TATNEFT

# DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

# MANAGEMENT'S DISCUSSION AND ANALYSIS
# OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
# FOR THE THREE MONTHS ENDED 31 DECEMBER AND 30 SEPTEMBER 2020
# AND YEARS ENDED 31 DECEMBER 2020 AND 2019

## Content

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

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

## Background

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

As of 31 December 2020 and 31 December 2019 the government of Tatarstan controls approximately 36% of the Company's voting stock. Tatarstan also holds a "Golden Share", a special governmental right, in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and one representative to the Revision Committee of the Company as well as to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization of the Company and "major" and "interested party" transactions as defined under Russian law. The Golden Share currently has an indefinite term.

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

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

## Key financial and operational results

| | 3 months ended 31 December 2020 | 3 months ended 30 September 2020 | Chg., % | 12 months ended 31 December 2020 | 12 months ended 31 December 2019 | Chg., % |
|---|---|---|---|---|---|---|
| **Financial results** | | | | | | |
| Sales on non-banking activities, net (RR million) | 198,754 | 187,370 | *6.1* | 720,677 | 932,296 | *(22.7)* |
| Profit attributable to Group shareholders (RR million) | 24,893 | 35,745 | *(30.4)* | 103,490 | 192,260 | *(46.2)* |
| EBITDA[(1)] (RR million) | 49,505 | 58,367 | *(15.2)* | 179,871 | 290,800 | *(38.1)* |
| Adjusted EBITDA[(1)] (RR million) | 49,400 | 58,748 | *(15.9)* | 187,304 | 328,412 | *(43.0)* |
| Additions to property, plant and equipment (RR million) | 28,754 | 26,490 | *8.5* | 104,668 | 95,994 | *9.0* |
| Free Cash Flow[(2)] (RR million) | 31,328 | 23,288 | *34.5* | 95,698 | 152,812 | *(37.4)* |
| Net debt[(3)] (RR million) | (5,492) | 1,153 | *n/a* | (5,492) | 16,092 | *n/a* |
| Basic and Diluted profit per share (RR) | | | | | | |
| Common | 11.06 | 15.89 | *(30.4)* | 45.92 | 85.43 | *(46.2)* |
| Preferred | 11.06 | 15.89 | *(30.4)* | 46.92 | 85.43 | *(45.1)* |
| **Operational results** | | | | | | |
| Crude oil production by the Group (th. tonnes) | 6,465 | 6,288 | *2.8* | 26,014 | 29,798 | *(12.7)* |
| Crude oil production by the Group (th. barrels) | 46,051 | 44,790 | *2.8* | 185,294 | 212,252 | *(12.7)* |
| Crude oil daily production (th. barrels per day) | 500.6 | 486.8 | *2.8* | 506.3 | 581.5 | *(12.9)* |
| Gas production by the Group (million cubic meters) | 199.2 | 198.3 | *0.5* | 831.4 | 1,009.6 | *(17.7)* |
| Gas daily production (th. boe per day) | 12.7 | 12.7 | - | 13.4 | 16.3 | *(17.8)* |
| Refined products produced (th. tonnes) | 2,822 | 2,730 | *3.4* | 11,513 | 10,258 | *12.2* |
| Gas products produced[(4)] (th. tonnes) | 242 | 251 | *(3.6)* | 1,027 | 1,207 | *(14.9)* |
| Refining throughput* (th. barrels per day) | 220.7 | 218.4 | *1.1* | 230.3 | 206.7 | *11.4* |
| Production of tires (million tires) | 3.1 | 2.5 | *24.0* | 10.9 | 10.3 | *5.8* |
| Number of petrol (gas) stations in Russia[(5) (3)] | 708 | 715 | *(1.0)* | 708 | 691 | *2.5* |
| Number of petrol (gas) stations outside of Russia[(5) (3)] | 111 | 111 | - | 111 | 111 | - |

[(1)] *As calculated on page 16*
[(2)] *As calculated on page 18*
[(3)] *At the end of the period*
[(4)] *Including natural stable gasoline, produced by gas refining division Tatneftegaspererabotka*
[(5)] *Including leased petrol (gas) stations*
* *Current and comparative periods use different accounting approaches (the effect is immaterial)*
** *Including volumes produced for third parties under tolling arrangements*

The net profit of the Group (profit attributable to the shareholders of the Group) in the fourth quarter of 2020 reduced by RR 10,852 million compared to the third quarter of 2020 to the level of RR 24,893 million predominantly due to the growth of selling, general and administrative expenses mainly associated with charity and accrual of certain legal services costs, as well as mineral extraction tax.

The net profit of the Group (profit attributable to the shareholders of the Group) in the twelve months of 2020 compared to the same period in 2019 decreased by 46.2%. The main factors affecting the decrease in net profit were substantially lower prices for oil and oil products in 2020.

In the fourth quarter of 2020 the Group produced 6.5 million metric tonnes of crude oil which is 2.8% higher than in the third quarter of 2020. Gas production in the fourth quarter of 2020 was 199.2 million cubic meters which is 0.5% higher than in the third quarter of 2020.

In the twelve months of 2020 the Group produced 26.0 million metric tonnes of crude oil which is 12.7% lower than in the twelve months of 2019. Gas production in the twelve months of 2020 was 831.4 million cubic meters which is 17.7% lower than in the corresponding period of 2019.

The decline in production was mainly due to substantial drop in demand in the first half of 2020 on the back of the COVID-19 pandemic and the related reduction in production pursuant to an agreement of OPEC+ countries effective from 1 May 2020.

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

| TANECO operational results | 3 months ended 31 December 2020 | 3 months ended 30 September 2020 | Chg., % | 12 months ended 31 December 2020 | 12 months ended 31 December 2019 | Chg., % |
|---|---|---|---|---|---|---|
| | (in thousand tonnes) | | | (in thousand tonnes) | | |
| **Refined products output:** | **2,760.8** | **2,663.2** | ***3.7*** | **11,267.0** | **10,053.5** | ***12.1*** |
| Diesel fuel | 949.1 | 796.0 | *19.2* | 3,441.6 | 3,652.1 | *(5.8)* |
| Middle distillates | 475.2 | 597.9 | *(20.5)* | 2,368.1 | 1,556.0 | *52.2* |
| Automobile gasoline | 281.8 | 304.9 | *(7.6)* | 1,201.1 | 1,128.3 | *6.5* |
| Naphtha | 233.5 | 186.5 | *25.2* | 899.3 | 695.4 | *29.3* |
| Petroleum coke | 154.2 | 197.9 | *(22.1)* | 742.4 | 677.4 | *9.6* |
| Jet fuel | 128.1 | 191.3 | *(33.0)* | 628.7 | 523.3 | *20.1* |
| Lubricating oil compound | 125.2 | 52.1 | *>100* | 376.3 | 438.0 | *(14.1)* |
| Kerosene | 31.9 | 10.5 | *>100* | 139.2 | 233.5 | *(40.4)* |
| Engine oil | 50.4 | 37.2 | *35.5* | 164.0 | 216.0 | *(24.1)* |
| Other | 331.4 | 288.9 | *14.7* | 1,306.3 | 933.5 | *39.9* |

## Segment information

Our operations are currently divided into the following main segments:

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

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

- **Petrochemicals -** petrochemicals segment has been consolidated under a management company, Tatneft-Petrochemicals (*Tatneft-Neftekhim*) which manages "Kama Tyres" business, including Nizhnekamskshina, one of the largest tire manufacturers in Russia, and the companies technologically integrated with it, including Nizhnekamsk Industrial Carbon Plant, Yarpolymermash-Tatneft, Nizhnekamskiy Mekhanicheskiy Zavod and Nizhnekamskiy Zavod Gruzovykh Shin. Trading House Kama is responsible for procuring supplies and marketing products produced by the companies within this segment. Togliattikauchuk, which was acquired in the fourth quarter of 2019, while managed as part of Tatneft's petrochemicals business, is not included in respective segment for the purposes of segment reporting in the IFRS financial statement (it is included in "Corporate and other" segment).

- **Banking** segment is represented by PJSC Bank ZENIT, which has been consolidated into the Tatneft Group's financial statements from the fourth quarter of 2016. Tatarstan is one of the main regions where Bank ZENIT has a presence and offers a full range of banking services to a large number of customers, including the Group's entities and employees.

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

### Intersegment Sales

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

As a result of certain factors benchmarking crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil and other goods and services reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of crude oil refining and other factors. Accordingly, an analysis of either of these segments on a stand-alone basis could give a misleading perception of those segments' underlying financial position and results of operations. For this reason, we do not analyze either of our main segments separately in the discussion that follows. However, we present the financial data for each respective segment in Note 24 “Segment information” to our consolidated financial statements. All intercompany operations are eliminated on the consolidation level.

## Executive overview

*Macroeconomic factors*

The Group's operations in 2020 were significantly affected by the economic impact of the COVID-19 pandemic, changes in oil and petroleum product prices, and the implementation of unprecedent production restrictions under the OPEC+ agreement.

*E&P activities in Tatarstan*

One of the Company’s primary strategic goals is sustainable organic growth of crude oil production from its licensed fields in Tatarstan. However, due to OPEC+ restrictions introduced in 2020 the Company’s oil production reduced to 26 million tons. Nevertheless, the production potential has been preserved and the Company is ready to return to the previous production rates if the restrictions are relaxed. Due to the relative maturity of the Company’s main producing fields significant portion of all crude oil produced by the Company in Tatarstan was extracted using various enhanced oil recovery techniques.

*E&P activities outside of Tatarstan*

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

Tatneft is planning to continue expansion and diversification of its reserve base by gaining access, including through establishing strategic alliances, to reserves outside of Tatarstan. The Group is carrying out exploration and production projects in the Kalmykia Republic, the Ulyanovsk, Samara, Orenburg and Nenets Autonomous Region of the Russian Federation. The Group has interest in oil and gas fields in Libya through production sharing agreements with the National Oil Corporation of Libya and provides oilfield services in Turkmenistan.

*Highly viscous oil production*

The Company produced 3,375 thousand tonnes of highly viscous oil with the viscosity more than 10,000 Megapascal x S at the Ashalchinskoye and some other fields using parallel steam injection and producing wells.

*Crude oil refining and marketing*

TANECO, the Group’s core refining complex, located in Nizhnekamsk, Tatarstan, has been in commercial operation from December 2011 upon full commissioning of the crude and vaccum distillation units CDU-VDU-7 and other production facilities. In 2014 the hydrocracking unit was put into operation, while the production of base oils started in 2015. In 2016 the first delayed coking unit was launched. In 2018, the production of premium motor gasoline was launched and the diesel and kerosene hydrotreating units were commissioned. The second crude and vaccum distillation units CDU-VDU-6 were commissioned in 2019. In 2020, the heavy coking gas oil hydrotreater was launched and the production of marine fuel that complies with the Marpol requirements commenced. In December 2020, the middle distillates hydrotreating unit was commissioned which allows to increase the production of diesel fuel and jet fuel.

More than 80 million tonnes of crude oil were processed since the beginning of the TANECO complex operation.

*Petrochemicals*

In 2020 production of tires by the Group’s petrochemicals segment amounted to 10.9 million tires in comparison to 10.3 million tires in 2019.

*Dividends*

In August 2020 the Company’s Board of Directors recommended to approve interim dividends on the preference and ordinary shares for the six months ended 30 June 2020 in the amount of RR 9.94 per each preference and ordinary share. The decision on payment of interim dividends for the 6 months of 2020 was taken by the extraordinary shareholders meeting held by proxy voting on 30 September 2020. The dividend payment was made in the fourth quarter of 2020.

## Exceptional items

The Group's results in 2020 and 2019 were impacted by certain exceptional items, including those resulting from the Bank ZENIT consolidation in 2016, impairment provision loss or gain on certain exploration and evaluation assets, related mainly to the oilfields located outside the Republic of Tatarstan, and an impairment provision loss on certain social assets not providing direct future economic benefits, as well as the loss from impairment of certain assets due to the current macroeconomic situation or the reveral thereof upon change in circumstances. These losses were reflected in the lines “Net impairment losses on financial assets” and “Net impairment losses on property, plant and equipment and other non-financial assets” in the Consolidated Statement of Profit or Loss and other Comprehensive Income of the Group (see page 16):

| | 3 months ended | | 12 months ended | |
|---|---|---|---|---|
| **(RR million)** | **31 December 2020** | **30 September 2020** | **31 December 2020** | **31 December 2019** |
| **Impairment loss of financial assets less (gains) from recovery** | **1,896** | **(783)** | **756** | **6,737** |
| *incl. (Gain)/loss on impairment of certain loans initially issued by the Bank ZENIT* | *(675)* | *(1,925)* | *(2,700)* | *3,245* |
| *Net impairment losses (gains) on accounts receivable* | *2,595* | *1,118* | *3,480* | *420* |
| **Net impairment losses on property, plant and equipment and other non-financial assets** | **(2,001)** | **1,164** | **6,677** | **30,875** |
| *incl. Loss on impairment of some exploratory assets and written-off non-capitalized overhead expenses* | *(2,770)* | *708* | *978* | *17,885* |
| *Loss/(gain) on impairment and disposals of property, plant and equipment and inventories* | *769* | *456* | *5,699* | *12,991* |
| **Total Exceptional items** | **(105)** | **381** | **7,433** | **37,612** |

## Results of Group operations for the three months and the year ended 31 December 2020 compared to the three months ended 30 September 2020 and the year ended 31 December 2019

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

| (RR million) | 3 months ended 31 December 2020 | 3 months ended 30 September 2020 | Chg., % | 12 months ended 31 December 2020 | 12 months ended 31 December 2019 | Chg., % |
|---|---|---|---|---|---|---|
| **Sales and other operating revenues on non-banking activities, net** | **198,754** | **187,370** | *6.1* | **720,677** | **932,296** | *(22.7)* |
| **Costs and other deductions on non-banking activities** | | | | | | |
| Operating expenses | (36,501) | (36,456) | *0.1* | (146,088) | (140,040) | *4.3* |
| Purchased oil and refined products | (25,482) | (24,757) | *2.9* | (89,340) | (58,112) | *53.7* |
| Exploration | (1,653) | (327) | *>100* | (2,515) | (1,006) | *>100* |
| Transportation | (9,494) | (7,563) | *25.5* | (35,453) | (37,356) | *(5.1)* |
| Selling, general and administrative | (22,073) | (12,680) | *74.1* | (60,066) | (52,637) | *14.1* |
| Depreciation, depletion and amortization | (13,145) | (10,894) | *20.7* | (40,865) | (35,165) | *16.2* |
| Impairments gain/(loss) on financial assets, net of reversal | (1,896) | 783 | *n/a* | (756) | (6,737) | *(88.8)* |
| Impairments loss on property, plant and equipment and other non-financial assets, net of reversal | 2,001 | (1,164) | *n/a* | (6,677) | (30,875) | *(78.4)* |
| Taxes other than income taxes | (48,239) | (43,757) | *10.2* | (185,539) | (307,654) | *(39.7)* |
| Maintenance of social infrastructure and transfer of social assets | (3,872) | (2,239) | *72.9* | (10,890) | (9,340) | *16.6* |
| **Total costs and other deductions on non-banking activities** | **(160,354)** | **(139,054)** | *15.3* | **(578,189)** | **(678,922)** | *(14.8)* |
| Gain/(loss) on disposals of interests in subsidiaries and associates, net | 3 | - | *n/a* | (54) | (41) | *31.7* |
| Fair value losses from loans at fair value through profit or loss | (5,180) | - | *n/a* | (5,180) | (210) | *>100* |
| Other operating loss, net | 860 | (835) | *n/a* | 836 | 1,203 | *(30.5)* |
| **Operating profit on non-banking activities** | **34,083** | **47,481** | *(28.2)* | **138,090** | **254,326** | *(45.7)* |
| **Net interest, fee and commission and other operating income/(expenses) and gains/(losses) on banking activities** | | | | | | |
| Interest, fee and commission income | 4,511 | 4,299 | *4.9* | 18,086 | 22,584 | *(19.9)* |
| Interest, fee and commission expense | (2,044) | (2,333) | *(12.4)* | (9,611) | (12,118) | *(20.7)* |
| Net (expense)/ income on creating provision for credit losses associated with debt financial assets | (1,221) | (765) | *59.6* | (3,629) | (462) | *>100* |
| Operating expenses | (2,576) | (2,463) | *4.6* | (8,438) | (9,871) | *(14.5)* |
| Gain/(loss) arising from dealing in foreign currencies, net | 31 | 328 | *(90.5)* | 96 | 70 | *37.1* |
| Other operating income, net | (744) | 91 | *n/a* | 68 | 2,099 | *(96.8)* |
| **Total net interest, fee and commission and other operating income/(expenses) and gains/(losses) on banking activities** | **(2,043)** | **(843)** | *>100* | **(3,428)** | **2,302** | *n/a* |
| **Other income/(expenses)** | | | | | | |
| Foreign exchange gain/(loss), net | (659) | 948 | *n/a* | 5,597 | (207) | *n/a* |
| Interest income on non-banking activities | 3,938 | 117 | *>100* | 4,428 | 1,201 | *>100* |
| Interest expense on non-banking activities, net of amounts capitalized | (1,848) | (1,539) | *20.1* | (7,384) | (5,407) | *36.6* |
| Share of results of associates and joint ventures, net | 2 | (79) | *n/a* | (258) | 127 | *n/a* |
| **Total other income/(expenses)** | **1,433** | **(553)** | *n/a* | **2,383** | **(4,286)** | *n/a* |
| **Profit before income tax** | **33,473** | **46,085** | *(27.4)* | **137,045** | **252,342** | *(45.7)* |
| Current income tax expense | (8,910) | (10,854) | *(17.9)* | (35,820) | (57,626) | *(37.8)* |
| Deferred income tax expense | 165 | 137 | *20.4* | 1,348 | (1,898) | *n/a* |
| **Total income tax expense** | **(8,745)** | **(10,717)** | *(18.4)* | **(34,472)** | **(59,524)** | *(42.1)* |
| **Profit for the period** | **24,728** | **35,368** | *(30.1)* | **102,573** | **192,818** | *(46.8)* |
| Less: (profit)/loss attributable to non-controlling interest | 165 | 377 | *(56.2)* | 917 | (558) | *n/a* |
| **Profit attributable to Group shareholders** | **24,893** | **35,745** | *(30.4)* | **103,490** | **192,260** | *(46.2)* |

## Sales and other operating revenues on non-banking activities

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

| (RR million) | 3 months ended 31 December 2020 | 3 months ended 30 September 2020 | Chg., % | 12 months ended 31 December 2020 | 12 months ended 31 December 2019 | Chg., % |
|---|---|---|---|---|---|---|
| Crude oil | | | | | | |
| *Sales* | 90,706 | 80,304 | *13.0* | 313,088 | 515,479 | *(39.3)* |
| *Less related export duties* | *(4,730)* | *(3,482)* | *35.8* | *(18,106)* | *(48,756)* | *(62.9)* |
| | 85,976 | 76,822 | *11.9* | 294,982 | 466,723 | *(36.8)* |
| Refined products | | | | | | |
| *Sales* | 99,332 | 96,894 | *2.5* | 379,707 | 403,861 | *(6.0)* |
| *Less related export duties and excise taxes* | *(11,481)* | *(15,021)* | *(23.6)* | *(57,032)* | *(25,363)* | *>100* |
| | 87,851 | 81,873 | *7.3* | 322,675 | 378,498 | *(14.7)* |
| Petrochemicals | 14,646 | 16,121 | *(9.1)* | 53,316 | 47,917 | *11.3* |
| Corporate and other sales | 10,280 | 12,554 | *(18.1)* | 49,703 | 39,158 | *26.9* |
| **Total Sales and other operating Revenues on non-banking activities, net** | **198,753** | **187,370** | ***6.1*** | **720,676** | **932,296** | ***(22.7)*** |

Increase in net sales and other operating revenues on non-banking activities in the fourth quarter of 2020 in comparison to the third quarter of 2020 was due to increase in crude oil sales prices and higher refined products sales volumes.

Decrease in net sales and other operating revenues on non-banking activities in 2020 in comparison to 2019 was primarily due to decrease in crude oil and refined products sales prices, as well as lower crude oil sales volumes.

### Export duties and excise taxes

| (RR million) | 3 months ended 31 December 2020 | 3 months ended 30 September 2020 | Chg., % | 12 months ended 31 December 2020 | 12 months ended 31 December 2019 | Chg., % |
|---|---|---|---|---|---|---|
| Export duties | 6,673 | 5,117 | *30.4* | 24,976 | 58,525 | *(57.3)* |
| Excise taxes net “reverse excise tax” | 9,538 | 13,386 | *(28.7)* | 50,162 | 15,594 | *>100* |
| *“reverse excise tax”* | 23 | 1,819 | *(98.7)* | 7,285 | (23,307) | *n/a* |
| **Total export duties and excise taxes** | **16,211** | **18,503** | ***(12.4)*** | **75,138** | **74,119** | ***1.4*** |

In the fourth quarter of 2020 export duties paid by the Group increased by 30.4% in comparison to the third quarter of 2020 to RR 6,673 million due to higher non-CIS export sales of crude oil.

Expenses on export duties in 2020 decreased by 57.3% compared to the corresponding period of 2019 and amounted to RR 24,976 million due to a decrease in both oil sales to non-CIS countries and average export duty rates in the reporting period due to lower oil prices.

The Group's expenses on excise taxes in the fourth quarter of 2020 decreased by 28.7% and amounted to RR 9,538 million compared to RR 13,386 million in the third quarter of 2020 due to the effect of the “reverse excise” mechanism and lower premium on the domestic refined products sales over export netbacks.

The Group's expenses on excise taxes in 2020 amounted to RR 50,162 million, an increase of more than 100% compared to the corresponding period of 2019 due to the effect of the “reverse excise” mechanism and higher premium on the domestic refined products sales over export netbacks.

The Group’s sales and other operating revenues on non-banking activities are repored net of the export duties and excise taxes in the IFRS consolidated financial statements.

**Sales of crude oil and refined products outside of Russia**

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

<u>Three months ended 31 December 2020</u>

In the fourth quarter of 2020 the Group exported approximately 64% of all its crude oil sold compared to 54% in the third quarter of 2020.

In the fourth quarter of 2020 the Company delivered 95% (94% in the third quarter of 2020) of its own crude oil for export through Transneft's Druzhba pipeline (mainly to Poland and Slovakia), 1% (1% in the third quarter jf 2020) of crude oil was shipped through Russian Black Sea ports (mainly Novorossiysk) and 4% (5% in the third quarter of 2020) of crude oil exported through Russian Baltic Sea ports (mainly Primorsk).(*)

In the fourth quarter of 2020 the Group exported 1,459 thousand tonnes of refined products (including 34 thousand tonnes of purchased refined products) in comparison to 1,055 thousand tonnes in the third quarter of 2020 (including 41 thousand tonnes of purchased refined products).

<u>Twelve months ended 31 December 2020</u>

During the twelve months of 2020 the Group exported approximately 56% of all its crude oil sold compared to 60% in the corresponding period of 2019.

In 2020 the Company delivered 91% (77% in 2019) of its own crude oil for export through Transneft's Druzhba pipeline (mainly to Poland and Slovakia), 8% (18% in 2019) of crude oil exported through Russian Baltic Sea port Primorsk and 1% (5% in 2019) of crude oil exported through Russian Black Sea port Novorossiysk. (*)

In 2020 the Group exported 5,715 thousand tonnes of refined products (including 138 thousand tonnes of purchased refined products) in comparison to 5,121 thousand tonnes in the corresponding period of 2019 (including 137 thousand tonnes of purchased refined products).

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

**<u>Sales breakdown on non-banking activities</u>**

**Sales revenues**

| | 3 months ended | | Chg., | 12 months ended | | Chg., |
|---|---|---|---|---|---|---|
| **(RR million)** | **31 December 2020** | **30 September 2020** | **%** | **31 December 2020** | **31 December 2019** | **%** |
| **Crude oil** | | | | | | |
| Non-CIS | | | | | | |
| Export sales | *54,781* | *43,686* | *25.4* | *177,729* | *313,259* | *(43.3)* |
| Less related export duties | *(4,730)* | *(3,482)* | *35.8* | *(18,106)* | *(48,756)* | *(62.9)* |
| CIS sales | 6,855 | 4,164 | *64.6* | 16,264 | 26,818 | *(39.4)* |
| Domestic sales | 29,070 | 32,454 | *(10.4)* | 119,095 | 175,402 | *(32.1)* |
| | **85,976** | **76,822** | *11.9* | **294,982** | **466,723** | *(36.8)* |
| **Refined products** | | | | | | |
| Non-CIS export sales | | | | | | |
| Export sales | *31,291* | *21,592* | *44.9* | *108,268* | *148,224* | *(27.0)* |
| Less related export duties | *(1,934)* | *(1,617)* | *19.6* | *(6,814)* | *(9,729)* | *(30.0)* |
| CIS sales | | | | | | |
| CIS sales | *4,239* | *3,326* | *27.5* | *14,659* | *14,906* | *(1.7)* |
| Less related export duties | *(9)* | *(18)* | *(50.0)* | *(56)* | *(40)* | *40.0* |
| Domestic sales | | | | | | |
| Domestic sales | *63,802* | *71,976* | *(11.4)* | *256,780* | *240,731* | *6.7* |
| Less related excise taxes | *(9,538)* | *(13,386)* | *(28.7)* | *(50,162)* | *(15,594)* | *>100* |
| | **87,851** | **81,873** | *7.3* | **322,675** | **378,498** | *(14.7)* |
| **Petrochemical products** | | | | | | |
| Tires sales | 13,764 | 15,370 | *(10.4)* | 50,404 | 44,926 | *12.2* |
| Other petrochemicals sales | 882 | 751 | *17.4* | 2,912 | 2,991 | *(2.6)* |
| | **14,646** | **16,121** | *(9.1)* | **53,316** | **47,917** | *11.3* |
| **Other sales** | **10,280** | **12,554** | *(18.1)* | **49,703** | **39,158** | *26.9* |

**Sales volumes**

| | 3 months ended | | Chg., | 12 months ended | | Chg., |
|---|---|---|---|---|---|---|
| (thousand tonnes) | 31 December 2020 | 30 September 2020 | % | 31 December 2020 | 31 December 2019 | % |
| **Crude oil** | | | | | | |
| Non-CIS export sales | 2,336 | 1,937 | *20.6* | 8,533 | 10,840 | *(21.3)* |
| CIS sales | 336 | 218 | *54.1* | 933 | 1,149 | *(18.8)* |
| Domestic sales | 1,482 | 1,827 | *(18.9)* | 7,306 | 8,130 | *(10.1)* |
| | **4,154** | **3,982** | *4.3* | **16,772** | **20,119** | *(16.6)* |
| **Refined products** | | | | | | |
| Non-CIS export sales | 1,340 | 958 | *39.9* | 5,239 | 4,733 | *10.7* |
| CIS sales | 119 | 97 | *22.7* | 476 | 388 | *22.7* |
| Domestic sales | 1,833 | 2,013 | *(8.9)* | 7,566 | 6,910 | *9.5* |
| | **3,292** | **3,068** | *7.3* | **13,281** | **12,031** | *10.4* |

**Realized average sales prices**

| | 3 months ended | | Chg., | 3 months ended | | Chg., |
|---|---|---|---|---|---|---|
| (th. RR per tonne) | 31 December 2020 | 30 September 2020 | % | 31 December 2020 | 31 December 2019 | % |
| **Crude oil** | | | | | | |
| Non-CIS export sales | 23.5 | 22.6 | *4.0* | 20.8 | 28.9 | *(28.0)* |
| CIS sales | 20.4 | 19.1 | *6.8* | 17.4 | 23.3 | *(25.3)* |
| Domestic sales | 19.6 | 17.8 | *10.1* | 16.3 | 21.6 | *(24.5)* |
| **Refined products** | | | | | | |
| Non-CIS export sales | 23.4 | 22.5 | *4.0* | 20.7 | 31.3 | *(33.9)* |
| CIS sales | 35.6 | 34.3 | *3.8* | 30.8 | 38.4 | *(19.8)* |
| Domestic sales | 34.8 | 35.8 | *(2.8)* | 33.9 | 34.8 | *(2.6)* |

***Sales of crude oil***

In the fourth quarter of 2020 sales of crude oil (before the deduction of export duties), increased by 13.0% to RR 90,706 million in comparison to the third quarter of 2020 due to higher volumes and prices of crude oil sold.

Decrease in crude oil sales (before the deduction of export duties) by 39.3% in 2020 in comparison to 2019 was mainly due to lower realized average sales prices, as well as a decrease in volumes of crude oil sold.

***Sales of refined products***

Revenues from the sale of refined products (before the deduction of export duties and excise tax) in the fourth quarter of 2020 increased by 2.5% compared to the third quarter of 2020 and amounted to RR 99,332 million, which is associated with an increase in the volume and prices of refined products sold in export markets.

Revenues from the sale of refined products (before deduction of export duties and excise tax) in 2020 decreased by 6.0% compared to 2019, which was mainly due to a decrease in refined products prices, partially offset by an increase in sales of refined products following further expansion of production at TANECO.

| | 3 months ended | | | | Chg.*, % | | 12 months ended | | | | Chg.*, % | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Non-CIS export sales** | **31 December 2020** | | **30 September 2020** | | | | **31 December 2020** | | **31 December 2019** | | | |
| | **RR mln** | **mln tonnes** | **RR mln** | **mln tonnes** | **Sales** | **Volumes** | **RR mln** | **mln tonnes** | **RR mln** | **mln tonnes** | **Sales** | **Volumes** |
| Diesel fuel | 6,418 | 0.23 | 2,376 | 0.10 | *>100* | *>100* | 24,459 | 0.94 | 50,950 | 1.33 | *(52.0)* | *(29.3)* |
| Automobile gasoline | 71 | 0.00 | 37 | 0.00 | *91.9* | *n/a* | 1,899 | 0.11 | 4,080 | 0.10 | *(53.5)* | *10.0* |
| Gas products | 61 | 0.00 | 135 | 0.01 | *(54.8)* | *(100.0)* | 761 | 0.04 | 2,080 | 0.08 | *(63.4)* | *(50.0)* |
| Naphtha | 7,331 | 0.25 | 6,118 | 0.21 | *19.8* | *19.0* | 23,757 | 1.05 | 29,360 | 0.94 | *(19.1)* | *11.7* |
| Middle distillates | 9,526 | 0.36 | 8,197 | 0.35 | *16.2* | *2.9* | 38,808 | 1.77 | 29,335 | 0.86 | *32.3* | *>100* |
| Other | 7,884 | 0.55 | 4,730 | 0.29 | *66.7* | *89.7* | 18,584 | 1.38 | 32,419 | 1.42 | *(42.7)* | *(2.8)* |
| **Total** | **31,291** | **1.39** | **21,593** | **0.96** | ***44.9*** | ***44.8*** | **108,268** | **5.29** | **148,224** | **4.73** | ***(27.0)*** | ***11.8*** |

| CIS export sales | 3 months ended 31 December 2020 RR mln | 3 months ended 31 December 2020 mln tonnes | 30 September 2020 RR mln | 30 September 2020 mln tonnes | Chg.*, % Sales | Chg.*, % Volumes | 12 months ended 31 December 2020 RR mln | 31 December 2020 mln tonnes | 31 December 2019 RR mln | 31 December 2019 mln tonnes | Chg.*, % Sales | Chg.*, % Volumes |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Diesel fuel | 3,250 | 0.10 | 2,386 | 0.07 | *36.2* | *42.9* | 10,475 | 0.32 | 9,003 | 0.20 | *16.4* | *60.0* |
| Gas products | 236 | 0.01 | 304 | 0.01 | *(22.4)* | - | 1,033 | 0.04 | 2,712 | 0.12 | *(61.9)* | *(66.7)* |
| Automobile gasoline | 642 | 0.01 | 551 | 0.01 | *16.5* | - | 2,604 | 0.06 | 2,248 | 0.04 | *15.8* | *50.0* |
| Other | 111 | 0.00 | 85 | 0.01 | *30.6* | *(100.0)* | 547 | 0.06 | 943 | 0.03 | *(41.8)* | *100.0* |
| **Total** | **4,239** | **0.12** | **3,326** | **0.10** | ***27.5*** | ***20.0*** | **14,659** | **0.48** | **14,906** | **0.39** | ***(1.7)*** | ***23.1*** |

| Domestic sales | 3 months ended 31 December 2020 RR mln | 3 months ended 31 December 2020 mln tonnes | 30 September 2020 RR mln | 30 September 2020 mln tonnes | Chg.*, % Sales | Chg.*, % Volumes | 12 months ended 31 December 2020 RR mln | 31 December 2020 mln tonnes | 31 December 2019 RR mln | 31 December 2019 mln tonnes | Chg.*, % Sales | Chg.*, % Volumes |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Diesel fuel | 28,359 | 0.71 | 31,822 | 0.78 | *(10.9)* | *(9.0)* | 114,927 | 2.82 | 117,331 | 2.79 | *(2.0)* | *1.1* |
| Middle distillates | 4,310 | 0.17 | 6,860 | 0.25 | *(37.2)* | *(32.0)* | 20,373 | 0.74 | 23,636 | 0.56 | *(13.8)* | *32.1* |
| Automobile gasoline | 19,851 | 0.43 | 21,473 | 0.45 | *(7.6)* | *(4.4)* | 74,088 | 1.61 | 59,468 | 1.33 | *24.6* | *21.1* |
| Gas products | 3,833 | 0.19 | 3,614 | 0.19 | *6.1* | - | 12,869 | 0.78 | 12,406 | 0.81 | *3.7* | *(3.7)* |
| Engine oil | 1,537 | 0.04 | 1,334 | 0.04 | *15.2* | - | 5,986 | 0.16 | 4,284 | 0.10 | *39.7* | *60.0* |
| Jet fuel | 4,340 | 0.13 | 4,700 | 0.16 | *(7.7)* | *(18.8)* | 17,841 | 0.60 | 16,609 | 0.44 | *7.4* | *36.4* |
| Other | 1,572 | 0.16 | 2,173 | 0.14 | *(27.7)* | *14.3* | 10,696 | 0.86 | 6,997 | 0.88 | *52.9* | *(2.3)* |
| **Total** | **63,802** | **1.83** | **71,976** | **2.01** | ***(11.4)*** | ***(9.0)*** | **256,780** | **7.57** | **240,731** | **6.91** | ***6.7*** | ***9.6*** |

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

### *Sales of petrochemical products*

In the fourth quarter of 2020 sales of petrochemical products decreased by 9.1% in comparison to the third quarter of 2020 and amounted to RR 14,646 million primarily due to lower volumes of tires sold.

Sales of petrochemical products in 2020 increased by 11.3% to RR 53,316 million compared 2019.

The Group's tire production in the fourth quarter of 2020 was 3.1 million tires, which is higher than the level of production in the third quarter of 2020. The Group's tire production in 2020 was 10.9 million tires, an increase of 5.8% compared to 2019, when there was a decrease in sales of tire products due to a temporary suspension of production caused by interruption of raw materials supply from a third party.

### *Other sales*

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

The increase in other sales in 2020 compared to 2019 by 26.9% was mainly due to higher production resulting from the acquisition of Togliattikauchuk in the fourth quarter of 2019.

## Costs and other deductions on non-banking activities

**Operating expenses.** Operating expenses include the following costs:

| (RR million) | 3 months ended 31 December 2020 | 3 months ended 30 September 2020 | Chg., % | 12 months ended 31 December 2020 | 12 months ended 31 December 2019 | Chg., % |
|---|---|---|---|---|---|---|
| Crude oil extraction expenses | 12,725 | 10,071 | *26.4* | 46,548 | 54,568 | *(14.7)* |
| Refining expenses | 5,885 | 5,174 | *13.7* | 20,532 | 17,431 | *17.8* |
| Petrochemical production expenses | 11,591 | 12,250 | *(5.4)* | 40,951 | 39,760 | *3.0* |
| Cost of other sales | 6,425 | 9,321 | *(31.1)* | 37,222 | 27,970 | *33.1* |
| Operating expenses not attributed to the revenues in the current period[(1)] | (125) | (360) | *(65.3)* | 835 | 311 | *>100* |
| **Total operating expenses** | **36,501** | **36,456** | *0.1* | **146,088** | **140,040** | *4.3* |

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

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

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

In the fourth quarter of 2020 lifting expenses averaged to RR 276.3 per barrel compared to RR 224.8 per barrel in the third quarter of 2020.

In 2020 lifting expenses averaged to RR 251.2 per barrel compared to RR 257.1 per barrel in 2019.

Increase in per barrel lifting expenses in the fourth quarter of 2020 by 22.9% compared to the third quarter of 2020 was mainly due to higher expenses on artificial stimulation of reservoirs.

In 2020 per barrel lifting expenses decreased by 2.3% compared to 2019 mainly due to lower expenses on artificial stimulation of reservoirs.

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

The refining expenses in the fourth quarter of 2020 were RR 1,975 per tonne of crude oil throughput (RR 2,132 per tonne of products output) compared to RR 1,809 per tonne of crude oil throughput (RR 1,943 per tonne of products output) in the third quarter of 2020.

The refining expenses incurred in 2020 were RR 1,701 per tonne of crude oil throughput (RR 1,822 per tonne of products output) compared to RR 1,616 per tonne of crude oil throughput (RR 1,735 per tonne of products output) in 2019.

Increases in 2020 in unit refining expenses at TANECO were mostly due to changes in expenditures on materials, electricity, heating and fuel associated with the commissioning of new production units and higher output.

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

Decrease in operating expenses related to the production of petrochemicals in the fourth quarter of 2020 by 5.4% compared to the third quarter of 2020 was primarily due to lower sales volumes and changes in the types of tires sold.

Increase in operating expenses related to the production of petrochemicals in 2020 by 3.0% compared to 2019 was due to higher sales volumes of tires sold.

**Cost of other sales** include costs of other services, goods and materials not related to the core production activities of the Group, as well as the cost of certain types of petrochemicals.

In the fourth quarter of 2020 cost of other sales compared to the third quarter of 2020 decreased by 31.1% to RR 6,425 million due to a decrease in sales and cost of other services and goods in current period.

Increase in cost of other sales in 2020 compared to 2019 by 33.1% was mainly due to sales of petrochemical products produced at facilities acquired by the Group in the fourth quarter of 2019.

**Cost of purchased crude oil and refined products.** A summary of purchased oil and refined products in the respective periods of 2020 and 2019 were as follows:

| | 3 months ended | | | | 12 months ended | | | |
|---|---|---|---|---|---|---|---|---|
| | 31 December 2020 | | 30 September 2020 | | 31 December 2020 | | 31 December 2019 | |
| | RR mln | th. tonnes | RR mln | th. tonnes | RR mln | th. tonnes | RR mln | th. tonnes |
| Purchased crude oil | 11,628 | 566 | 10,990 | 593 | 40,409 | 2,367 | 14,565 | 590 |
| Purchased refined products | 13,854 | 352 | 13,767 | 329 | 48,931 | 1,214 | 43,547 | 1,155 |
| **Total cost of purchased oil and refined products*** | **25,482** | | **24,757** | | **89,340** | | **58,112** | |

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

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

In the fourth quarter of 2020 and the twelve months of 2020 exploration expenses amounted to RR 1,653 million and RR 2,515 million, respectively, compared to RR 327 million and RR 1,005 million in the third quarter of 2020 and the twelve months of 2019, respectively.

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

Increase in transportation expense in the fourth quarter of 2020 by 25.5% to RR 9,494 million compared to the third quarter of 2020, was mainly due to an increase in the volume of deliveries of oil and refined products to customers in non-CIS countries.

Decrease in transportation expense in 2020 compared to 2019 by 5.1% was mainly due to a significant decrease in sales of crude oil in export markets.

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

In the fourth quarter of 2020 increase in selling, general and administrative expenses by 74.1% to RR 22,073 million compared to the third quarter of 2020 was mainly associated with charity and accrual of certain legal services costs.

In 2020 compared to 2019 selling, general and administrative expenses increased by 14.1% to RR 60,066 million.

**Impairment loss on financial assets, net of reversal.** This line item includes gains/losses from accrual/reversal of provision of financial assets determined in accordance with requirements of IFRS 9 "Financial instruments". All other gains/losses from accrual/reversal of provision of other assets are disclosed in "Impairment loss on property, plant and equipment and other non-financial assets, net of reversal".

In 2020 "Impairment loss on financial assets, net of reversal" included a loss from recognition of credit loss allowance on accounts receivable in the amount of RR 2,595 million, and a gain in the amount of RR 675 million from reversal of impairment of certain loans and investments.

**Impairment loss on property, plant and equipment and other non-financial assets, net of reversal.** In 2020 the Group recorded net impairment losses on some of its property, plant and equipment and other non-financial assets in the amount of RR 6,677 million (please see page 7).

**Taxes.** Effective tax burden (taxes other than income tax plus export duties and excise taxes related to the gross revenue on non-banking activities) of the Group in the fourth and the third quarters of 2020 was 30%. In 2020 and 2019 the effective tax burden of the Group was approximately 33% and 38%, respectively.

Share of fiscal seizures in the financial result before taxes and duties was 74% in the fourth quarter of 2020 and in the twelve months of 2020.

Taxes other than income taxes include the following:

| | 3 months ended | | 12 months ended | |
|---|---|---|---|---|
| **(RR million)** | **31 December 2020** | **30 September 2020** | **31 December 2020** | **31 December 2019** |
| Mineral extraction tax | 45,825 | 41,323 | 175,636 | 298,592 |
| Property tax | 1,833 | 1,882 | 7,742 | 7,320 |
| Other | 581 | 552 | 2,161 | 1,742 |
| **Total taxes other than income taxes** | **48,239** | **43,757** | **185,539** | **307,654** |

The increase in taxes other than income taxes in the fourth quarter of 2020 compared to the third quarter of 2020 by 10.2% was mainly due to higher crude oil production and growth in mineral extraction tax rates linked to market crude oil prices.

The decrease in taxes other than income taxes in 2020 compared to 2019 by 39.7% was mainly due to lower crude oil production and reductions in mineral extraction tax rates linked to market crude oil prices.

**Maintenance of social infrastructure and transfer of social assets.** In the fourth quarter of 2020 and the twelve months of 2020 maintenance of social infrastructure expenses and transfer of social assets amounted to RR 3,872 million and RR 10,890 million, respectively, compared to RR 2,239 million and RR 9,340 million in the third quarter of 2020 and the twelve months of 2019, respectively. These social infrastructure expenses relate primarily to housing, schools and cultural buildings in Tatarstan.

**Fair value losses from loans at fair value through profit or loss** in the fourth quarter of 2020 and for 2020 totaled RR 5,180 million in total and represent an adjustment to the fair value of loans previously issued by Bank Zenit.

**Other operating (expenses)/income, net.** Other income, net, in the fourth quarter of 2020 amounted to RR 860 million compared to RR 835 million of other expense, net, in the third quarter of 2020.

In 2020 the Group recorded other income, net, in the amount of RR 836 million compared to RR 1,203 million of other gains, net, in 2019.

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

Our banking activities are represented by Bank ZENIT. The results of operations for the three and twelve months ended 31 December 2020 and the related comparatives are available in the consolidated financial statements of Bank ZENIT which are available at https://www.zenit.ru/en/files/ZENIT BANKING GROUP_IFRS FS_2020_eng-min.pdf.*

** PJSC Tatneft is not responsible for the operation of external links, including those to web-sites of the Group entities.*

**Other income/(expenses)**

**Foreign exchange gain/(loss), net.** In the fourth quarter of 2020 the Group recorded a foreign exchange loss of RR 659 million in comparison to RR 948 million foreign exchange gain in the third quarter of 2020. In 2020 the Group recorded RR 5,597 million foreign exchange gain, compared to a foreign exchange loss of RR 207 million in 2019 which were due to volatility of Ruble to US Dollar exchange rate in the reporting periods, resulting in the corresponding revaluation of US Dollars denominated monetary assets and liabilities of the Group.

**Interest income on non-banking activities** in the fourth quarter of 2020 increased by more than 100% compared to the third quarter of 2020 and amounted to RR 3,938 million which is mainly associated with the repayment of financial obligations of the Nefis Group.

Increase of interest income in 2020 by more than 100% compared to 2019 was attributable to a result of a decrease in the average balances of previously issued debt receivable.

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

In the fourth quarter of 2020 interest expense, net of amounts capitalized, increased by 20.1% to RR 1,848 million compared to the RR 1,539 million in the third quarter of 2020 due to a changes in the balances of loans received.

In 2020 interest expense, net of amounts capitalized, increased by 36.6% to RR 7,384 million, compared to the RR 5,407 million in 2019. Increase in interest expense was associated with an increase in the average balances of loans received.

**Share of results of associates and joint ventures.** In the fourth quarter of 2020 the Group recorded an equity share in profit of associates and joint ventures in the amount of RR 2 million compared to RR 79 million losses in the third quarter of 2020.

In 2020 the Group recorded an equity share in losses of associates and joint ventures in the amount of RR 258 million compared to RR 127 million profit in 2019.

**Income taxes**

The Group’s effective income tax rate in 2020 was 25.2% compared to the statutory tax rate of 20% in the Russian Federation.

## EBITDA reconciliation

| (RR million) | 3 months ended 31 December 2020 | 3 months ended 30 September 2020 | 12 months ended 31 December 2020 | 12 months ended 31 December 2019 |
|---|---|---|---|---|
| Sales and other operating revenues on non-banking activities, net | 198,754 | 187,370 | 720,677 | 932,296 |
| Costs and other deductions on non-banking activities | (160,354) | (139,054) | (578,189) | (678,922) |
| Loss on disposal of interest in subsidiaries and associates, net | 3 | - | (54) | (41) |
| Banking operating results, net | (2,043) | (843) | (3,428) | 2,302 |
| Depreciation, depletion and amortization | 13,145 | 10,894 | 40,865 | 35,165 |
| **EBITDA** | **49,505** | **58,367** | **179,871** | **290,800** |
| Add back Exceptional items* | **(105)** | **381** | **7,433** | **37,612** |
| **EBITDA adjusted for Exceptional items*** | **49,400** | **58,748** | **187,304** | **328,412** |

*See section Exceptional items (p.7)*

## Return on average capital employed (ROACE)*

| | 12 months ended 31 December 2020 | 12 months ended 31 December 2019 |
|---|---|---|
| Profit attributable to Group shareholders | 103,490 | 192,260 |
| Interest expense on non-banking activities | 7,384 | 5,407 |
| (Loss)/profit attributable to non-controlling interest | (917) | 558 |
| Effective income tax rate** | 25.2% | 23.6% |
| **Profit used for calculation of ROACE** | **108,096** | **196,949** |
| Non-controlling interest | 3,918 | 6,598 |
| Total Group shareholders' equity | 827,672 | 745,532 |
| Short term debt | 10,961 | 19,592 |
| Long term debt | 23,652 | 21,657 |
| Capital employed | 866,203 | 793,379 |
| **Average capital employed** | **829,791** | **792,599** |
| **ROACE, %** | **13.0%** | **24.8%** |

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

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

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

## Financial Condition Summary Information

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

| (RR million) | At 31 December 2020 | At 31 December 2019 |
|---|---|---|
| Current assets | 258,995 | 253,127 |
| Long-term assets | 1,004,446 | 985,512 |
| **Total assets** | **1,263,441** | **1,238,639** |
| Current liabilities | 291,511 | 358,093 |
| Long-term liabilities | 140,340 | 128,416 |
| **Total liabilities** | **431,851** | **486,509** |
| **Shareholders' equity** | **831,590** | **752,130** |
| Working capital (incl. cash and cash equivalents) | (32,516) | (104,966) |

**Working capital position**

The change in working capital in 2020 was mainly due to a decrease in current liabilities on non-banking and banking activities, as well as taxes payable.

## Liquidity and Capital Resources

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

| (RR million) | 12 months ended 31 December 2020 | 12 months ended 31 December 2019 |
|---|---|---|
| Net cash provided by operating activities | 200,366 | 248,806 |
| including: | | |
| *Net cash provided by non-banking operating activities before income tax and interest* | *225,718* | *328,234* |
| *Net cash (used in)/provided by banking operating activities before income tax* | *3,357* | *(13,940)* |
| Net cash used in investing activities | (105,287) | (103,892) |
| Net cash used in financing activities | (81,591) | (184,205) |
| Net change in cash and cash equivalents | 13,488 | (39,291) |

**Net cash provided by operating activities**

Our primary source of cash flow is funds generated from our operations. Net cash provided by operating activities in 2020 decreased by 19.5% to RR 200,366 million from RR 248,806 million in 2019.

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

In 2020, net cash provided from non-banking operating activities before income tax and interest decreased by 31.2% and amounted to RR 225,718 million compared to RR 328,234 million in 2019.

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

In 2020, net cash provided by banking activities before income tax amounted to RR 3,357 million compared to RR 13,940 million used in banking activities before income tax in 2019, which is mainly related to changes in the Bank's operational working capital.

**Net cash used in investing activities**

Net cash used in investing activities in 2020 amounted to RR 105,287 million, an increase by 1.3% from RR 103,892 million in 2019. Additions to property, plant and equipment increased to RR 104,668 million in 2020 from RR 95,994 million in 2019.

**Net cash used in financing activities**

The decrease to RR 81,591 million in cash flow used in financing activities in 2020 compared with RR 184,205 million in 2019, was mainly associated with a decrease in dividends paid to shareholders.

**Additions to property, plant and equipment**

The following additions to property, plant and equipment (by segment, excluding non-cash additions) were made in 2020 and 2019:

| | 3 months ended | | 12 months ended | |
|---|---|---|---|---|
| **(RR million)** | **31 December 2020** | **30 September 2020** | **31 December 2020** | **31 December 2019** |
| Exploration and production | 4,442 | 4,739 | 26,670 | 43,883 |
| Refining and marketing | 20,799 | 16,792 | 62,391 | 38,024 |
| Petrochemicals | 3,179 | 1,736 | 7,567 | 2,264 |
| Banking | - | 172 | 518 | 665 |
| Corporate and other | 334 | 3,051 | 7,522 | 11,158 |
| **Total additions to property, plant and equipment** | **28,754** | **26,490** | **104,668** | **95,994** |

**Calculation of Free Cash Flow**

| | 3 months ended | | 12 months ended | |
|---|---|---|---|---|
| **(RR million)** | **31 December 2020** | **30 September 2020** | **31 December 2020** | **31 December 2019** |
| Net cash provided by operating activities | 60,082 | 49,778 | 200,366 | 248,806 |
| Additions to property, plant and equipment | (28,754) | (26,490) | (104,668) | (95,994) |
| **Free Cash Flow** | **31,328** | **23,288** | **95,698** | **152,812** |

**Analysis of Debt**

At 31 December 2020, total short-term and long-term debt amounted to RR 34,613 million compared to RR 41,249 million at 31 December 2019.

Total short-term and long-term debt at 31 December 2020, without the Bank ZENIT's debt, amounted to RR 26,901 million compared to RR 32,184 million at 31 December 2019.

In November 2011, TANECO entered into a US$ 75 million credit facility with equal semi-annual repayments during ten years. The loan was arranged by Nordea Bank AB (Publ), Société Générale and Sumitomo Mitsui Banking Corporation Europe Limited. The loan bears interest at LIBOR plus 1.1% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios. The undiscounted amounts outstanding under this credit facility, including the current portion, as of 31 December 2020 and 31 December 2019 were RR 554 million (US$ 7.5 million) and RR 929 million (US$ 15.0 million), respectively.

Also in November 2011, TANECO entered into a US$ 144.5 million credit facility with equal semi-annual repayments during ten years with the first repayment date on 15 May 2014. The loan was arranged by Société Générale, Sumitomo Mitsui Banking Corporation Europe Limited and the Bank of Tokyo-Mitsubishi UFJ, LTD. The loan bears interest at LIBOR plus 1.25% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. The undiscounted amounts outstanding under this credit facility, including the current portion, as of 31 December 2020 and 31 December 2019 were RR 1,871 million (US$ 25.3 million) and RR 2,090 million (US$ 33.8 million), respectively.

In May 2013, TANECO entered into a EUR 55 million credit facility with equal semi-annual repayment during ten years. The loan was arranged by The Royal Bank of Scotland plc and Sumitomo Mitsui Banking Corporation Europe Limited. In May 2016 this credit facility was assigned to Citibank Europe plc. UK Branch with credit facility details remaining. The loan bears interest at LIBOR plus 1.5% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. The undiscounted amounts outstanding under this credit facility, including the current portion, as of 31 December 2020 and 31 December 2019 were RR 1,441 million (EUR 15.9 million) and RR 1,652 million (EUR 23.8 million), respectively.

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

| (RR million) | At 31 December 2020 | At 31 December 2019 |
|---|---|---|
| Due for repayment: | | |
| Between one and two years | 16,272 | 5,023 |
| Between two and five years | 5,132 | 16,618 |
| After five years | 2,248 | 16 |
| **Total long-term debt** | **23,652** | **21,657** |

**Calculation of Net Debt**

| (RR million) | At 31 December 2020 | At 31 December 2019 |
|---|---|---|
| Short term debt | 10,961 | 19,592 |
| Long term debt | 23,652 | 21,657 |
| **Total debt** | **34,613** | **41,249** |
| Cash and cash equivalents | 40,105 | 25,157 |
| **Net Debt** | **(5,492)** | **16,092** |

## Contractual obligations, other contingencies and off balance sheet arrangements

**Guarantees**

The Group has guarantees issued related to banking activities at 31 December 2020 and at 31 December 2019.

**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 or capitalized to the extent that the Group will receive economic benefits from their use in the future.

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

In March 2020 the World Health Organization announced a pandemic due to the rapid spread of COVID-19. The measures taken around the world to combat the spread of COVID-19 resulted in limitation of business activity, which caused significant decrease in world demand for energy resources. The expiration of prior arrangement of OPEC+ on April 1, 2020 raised the risks of substantial oversupply of crude oil and refined products in the market. These events led to significant drop in stock markets, fall in crude oil and refined products prices, the Russian Ruble weakened against the US dollar and the Euro. In April 2020, the OPEC+ countries reached a new agreement, under which the Russian Federation assumed obligations to reduce oil production in the period from May 1, 2020 to April 30, 2022. In accordance with the agreements reached, the Group substaintially reduced its crude oil production in 2020.

**Crude oil and refined products prices**

One of the factors affecting our revenue is the selling price of crude oil and refined products. During the 2020, Brent crude oil price fluctuated between $13 and $70 per barrel and averaged $41.8 per barrel in comparison to average $64.2 per barrel in the 2019.

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

| | Average for the 3 months ended | | Chg., | Average for the 12 months ended | | Chg., |
|---|---|---|---|---|---|---|
| | 31 December 2020 | 30 September 2020 | % | 31 December 2020 | 31 December 2019 | % |
| **World market** [1] | (in US$ per barrel, except for figures in percent) | | | | | |
| Brent crude | 44.1 | 42.9 | *2.8* | 41.8 | 64.2 | *(34.9)* |
| Urals crude *(average Med+NWE)* | 44.4 | 43.0 | *3.3* | 41.8 | 63.4 | *(34.1)* |
| | (in US$ per tonne, except for figures in percent) | | | | | |
| Gasoline *(average Med+NWE)* | 399.8 | 400.1 | *(0.1)* | 387.9 | 606.9 | *(36.1)* |
| Diesel fuel *(average Med+NWE)* | 369.8 | 360.1 | *2.7* | 373.2 | 598.5 | *(37.6)* |
| Naphtha *(average Med+NWE)* | 389.5 | 373.2 | *4.4* | 351.8 | 500.4 | *(29.7)* |
| Gasoil *(average NWE)* | 326.5 | 316.2 | *3.3* | 317.8 | 476.6 | *(33.3)* |
| Fuel oil 3.5% *(average Med+NWE)* | 263.4 | 245.9 | *7.1* | 227.8 | 334.8 | *(32.0)* |

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

| | Average for the 3 months ended | | Chg., | Average for the 12 months ended | | Chg., |
|---|---|---|---|---|---|---|
| | 31 December 2020 | 30 September 2020 | % | 31 December 2020 | 31 December 2019 | % |
| **World market** [1] | (in th. RR per tonne, except for figures in percent) | | | | | |
| Brent crude | 24.0 | 22.5 | *6.7* | 21.5 | 29.6 | *(27.4)* |
| Urals crude *(average Med+NWE)* | 24.1 | 22.5 | *7.1* | 21.5 | 29.2 | *(26.4)* |
| | (in th. RR per tonne, except for figures in percent) | | | | | |
| Gasoline *(average Med+NWE)* | 30.5 | 29.4 | *3.7* | 28.0 | 39.3 | *(28.8)* |
| Diesel fuel *(average Med+NWE)* | 28.2 | 26.5 | *6.4* | 26.9 | 38.7 | *(30.5)* |
| Naphtha *(average Med+NWE)* | 29.7 | 27.5 | *8.0* | 25.4 | 32.4 | *(21.6)* |
| Gasoil *(average NWE)* | 24.9 | 23.3 | *6.9* | 22.9 | 30.9 | *(25.9)* |
| Fuel oil 3.5% *(average Med+NWE)* | 20.1 | 18.1 | *11.0* | 16.4 | 21.7 | *(24.4)* |

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

| | Average for the 3 months ended | | Chg., | Average for the 12 months ended | | Chg., |
|---|---|---|---|---|---|---|
| | 31 December 2020 | 30 September 2020 | % | 31 December 2020 | 31 December 2019 | % |
| **Russian market** [1] | (in th. RR per tonne (incl. excise tax and VAT), except for figures in percent) | | | | | |
| Crude oil | 21.0 | 19.7 | *6.6* | 18.4 | 24.8 | *(25.8)* |
| Diesel (summer) | 42.4 | 45.3 | *(6.4)* | 44.6 | 46.7 | *(4.5)* |
| Diesel (winter) | 48.2 | 47.0 | *2.6* | 46.8 | 48.7 | *(3.9)* |
| Automobile gasoline | 55.8 | 52.3 | *6.7* | 48.8 | 45.9 | *6.3* |

*Source: data of analytical agencies*

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

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

### <u>Inflation and foreign currency exchange rate fluctuations</u>

A significant part of the Group's revenues is derived from export sales of crude oil and refined products which are denominated in US Dollars. The Group's operating costs are primarily denominated in Rubles. Accordingly, the relative movements of Ruble inflation and Ruble/US Dollar exchange rates can significantly affect the results of operations of the

Group. For instance, operating margins are generally adversely affected by an appreciation of the Ruble against the US Dollar, because this will generally cause costs to increase relative to revenues.

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

| | 3 months ended | | 12 months ended | |
|---|---|---|---|---|
| | 31 December 2020 | 30 September 2020 | 31 December 2020 | 31 December 2019 |
| Ruble inflation, % | 2.0 | 0.2 | 4.9 | 3.0 |
| Period-end exchange rate (Ruble to US$) | 73.88 | 79.68 | 73.88 | 61.91 |
| Average exchange rate (Ruble to US$) | 76.22 | 73.56 | 72.15 | 64.74 |

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

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

## Taxation

The Russian Government currently implements the so-called "tax maneuver" in the oil industry, which involves the phasing out of export duty on crude oil, and accordingly on refined products, effectively eliminating it from 2024 accompanied by an increase in the basic rate of mineral extraction tax (MET).

Technically, it was implemented through the introduction of an adjusting factor which in relation to export duty in 2020 is 0.667 and decreases to zero by 2024, and in relation to MET correction coefficient conversely is 0.333 in 2020 and increases to 1 by 2024. The MET formula consists of several components: 1) the previously used MET formula; 2) export duty formula (for highly viscous crude oil of 10,000 Megapascal x S and higher in reservoir conditions from 2019 export duty was calculated on the basis of 30%. rather than 55% of the difference between the average Urals crude oil market price and US $182.5 – this provision has been terminated effective 1 January 2021) multiplied by the adjusting factor (which is set for MET) and 3) additional factor ("Kabdt") meant to partially compensate the Government losses due to the introduction of compensatory surcharge on damper upon calculating negative ("reverse") excise tax (if netbacks are exceed base prices). Simultaneously, the provisions of the law provide for a gradual reduction in the export customs duty on oil for 6 years, starting from 2019, by multiplying the current customs duty rate by the correction coefficient (which is set for export duty).

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

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

| | 3 months ended | | Chg., % | 12 months ended | | Chg., % | Taxable base |
|---|---|---|---|---|---|---|---|
| Tax | 31 December 2020 | 30 September 2020 | | 31 December 2020 | 31 December 2019 | | |
| Income tax – maximum rate | 20% | 20% | - | 20% | 20% | - | Taxable income |
| Value Added Tax (VAT) | 20% | 20% | - | 20% | 20% | - | Sales from goods/services |
| Property tax – maximum rate | 2.2% | 2.2% | - | 2.2% | 2.2% | - | Taxable property |
| | (in RR per tonne, except for figures in percent) | | | | | | |
| Mineral extraction tax, average rates[1] | 10,011 | 9,406 | *6.4* | 8,720 | 13,038 | *(33.1)* | Tonne produced (crude oil) |
| | (in US $ per tonne, except for figures in percent) | | | | | | |
| Crude oil export duty, average rates | 43.2 | 44.0 | *(1.8)* | 45.9 | 93.8 | *(51.1)* | Tonne exported |
| Refined products export duty average rates: | | | | | | | Tonne exported |
| Automobile gasoline | 12.9 | 13.2 | *(2.3)* | 13.7 | 28.1 | *(51.2)* | |
| Straight-run gasoline | 23.7 | 24.1 | *(1.7)* | 25.2 | 51.5 | *(51.1)* | |
| Diesel fuel | 12.9 | 13.2 | *(2.3)* | 13.7 | 28.1 | *(51.2)* | |
| Light and middle distillates | 12.9 | 13.2 | *(2.3)* | 13.7 | 28.1 | *(51.2)* | |
| Fuel oil (mazut) | 43.2 | 44.0 | *(1.8)* | 45.9 | 93.8 | *(51.1)* | |

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

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

**Mineral extraction tax (MET) rate.** The base tax rate for the production of oil for 2020 is set at RR 919 per tonne and is adjusted depending on the international market price of Urals blend and the Ruble/US Dollar average exchange rate.

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

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

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

In 2020, the Group applied special coefficients to some oil fields and reserves that reduced the generally established MET tax rate based on the Tax Code of the Russian Federation:

- for oil fields with depletion of reserves over 80%;
- for oil fields with initial recoverable reserves of less than 5 million tonnes;
- for super-viscous oil produced from oil fields containing oil with a viscosity of more than 200 Megapascal x S and less than 10,000 Megapascal x S (in reservoir conditions);
- for extra-viscous oil produced from oil fields containing oil with viscosity 10,000 Megapascal x S and more (in reservoir conditions);
- for oil from deposits of Domanik formation.

In the fourth quarter of 2020, the actual MET costs per tonne of oil produced amounted to RR 7,283 per tonne (compared to RR 6,893 per tonne in the third quarter of 2020), which is RR 2,728 per tonne lower than the average rate set legislation (compared to the difference of RR 2,513 per tonne in the third quarter of 2020). In the twelve months of 2020, the actual MET costs per tonne of oil produced amounted to RR 6,585 per tonne (compared to RR 10,003 per tonne in the twelve months of 2019), which is RR 2,135 per tonne lower than the average rate set legislation (compared to the difference of RR 3,035 per tonne in the twelve months of 2019). This deviation is due to the application of the coefficients provided by the tax legislation to the generally established rate of MET on oil.

In October 2020, amendments to the Tax Code of the Russian Federation and the Federal Law "On the Customs Tariff" were enacted, as a result of which, effective from 1 January 2021, tax benefits for MET for the production of superviscous oil are cancelled and no special formulas for calculating the rates of export duties in relation to superviscous oil exist. At the same for oil production in subsoil areas located fully or partially within the borders of the Republic of Tatarstan, the license for the right to use which was issued before 1 January 2016 and the initial recoverable oil reserves of each of which are equal to 2,500 million tonnes or more as of 1 January 2016, a tax deduction for MET was established, which is applied from 1 January 2021 until the tax period, in which the amount of the aggregate deduction exceeds RR 36,000 million. Another condition is that the average Urals crude oil price in a month in which the deduction is applied exceeds the one used for the Russian federal budget (which is $43.30 per barrel for 2021). When determining the amount of deduction, expenses actually paid in the period from 1 January 2021, connected with compliance with the mandatory requirements established by Federal Law of 10 January 2002 No. 7-FZ "On Environmental Protection" and Federal Law of 21 July 1997 No. 116-FZ "On industrial safety of hazardous production facilities" are taken into consideration, and provided that such costs are also associated with the production of extra-viscous oil with a viscosity of 10,000 Megapascal x S and more. In addition, special rates in the MET calculation formula have been abolished for crude oil production from depleted subsoil areas, while the Company received the right to switch to the application of excess profit tax regime for such depleted fields.

**Excess Profit Tax (EPT)** is charged at the rate of 50% on the additional oil production income calculated as the difference between the estimated revenue from hydrocarbons' sales and actual and estimated costs, including capital expenditures, for its production. This tax regime includes the MET but at a reduced rate. The new tax regime is applicable to some groups of oil fields: such as greenfields in Eastern Siberia, brownfields and greenfields in Western Siberia, and now depleted oilfields in Tatarstan. The taxpayer has the right to swith to the EPT regime from "standard" MET, but cannot reverset the decition thereafter.

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

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

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

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

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

| | 2020 | 2021 | 2022 | 2023 | 2024 and further |
|---|---|---|---|---|---|
| Adjusting factor | 0.667 | 0.5 | 0.333 | 0.167 | 0 |

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

| Refined products | Multiplier |
|---|---|
| Light. middle distillates; oil lubricants | 0.30 |
| Diesel fuel | 0.30 |
| Fuel oil | 1.00 |
| Gasoline | 0.30 |
| Straight-run gasoline | 0.55 |

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

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

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

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

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

Federal Law No. 301-FZ of 03.08.2018 (subject to the provisions of Federal Law № 424-FZ of 27.11.2018) provides for amendments to the taxation of excise duties since 1 January 2019.

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

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

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

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

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

"Pcrude oil" – average Urals price at international markets

"R" – average USD/RUB ex-rate

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

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

"Kreg" – coefficient reflecting regional specifics for petroleum products market.

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

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

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

"Kcomp" – equal to 0.6.

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

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

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

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

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

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

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

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

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

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

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

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

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

**Value added tax (VAT).** The Group is subject to value added tax (or VAT) of 20%. The Group's results of operations exclude the impact of VAT.

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

**Transportation of crude oil and refined products**

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

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

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

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

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

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

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

## Critical accounting policies

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

## Forward-looking statements

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

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

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

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

These factors include:

- inflation, interest rate and exchange rate fluctuations;
- the price of oil;
- the effect of, and changes in, Russian or Tatarstan government policy;

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

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

## Corporate Governance Statement

### Corporate Governance Code

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

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

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

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

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

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

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

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

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

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

### Information About Share Capital

*Significant Holding of Ordinary Shares*

At 31 December 2020, JSC Svyazinvestneftekhim ("Svyazinvestneftekhim"), a joint stock company wholly-owned by the Republic of Tatarstan, holds approximately 29.1% of the Company's voting stock. Based on the shareholding records the Company estimates the holding by Svyazinvestneftekhim, its subsidiaries as well as other entities controlled by the Republic of Tatarstan, in the share capital of PJSC Tatneft at approximately 36% of voting stock as of 31 December 2020.

BNY Mellon, as depositary bank for our ADR facility, at of 31 December 2020, held approximately 26.8% of the Company's ordinary shares.

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

*Special Rights with Regard to Control of the Company*

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

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

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

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

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

*Voting Rights*

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

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

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

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

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

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

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

*Right to Dividends*

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

*Rules About Appointment of Directors and Amendment of the Charter*

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

*The Powers of Directors*

Please see section "Board of Directors" below.

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

*Board of Directors*

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

The members of our Board of Directors are:

| ***Name*** | ***Titles*** | ***Year of Birth*** |
|---|---|---|
| Rustam Nurgalievich Minnikhanov* | Chairman of the Board, President of the Republic of Tatarstan | 1957 |
| Nail Ulfatovich Maganov | Director, General Director of Tatneft | 1958 |
| Fanil Anvarovich Agliullin | Minister of Land and Property Relations of the Republic of Tatarstan | 1975 |
| Radik Raufovich Gaizatullin | Director, Finance Minister of the Republic of Tatarstan | 1964 |
| Laszlo Gerecs | Independent Director, Managing Director of G Petroconsulting Ltd. | 1953 |
| Larisa Yurievna Glukhova | Head of the State Legal Department of the Office of the President of the Republic of Tatarstan | 1976 |
| Yuri Lvovich Levin | Independent Director, Chairman of Audit Committee, Managing Director of BVM Capital Partners Ltd. | 1953 |
| Rafael Saitovich Nurmukhametov | Director, Retiree, former Head of the Leninogorsk NGDU of Tatneft | 1949 |
| Rinat Kasimovich Sabirov | Director, General Director of AO Gazpom mezhrigiongas Kazan | 1967 |
| Valery Yurievich Sorokin | Director, General Director of Svyazinvestneftekhim | 1964 |
| Nurislam Zinatulovich Syubaev | Director, Deputy General Director for Strategic Development | 1960 |
| Shafagat Fakhrazovich Takhautdinov | Director, Advisor to the Chairman of the Board | 1946 |
| Rustam Khamisovich Khalimov | Director, First Deputy General Director for Exploration and Production of Oil and Gas – Head of Tatneft-Upstream | 1965 |

| *Name* | *Titles* | *Year of Birth* |
|---|---|---|
| Rais Salikhovich Khisamov | Director, Deputy General Director, Chief Geologist | 1950 |
| Rene Frederic Steiner | Independent Director, Head of Private Equity Investments of FIDES Business Partner AG | 1964 |

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

Biographies of the Directors are set out below:

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

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

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

*Fanil Anvarovich Agliullin* was born in 1975. Mr Agliullin graduated from the Kazan Law Institute of the Ministry of Internal Affairs of the Russian Federation in 2004. From 1995 to 2014, he served in internal affairs agencies of the Russian Federation. From 2014 to 2016, Mr Agliullin worked as a deputy head of the department of special training at the centre for security of top officials of the Internal Protection Directorate of the Ministry of Internal Affairs for the Republic of Tatarstan. From 2016 to 2019, Mr Agliullin headed the security service and served as an aide to the President of the Republic of Tatarstan. Starting September 2019, he has held the position of the Minister of Land and Property Relations of the Republic of Tatarstan. Mr. Agliullin has been a member of the Board of Directors since 2020.

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

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

Managing Director of MOL Oman, Oman Branch in Muscat. Since January 2017- Managing Director of G Petroconsulting Ltd. He has been a member of the Board of Directors since 2015.

*Larisa Yurievna Glukhova* was born in 1976. Ms Glukhova graduated from Kazan State University in 1998. From 2005 to 2012, she managed the sector of public law and statutory economic regulation, and was the deputy head of the legal department of the Administration of the Cabinet of Ministers of the Republic of Tatarstan. From 2012 to 2013, she headed the legal department of OAO Tatavtodor. In 2013 to 2017, Ms Glukhova was the Minister of Justice of the Republic of Tatarstan. In 2017, she was appointed as the head of the State Legal Administration under the President of the Republic of Tatarstan. Mrs. Glukhova has been a member of the Board of Directors since 2020.

*Rustam Khamisovich Khalimov*. He was born in 1965. He graduated from the Moscow Institute of Petrochemical and Gas Industry in 1987 specializing in Technology and complex mechanization of oil and gas fields development. Later he graduated from the National Economy Academy under the Government of the Russian Federation and the Tyumen State Oil and Gas University. From 2010 to 2011 he worked as the Head of Tatneft Branch in Libya. He was appointed as the Head of NGDU Elkhovneft from 2011 to 2015. In 2015 he was appointed as Deputy General Director for Exploration and Production of Oil and Gas, in 2018 promoted to the position of First Deputy General Director for Exploration and Production of Oil and Gas, and 2019 Mr. Khalimov assumed the leadership over newly established division Tatneft-Upstream. He is a Candidate of Science in Engineering. Mr. Khalimov has been a member of the Board of Directors since 2015.

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

*Yuri Lvovich Levin*. Mr. Levin was born in 1953. He graduated from the Moscow Finance Institute in 1975, in 1979 he completed post-graduate studies at the Institute of World Economy and International Relations. He has a Ph.D. in Economics. Since 2001, Mr. Levin is the Managing Partner in BVM Capital Partners Ltd. He has been a member of the Board of Directors since 2015.

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

*Rinat Kasimovich Sabirov*. Mr. Sabirov was born in 1967. In 1991, he graduated cum laude from the Kazan State University, and in 1994, he completed post-graduate studies from the Kazan State Technological Institute. In 1998, he completed the President Program of management training. He has a Ph.D. in Chemical Sciences. After working at the Kazan Technological Institute from 1990 to 1994 as an assistant in the Physical and Colloidal Chemistry Department, he became Chief Specialist, Head of the Marketing Department of JSC Tatneftekhiminvest-Holding. In June 2003, he was appointed as Chief Consultant of the Organizational Department in the Administration of the President of the Republic of Tatarstan. From August 2003 until June 2010, he was the Counsel (later – Assistant) to the Prime Minister of the Republic of Tatarstan on the Matters of Oil, Gas and Chemical Industry, as well as from 2006 to June 2010, the Head of Department on Matters of Oil, Gas and Petrochemical Industry of the Cabinet of Ministers' Administration. Since June 2010 until June 2020 he was Assistant to the President of the Republic of Tatarstan. In June 2020 Mr. Sabirov was appointed as the General Director of AO Gazprom mezhrrgiongas Kazan. He has been a member of the Board of Directors since 2006.

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

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

*Nurislam Zinatulovich Syubaev.* Mr. Syubaev was born in 1960. In 1982 he graduated from the Plekhanov Economy Institute with a diploma of an economist and in 1985 he completed the program "Financial accounting and audit" of the Requalification Institute for Banking and Finance under the Financial Academy of the Russian Government; in 1999 he qualified as "Economist in Banking" from the Banking Department of the Plekhanov Economy Institute. In 1992-1994 he served as the deputy CEO of Alfa-Bank and from 1994-1995 he headed the Financial Services Center of Higher School of International Business. From 1995 to 2001 Mr. Syubaev was the First Deputy CEO of Bank Zenit, and from 2001 he has been serving as the Head of the Strategic Planning Department of Tatneft and Advisor to General Director of Tatneft for Foreign Economic Affairs and Financial/Banking Issues and from 2014 - a member of the Management Board of Tatneft. In 2016 he was appointed as Deputy General Director for Strategic Development of Tatneft. He has been a member of the Board of Directors since 2019.

*Authority of the Board of Directors*

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

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

*Meetings of the Board of Directors*

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

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

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

*Committees of the Board of Directors*

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

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

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

*Management Board*

Our Management Board currently consists of 4 members*. The Management Board is appointed by the Board of Directors. The Management Board coordinates and oversees the effective operation of the Company and its various divisions. The Management Board’s authority extends across a broad remit and includes our long and short-term business development program, our participation in commercial and non-profit organizations, and our economic, financial and investment activities.

The members of our Management Board* are:

| ***Name*** | ***Titles*** | ***Year of Birth*** |
|---|---|---|
| Nail Ulfatovich Maganov | Chairman of the Board, General Director | 1958 |
| Nikolay Mikhailovich Glazkov | Deputy General Director for Capital Construction | 1960 |
| Rustam Nabiullovich Mukhamadeev | Deputy General Director for General Affairs | 1952 |
| Nurislam Zinatulovich Syubaev | Deputy General Director for Strategic Development | 1960 |

* Information as of 31 December 2020

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

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

*Nail Ulfatovich Maganov*. See "Board of Directors" above.

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

*Nurislam Zinatulovich Syubaev.* See "Board of Directors" above.

*Authority of the Management Board*

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

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

Under the Regulation on the Management Board approved by the shareholders (last amended on 21 June 2019), the Management Board does not have a fixed number of members, appointed by the Board of Directors and is chaired by the General Director.

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

*The General Director*

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

The General Director exercises day-to-day control over our activities and chairs meetings of the Management Board. The General Director is accountable to the Board of Directors and our shareholders. Pursuant to the Charter, the Regulation on the General Director approved by the shareholders (last amended on 21 June 2019), and Russian law, the General Director is authorized to, inter alia:

- procure performance of the decisions of the shareholders' meeting and the Board of Directors;
- manage our assets in the manner prescribed by the Charter and the law;

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

The General Director also chairs meetings of our Management Board.

*Revision Committee*

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

The current members of the Revision Committee are:

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

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

## Additional Climate-Related Disclosures

Due to the importance of climate-related risks and opportunities for the Company this section, which is separate from the MD&A, includes the information on certain elements recommended for disclosure by the Task Force on Climate-Related Financial Disclosure (TCFD). A more comprehensive disclosure is expected to be included in the annual report for 2020, which shall be approved at the annual shareholders' meeting of PJSC Tatneft, as well as the sustainability report.

*The Company's position on climate-related risks and opportunities*

The Company shares the global concern about climate change and supports the Paris Agreement within the United Nations Framework Convention on Climate Change as well as the United Nations actions aimed at combating climate change.

Taking into account the generation by energy companies in the course of their activities and as a result thereof of substantial greenhouse gas (GHG) emissions, which might impact the climate and give rise to climate-related risks, as well as the increasing demand for energy required to improve the quality of life, the Company aims to make its contribution to sustainable development and the creation of innovative energy infrastructure.

The Company clearly sees its contribution to sustainable energy future during the transition of world economy to low-carbon development whilst preserving the global economic growth and sets the target to reach carbon neutrality throughout the whole value chain by 2050.

*Governance*

The governance system around climate-related risks and opportunities includes the targets setting by the Board of Directors and its oversight over their achievement as well as clear responsibility of the Company's management and divisions for the fulfillment of respective tasks.

<u>The Board's oversight</u>

The Board of Directors considers climate-related issues on a regular basis. In the course of 2020 there were 7 climate-related agenda items considered by the Board of Directors with the following resolutions passed, *inter alia*: (1) on Tatneft Group actions in developing the personnel responsible for control over climate change (the meeting of 28 February 2020); (2) establish long term targets to decrease carbon footprint by 2030 and develop recommendations relating to the methodology of calculation of estimated methane emissions from separated oilfield equipment with a view of decreasing emissions (the meeting of 24 March 2020); (3) approve the initiative to introduce ISO 14001:2015,[1] ISO 45001:2018 international standards at Tatneft Group companies (the meeting of 20 April 2020); (4) approve Climate Action (SDG 13) as one of priority UN Global Compact Sustainable Development Goals for the Company, amongst others (the meeting of 29 June 2020); (5) approve the Climate Action SDG implementation (the meeting of 25 August 2020) ; (6) organize prompt updates of the Board of Directors about risks affecting prevailing global and regional crude oil balances trends[2] (the meeting of 24 September 2020); (7) reflect in the Strategy 2030 to be updated by the 4$^{th}$ quarter of 2021 the prospects of the Company's development in the light of strengthening environmental and climate agenda (the meeting of 21 December 2020). At this point climate-related issues are incorporated into the consideration by the Company's Board of Directors of agenda items associated with the analysis and formulation of strategy, investment plans, risk management policies, business plans, R&D programs, use of best available technologies, development of "green" technologies, expansion of "green" features of the products sold and alternative renewable energy potential. Upon the establishment of additional goals related to decarbonization the Board of Directors expands the practice of incorporating respective factors into its decision-making process.

Due to the influence of climate-related agenda on the potential incorporation of respective risks and opportunities into the Company's financial reporting as well as their impact on the financial and business activities and the ability to raise capital, the climate-related risks and opportunities are periodically considered at the meetings of the Board of Directors' Audit Committee.

The Company's management reports to the Board of Directors on the progress and achievement of targets associated with climate-related risks and opportunities which were established by respective resolutions of the Board.

One of the independent members of the Board of Directors has been appointed as a Director responsible for the supervision of climate-related activities. Currently (since 30 September 2019) such Director is Mr. Laszlo Gerecs. The Independent Director responsible for climate-related agenda is working closely with the other members of the Board of Directors and the Company's management with respect to plans, initiatives, targets and actions associated with climate-related risks and opportunities.

[1] ISO 14001:2015 "Environmental management systems" envisages, amongst other things, evaluation of adaptation to any changes in the environment, including related to climate change. Such assessment includes the understanding of greenhouse gas emissions impact with the consideration of their volumes as well as actions to decrease them with a view of mitigating risks and identifying opportunities.

[2] Such trends are expected to be affected by climate-related energy transformation as well as respective regulation.

The consideration of climate-related agenda is also controlled by the Corporate Governance Committee of the Board of Directors.

Management's role in assessing and managing climate-related risks and opportunities

The General Director, members of the Management Board and other executives are responsible for the implementation and execution of resolutions of the Company's Board of Directors, including those related to climate change issues. In connection with the Board of Director's resolution to make the consideration of climate-related risks and opportunities mandatory with regard to activities of the Company, all executives are responsible for the development and approval of decisions with those factors taken into consideration. The General Director is the most senior executive responsible for the consideration of climate-related issues during the development of plans and initiatives as well as actions of the Company. Other executives which report to the General Director are accountable for respective issues within the scope of their responsibility, in particular, the leaders of strategic divisions for the consideration of climate-related issues upon the development of Tatneft Group strategy and the selection of scenarios incorporating projections relating to the climate, the heads of businesses for the assessment of climate-related risks and identification of respective opportunities to decrease GHG emissions, the leaders of environmental divisions for the organization of GHG emissions accounting and coordination at the Group level of development and establishment of respective goals to decrease the emissions, the managers responsible for relationship with shareholders, investors, mass media and other interested parties for timely, full and complete disclosure of information on the Company's actions with respect to climate-related risks and opportunities.

The structure of management and responsibility for climate-related risks and opportunities includes the General Director (reporting to the Board of Directors), Deputy General Directors, heads of subsidiaries and businesses (reporting to the General Director), heads of departments and divisions (reporting to the General Director, Deputy General Directors, heads of subsidiaries, heads of departments). Besides the General Director, the following executives can be highlighted in light of their role in the management of climate-related risks and opportunities: Deputy General Director for Strategic Development and Head of Strategic Development Department (responsibility – strategic planning with the consideration of climate-related risks and opportunites); Deputy General Director for Health, Safety and Environment and Head of Environmental Protection Department (responsibility – accounting and reporting of GHG emissions, collaboration with businesses to determine GHG emissions reduction targets, organization of innovation activities in the area of decreasing GHG emissions, coordination at Tatneft Group level with respect to climate-related risks and opportunities, collaboration and interaction with other key stakeholders with respect to climate-related issues); First Deputy General Director for Exploration and Development – Head of Tatneft-Upstream, Head of Tatneft-Downstream, Tatneft Petrochemicals Complex Director, Director of Tatneft-Neftekhim, leaders of other businesses and heads of subsidiaries (responsibility – consideration of climate-related risks and opportunities during planning and implementation of projects in the core segments of Company's operations); Head of Investments Department, Head of Economic Department, Head of Finance Department (responsibility – consideration of climate-related factors in the Group investment activities, economic planning and financing of operations); Direcor of TatNIPIneft research institute, Head of Technological Development Center (responsibility – R&D activities related to climate-related risks and opportunities); Assistant to the General Director of Corporate Finance, leadership of Corporate Secretary division, Head of the Press-Service (relationship with investors, shareholders, mass media, communities and other stakeholders on the issues of Company's actions with regard to climate-related risks and opportunities).

The management is informed about climate-related risks and opportunities with the coordination from the environmental divisions of the Company which are responsible, *inter alia*, for the collection and assessment of GHG emissions data. The process of data collection and evaluation for the purposes of incorporating climate-related considerations has been organized for each business activity and such information is used to guide management decisions. Publications by scientific and nongovernmental organizations, governmental bodies of the Russian Federation and other countries, analytical agencies and thinktanks, investment companies and banks, trade associations, containing information with regard to climate-related risks and opportunities are widely used within the Company. The Company is utilizing its corporate information system to consolidate, analyze and discuss the information with a view of developing tangible actions.

The monitoring of progress towards achievement of targets with regard to climate-related risks and opportunities is carried out by the General Director personally as well as other executives by way of controlling respective internal orders and assignments. The Management Board considers the progress on the Company's key climate-related projects on a regular basis. Internal meetings are held to assess the progress and resolve any issues. The control over consideration of climate-related issues with respect to investment projects is carried out in the ordinary course of business as well as during the discussion of projects at the Company's investment committee. To determine strategic priorities and projects in the context of climate-related risks and opportunities strategic sessions and virtual online discussions are held.

The Company expands the implementation of The GHG Protocol accounting and management standards, the TCFD recommendations, Sustainability Reporting Guidance by IPIECA, as well as incorporating the requirements of ISO 14064 standards on greenhouse gas emissions reporting and management. The GRI standards are used for sustainability reporting by the Company.

Since a number of key climate-related targets are still being developed, the dependence of executive compensation on achievement of respective goals is not yet universal for the whole leadership of the Company. At the moment the Company is developing the KPI system relating to achievement of decarbonization targets and control over GHG emissions. As of the date of this disclosure the dependance of compensation on achievement of climate-related goals has been established primarily for the management of environmental divisions, which has key performance indicators defined for the areas of, amongst others, accounting and reporting of GHG emissions, coordination with businesses and other divisions with respect to GHG emissions reduction targets and the related innovation activities. The Company plans to expand the practice of linking compensation to climate-related targets for all key managers as respective goals get approved. This process is monitored by the Board of Directors' Compensation and Remuneration Committee.

*Strategy*

The TCFD recommendations provide for the description of climate-related risks and opportunities identified by the Company which might affect it in the short, medium and long term, their impact on the business, strategy and financial planning as well as the description of the Company's strategy resilience to climate-related scenarios, including a 2°C or lower scenario. Pursuant to the resolution of the Board of Directors of 21 December 2020 the Tatneft Group Strategy until 2030 is being revised, including taking into consideration strengthening climate and environmental agenda, and shall be presented to the Board of Directors for approval in the 4th quarter of 2021. The process of Strategy 2030 revision includes a comprehensive review of climate-related risks and opportunities as well as climate-realted scenarios. The approval of the revised Strategy 2030 would allow the Company to expand the disclosure relating to its climate-related risks and opportunities strategy.

<u>Climate-related risks and opportunities at various planning horizons</u>

The majority of Company's assets are represented by fixed assets involved in the crude oil and gas production, treatment, refining and marketing activities, which have long useful life. The Company has substantial oil and gas reserves which support the ability to produce them for many years into the future. Due to these factors the climate-related risks and opportunities associated with the transition to low carbon economy are the most relevant for the Company, including with respect to their potential impact on the financial results. The most significant impact of these risks and opportunities on the Company is projected to be in the long term (over 10 years planning horizon), but with a probability of increasing relevance thereof in the medium term (5-10 years planning horizon).

The majority of the Company's assets and operations are located within the Republic of Tatarstan of the Russian Federation, which is dominated by a high plain divided by dense network of river valleys with moderate-continental climate characterized by warm summer and moderately cold winter. Taking into account the geographical location and type of climate within the territory of the Republic of Tatarstan the Company's physical assets and infrastructure have been designed and built with the consideration of substantial atmospheric temperature fluctuations, changes in wind speed and precipitation intensity, which make them resilient to climate-related physical risks. At the same time the Company to a large extent depends on transportation infrastructure controlled by third parties to deliver its products to customers. Climate-related physical risks might be more relevant with respect to such infrastructure and include risks of periodic interruptions to deliveries of products. The Company does not expect any material climate-related interruptions in the operation of transportation infrastructure in the near and medium term. The assessment of respective risks in the long run is dependent on climate scenarios, actions by the operators of such transportation infrastructure, as well as diversification of the Company's business decreasing its dependence on respective infrastructure. The Company also owns rather substantial capacity for temporary storage of ready products which mitigates these risks.

<u>Assessment of impact of climate-related risks and opportunities on the business, strategy and financial planning</u>

The current Tatneft Group Strategy until 2030, which was approved in September 2018, was based on crude oil price projections defining the 3 scenarios: base case (relying on the Russian Ministry of Economic Development outlook at the time), high oil prices and low oil prices scenarios. In particular, the low oil prices scenario assumes Urals crude oil prices in the range between US$42 and US$52 per barrel during the period 2020-2030. The Strategy 2030 was assessed with respect to all 3 scenarios and deemed to be resilient to all of them. The key pillars of value creation for the Company under the Strategy 2030 are business diversification through higher own refining throughput with the production of competitive products complying with the most stringent environmental standards, the development of petrochemicals production, as well as an increase in crude oil output. Due to the OPEC+ agreement the ability to increase oil production has been constrained. The Company's management believes the implementation of the Strategy 2030 in principle has been responding to challenges associated with the climate agenda – the Company continues the diversification of business with increased control over the final products and its carbon footprint throughout the value chain.

Currently the Strategy 2030 is under review. Due to the importance of climate-related transition risks and opportunities particular attention is given to future demand for products in the markets where the Company competes, the impact of decarbonization on the supply and value chains, the need to decrease the intensity of GHG emissions. In the opinion of management, within the planning horizon of the Strategy 2030 the demand for crude oil and the products from it will remain at a level supporting the profitability of respective businesses, with the increasing role of petrochemicals in the medium and long term. At the same time new opportunities arise for diversification into businesses with lower carbon footprint as well as the application of carbon capture, utilization and storage (CCUS) technologies. During the review of the Strategy various climate scenarios are considered, including those that are based on the global temperature rising not more than 2ºC, and the scenario analysis is carried out to test resilience of the Strategy under review.

The Company is engaged in discussions with various financiers, including banks and asset managers, as well as credit rating agencies with respect to the incorporation of climate-related risks assessment into their creditworthiness analysis and investment decisions processes. Currently the Company believes that its ability to access capital required to finance its activities and investment projects is not constrained by any climate-related issues, and its proactive approach to climate-related risks and opportunities procures continued availability of such capital in the future.

*Management of climate-related risks*

The climate-related risks are assessed along with other risks affecting the Company's business and strategy. The process of managing risks, including their identification, analysis and prevention is determined by the Risk Management and Internal Controls Policy of PJSC Tatneft approved by the resolution of the Board of Directors dated 29 June 2020. The heads of divisions are primarily responsible for the risk management while the responsibility for resilience of businesses to respective risks is vested with the leaders of businesses and Deputy General Directors.

Due to the significance of regulation in the context of climate change, the Company pays particular attention to the current and developing climate-related legislation both in the Russian Federation and abroad which might have an impact on the Company's activities and its strategic plans. Amongst the most critical ones is the assessment of potential impact of the proposed EU Carbon Border Adjustment Mechanism (CBAM) as well as possible steps of the Russian Federation aimed at decreasing the negative effect of CBAM implementation.

Supply chain engagement

The Company is integrating the GHG emissions reduction targets along the whole supply chain and in lifecycles of business processes, production and services, including in engagements with contractors and suppliers. As part of its relationship with business partners, contractors and suppliers the Company expands the requirements to control GHG emissions and initiates joint programs to reduce the carbon footprint relating to business activities, use of energy resources, transportation and the end use of products.

Relationship with interested parties

The Company expands its relationship with various stakeholders – the state authorities, international and Russian trade associations and other companies, investors and financial organizations, on climate-related policies, the development of effective mechanisms to support the decarbonization and carbon regulation initiatives. As part of such relationship Tatneft, *inter alia*, works with the Russian Union of Industrialists and Entrepreneurs (RUIE) on the climate agenda, participates in the discussion of a number of initiatives and projects launched by the World Economic Forum of which the Company is a partner. The Company is engaged in discussions with its industry peers both in Russia and abroad on cooperation with respect to decreasing and preventing GHG emissions as well as the development of circular economy. Work with scientific research and educational organizations is carried out to develop and apply technologies aimed at decreasing the carbon footprint, to train and develop human resources required for the implantation of climate-related projects. "Green" financing options are considered for the projects of the Company.

In January 2021 the Company joined the SBTi (Science Based Targets Initiative) to establish science-based targets corresponding to the business ambition to prevent the global temperature rising above 1.5ºC.

The Company is devoted to collaboration with educational and research institutions to train and develop its human capital as familiar with climate-related issues, and contributing to the creation of educational and training programs to prepare specialists capable of tackling the challenges associated with decarbonisation.

*Climate-related metrics and targets*

Key targets

Below are the key climate-related targets which have been established by the Company at the moment:

- Carbon neutrality by 2050 (as part of the SBTi commitment);
- Intermediary target – 10% decrease of GHG emissions from production activities by 2025 in comparison to 2016 base year;[3]

[3] 2016 was selected as the base year as being the earliest for which reliable GHG emissions data is available for consistent comparison of emissions over time (as per the recommendations of the GHG Protocol Corporate Standard). The GHG emissions from production activities cover Scope 1 and 2 emissions.

- Intermediary target – 20% decrease of GHG emissions from production activities by 2030 in comparison to 2016 base year.

The intermediary targets were divided into specific actions of business segments of the Company in the Strategy of development of HSE system until 2030 and are being implemented. The key paths to achieving the intermediary targets include the modernization of production assets, introduction of innovative and digital technologies, energy efficiency improvements.

Due to the Company joining the SBTi the intermediary targets will be updated.

Appreciating the importance of evaluating the impact of new investment projects on the Company's carbon footprint the assessment of climate-related risks has been introduced for all investments by the Group. Pursuant to the decision of the Board of Directors at this point internal carbon price of US$15 per tonne of $CO_2$-equivalent is used. To determine sensitivity of financial results in various scenarios higher internal carbon prices are also used.

GHG emissions disclosure

Out of all GHG emissions by Tatneft Group 99.8% is represented by carbon dioxide ($CO_2$). Tatneft Group does not use any ozone depleting substances on industrial scale.

Scope 1, 2 and 3 GHG emissions (mln. tonnes):

| **Category** | **2019** | **2020** | **Change** |
|---|---|---|---|
| Scope 1 | 4.1 | 4.5 | *0.4* |
| Scope 2 | 5.2 | 4.7 | *(0.5)* |
| Scope 3 | 111.1 | 112.6 | *1.5* |

*Ref. In 2016 (base year) Scope 1 GHG emissions were 4.3 mln tonnes of $CO_2$-equivalent.*

2020 Tatneft Group[4] GHG emissions, mln. tonnes of $CO_2$-eq.:

| **Business segment** | **Scope 1[5]** | **Scope 2** | **Scope 3*** |
|---|---|---|---|
| Exploration and Production | 1.5 | 2.0 | 66.4 |
| Oil and gas refining | 0.7 | 0.9 | 29.22 |
| Tire business | 0.001 | 0.5 | 11.77 |
| Power generation | 1.9 | 0.2 | - |
| Retail business | 0.003 | 0.036 | 5.17 |
| Manufacturing | 0.012 | 0.020 | - |
| Composite materials | 0.014 | 0.022 | - |
| Petrochemicals | 0.3 | 0.9 | - |
| Other | 0.000 | 0.1 | - |
| **TOTAL** | **4.5** | **4.7** | **112.56** |

*Scope 3* - calculated under category 11 "use of sold products" (The GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard).*

The Company plans to have Scope 1 and 2 GHG emissions data independently verified annually as part of the sustainability report preparation.

Direct (Scope 1) GHG emissions by key business segments*:

| **Business segment** | **2018** | **2019** | **2020** |
|---|---|---|---|
| Exploration and Production | 0.85 | 1.40 | 1.53 |
| Oil and gas refining | 0.51 | 0.70 | 0.68 |
| Tire business | 0.001 | 0.001 | 0.001 |
| Power generation | 1.57 | 1.71 | 1.94 |

[4] Might not fully correspond to segments as reported in the IFRS consolidated financial statements. The current perimeter for GHG emissions accounting: PJSC Tatneft, JSC TANECO, LLC Nizhnekamsktekhuglerod, LLC Nizhnekamskaya TETS, AO APTS, LLC Togliattikautchuk, LLC Tatneft Presskomposit, LLC P-D Tatneft Alabuga Fiberglass, LLC Tatneft AZS Tsenter, LLC Tatneft AZS Zapad, Tatneft AZS Severo-Zapad, LLC Tatneft Samara, LLC UPTZH for RPM, OJSC Nizhnekamskshina, OJSC Nizhnekamsk Mechanical Plant, ZAO Yarpolimermash-Tatneft, LLC NZGSH.

[5] The calculation of Scope 1 GHG emissions was done under the Order of the Russian Ministry of Nature No. 300 dated 30 June 2015 "On the approval of methodology and guidance on quantitative determination of greenhouse gas emissions volumes by organizations with activities in the Russian Federation". Stationary fuel and gas flaring is accounted for. In the opinion of the Company, the accounting for Scope 1 emissions in all material respects complies with the requirements of The GHG Protocol Corporate Standard.

The calculation of Scope 2 GHG emissions was done in accordance with The GHG Protocol Scope 2 Guidance. The calculation of Scope 3 GHG emissions was done in accordance with The GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

** 2019 direct GHG emissions data was verified by AO PricewaterhouseCoopers Audit as per the Independent Limited Assurance Report (https://2019.tatneft.ru/m/uploads/pwc_new.pdf). Independent verification of the data for 2020 is planned to be presented as part of the 2020 Sustainability Report.*

Increase in GHG emissions in the reporting period in "Exploration and Production" segment was inevitably associated with higher production of highly viscous oil (which was economically justified) extracted using thermal methods by injecting steam generated by burning gas leading to GHG emissions. Another reason for higher emissions in 2020 in "Exploration Production" segment were planned maintenance works carried out at associated petroleum gas processing facilities resulting in lower utilization of such gas while the works were underway.[6] At the same time the Company plans to shift to longer runs between maintenances which should exclude the occurrence of such events resulting in higher emissions in the coming years. The increase in "Power generation" sector was associated with higher production of electricity and heat.

In 2020 the main reason behind lower indirect Scope 2 (from the use of power and heat) emissions were a decrease in consumption of electrical power related to the OPEC+ crude oil production restrictions and steps of the Company to improve energy efficiency as part of respective corporate program. The increase in Scope 3 GHG emissions is mainly related to higher volume of refined products sold.

Unit GHG Scope 1 and 2 emissions by key business segments:

| **Metrics** | **2019** | **2020** | **Change** |
|---|---|---|---|
| Unit GHG emissions upon crude oil production, kg/tonne of oil produced | 134.72 | 134.99 | *0,27* |
| Unit GHG emissions upon crude oil production, kg/barrel of oil produced | 18.38 | 18.41 | *0,03* |
| Unit GHG emissions upon oil and gas processing, kg/tonnes eq. | 87.26 | 79.38 | *(7.88)* |
| Unit GHG emissions upon generation of electricity and heat, tonnes/mln kW-h | 299.92 | 295.43 | *(4.49)* |

*Ref: the calculation in accordance with GRI 305-4 GHG emissions intensity.*

The Company decreased per unit GHG Scope 1 and 2 emissions in "Oil and gas refining" and "Power generation" segments, while per unit emissions in "Exploration and Production" segment were mostly unchanged.

At the moment Tatneft Group is implementing a program aimed at decreasing direct and indirect GHG emissions. The actions taken in 2020 allowed to decrease direct GHG emissions by 85 thousand tonnes of $CO_2$-equivalent and indirect Scope 2 emissions by 111 thousand tonnes of $CO_2$-equivalent.

As part of the Company's action to decrease its carbon footprint and offset the GHG emissions from 2000 Tatneft Group is implementing a program of reforestation taking into account carbon dioxide absorption potential. Measures are taken to increase the efficiency of forestry management taking into account biodiversity and circular bioeconomy development. In 2020 1.97 million seeds were planted, which based on preliminary expert review can contribute to offsetting 660 thousand tonnes of $CO_2$-equivalent GHG emissions (upon maturity of the forest). In aggregate from the commencement of the program over 12 million trees have been planted. The Company plans to automate the monitoring of reforestation program incorporating the assessment of absorption potential and biodiversity. In the future the Company plans to validate it reforestation program and verify the results on a regular basis to determine the GHG emissions offsets achieved by the forests.

[6] The maintenance had no significant impact on associated petroleum gas utitilization in 2020.