

2021

Report on Payments to Governments Resulted from Extractive Activities



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1. Introduction

Background

Oil and gas producers transfer considerable funds to host governments in the form of taxes, bonuses, royalties, fees and support for infrastructure improvements. These large financial inflows should contribute substantially to social and economic development, but not all resource-rich countries have been able to transform resource wealth into wellbeing. This has led to necessity in enhancing transparency in the extractive sector by imposing mandatory reporting requirements pertaining to payments to governments.

In 2013 the European Parliament approved rules based on the EU Transparency Directive on the reporting of payments to governments by extractive and logging companies that are listed on recognized stock exchanges in the EU. Companies are required to disclose the payments they make to governments in each country where they operate, and for each project where the payment has been attributed to a certain project and when material to the recipient government.

In order to provide for enhanced transparency of payments made to governments, the Reports on Payments to Governments Regulations 2014, as amended by the Reports on Payments to Governments (Amendment) Regulations 2015 ('the UK Regulations') require certain entities which have continuous activities in the extractive industry or logging of primary forests to disclose material payments made to governments related to those activities in the countries in which they operate in a separate report, on an annual basis. Changes to the UK's Disclosure Rules and Transparency Rules extend the requirements of UK Regulations to companies that have continuous activities in the extractive industry which transferable securities are listed on the London Stock Exchange (Main Market), including companies that are not registered in the UK. For such entities the first reporting period should cover the company's first financial period commencing on or after 1 January 2015. The deadlines for report on payments to governments are 6 months after the end of the reporting period for UK listed companies and 11 months after the end of the reporting period for other reporting entities.

As stipulated in the UK Regulations concerning payments to governments their primary goal is providing for transparency in front of society and citizens in relation to wealth generated by natural resources collected by resource-rich countries.

Petroleum fiscal regimes

The petroleum fiscal regime of a country is a set of laws, regulations and agreements which governs revenues and payments derived from prospecting, exploration and production of oil and gas.

Special taxes are typically levied on oil and gas extraction activities due to the extraordinary revenues these activities can generate. The revenues are distributed between the government and the companies engaged in extraction of oil and gas. The revenues must recover costs and provide profit to the companies, as well as provide income to the government to compensate for the extraction of natural resources. The most common tax elements are corporate taxes, bonuses, royalties, host government production entitlement and fees imposed by the Government of the country providing production rights.

Because each country has a distinctive legislation, the fiscal regimes for oil and gas companies vary greatly from country to country, with a range of tax elements being used.

Our extractive activities

The majority of the Tatneft's crude oil and gas production are located in Tatarstan, a republic of the Russian Federation, situated between the Volga River and the Ural Mountains, approximately 750 kilometers southeast of Moscow. In 2021, Tatneft was engaged in exploration and production activities only in the Russian Federation.

More information about our business activities is available in Tatneft's 2021 Annual Report:
<https://old.tatneft.ru/en/aktsioneram-i-investoram/raskritie-informatsii/godovie-otcheti>

2. Reporting principles

Scope and validity

Tatneft has prepared a report on payments to governments, for activities related to exploration, prospecting, discovery, development and extraction of minerals, oil, natural gas deposits or other materials ("extractive activities"). In this report, we only disclose payments to governments for legal entities involved in extractive activities, or paying on behalf of such entities, as illustrated below. The relevant payment types are described later in this section.

Additional financial information, as described later in this section, is disclosed for the entire group, on a country or legal entity basis, as applicable.

Government

In the context of this report, a government means any national, regional or local authority of a country. It includes a department, agency or undertaking (i.e. corporation) controlled by that authority.

Basis for preparation

The report includes direct payments to governments from subsidiaries, controlled by PJSC Tatneft (including the company itself).

For the purpose of this report, Tatneft converts tonnes of crude oil to barrels using a conversion factor of 7.123. 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.

Project definition

Certain payment types are reported by project. A project is defined as the operational activities that are governed by a single contract, license, lease, concession or similar legal agreements and form the basis for payment liabilities with a government. If multiple such agreements are "substantially interconnected", they may be considered as a project. According to the regulation, 'substantially interconnected' means that the agreements are governed by a single overarching agreement, that the agreements have more or less identical terms, and that the agreements are geographically and operationally interconnected.

Materiality

Payments made as a single payment, or as a series of related payments, that equal or exceed EURO 100,000 (RR 8,720,000) during the year, are disclosed. If no payments or only payments below this threshold were made, it is not displayed in the overview of projects and payments per country.

Reporting currency

When preparing the report, payments to governments in foreign currencies (those other than Russian ruble), if any, are translated based on the foreign exchange rate at the average annual rate.

Payment types disclosed at project or legal entity level

The following payment types are disclosed for legal entities involved in extractive activities. They are presented on a cash basis, net of any interest expenses and whether paid in cash or in-kind:

- i. Taxes levied on the income, production or profits of companies, including mineral extraction taxes, income taxes, duties on crude oil sold on export but excluding taxes levied on consumption, such as value added taxes, excises on oil products, personal income taxes and other related to them payments, withholding taxes, property taxes and environmental taxes.
- ii. License fees are typically levied on the right to use a geographical area for exploration, development and production and include land rental fees, regular payment for mineral resource use, entry and concession fees and other considerations related to licenses and/or concessions.
- iii. We did not include dividends in the report as the government is a shareholder of the company and the dividend is paid to the government under the same terms and conditions as applicable to other shareholders.

Additional financial information

The report discloses the following additional financial information from consolidated financial statements of the Tatneft Group which includes all legal entities—daughter companies:

- i. Investments are defined as additions to property, plant and equipment, excluding non-cash additions.
- ii. Revenues associated with sale of crude oil, petroleum and petrochemical products and other products. Taxes and duties arising on the sale of goods to third parties do not form part of revenue. For more information on revenues, see Tatneft's 2021 Annual report.
- iii. Production volumes are the volumes of oil and gas production by the Tatneft Group. For more information about production volumes, see Tatneft's Directors' report for 2021 on our website: <https://old.tatneft.ru/uploads/publications/623031527da52558879524.pdf>

Other relevant reports

A full overview of our group level economic contributions per country, including those to ensure environmental and industrial safety and social investments is available in Tatneft's 2021 Annual Report, available at: <https://old.tatneft.ru/en/aktsioneram-i-investoram/raskritie-informatsii/godovie-otchet>

3. Payments to governments

Russian Federation

Payments per projects

(in RR million)	Taxes	Fees	Royalties	Bonuses	Government entitlements	Total
PJSC Tatneft	571,094	3,148	-	-	-	574,242
LLC Tatneft-Samara	5,706	10	-	-	-	5,716
JSC Kalmneftegaz	-	8	-	-	-	8
LLC Tatneft-NAO	-	9	-	-	-	9
Total	576,800	3,175	-	-	-	579,975

Payments per state bodies and governments

(in RR million)	Taxes	Fees	Royalties	Bonuses	Government entitlements	Total
Russia						
Federal Tax Service of the Russian Federation	545,620	-	-	-	-	545,620
Federal Customs Service of Russia	31,210	-	-	-	-	31,210
The Federal Subsoil Resources Management Agency	-	2,868	-	-	-	2,868
The Federal Agency for Forestry (Rosleskhoz)	-	171	-	-	-	171
Local land and property administration authorities	-	106	-	-	-	106
Total	576,830	3,145	-	-	-	579,975

4. Additional financial information

The additional financial information disclosed in this section provides a broader picture of the whole Tatneft Group's economic impact in the country where we have extractive activities. To ensure a full overview of the group's economic footprint, the additional financial information covers all subsidiaries in the Tatneft Group, including subsidiaries involved in refining and marketing, petrochemical production, trading and some other, which are outside the scope of reporting of payments to governments.

This additional financial information reported is based on data collected for the purpose of financial reporting under IFRS. For this reason, information disclosed in this section (investments, revenues and production volumes) is reported in accordance with the principles for financial reporting (accruals basis) and not on a cash basis. Breakdown of revenues on sale destinations and other consolidated information is available on our website in Tatneft's Directors' report for 2021: <https://old.tatneft.ru/uploads/publications/623031527da52558879524.pdf>.

Investments, revenues and production volumes

(in RR million)	Investments	Revenues	Production volume (thousand BOE)
Tatneft Group	119,106	1,265,380	203,453



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