognized to be interested in the transactions of the Company.	☒ complied with ☐ partial compliance ☐ no compliance	

PROTECTION OF INSIDER INFORMATION

PROCEDURES AND REGULATIONS

Tatneft, the securities of which are traded at organized markets not only in Russia but also abroad, pays special attention to measures aimed at the prevention and control over the inadmissibility of misuse of insider information.

In its activity, the Company is guided by Federal Law No. 224-FZ dated July 27, 2010, «On Countering the Misuse of Insider Information and Market Manipulation and on Making Amendments in Particular Legislative Acts of the Russian Federation,» other legislation of the Russian Federation and Regulation (EU) 596/2014 of the European Parliament, and the EU Council dated April 16, 2014, «On Abuses in the Market.»

The Company provides all necessary procedures for the protection of insider information with the relevant internal regulatory documents: Rules for Monitoring Compliance with the Legislation of the Russian Federation on Countering the Misuse of Insider Information and Market Manipulation, the Regulation on the Procedure for Access to Insider Information of Tatneft and the Rules for the Protection of Confidentiality Thereof, and the List of Information Related to Insider Information.

Explanations related to the requirements of the applicable legislation are provided on a permanent basis. The Company's employees who have access to insider information are informed through the Company's corporate website.

The Board of Directors resolved to appoint an official of Tatneft for control over compliance with the requirements of the Russian Federation to counter the misuse of insider information and market manipulation: acting Corporate Secretary, Deputy Head of the Corporate Secretary Office Damir M. Gamirov.

Composition of the Insider Information Protection Committee in 2017

Chairman:

Rustam M. Khisamov, Corporate Secretary, Head of the Corporate Secretary Office, the person responsible for the exercise of control over compliance with the Law on Countering the Misuse of Insider Information.

Powers terminated on October 22, 2017, in connection with his death.

Committee members:

Aleksey P. Besspalov, Head of the IT Department, Deputy Chief Engineer of Tatneft

Peter A. Glushkov, Head of the International Law Department of the Directorate of Consolidated Financial Statements of Tatneft

Valeriy D. Yershov, Head of the Legal Department of Tatneft

Ildar A. Rakhmatullin, Head of the Internal Audit Department of Tatneft

Vasily A. Mozgovoy, Assistant to the General Director for Corporate Finance of Tatneft

Rifdar R. Khamadvarov, Head of the Personnel Office of Tatneft

REPORT ON TRANSACTIONS CONCLUDED BY PJSC TATNEFT n.a. V.D. SHASHIN IN 2017, WHICH ARE RECOGNIZED AS TRANSACTIONS WITH INTEREST

APPROVED by the decision of the Board of Directors of PJSC TATNEFT n.a. V.D. Shashin, Minutes No. 12 of April 04, 2018.

Data reliability has been confirmed by the conclusion of the Audit Commission of PJSC TATNEFT n.a. V.D. Shashin.

The present report lists transactions carried out by PJSC Tatneft named after V.D.Shashin (hereinafter PJSC Tatneft) in 2017, which are recognised by the Federal Law on Joint-Stock Companies No 208-FZ of 26/12/1995 as non-arm's lengths transactions.

Persons listed herein are recognised as interested in the transactions as of the transaction date.

1. Non-arm's length transactions carried out in 2017

Transaction date	Transaction approval date	The corporate body that approved or ratified the transaction	Information about the person(s) interested in the transaction, subject matter of the transaction, and its essential terms																				
31/01/2017	26/08/2016	PJSC Tatneft Board of Directors	Subject matter of the transaction: Signing of an additional agreement to the purchase and sale agreement between PJSC Tatneft named after V.D.Shashin and AO TANECO. Substance of the transaction, including civil rights and obligations to be established, modified or terminated under the transaction: Increasing the value of the purchase and sale agreement of commodities, including spare tools and accessories for the equipment for the Oil Refinery and Petrochemical Complex in Nizhnekamsk No 430/13.02-06/13 of 23/10/2013. Transaction parties: PJSC Tatneft Interested parties: Public Joint Stock Company Tatneft named after V.D. Shashin as a controller of AO TANECO <table><thead><tr><th colspan="2">Full Name</th><th>PJSC Tatneft named after V.D. Shashin</th><th>AO TANECO</th></tr></thead><tbody><tr><td>1</td><td>N.U. Maganov</td><td>Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body</td><td>Member of the Board of Directors (Chair)</td></tr><tr><td>2</td><td>R.K. Sabirov</td><td>Member of the Board of Directors</td><td>Member of the Board of Directors</td></tr><tr><td>3</td><td>E.A. Tikhurov</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr><tr><td>4</td><td>N.M. Glazkov</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr></tbody></table> Transaction value: RUB 400,000,000.00 (four hundred million), which is 0.06% of the book cost of the Company's assets as of 30/06/2016. Due dates: 31/12/2019	Full Name		PJSC Tatneft named after V.D. Shashin	AO TANECO	1	N.U. Maganov	Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body	Member of the Board of Directors (Chair)	2	R.K. Sabirov	Member of the Board of Directors	Member of the Board of Directors	3	E.A. Tikhurov	Member of the collegial executive body	Member of the Board of Directors	4	N.M. Glazkov	Member of the collegial executive body	Member of the Board of Directors
Full Name		PJSC Tatneft named after V.D. Shashin	AO TANECO																				
1	N.U. Maganov	Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body	Member of the Board of Directors (Chair)																				
2	R.K. Sabirov	Member of the Board of Directors	Member of the Board of Directors																				
3	E.A. Tikhurov	Member of the collegial executive body	Member of the Board of Directors																				
4	N.M. Glazkov	Member of the collegial executive body	Member of the Board of Directors																				

Transaction date	Transaction approval date	The corporate body that approved or ratified the transaction	Information about the person(s) interested in the transaction, subject matter of the transaction, and its essential terms																				
17/01/2017	20/03/2017	PJSC Tatneft Board of Directors	Subject matter of the transaction: Signing of immovable assets purchase and sale agreement with AO TANECO. Substance of the transaction, including civil rights and obligations to be established, modified or terminated under the transaction: Alienation of immovable assets to AO TANECO: Immovable asset: Title 007, Section 1300: Naphtha hydrotreater Transaction parties: PJSC Tatneft named after V.D. Shashin and AO TANECO Interested parties: Public Joint Stock Company Tatneft named after V.D. Shashin as a controller of AO TANECO <table border="1"> <thead> <tr> <th></th><th>Full Name</th><th>PJSC Tatneft named after V.D. Shashin</th><th>AO TANECO</th></tr> </thead> <tbody> <tr> <td>1</td><td>N.U. Maganov</td><td>Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body</td><td>Member of the Board of Directors (Chair)</td></tr> <tr> <td>2</td><td>R.K. Sabirov</td><td>Member of the Board of Directors</td><td>Member of the Board of Directors</td></tr> <tr> <td>3</td><td>E.A. Tikhturov</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr> <tr> <td>4</td><td>N.M. Glazkov</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr> </tbody> </table> Transaction value: 3RUB 3,412,704,046.8 (three billion, four hundred and twelve million, seven hundred and four thousand, forty six and 00/100), which is 0.493% of the book cost of the Company's assets as of 30/09/2016. Due dates: 17/12/2017		Full Name	PJSC Tatneft named after V.D. Shashin	AO TANECO	1	N.U. Maganov	Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body	Member of the Board of Directors (Chair)	2	R.K. Sabirov	Member of the Board of Directors	Member of the Board of Directors	3	E.A. Tikhturov	Member of the collegial executive body	Member of the Board of Directors	4	N.M. Glazkov	Member of the collegial executive body	Member of the Board of Directors
	Full Name	PJSC Tatneft named after V.D. Shashin	AO TANECO																				
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Transaction date	Transaction approval date	The corporate body that approved or ratified the transaction	Information about the person(s) interested in the transaction, subject matter of the transaction, and its essential terms																				
31/03/2017	20/03/2017	PJSC Tatneft Board of Directors	Subject matter of the transaction: Signing of a waiver letter between AO TANECO as a Borrower, PJSC Tatneft named after V.D.Shashin as a Guarantor, and CITIBANK EUROPE PLS UK BRANCH as a Documentation Agent for a framework agreement of 30 May 2013 on establishing a EUR 55,000,000 (in US\$ equivalent) credit line for purchases covered by Hermes export credit agency. Substance of the transaction, including civil rights and obligations to be established, modified or terminated under the transaction: •Amending PJSC Tatneft's liabilities in parts concerning distribution of assets and acquisitions. The guarantee provided by PJSC Tatneft named after V.D.Shashin shall remain in full effect. •Beneficiary: AO TANECO Transaction parties: PJSC Tatneft named after V.D. Shashin, AO TANECO, CITIBANK Europe UK Branch Interested parties: Public Joint Stock Company Tatneft named after V.D. Shashin as a controller of AO TANECO <table border="1"> <thead> <tr> <th></th><th>Full Name</th><th>PJSC Tatneft named after V.D. Shashin</th><th>AO TANECO</th></tr> </thead> <tbody> <tr> <td>1</td><td>N.U. Maganov</td><td>Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body</td><td>Member of the Board of Directors (Chair)</td></tr> <tr> <td>2</td><td>R.K. Sabirov</td><td>Member of the Board of Directors</td><td>Member of the Board of Directors</td></tr> <tr> <td>3</td><td>E.A. Tikhturov</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr> <tr> <td>4</td><td>N.M. Glazkov</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr> </tbody> </table> Transaction value: n/a Due date: Until the parties fully fulfil their obligations.		Full Name	PJSC Tatneft named after V.D. Shashin	AO TANECO	1	N.U. Maganov	Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body	Member of the Board of Directors (Chair)	2	R.K. Sabirov	Member of the Board of Directors	Member of the Board of Directors	3	E.A. Tikhturov	Member of the collegial executive body	Member of the Board of Directors	4	N.M. Glazkov	Member of the collegial executive body	Member of the Board of Directors
	Full Name	PJSC Tatneft named after V.D. Shashin	AO TANECO																				
1	N.U. Maganov	Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body	Member of the Board of Directors (Chair)																				
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Transaction date	Transaction approval date	The corporate body that approved or ratified the transaction	Information about the person(s) interested in the transaction, subject matter of the transaction, and its essential terms																				
15/06/2017	17/05/2017	PJSC Tatneft Board of Directors	Subject matter of the transaction: 3Purchase and sale agreement between PJSC Tatneft named after V.D.Shashin and PJSC Zenit Bank on the bank's additional issue of shares. Substance of the transaction, including civil rights and obligations to be established, modified or terminated under the transaction: Purchase of PJSC Zenit Bank's additional issue of shares. Transaction parties: PJSC Tatneft named after V.D. Shashin and PJSC Zenit Bank. Interested parties: Public Joint Stock Company Tatneft named after V.D. Shashin as the PJSC Zenit Bank controller. <table><tr><th colspan="2">Full Name</th><th>PJSC Tatneft named after V.D. Shashin</th><th>PJSC Zenit Bank</th></tr><tr><td>1</td><td>N.U. Maganov</td><td>Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body</td><td>Chairman of the Board of Directors</td></tr><tr><td>2</td><td>N.Z. Syubayev</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr><tr><td>3</td><td>Sh.F. Takhautdinov</td><td>Member of the Board of Directors</td><td>Member of the Board of Directors</td></tr><tr><td>4</td><td>E.A. Tikhturov</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr></table> Transaction value: RUB 14,000,000,000 (fourteen million), which is 1.86% of the book cost of the Company's assets as of 31/03/2017. Due date: Until the parties fully fulfil their obligations.	Full Name		PJSC Tatneft named after V.D. Shashin	PJSC Zenit Bank	1	N.U. Maganov	Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body	Chairman of the Board of Directors	2	N.Z. Syubayev	Member of the collegial executive body	Member of the Board of Directors	3	Sh.F. Takhautdinov	Member of the Board of Directors	Member of the Board of Directors	4	E.A. Tikhturov	Member of the collegial executive body	Member of the Board of Directors
Full Name		PJSC Tatneft named after V.D. Shashin	PJSC Zenit Bank																				
1	N.U. Maganov	Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body	Chairman of the Board of Directors																				
2	N.Z. Syubayev	Member of the collegial executive body	Member of the Board of Directors																				
3	Sh.F. Takhautdinov	Member of the Board of Directors	Member of the Board of Directors																				
4	E.A. Tikhturov	Member of the collegial executive body	Member of the Board of Directors																				
27/06/2017	26/05/2017	PJSC Tatneft Board of Directors	Subject matter of the transaction: Purchase and sale agreement between PJSC Tatneft named after V.D.Shashin and PJSC Ak Bars Bank on the bank's additional issue of shares. Substance of the transaction, including civil rights and obligations to be established, modified or terminated under the transaction: Purchase of PJSC Ak Bars Bank's additional issue of shares. Transaction parties: PJSC Tatneft named after V.D. PJSC Ak Bars Bank Interested parties: <table><tr><th colspan="2">Full Name</th><th>PJSC Tatneft named after V.D. Shashin</th><th>PJSC Ak Bars Bank</th></tr><tr><td>1</td><td>V.Yu.Sorokin</td><td>Member of the Board of Directors</td><td>Chairman of the Board of Directors</td></tr><tr><td>2</td><td>N.Z. Syubayev</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr><tr><td>3</td><td>E.A. Tikhturov</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr></table> Transaction value: not more than RUB 5,000,000,000 (five billion), which is 0.67% of the book cost of the Company's assets as of 31/03/2017. Due date: Until the parties fully fulfil their obligations.	Full Name		PJSC Tatneft named after V.D. Shashin	PJSC Ak Bars Bank	1	V.Yu.Sorokin	Member of the Board of Directors	Chairman of the Board of Directors	2	N.Z. Syubayev	Member of the collegial executive body	Member of the Board of Directors	3	E.A. Tikhturov	Member of the collegial executive body	Member of the Board of Directors				
Full Name		PJSC Tatneft named after V.D. Shashin	PJSC Ak Bars Bank																				
1	V.Yu.Sorokin	Member of the Board of Directors	Chairman of the Board of Directors																				
2	N.Z. Syubayev	Member of the collegial executive body	Member of the Board of Directors																				
3	E.A. Tikhturov	Member of the collegial executive body	Member of the Board of Directors																				

Transaction date	Transaction approval date	The corporate body that approved or ratified the transaction	Information about the person(s) interested in the transaction, subject matter of the transaction, and its essential terms																				
16/06/2017	17/05/2017	PJSC Tatneft Board of Directors	Subject matter of the transaction: Signing of an agreement on termination of the subordinated deposit No 12-002/2008 of 06/03/2008 and repayment of the subordinated deposit. Substance of the transaction, including civil rights and obligations to be established, modified or terminated under the transaction: Termination of Subordinated Loan Agreement No 12-002/2008 of 06/03/2008 and early repayment of the subordinated deposit: • Deposit amount: US\$ 14,000,000.00 (fourteen million and 00/100). • Interest rate: annual 8% of the deposit amount. • The agreement shall be terminated after the approval of early repayment of the subordinate deposit by the Bank of Russia. Transaction parties: PJSC Tatneft named after V.D. Shashin and PJSC Zenit Bank. Interested parties: Public Joint Stock Company Tatneft named after V.D. Shashin as the PJSC Zenit Bank controller <table border="1"> <thead> <tr> <th></th><th>Full Name</th><th>PJSC Tatneft named after V.D. Shashin</th><th>PJSC Zenit Bank</th></tr> </thead> <tbody> <tr> <td>1</td><td>N.U. Maganov</td><td>Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body</td><td>Член совета директоров (председатель)</td></tr> <tr> <td>2</td><td>N.Z. Syubayev</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr> <tr> <td>3</td><td>Sh.F. Takhautdinov</td><td>Member of the Board of Directors</td><td>Member of the Board of Directors</td></tr> <tr> <td>4</td><td>E.A. Tikhturov</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr> </tbody> </table> Transaction value: US\$ 14,000,000.00 (fourteen million), which is 0.11% of the book cost of the Company's assets as of 31/03/2017. Due date: After the approval of early repayment of the subordinate deposit by the Bank of Russia.		Full Name	PJSC Tatneft named after V.D. Shashin	PJSC Zenit Bank	1	N.U. Maganov	Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body	Член совета директоров (председатель)	2	N.Z. Syubayev	Member of the collegial executive body	Member of the Board of Directors	3	Sh.F. Takhautdinov	Member of the Board of Directors	Member of the Board of Directors	4	E.A. Tikhturov	Member of the collegial executive body	Member of the Board of Directors
	Full Name	PJSC Tatneft named after V.D. Shashin	PJSC Zenit Bank																				
1	N.U. Maganov	Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body	Член совета директоров (председатель)																				
2	N.Z. Syubayev	Member of the collegial executive body	Member of the Board of Directors																				
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Transaction date	Transaction approval date	The corporate body that approved or ratified the transaction	Information about the person(s) interested in the transaction, subject matter of the transaction, and its essential terms																				
16/06/2017	17/05/2017	PJSC Tatneft Board of Directors	Subject matter of the transaction: termination of the agreement on subordinated deposit No 12-001/2008 of 06/03/2008 and repayment of the subordinated deposit. CSubstance of the transaction, including civil rights and obligations to be established, modified or terminated under the transaction: Termination of Subordinated Loan Agreement No 12-001/2008 of 06/03/2008 and early repayment of the subordinated deposit: • Deposit amount: US\$ 20,200,000.00 (twenty million, two hundred thousand and 00/100). • Interest rate: annual 8 % of the deposit amount. • The agreement shall be terminated after the approval of early repayment of the subordinate deposit by the Bank of Russia. Transaction parties: PJSC Tatneft named after V.D. Shashin and PJSC Zenit Bank. Interested parties: Public Joint Stock Company Tatneft named after V.D. Shashin as the PJSC Zenit Bank controller <table><tr><th colspan="2">Full Name</th><th>PJSC Tatneft named after V.D. Shashin</th><th>PJSC Zenit Bank</th></tr><tr><td>1</td><td>N.U. Maganov</td><td>Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body</td><td>Chairman of the Board of Directors</td></tr><tr><td>2</td><td>N.Z. Syubayev</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr><tr><td>3</td><td>Sh.F. Takhautdinov</td><td>Member of the Board of Directors</td><td>Member of the Board of Directors</td></tr><tr><td>4</td><td>E.A. Tikhturov</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr></table> Transaction value: US\$ 20,200,000.00 (twenty million and two hundred thousand), which is 0.16% of the book cost of the Company's assets as of 31/03/2017. Due date: after the approval of early repayment of the subordinate deposit by the Bank of Russia.	Full Name		PJSC Tatneft named after V.D. Shashin	PJSC Zenit Bank	1	N.U. Maganov	Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body	Chairman of the Board of Directors	2	N.Z. Syubayev	Member of the collegial executive body	Member of the Board of Directors	3	Sh.F. Takhautdinov	Member of the Board of Directors	Member of the Board of Directors	4	E.A. Tikhturov	Member of the collegial executive body	Member of the Board of Directors
Full Name		PJSC Tatneft named after V.D. Shashin	PJSC Zenit Bank																				
1	N.U. Maganov	Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body	Chairman of the Board of Directors																				
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16/06/2017	17/05/2017	PJSC Tatneft Board of Directors	Subject matter of the transaction: Signing of an agreement on termination of the subordinated deposit agreement No 12-003/2008 of 08/04/2008 and repayment of the subordinated deposit. Substance of the transaction, including civil rights and obligations to be established, modified or terminated under the transaction: Termination of Subordinated Loan Agreement No 12-003/2008 of 08/04/2008 and early repayment of the subordinated deposit: • Deposit amount: RUB 406,500,000.00 (four hundred and six million, five hundred thousand and 00/100). • Interest rate: annual 9% of the deposit amount. • The agreement shall be terminated after the approval of early repayment of the subordinate deposit by the Bank of Russia. Transaction parties: PJSC Tatneft named after V.D. Shashin and PJSC Zenit Bank. Interested parties: Public Joint Stock Company Tatneft named after V.D. Shashin as the PJSC Zenit Bank controller <table><thead><tr><th colspan="2">Full Name</th><th>PJSC Tatneft named after V.D. Shashin</th><th>PJSC Zenit Bank</th></tr></thead><tbody><tr><td>1</td><td>N.U. Maganov</td><td>Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body</td><td>Член совета директоров (председатель)</td></tr><tr><td>2</td><td>N.Z. Syubayev</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr><tr><td>3</td><td>Sh.F. Takhautdinov</td><td>Member of the Board of Directors</td><td>Member of the Board of Directors</td></tr><tr><td>4</td><td>E.A. Tikhturov</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr></tbody></table> Transaction value: RUB 406,500,000.00 (four hundred and six million, five hundred thousand and 00/100), which is 0.06% of the book cost of the Company's assets as of 31/03/2017. Due date: after the approval of early repayment of the subordinate deposit by the Bank of Russia.	Full Name		PJSC Tatneft named after V.D. Shashin	PJSC Zenit Bank	1	N.U. Maganov	Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body	Член совета директоров (председатель)	2	N.Z. Syubayev	Member of the collegial executive body	Member of the Board of Directors	3	Sh.F. Takhautdinov	Member of the Board of Directors	Member of the Board of Directors	4	E.A. Tikhturov	Member of the collegial executive body	Member of the Board of Directors
Full Name		PJSC Tatneft named after V.D. Shashin	PJSC Zenit Bank																				
1	N.U. Maganov	Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body	Член совета директоров (председатель)																				
2	N.Z. Syubayev	Member of the collegial executive body	Member of the Board of Directors																				
3	Sh.F. Takhautdinov	Member of the Board of Directors	Member of the Board of Directors																				
4	E.A. Tikhturov	Member of the collegial executive body	Member of the Board of Directors																				

Transaction date	Transaction approval date	The corporate body that approved or ratified the transaction	Information about the person(s) interested in the transaction, subject matter of the transaction, and its essential terms																				
16/06/2017	17/05/2017	PJSC Tatneft Board of Directors	Subject matter of the transaction: Signing of an agreement on termination of the subordinated deposit agreement No 12-001/2013 of 15 January 2013 and repayment of the subordinated deposit. Substance of the transaction, including civil rights and obligations to be established, modified or terminated under the transaction: Termination of the agreement on subordinated deposit No 12-001/2013 of 15 January 2013 and early repayment of the subordinated deposit. • Deposit amount: RUB 3,600,000.00(three billion, six hundred million and 00/100). • Interest rate: annual 15 % of the deposit amount. • The agreement shall be terminated after the approval of early repayment of the subordinate deposit by the Bank of Russia. Transaction parties: PJSC Tatneft named after V.D. Shashin and PJSC Zenit Bank. Interested parties: Public Joint Stock Company Tatneft named after V.D. Shashin as the PJSC Zenit Bank controller <table><thead><tr><th colspan="2">Full Name</th><th>PJSC Tatneft named after V.D. Shashin</th><th>PJSC Zenit Bank</th></tr></thead><tbody><tr><td>1</td><td>N.U. Maganov</td><td>Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body</td><td>Chairman of the Board of Directors</td></tr><tr><td>2</td><td>N.Z. Syubayev</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr><tr><td>3</td><td>Sh.F. Takhautdinov</td><td>Member of the Board of Directors</td><td>Member of the Board of Directors</td></tr><tr><td>4</td><td>E.A. Tikhturov</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr></tbody></table> Transaction value: RUB 3,600,000,000.00 (three billion, six hundred million and 00/100), which is 0.51% of the book cost of the Company's assets as of 31/03/2017. Due date: after the approval of early repayment of the subordinate deposit by the Bank of Russia.	Full Name		PJSC Tatneft named after V.D. Shashin	PJSC Zenit Bank	1	N.U. Maganov	Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body	Chairman of the Board of Directors	2	N.Z. Syubayev	Member of the collegial executive body	Member of the Board of Directors	3	Sh.F. Takhautdinov	Member of the Board of Directors	Member of the Board of Directors	4	E.A. Tikhturov	Member of the collegial executive body	Member of the Board of Directors
Full Name		PJSC Tatneft named after V.D. Shashin	PJSC Zenit Bank																				
1	N.U. Maganov	Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body	Chairman of the Board of Directors																				
2	N.Z. Syubayev	Member of the collegial executive body	Member of the Board of Directors																				
3	Sh.F. Takhautdinov	Member of the Board of Directors	Member of the Board of Directors																				
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Transaction date	Transaction approval date	The corporate body that approved or ratified the transaction	Information about the person(s) interested in the transaction, subject matter of the transaction, and its essential terms																				
16/06/2017	17/05/2017	PJSC Tatneft Board of Directors	Subject matter of the transaction: Signing of an agreement on termination of the agreement on subordinated deposit No 0002/30/681/12-004/2008 of 08/07/2008 and repayment of the subordinated deposit. Substance of the transaction, including civil rights and obligations to be established, modified or terminated under the transaction: Termination of the agreement on subordinated deposit No 0002/30/681/12-004/2008 of 08/07/2008 and early repayment of the subordinated deposit: • Deposit amount: RUB 1,500,000,000.00 (one billion, five hundred million and 00/100). • Interest rate: annual 15 % of the deposit amount. • The agreement shall be terminated after the approval of early repayment of the subordinate deposit by the Bank of Russia. Transaction parties: PJSC Tatneft named after V.D. Shashin and PJSC Zenit Bank Interested parties: Public Joint Stock Company Tatneft named after V.D. Shashin as the PJSC Zenit Bank controller <table><thead><tr><th colspan="2">Full Name</th><th>PJSC Tatneft named after V.D. Shashin</th><th>PJSC Zenit Bank</th></tr></thead><tbody><tr><td>1</td><td>N.U. Maganov</td><td>Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body</td><td>Chairman of the Board of Directors</td></tr><tr><td>2</td><td>N.Z. Syubayev</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr><tr><td>3</td><td>Sh.F. Takhautdinov</td><td>Member of the Board of Directors</td><td>Member of the Board of Directors</td></tr><tr><td>4</td><td>E.A. Tikhturov</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr></tbody></table> Transaction value: RUB 1,500,000,000,000.00 (one billion, five hundred million and 00/100), which is 0.21% of the book cost of the Company's assets as of 31/03/2017. Due date: after the approval of early repayment of the subordinate deposit by the Bank of Russia.	Full Name		PJSC Tatneft named after V.D. Shashin	PJSC Zenit Bank	1	N.U. Maganov	Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body	Chairman of the Board of Directors	2	N.Z. Syubayev	Member of the collegial executive body	Member of the Board of Directors	3	Sh.F. Takhautdinov	Member of the Board of Directors	Member of the Board of Directors	4	E.A. Tikhturov	Member of the collegial executive body	Member of the Board of Directors
Full Name		PJSC Tatneft named after V.D. Shashin	PJSC Zenit Bank																				
1	N.U. Maganov	Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body	Chairman of the Board of Directors																				
2	N.Z. Syubayev	Member of the collegial executive body	Member of the Board of Directors																				
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Transaction date	Transaction approval date	The corporate body that approved or ratified the transaction	Information about the person(s) interested in the transaction, subject matter of the transaction, and its essential terms																								
31/12/2017	24/08/2017	PJSC Tatneft Board of Directors	Subject matter of the transaction: Signing of immovable assets purchase and sale agreement between PJSC Tatneft and AO TANECO. Substance of the transaction, including civil rights and obligations to be established, modified or terminated under the transaction: Alienation of immovable assets to AO TANECO on the following essential terms: • Immovable asset: Main step-down substation, title 122/3. Transaction parties: PJSC Tatneft named after V.D. Shashin and AO TANECO. Interested parties: Public Joint Stock Company Tatneft named after V.D. Shashin as a controller of AO TANECO . <table><thead><tr><th colspan="2">Full Name</th><th>PJSC Tatneft named after V.D. Shashin</th><th>AO TANECO</th></tr></thead><tbody><tr><td>1</td><td>N.U. Maganov</td><td>Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body</td><td>Member of the Board of Directors (Chair)</td></tr><tr><td>2</td><td>R.K. Sabirov</td><td>Member of the Board of Directors</td><td>Member of the Board of Directors</td></tr><tr><td>3</td><td>E.A. Tikhturov</td><td>Member of the Board of Directors</td><td>Member of the Board of Directors</td></tr><tr><td>4</td><td>N.M. Glazkov</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr><tr><td>5</td><td>V.D. Ershov</td><td>Member of the collegial executive body</td><td>Member of the Board of Directors</td></tr></tbody></table> Transaction value: RUB 1,150,142,837.16 (one billion, one hundred and fifty million, one hundred and forty two thousand, eight hundred and thirty seven and 16/100), which is 0.15% of the book cost of the Company's assets as of 30/06/2017. Due date: 31/12/2018	Full Name		PJSC Tatneft named after V.D. Shashin	AO TANECO	1	N.U. Maganov	Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body	Member of the Board of Directors (Chair)	2	R.K. Sabirov	Member of the Board of Directors	Member of the Board of Directors	3	E.A. Tikhturov	Member of the Board of Directors	Member of the Board of Directors	4	N.M. Glazkov	Member of the collegial executive body	Member of the Board of Directors	5	V.D. Ershov	Member of the collegial executive body	Member of the Board of Directors
Full Name		PJSC Tatneft named after V.D. Shashin	AO TANECO																								
1	N.U. Maganov	Member of the Board of Directors, member of the collegial executive body (Chair), individual executive body	Member of the Board of Directors (Chair)																								
2	R.K. Sabirov	Member of the Board of Directors	Member of the Board of Directors																								
3	E.A. Tikhturov	Member of the Board of Directors	Member of the Board of Directors																								
4	N.M. Glazkov	Member of the collegial executive body	Member of the Board of Directors																								
5	V.D. Ershov	Member of the collegial executive body	Member of the Board of Directors																								
31/12/2017	28/09/2017	PJSC Tatneft Board of Directors	Subject matter of the transaction: Signing of immovable assets purchase and sale agreement between PJSC Tatneft and AO TANECO. Substance of the transaction, including civil rights and obligations to be established, modified or terminated under the transaction: : Alienation of immovable assets to AO TANECO on the following essential terms: • Immovable asset: Pipe Racks with Off-plot Process Piping and Steam Pipelines (Title 070, Section 0903) Transaction parties: PJSC Tatneft named after V.D. Shashin and AO TANECO. Interested parties: Public Joint Stock Company Tatneft named after V.D. Shashin as a controller of AO TANECO. Transaction value: : RUB 830,648,332.08 (eight hundred and thirty million, six hundred and forty eight thousand, three hundred and thirty two and 08/100), which is 0.11% of the book cost of the Company's assets as of 30/06/2017. Due date: 31/12/2018.																								

Transaction date	Transaction approval date	The corporate body that approved or ratified the transaction	Information about the person(s) interested in the transaction, subject matter of the transaction, and its essential terms
26/12/2017	26/10/2017	PJSC Tatneft Board of Directors	Subject matter of the transaction: Signing of immovable assets purchase and sale agreement between PJSC Tatneft and AO TANECO. Substance of the transaction, including civil rights and obligations to be established, modified or terminated under the transaction: Alienation of immovable assets to AO TANECO on the following essential terms: • Light Naphtha Isomerisation Unit, Title 007, Section 1800. Transaction parties: PJSC Tatneft named after V.D. Shashin and AO TANECO Interested parties: Public Joint Stock Company Tatneft named after V.D. Shashin as a controller of AO TANECO Transaction value: RUB 6,076,292,284.33 (six billion, seventy six million, two hundred and ninety two thousand, two hundred and eighty four and 33/100), which is 0.79% of the book cost of the Company's assets as of 30/06/2017. Due date: 31/05/2018
26/12/2017	30/11/2017	PJSC Tatneft Board of Directors	Subject matter of the transaction: : Signing of immovable assets purchase and sale agreement between PJSC Tatneft and AO TANECO. Substance of the transaction, including civil rights and obligations to be established, modified or terminated under the transaction: Alienation of immovable assets to AO TANECO on the following essential terms: • Immoveable asset: Thermal Clamping Water and Heating Water Station, Title 139/2, Section 7550 Transaction parties: PJSC Tatneft named after V.D. Shashin and AO TANECO Interested parties: Public Joint Stock Company Tatneft named after V.D. Shashin as a controller of AO TANECO. Transaction value: RUB 923,035,010.21 (nine hundred and twenty three million, thirty five thousand and ten and 21/100) which is 0.12 % of the book cost of the Company's assets as of last accounting reporting date 30/09/2017. Due date: 31/05/2018
29/12/2017	30/01/2018	PJSC Tatneft Board of Directors	Subject matter of the transaction: Signing of a movable and immovable assets purchase and sale agreement between PJSC Tatneft named after V.D.Shashin and OOO Alabuga-2.Neftekhimiya (Petrochemicals) Management Company. Substance of the transaction, including civil rights and obligations to be established, modified or terminated under the transaction: Alienation of movable and immovable assets of OOO Alabuga-2.Neftekhimiya (Petrochemicals) Management Company on the following essential terms: • Immoveable asset: Pet Coke Loading Station. Transaction parties: PJSC Tatneft named after V.D. Shashin and OOO Alabuga-2.Neftekhimiya (Petrochemicals) Management Company Interested parties: Public Joint Stock Company Tatneft named after V.D. Shashin as a controller of OOO Alabuga-2.Neftekhimiya (Petrochemicals) Management Company. Transaction value: RUB 578,593,031.00 (five hundred and seventy eight million, five hundred ninety three thousand, thirty one and 00/100) (without VAT), which makes 0.076% of the book cost of the Company's assets as of the accounting reporting date 30/09/2017. Due date: : Until the parties fully fulfil their obligations.

Transaction date	Transaction approval date	The corporate body that approved or ratified the transaction	Information about the person(s) interested in the transaction, subject matter of the transaction, and its essential terms
23/08/2017	30/01/2018	PJSC Tatneft Board of Directors	Subject matter of the transaction: A non-arm's length transaction whereby PJSC Tatneft named after V.D.Shashin (the Company) signs a Waiver Letter of 23 August 2017 for a framework agreement of 30/05/2013 on establishing credit lines of EURO 55,000,000 in US\$ equivalent covered by Hermes expert credit agency. Substance of the transaction, including civil rights and obligations to be established, modified or terminated under the transaction:modification of liabilities in the Clauses 29 . 18 (Loans and Credits), 29 . 19 (Disclaimer of guarantees and compensation), and 29 . 22 (Transactions with own shares) of the Contract of 30/05/2013. The guarantee provided by PJSC Tatneft named after V.D.Shashin shall remain in full effect. Transaction parties:TANECO Joint-stock Company as a Borrower, PJSC Tatneft named after V.D. Shashin as a Guarantor and CITIBANK EUROPE PLS UK BRANCH as a Documentation Agent • Beneficiary: AO TANECO. Interested parties: Public Joint-stock Company Tatneft named after V.D. Shashin as a controller of AO TANECO. Transaction value: n/a Due date: Until the parties fully fulfil their obligations.
23/08/2017	30/01/2018	PJSC Tatneft Board of Directors	Subject matter of the transaction: : A non-arm's length transaction whereby PJSC Tatneft named after V.D.Shashin (the Company) signs a Waiver Letter of 23 August 2017 under an agreement on establishing a credit line of USD 75,000,000 covered by EKF expert credit agency on 15 November 2011. Substance of the transaction, including civil rights and obligations to be established, modified or terminated under the transaction: modification of liabilities in the Clauses 26.16 (Loans and Credits), 26.17 (Disclaimer of guarantees and compensation), and 26.20 (Transactions with own shares) of the Contract of 15 November 2011. The guarantee provided by PJSC Tatneft named after V.D.Shashin shall remain in full effect. Transaction parties: TANECO Joint-stock Company as a Borrower, PJSC Tatneft named after V.D. Shashin as a Guarantor and NORDEA BANK AB (PUBL) as a Documentation Agent • Beneficiary: AO TANECO. Interested parties: Public Joint-stock Company Tatneft named after V.D. Shashin as a controller of AO TANECO. Transaction value: n/a Due date: Until the parties fully fulfil their obligations.

Transaction date	Transaction approval date	The corporate body that approved or ratified the transaction	Information about the person(s) interested in the transaction, subject matter of the transaction, and its essential terms
12/07/2017	30/01/2018	PJSC Tatneft Board of Directors	Subject matter of the transaction: A non-arm's length transaction whereby PJSC Tatneft named after V.D.Shashin (the Company) signs a Waiver Letter of 12 July 2017 for a framework agreement of 15 November 2011 on establishing a credit line of USD 144,480,000 covered by SACE expert credit agency. Substance of the transaction, including civil rights and obligations to be established, modified or terminated under the transaction: modification of liabilities in the Clauses 30.17 (Loans and Credits), 30.18 (Disclaimer of guarantees and compensation), and 30.21 (Transactions with own shares) of the Contract of 15 November 2011. The guarantee provided by PJSC Tatneft named after V.D.Shashin shall remain in full effect. Transaction parties: TANECO Joint-stock Company as a Borrower, PJSC Tatneft named after V.D. Shashin as a Guarantor and SOCIETE GENERALE as a Documentation Agent; • Beneficiary: AO TANECO Interested parties: Public Joint-stock Company Tatneft named after V.D. Shashin as a controller of AO TANECO. Transaction value: n/a Due date: Until the parties fully fulfil their obligations.

2. 2. Extraordinary transactions in the reporting year

No extraordinary transactions carried out in 2017.

The present report is to be published by the Company pursuant to the Articles 52 and 81 of the Federal Law on Joint-Stock Companies 208-FZ of 26/12/1995.

The report is also to be included in the materials to be distributed among the persons entitled to participate the Company's annual general meeting of shareholders for information purposes.

The Board of Directors considered the “Report of Non-arm’s Length Transactions Carried out by PJSC Tatneft named after V.D.Shashin in 2017 “ at the meeting on April 24, 2018 and made the following resolution:

To approve the “Report of Non-arm’s Length Transactions Carried out by PJSC Tatneft named after V.D.Shashin”.

REGISTER OF COMPULSORY DISCLOSED INFORMATION OF TATNEFT IN 2017

No. in sequence	Message content	Disclosure date
1.	Message on the disclosure of the list of affiliates of the joint-stock company on the internet website	09.01.2017, 03.04.2017, 03.07.2017, 03.10.2017
2.	Information on the essential fact «On Holding the Meeting of the Board of Directors (Supervisory Board) of the Issuer and the Agenda Thereof»	18.01.2017,15.02.2017, 22.02.2017, 14.03.2017, 20.04.2017, 19.05.2017, 22.05.2017, 14.06.2017, 18.07.2017, 14.08.2017, 18.09.2017, 20.10.2017, 30.10.2017, 22.11.2017, 18.12.2017
3.	Message about the procedure for access to information contained in the quarterly report	10.02.2017, 12.05.2017, 11.08.2017, 10.11.2017
4.	Message about the essential fact «On the Particular Resolutions Adopted by the Board of Directors (Supervisory Board) of the Issuer»	22.02.2017, 27.02.2017, 20.03.2017, 27.04.2017, 18.05.2017, 29.05.2017, 29.05.2017, 23.06.2017, 23.06.2017, 24.08.2017, 28.09.2017, 26.10.2017, 07.11.2017, 30.11.2017, 22.12.2017
5.	Message about the essential fact «On Convening and Holding a General Meeting of Members (Shareholders) of the Issuer»	22.02.2017, 07.11.2017
6.	Message about the essential fact «On the Date on Which Persons Having the Right to Exercise Rights Attributed to Issue-Grade Securities of the Issuer Are to Be Determined, including the Date on which the List of Persons Having the Right to Take Part in a General Meeting of the Shareholders of the Issue Is to Be Decided»	22.02.2017, 07.11.2017
7.	Message about the essential fact «Information to Be Sent beyond the Borders of the Russian Federation for the Disclosure Thereof to Foreign Investors in Connection with the Placement or Circulation of Issue-Grade Securities of the Issuer beyond the Borders of the Russian Federation»	22.02.2017, 28.02.2017, 03.04.2017, 27.04.2017, 28.04.2017,15.05.2017, 29.06.2017
8.	Message about disclosure of the annual accounting statements of the joint-stock company on the website	29.03.2017
9.	Message about the essential fact of disclosure by the issuer of the consolidated accounting (financial) statements and submission of the audit opinion prepared with respect to such statements	03.04.2017
10.	Message about disclosure of the intermediary accounting statements of the joint-stock company on the website	28.04.2017, 28.07.2017, 30.10.2017
11.	Message about disclosure of consolidated financial statements under IFRS (for three months that ended on March 31, 2017, for three and six months that ended on June 30, 2017, for three and nine months that ended on September 30, 2017)	08.06.2017, 25.08.2017, 30.11.2017
12.	Message about the occurrence of an organization controlled by the issuer holding essential value for the issuer	16.06.2017
13.	Message about the receipt by the issuer of the right to dispose of a certain number of votes falling on voting shares that constitute the authorized capital of a separate organization	16.06.2017, 27.06.2017
14.	Message about the essential fact «Other Message»	26.06.2017
15.	Message about the essential fact «Information on Resolutions of General Meetings»	28.06.2017, 14.12.2017
16.	Message about the essential fact «On Profits Accrued on Issue-Grade Securities»	28.06.2017, 14.12.2017
17.	Message about the essential fact «On the Date on Which the Persons Holding the Right to Exercise Rights under Registered Issue-Grade Securities Are to Be Determined»	28.06.2017, 14.12.2017
18.	Message about the procedure for access to information contained in the annual report	28.06.2017
19.	Message about the essential fact «On the Assignment or Change of the Issuer's Rating by the Rating Agency under the Concluded Agreement»	19.07.2017
20.	Message about the essential fact «On Profits Paid on Issue-Grade Securities of the Issuer»	11.08.2017
21.	Message about the essential fact «On the Failure to Fulfill the Issuer's Obligations before the Owners of Issue-Grade Securities»	11.08.2017
22.	Message about the essential fact «On Information Having, in the Issuer's Opinion, an Essential Impact on the Cost of its Issue-Grade Securities»	04.12.2017
UNDER INTERNATIONAL STANDARDS (IN THE FORM OF PRESS RELEASES AND THE PUBLICATION OF FINANCIAL STATEMENTS PURSUANT TO THE RULES OF THE LONDON STOCK EXCHANGE)		
23.	Publication of the annual financial statement under IFRS for 2016	03.04.2017
24.	Publication of the consolidated intermediate abbreviated financial statements under IFRS for three months of 2017 (nonaudited)	08.07.2017
25.	Publication of the consolidated intermediate abbreviated financial statements under IFRS for six months of 2017 (nonaudited)	25.08.2017
26.	Publication of the consolidated intermediate abbreviated financial statements under IFRS for nine months of 2017 (nonaudited)	30.11.2017

TECHNOLOGIES AND INNOVATIONS

REGISTER OF TECHNOLOGIES

Brief description	Business challenge name	Summary on technological efficiency	Summary on economic efficiency, including in RUB million per unit facility or other	Implementation volumes in 2017
1	2	3	4	5
Innovative technologies in oil and gas exploration				
1. Method of additional study of the structural plan of a hydrocarbon reservoir				
During the development of oil slightly proven reservoir, a drilling-out reservoir is done with wide planned well spacing, choosing products through recovery wells and the discharge pumping of a working agent through the injection wells.	The proposal relates to the gas and oil producing industry and can be used during the involvement of nondraining reserves of a slightly proven oil reservoir.	Ensures the possibility for the optimization of recovery and injection wells, a decrease in financial costs, and the exclusion of the drilling of empty and water wells.	EBITDA growth since the financing date: RUB 12.061 million	Well no. 329 NGDU Nurlatneft, 1 well NGDU Aznakayevskneft, 1 well (No. 52) of Lubochnoye deposits Tatneft-Samara.
2. Technology of development of particular lenticels and reservoirs at the late phase with wells with a horizontal ending				
During the development of an oil reservoir, an essential part of the oil reserves remains in the reservoir due to the incomplete coverage of productive strata with the effect of recovery and injection wells.	The proposal relates to the gas and oil producing industry and can be used during the involvement of nondraining reserves of a slightly proven reservoir.	The technology of development of particular lenticels and reservoirs at the late phase with a well with a horizontal ending is complex and provides for the use of new methods of oil deposit development based on the drilling of horizontal wells.	EBITDA growth since the financing date: RUB 1,611 million	Wells Nos. 8441; 8442; 8443; and 8430 NGDU Nurlatneft.
Innovative technologies in the construction of wells				
1. Drilling of directional wells with a small diameter for Devonian stratum				
In 2017, the project "Decrease in the Cost of Construction of Directional Wells for Devonian Stratum by Choosing the Optimal Structure" was launched	Construction of wells	1) Decrease in costs of a drilling contractor. 2) Increase in mechanical speed. 3) Decrease in metal intensity of well structure. 4) Optimization of costs for downhole drilling motor. 5) Optimization of costs for solution service	1) Decrease in the cost of a well by 18.2% from RUB 41.6 million to RUB 34.0 million 2) Increase in mechanical speed by 55% (Vmech=25.1 m/h with an average of 11.3 m/h [shortening of drilling time, 3.6 days (1.6 million rubles)]). 3) Decrease in metal intensity of well structure: RUB 1.16 million 4) Optimization of costs for downhole drilling motor: RUB 0.3 million 5) Optimization of costs for solution service: RUB 0.227 million	3 wells (Nos. 20106, 21180, 32415 NGDU Almet'yevneft)
2. Application of rotary steerable systems (RSS) and well logging during drilling				
The tools that make it possible to achieve the best results in the drilling of horizontal wells are rotary steerable systems accompanied by well logging during drilling	Construction of wells	1) Speed increase in horizontal shaft. 2) Drilling time optimization due to the refusal of final well logging and working-through before shank running	1) The actual economy was 465 thousand rubles per 1 well. 2) Increase in average mechanical speed in horizontal shaft was 260%. 3) A Wiper trip was not performed during drilling. 4) Final well logging and shaft working-through before shank running	Well No. 28800 NGDU Aznakayevskneft
Innovative technologies in oil and gas production				
1. Reservoir dual completion				
Application of dual completion of two and more reservoirs of the same well.	5% decrease in power consumption by the recovery well fund for liquid lifting.	Application of plants for dual completions provides the following benefits: - Simultaneous operation of several development facilities (reservoirs) with different reservoir properties and oil features - Increase in profitability of particular wells due to the involvement of other development facilities or reservoirs of the same development facility with different reservoir properties	In Tatneft, 2,075 wells are operated pursuant to PDC and P & IDC technology. The total additional production for wells with PDC and P & IDC since the beginning of plant operation amounted to 14.5 million tons.	In Tatneft, PDC and P & IDC technologies are implemented on 409 wells. The total additional production for wells with PDC and P & IDC for 2017 amounted to 2.095 million tons.

1	2	3	4	5
Application of advanced technologies and equipment at production of SVO				
1. Vapor flow regulator RRP-100				
Vapor flow regulator of RRP-100 type is designated for the regulation of vapor injection volumes in steam-injection wells of oil deposits located in regions with a moderate climate at a free air temperature ranging from – 40 to + 40 °C pursuant to GOST 16350-80.	Decrease in operating costs.	The savings from the application of the consumption regulator under development are achieved due to a decrease in working hours for servicing, a decrease in the number of inspections of regulator operation, and a decrease in the costs for acquisition of expensive spare parts and materials.		One prototype model of RRP-100 was implemented in NGDU Nurlatneft
2. Washing well shaft with aerated liquid				
The presence of clay mud in a well shaft after drilling and the generation and depositing of CaCO ₃ and mechanical impurities on well shafts during their operation results in the locking and shut-down of the electrical submersible pumping (ESP) system.	Decrease in unit costs (without depreciation) for SVO production from RUB 13,000 per ton to RUB 6,500 per ton.	To solve this problem, the well shaft is washed before implementation of the pumping unit to ensure circulation and carry-over of impurities and sediments with aerated liquid.	Due to washing the well shaft with aerated liquid, unscheduled repairs of pumping units resulting jams of sediments of calcium carbonate, clay, and mechanical impurities are excluded. The economic effect of the realization of this idea is RUB 0.620 million.	22 wells
3. Decrease in the number of running repairs of SVO wells due to the replacement of electrical submersible				
Repairs caused by the pump choking with mechanical impurities that mainly consist of clay and carbonate particles account for over 30% of all running repairs performed on SVO wells. Finely divided particles coming into clearances of moving elements cause jams in the pump shaft, and various repair works (direct flushing, rotation direction change, etc.) are unlikely to provide the required result. As such, in the event of regular well reconditioning, a set of expensive and extended measures for cleaning a well shaft is performed that does not guarantee the subsequent failure-free operation. Almost all the recovery of wells operating under UETsN (ESP System)-125 and 160 with delivery heads of 300 and 400 meters are equipped with ESM with a capacity of 16 kW	Decrease in unit costs (without depreciation) for SVO production from RUB 13,000 per ton to RUB 6,500 per ton	To decrease the number of running repairs of SVO wells due to pump choking with mechanical impurities, we propose to replace ESM with a capacity of 12 kW and 16 kW with ESM with a capacity of 22 kW, which will ensure the reliable operation of the plant in abnormal operating conditions	Implementation of this proposal will make it possible to resolve the issue of a decrease in the number of repairs of SVO wells, revisions of immersed plants by a servicing company, the number of well reconditioning teams and the costs of downhole pumping equipment. The economic effect from the realization of this idea is RUB 0.498 million per well	78 wells
4. Use of screw pumps metal by metal manufactured by LLC Spetstekhnika-Almetyevsk on vapor cyclic wells.				
At the present, vapor cyclic wells are operated on SVO wells. The main principle of these wells is a regular vapor injection after a decrease in temperature along the well shaft. For that, it is necessary to extract downhole pumping equipment and lower tubing down for injection. The high content of vapor-gas mixture in vapor cyclic wells on ordinary pumps (ESP) causes frequent pump starvation. It is also necessary to perform the assembly of the hoist unit and to raise the downhole pumping equipment, resulting in additional costs.	Decrease in unit costs (without depreciation) for SVO production from RUB 13,000 per ton to RUB 6,500 per ton.	To decrease the number of running repairs of SVO wells due to vapor injection transfer, we propose performing the implementation of sucker-rod screw pumping units manufactured by LLC Spetstekhnika-Almetyevsk on vapor cyclic wells and performing the transfer for injection by extraction of the rotor from the stator with a motorized crane.	Implementation of this proposal will make it possible to resolve the issue of a decrease in the number of repairs of SVP wells due to vapor injection transfer and a revision of immersed plants by a servicing company and the number of well reconditioning teams. The economic effect from the realization of this idea is RUB 0.707 million per 1 well per year.	23 wells
Application of advanced technologies and equipment in the automated process control system				
1. Movable automatic sampler for recovery wells				
The oil and gas production unit determines and forecasts oil water-cut based on a sample taken from a product stream on a well collar by a manual sampler with subsequent analysis in a stationary laboratory. Although many wells are produced "by portions," oil water-cut and content may differ significantly over time. Retaining third-party organizations, for example, LLC Tatintek, for making measurements, is quite expensive. The application of full-fledged measuring units comprising AP is not always justified for resolution of narrow tasks like determining product water-cut and taking daily samples. To decrease operating costs, it is proposed to install in each production field a movable automatic sampler pursuant to GOST 2517.	Decrease in operating costs.	Ensuring reliable information on well debit.	Costs for implementation: RUB 374 thousand Effect period: 9 years Net present value: RUB 10.128 million DPI = 3.692 unit fraction Recoupment period: 1 year	9 items

1	2	3	4	5
2. Ensuring the working capacity of the vapor meter				
NGDU Aznakayevskneft consumes vapor from the boiler system of heat networks for the technological needs of the oil preparation shop. The commercial heat energy (vapor) metering station on the basis of vortex meter EMIS-Vikhr-200 with calculator TEKON-19 has been installed on the boundary of the connection to networks. Based on the reading of the energy quantity from the calculator for a month, daily regular abnormal situations in operation of the metering station were detected. To conduct measurements correctly, a single-phase gas medium (without liquid component) at the place of installation of the metering station is required. The only method to resolve this is to ensure a single-phase gas medium at the points of installation of metering stations. To eliminate reasons and to ensure a single-phase medium (vapor), automatic condensate discharge was proposed and implemented.	Decrease in operating costs.	Ensuring the reliability of power resource metering.	Costs for implementation: RUB 15 thousand Effect period: 8 years Net present value: RUB 2.379 million DPI = 4.904 unit fraction Recoupment period: 0.37 year	10 items
3. The liquid chemical reagent feeding system and the method of reagent counting therein				
The liquid chemical reagent feeding system and the method of reagent counting therein.	Decrease in operating costs.	Decrease in costs for inhibitory protection of pipelines.	Costs for implementation: RUB 6 thousand Effect period: 5 years Net present value: RUB 392 thousand DPI = 1.039 unit fraction Recoupment period: less than 1 year	27 items
4. Optimization of the oil metering mechanism for VAT differentiation with application of a block-modular measuring system				
As strategic initiatives, NGDU Prikamneft proposes to reconsider the oil metering mechanism for the Azevo-Salaushskoye, Yelabuzhskoye, Zychebashskoye deposits, combining them in one common mechanism, the implementation of which provides for: - Starting June 1, 2016, the rejection of the complex service provided by contracting entities and the holding of a tender for technical design assignment only for technical servicing (including POS) and metrological support of measuring tools and the automation equipment of four block-modular measuring systems - An increase in the number of staff of NGDU (in aggregate for 3 projects) by 3 persons: engineering employee, maintenance technician, chemistry lab technician; organizing the remote access of operators of four block-modular measuring systems to the automated workplace for 24x7 monitoring of their work and launch of an automated sampler by a dispatch operator of the oil and gas production unit at 0:00 daily; the acquisition of NIVA vehicle on the balance of NGDU for daily attendance of four block-modular measuring systems by new personnel of NGDU; the acquisition of the second automated sampler for the block-modular measuring system of the Yelabuzhskoye deposit. Implementation of this project will not result in the change of oil mass calculation.	Decrease in operating costs.	Optimization of operating costs.	Costs for implementation: RUB 1,040 thousand Effect period: 5 years Net present value: RUB 46,963 thousand DPI = 1.595 unit fraction Recoupment period: less than 1 year	2 items
Innovative technologies in supervising				
1. Acceleration of the well-control equipment assembly pursuant to the OP-4 and OP-5 scheme				
In 2017, the project "Acceleration of the Well-Control Equipment Assembly Pursuant to the OP-4 and OP-5 Scheme" was implemented by the Supervising Department	Construction of wells	The well-control equipment assembly process pursuant to the OP-4 and OP-5 scheme is time consuming. To accelerate the well-control equipment assembly process pursuant to the OP-4 and OP-5 scheme, the technical specifications for manufacturing the following items were developed: - Blowout-prevention manifold with a quick-release connection - Drill spool adaptor - Portable holder with concrete foundation The technical specifications for the assembly and operating action plan for assembly personnel have been developed. One set of equipment was prepared pursuant to the technical specifications. Pilot developments were performed within the framework of the project.	1. Based on the project implementation results, the time needed for the well-control equipment assembly pursuant to the OP-4 and OP-5 scheme decreased by 8 hours as compared to the standard time. 2. The decrease in costs was RUB 160 thousand per well.	2 wells (No. 32260 NGDU Almeteyevneft, No. 1076P NGDU Yelkhovneft)

1	2	3	4	5
innovative technologies in pipeline transportation				
1. Application of MPT-K tubes				
A metal tube with noses from corrosion-resistant steel, MPT-K is a tube protected from the effect of the transported medium by an internal polyethylene sheath and from soil corrosion by external polymeric insulation. The ends of the polyethylene sheath are fastened with noses from corrosion-resistant steel. MPT-K are designated for construction of field and technological pipelines transporting water-cut oil of the coal-bearing type, waste and fresh waters.	Decrease in unit costs for the construction and overhaul of water conduits for the RPM system.	- Increase in the service life of pipelines up to 20 years - Decrease in maintenance costs and costs for the liquidation of outbursts and pipeline repairs - Perfection of environmental conditions in the areas of transportation of corrosive mediums	Up to RUB 100 thousand per km per annum.	134.44 km
2. Application of TPS-U tubes				
A tube with an internal and external corrosion-resistant coating protected by a plug and sealing, TPS-U is a steel tube with external double-layer insulation and internal corrosion-resistant coating on an epoxide basis. To protect the internal area of the welded joint from corrosion, protective plugs with sealing elements were used. TPS-U are designated for the construction of pipelines with a reservoir pressure maintenance system and an in-field flow line system.	Decrease in costs for the construction of oil pipelines.	- High degree of protection of the internal area of the welded joint - Increase in the service life of pipelines up to 20 years - Decrease in maintenance costs and costs for the liquidation of outbursts and pipeline repairs - Perfection of environmental conditions in the areas of transportation of corrosive mediums	Up to RUB 150 thousand per km per annum.	299.53 km
Innovative technologies in well stream preparation				
1. Technology for processing bottom sediments in reservoirs				
The technology is designated for processing bottom sediments in reservoirs for the extraction of an additional volume of liquid oil for the realization of and decrease in the quantity of sediments that decreases costs for reclamation of bottom sediments. The technology provides for mixing bottom sediments with a diluting agent with the subsequent setting-out for division of the mixture into liquid body and sediment. The technology can be used in reservoirs equipped with an agitator.	Decrease in unit costs for processing from – RUB 100 per ton of oil by 2%	Based on the results of pilot tests of the technology in the RVS-1 of Tikhonovskiy TP NGDU Almeteyneft, the volume of bottom sediments decreased twofold, and the additional volume of the extracted liquid hydrocarbon phase (oil) was 503 m³.	Based on the calculation of the feasibility of the implementation of the technology of processing of bottom sediments in RVS-1 Tikhonovskiy TP NGDU Almeteyneft, the net present value and annual average economic effect of the project are RU 4,293.3 thousand. Recoupment period: 1 year.	RVS-1 Tikhonovskiy TP NGDU Almeteyneft
Innovative technologies in oil refining				
1. Increase of production of KGF (kerosine-gasoil fraction)				
In Yelkhov OPU, during the production of kerosine-gasoil fraction (KGF), straight-run diesel fuel from atmospheric tower T-101 and light vacuum gasoil (LVG) from atmospheric tower T-104, section C-100, are used. Atmospheric gasoil from tower T-101 contains up to 30% of the fraction with a boiling temperature up to 360 °C. By change of the technological scheme, the atmospheric gasoil flow was redirected to tower T-104, which allowed for an increase in the recovery of LVG and, correspondingly, the recovery of KGF.	Increase in production output	In 2017, the output of KGF was 14,612 tons higher than the output in 2016 by 13,846 tons, or 157.7% higher than the scheduled output.	The economic effect was RUB 58.703 million.	The project was 100% implemented and completed
Innovative Technologies in Gas Refining				
1. Replacement of contact devices of the butane recovery column K-3 of gas fractionation unit GFU-2				
The producing capacity of the butane recovery column K-3 of gas fractionation unit GFU-2 is not sufficient for processing the total volume of hydrocarbon fluid from UNTKR. Implementation of the project will enable the increase of the production capacity of column K-3 GFU-2 and accept the total volume of hydrocarbon fluid from UNTKR for gas fractionation and load GFU-300 with an additional volume of NGL.	An increase in processing volumes and profit for the Company.	The actual production capacity of column K-3 of GFU-2 increased from 5/5 t/h to 8 t/h. GFU-2 accepts the complete volume of hydrocarbon fluid, which allowed an increase in the volume of NGL being processed at GFU-300 by approximately 50 tons/day.	The actual profit for Q4 amounted to RUB 42.3 million.	100%
2. Replacement of contact devices of columns K-101, K-201 of the unit for gas purification from hydrogen sulphide USO-1 and the increase of the diameters of pipeline 1's flow of APG delivery to the gas refining plant				
An increase in the volumes of associated petroleum gas (APG) delivered to the gas refining plant lead to an increase of resistance of the column equipment of the unit for petroleum gas purification from hydrogen sulphide USO-1 and, as a result, to the growth of pressure in the system of gas and oil recovery of the oil and gas field operating divisions (NGDY), the deterioration of conditions for the separation of oil from gas, and the impossibility of reclamation of the total volume of APG from NGDU's facilities.	An increase of processing volumes and the profit of the Company.	The actual difference for the column with a gas flow of 65 thousand m³/h is 0.13 kgf/cm². Pressure during acceptance at the plant decreased from 1.37 to 0.9 kgf/cm².	The actual profit for Q4 amounted to RUB 14.712 million.	100%

1	2	3	4	5
innovative technologies in the retail network				
1. Implementation of an automated meter reading and control system				
Implementation of an automated power consumption metering system at FFS of the Company for the purpose of transfer to another tariff, which will enable a decrease in costs for electric power by 10%.	Decrease in Costs	Decrease of the tariff due to the implementation of the automated meter reading and control system	Decrease in costs for electric power payment equal to over RUB 2.2 million per year in aggregate for four branches of FFS of LLC Tatneft-FFS Center.	151 items of the automated meter reading and control system have been installed
2. Renovation of external and internal appearance of FFS				
The design project of external appearance was developed and approved (32/13 dated March 13, 2017)	An increase in processing volumes and profit for the Company.	Renovated external and internal appearance of FFS. Raising additional potential clients of FFS	The efficiency assessment will be performed after completion of the promotion phase.	LLC Tatneft-FFS Center: 19 facilities.
3. Implementation of online processing of the banking transfer system				
Implementation of the system for online servicing of clients of the banking transfer system of Tatneft's retail network on the basis of technologies of LLC Open Way Service to increase the efficiency of the FFS network.	Increase in the volume of corporate sales of fuel.	- Management of clients, limits in online mode - Enhancement of reliability due to control over transactions, notification, and feedback in online mode - Improvement of the quality of services, the ability of the quick implementation of new services - Decrease in statutory periods for client servicing in the banking transfer system - Extension of a range of services in the banking transfer system, including SS goods, washing, STO at facilities of the retail network in CBR for TK TN	The project is in the phase of personal account elaboration, to be completed in 2019. After completion of works, the projected economic effect beginning from 2019 will be RUB 70 million.	The whole retail chain in the Russian Federation
4. Implementation of coffee machines with "live" milk and the ability to exercise remote control over equipment operation				
Attracting new clients, enhancement of loyalty toward the brand, and increase of sales of hot drinks at FFS through installation of coffee machines with "live" milk and the ability to exercise remote control over equipment operation	Development of the unit "Accompanying service" for the sphere "Public catering"	A centralized system of collecting, sequencing, and providing information to employees about the operation of coffee machines. A decrease in the breakdown and down time of coffee machines. Elimination of misuses by FFS personnel.	Increase of the profitability of sales of coffee at FFS by RUB 25.5 million. Per 1 coffee machine: RUB 0.3	85 coffee machines with "live" milk have been installed at 51 FFS.
5. Implementation of self-service car wash				
Self-service car wash	Development of the unit "Accompanying service" for the sphere "Services"	Decrease in salary costs through Wash process automation Extension of service provision time within 24 hours.	In total, for 17 stations: RUB 1.105 million. For 1 station: RUB 0.065 million.	17 stations.

LIST OF ACRONYMS

PUBLIC JOINT-STOCK COMPANY TATNEFT THROUGHOUT THE TEXT OF THE REPORT IS REFERRED TO AS TATNEFT, TATNEFT, COMPANY.

BIA	Business Idea Auction
AGFS	Autogas Fueling Station
ASPI	Almetyevsk State Petroleum Institute
AB	Anode Bed
FS	Fuel Station
AIS	Automated Information System
JSC	Joint-Stock Company
BVMB	Basin Water Management Board
BMZ	Bugulma Mechanical Plant (Tatneft's structural division)
VOIR	All-Russian Society of Inventors and Innovators
GMPS	Group Metering Pump Station
GMS	Group Metering Station
GIBDD	State Traffic Safety Inspectorate
SCNS	State Complex Nature Sanctuary
HS	Horizontal Settler
GOST	National State Standard
HF	Hydraulic Fracturing
F&L	Fuel & Lubricants
HEI	Hydraulic Engineering Installations
CC	Community Center
BPS	Booster Pumping Station
CHC	Children's Holiday Camp
CYSS	Children's and Youth Sports School
EU	European Union
UNECE	United Nations Economic Commission for Europe
RCT	Reinforced Concrete Tank
CJSC	Closed Joint-Stock Company
IS	Information System
CIS	Corporate Information System
PPS	Pad Pumping Station
KFU	Kazan (Volga Region) Federal University
CSR	Corporate Social Responsibility
HRS	Horse Racing School
MGPP	Minnibayev Gas Processing Plant
MICEX	Moscow Interbank Currency Exchange
MPP	Metal-Plastic Pipes
MTBR	Mean Time Between Repair
EOR	Enhanced Oil Recovery
MPP	Multiphase Pump
MES	Ministry for Emergency Situations
NGDU	Oil and Gas Field Operating Division (Tatneft's structural division)
MRRT	Mineral Resource Recovery Tax
VAT	Value Added Tax
NTP CMK	Nizhnekamsk Tire Plant CMK
R&D	Research and Development
Tubing	Oil Well Tubing
ITA	Intangible assets

OR & PP Refinery	Oil Refining and Petrochemical Plants
OPU	Oil Refinery
STC	Oil Processing Unit
PCC	Science and Technology Center
LLC	Petrochemical Complex
NCA	Limited Liability Company
PO	Nature Conservation Area
PDC	Pilot Operations
P & IDC	Production Dual Completion
IDC	Production and Injection Dual Completion
DC	Injection Dual Completion
SEZ	Dual Completion
MPC	Special Economic Zone
APG	Maximum Permissible Concentration
RPM	Associated Petroleum Gas
PCP	Reservoir Pressure Maintenance
PS	Polymer Coated Pipes
CD	Power Substation
VSST	Chain Drive
RIA	Vertical Stainless Steel Tank
RUSO	Result of Intellectual Activity
RT	Regional Youth Social Organization
RF	Republic of Tatarstan
SVO	Russian Federation
CPS	Super Viscous Oil
CGS	Cathodic Protection Station
EDMS	Corporate Governance Standard
SES	Electronic Document Management System
TH	Secondary Education School
TTD	Trading House
TS	Trade Technical House
FEC	Technical Specifications
TPP	Fuel and Energy Complex
DCU	Thermal Power Plant
MC	Delayed Coker Unit
LHVR	Management Company
HSOTF	Light Hydrocarbon Vapor Recovery
OTF	High Sulfur Oil Treatment Facility
PWDU	Oil Treatment Facility
UPTZh dlya PPD	Preliminary Water Discharge Unit
SRU	Process Fluid Treatment Facility for Reservoir Pressure Maintenance (Tatneft's subsidiary)
UTNGP	Sulphur Recovery Unit
AS-tires	TATNEFTEGAZPERERABOTKA Division (Tatneft's structural division)
CDH	All-Steel Tires
PTC	Central District Hospital
NGL	Personnel Training Center
EIC	Natural Gas Liquids
ECU	Electrical Insulating Connection
NPV	Electronic Corporate University
DPI	Net Present Value
	Discounted Profitability Index

CONTACT INFORMATION

THE COMPANY WAS ESTABLISHED IN JANUARY 1994 FOR AN INDEFINITE PERIOD.

THE COMPANY WAS REGISTERED BY THE MINISTRY OF FINANCE OF THE REPUBLIC OF TATARSTAN (REGISTRATION NO. 632 DATED JANUARY 21, 1994).

THE MAJOR GOAL OF THE COMPANY'S ACTIVITY IS THE RECEIPT OF PROFIT.

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