



**DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
FOR THE THREE MONTHS AND THE  
YEAR ENDED 31 DECEMBER 2014**

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*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 discussion 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 certain factors discussed later in this MD&A.*

*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.*

*This report includes forward-looking statements – words such as “believes,” “anticipates,” “expects,” “estimates,” “intends,” “plans,” etc. – that reflect management's current estimates and beliefs, but are not guarantees of future results. Please see “Forward-looking statements” on page 25 for a discussion of some factors that could cause actual results to differ materially.*

## **Background**

OAD 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 an open joint-stock company organized under the laws of the Russian Federation with the headquarters located in City of Almet'yevsk, Tatarstan. The principal business of the Group is to explore for, develop, produce and market crude oil and refined products. The Group is also involved in petrochemicals', mainly tires, production and marketing.

As of 31 December 2014 and 2013 OJSC Svyazinvestneftekhim, a company wholly owned by the government of Tatarstan, together with its subsidiary, hold approximately 36% of the Company's voting stock. These shares were contributed to OJSC Svyazinvestneftekhim by the Ministry of Land and Property Relations of Tatarstan in 2003. 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 Commission of the Company as well as to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization of the Company and “major” and “interested party” transactions as defined under Russian law. The Golden Share currently has an indefinite term.

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

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

**Key financial and operational results**

	3 months ended		Change, %	12 months ended		Change, %
	31 December 2014	30 September 2014		31 December 2014	31 December 2013	
<b>Financial results</b>						
Sales, net (RR million)	104,545	126,953	(17.7)	476,360	454,983	4.7
Profit attributable to Group shareholders (RR million)	18,643	22,019	(15.3)	92,227	70,832	30.2
EBITDA <sup>(1)</sup> (RR million)	14,764	33,620	(56.1)	127,654	123,732	3.2
Additions to property, plant and equipment (RR million)	25,165	15,486	62.5	62,574	56,827	10.1
Free Cash Flow (RR million)	11,119	15,992	(30.5)	73,909	61,322	20.5
Net debt <sup>(4)</sup> (RR million)	(12,801)	(7,216)	77.4	(12,801)	19,811	n/a
Basic and Diluted net profit per share of common stock (RR)						
Common	8.21	9.70	(15.4)	40.61	31.19	30.2
Preferred	8.18	9.67	(15.4)	40.58	31.16	30.2
<b>Operational results</b>						
Crude oil production by the Group (th. tonnes)	6,697	6,697	0.0	26,529	26,419	0.4
Crude oil production by the Group (th. barrels)	47,701	47,700	0.0	188,967	188,184	0.4
Crude oil daily production (th. barrels per day)	518.5	518.5	0.0	517.7	515.6	0.4
Gas production by the Group (million cubic meters)	241.8	228.1	6.0	929.8	925.0	0.5
Gas daily production (th. boe per day)	15.5	14.6	6.2	15.0	14.9	0.7
Refined products produced (th. tonnes)	2,369.4	2,394.0	(1.0)	9,248.3	8,212.2	12.6
Gas products produced <sup>(4)</sup> (th. tonnes)	270.8	282.9	(4.3)	1,106.1	1,099.2	0.6
Refining crude throughput (th. barrels per day)	189.8	191.6	(0.9)	186.7	167.6	11.4
Production of tires (million tires)	3.0	3.1	(3.2)	11.6	12.5	(7.2)
Number of petrol (gas) stations in Russia <sup>(2) (3)</sup>	543	529		543	524	
Number of petrol (gas) stations outside of Russia <sup>(2) (3)</sup>	124	124		124	124	

<sup>(1)</sup> As defined on page 14

<sup>(2)</sup> Including leased stations

<sup>(3)</sup> At the end of the period

<sup>(4)</sup> Including Natural Stable Gasoline (Naphtha), produced by division Tatneftgaspererabotka

Our net profit in the fourth quarter of 2014 of RR 18,643 million was lower by RR 3,376 million than in the third quarter of 2014.

While we achieved 2014 annual increase in our net profit by 30.2% to RR 92,227 million compared to 2013. Increase in other income was the main factor behind an increase of our profit in 2014 compared to 2013 (for more detailed presentation of various factors affecting the results of our operations as well as period-to-period comparison, please see page 7).

In the fourth quarter of 2014 the Group (including consolidated subsidiaries OAO Ilekneft, OOO Tatneft-Samara, OOO Tatneft-Severnoy) produced 6.7 million metric tonnes of crude oil which is on the same level as in the third quarter of 2014. Our gas production in the fourth quarter of 2014 was 241.8 million cubic meters which is 6.0% higher than in the third quarter of 2014.

In 2014 the Group produced 26.5 million metric tonnes of crude oil which is 0.4% higher than in 2013. Our gas production in 2014 was 929.8 million cubic meters which is 0.5% higher than in 2013. Increase of refining

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### MD&A for the three months and the year ended 31 December 2014

throughput by 11.4% in 2014 compared to 2013 was due to expansion of initial processing volumes at the TANECO refinery (see Segment Information).

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

TANECO operational results	3 months ended		Change, %	12 months ended		Change, %
	31 December 2014	30 September 2014		31 December 2014	31 December 2013	
	(in thousand tonnes)			(in thousand tonnes)		
<b>Refined products output:</b>	<b>2,171.5</b>	<b>2,234.7</b>	<b>(2.8)</b>	<b>8,517.2</b>	<b>7,573.8</b>	<b>12.5</b>
Middle distillates	623.3	689.6	(9.6)	2,648.5	2,344.1	13.0
Fuel oil	553.4	562.8	(1.7)	2,153.0	1,912.6	12.6
Naphtha	440.1	427.6	2.9	1,672.5	1,098.5	52.3
Diesel fuel	329.5	250.9	31.3	1,027.8	-	n/a
Vacuum gasoil	109.8	140.4	(21.8)	515.8	1,926.5	(73.2)
Kerosene	39.1	87.4	(55.3)	199.5	38.9	412.9
Visbreaker naphtha	4.0	12.2	(67.2)	61.4	84.5	(27.3)
Jet fuel	-	8.2	n/a	8.2	-	n/a
Other	72.3	55.6	30.0	230.5	168.7	36.6

### 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, geological, engineering and reservoir oil yield improvement subdivisions, pumping equipment repair centers, and other ancillary oilfield services' operations. Most oil and gas exploration and production activities are concentrated within the Company.
- **Refining and marketing** – consists of the Company's sales and marketing division (URNiN), a refining and petrochemical complex in Nizhnekamsk, Tatarstan, operated by OAO TANECO ("TANECO"), as well as the Company's construction projects management division; our gas production, transportation and refining division Tatneftegaspererabotka; OOO Tatneft-AZS Center, OOO Tatneft-AZS-Zapad, OOO Tatneft-AZS-Sibir and OOO Tatneft-AZS-Yug which manage the Tatneft branded gas stations network in Russia and carry out refined products wholesale sales; and certain other oil trading and ancillary companies.
- **Petrochemicals** - our petrochemicals segment has been consolidated under a management company, Tatneft-Neftekhim which manages OAO Nizhnekamskshina, one of the largest tire manufacturers in Russia, and the companies technologically integrated with it, including OAO Nizhnekamsk Industrial Carbon Plant, ZAO Yarpolymermash-Tatneft, OAO Nizhnekamskiy Mekhanicheskiy Zavod, OOO Nizhnekamskiy Zavod Gruzovyykh Shin and OOO Nizhnekamskiy Zavod Shin CMK. OOO Tatneft-Neftekhimsnab and OOO Trading House Kama are responsible for procuring supplies and marketing products produced by the companies within this segment, respectively.

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.

### Executive overview

#### Recent developments and outlook

##### *E&P activities in Tatarstan*

One of the Company's primary strategic goals is to maintain current levels of crude oil production from its licensed fields in Tatarstan. In 2014 the Group increased production by 0.4% from its fields compared to 2013. Due to the relative maturity of the Company's main producing fields significant portion of all crude oil produced by the Company in Tatarstan was extracted using various enhanced oil recovery techniques. In 2014 the Group put 264 new production wells into operation.

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

*E&P activities outside of Tatarstan*

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

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

*Highly viscous oil production*

The Company continues a pilot project to produce highly viscous oil from the Ashalchinskoye field in Tatarstan using parallel steam injection and producing wells.

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

In 2014 production of highly viscous oil amounted to 649 thousand tonnes.

*Crude oil refining and marketing*

TANECO, the Group's core refining complex, located in Nizhnekamsk, Tatarstan, has been in commercial operation from December 2011. In 2014 upon finalization of scheduled maintenance initial processing capacity of TANECO was increased to 115% of nameplate capacity. In 2014 the Group launched the hydrocracker facility, which enhanced the refinery's complexity.

*Petrochemicals*

In 2014 production of tires by the Group's petrochemicals segment amounted to 11.6 million tires in comparison to 12.5 million tires in 2013.

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### MD&A for the three months and the year ended 31 December 2014

#### Results of operations for the three months ended 31 December and 30 September 2014 and years ended 31 December 2014 and 2013

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

(RR million)	3 months ended		Change, %	12 months ended		Change, %
	31 December 2014	30 September 2014		31 December 2014	31 December 2013	
<b>Sales and other operating revenues, net</b>	<b>104,545</b>	<b>126,953</b>	<i>(17.7)</i>	<b>476,360</b>	<b>454,983</b>	<b>4.7</b>
<b>Costs and other deductions</b>						
Operating	(31,669)	(28,547)	<i>10.9</i>	(102,614)	(89,634)	<i>14.5</i>
Purchased oil and refined products	(12,709)	(15,490)	<i>(18.0)</i>	(54,478)	(50,312)	<i>8.3</i>
Exploration	(540)	(732)	<i>(26.2)</i>	(2,100)	(1,839)	<i>14.2</i>
Transportation	(5,682)	(5,882)	<i>(3.4)</i>	(23,209)	(30,388)	<i>(23.6)</i>
Selling, general and administrative	(12,465)	(10,826)	<i>15.1</i>	(43,355)	(44,123)	<i>(1.7)</i>
Depreciation, depletion and amortization	(5,778)	(5,111)	<i>13.1</i>	(21,121)	(19,323)	<i>9.3</i>
(Loss)/ gain on disposals of property, plant and equipment, investments and impairments	(383)	(559)	<i>(31.5)</i>	(1,799)	1,209	<i>n/a</i>
Taxes other than income taxes	(24,951)	(30,397)	<i>(17.9)</i>	(117,060)	(111,336)	<i>5.1</i>
Maintenance of social infrastructure and transfer of social assets	(1,382)	(900)	<i>53.6</i>	(4,091)	(4,828)	<i>(15.3)</i>
<b>Total costs and other deductions</b>	<b>(95,559)</b>	<b>(98,444)</b>	<b>(2.9)</b>	<b>(369,827)</b>	<b>(350,574)</b>	<b>5.5</b>
Foreign exchange gain/ (loss)	14,320	1,359	<i>953.7</i>	14,876	(438)	<i>n/a</i>
Interest income	2,043	1,728	<i>18.2</i>	6,944	3,365	<i>106.4</i>
Interest expense, net of amounts capitalized	(1,189)	(1,420)	<i>(16.3)</i>	(5,482)	(6,924)	<i>(20.8)</i>
(Loss)/ earnings from equity investments	(427)	74	<i>n/a</i>	(313)	350	<i>(189.4)</i>
Other income, net	1,707	26	<i>6,465.4</i>	1,415	529	<i>167.5</i>
<b>Total other income/ (expenses)</b>	<b>16,454</b>	<b>1,767</b>	<b>831.2</b>	<b>17,440</b>	<b>(3,118)</b>	<b>n/a</b>
<b>Profit before income taxes</b>	<b>25,440</b>	<b>30,276</b>	<b>(16.0)</b>	<b>123,973</b>	<b>101,291</b>	<b>22.4</b>
Current income tax expense	(2,312)	(6,722)	<i>(65.6)</i>	(21,376)	(21,645)	<i>(1.2)</i>
Deferred income tax expense	(3,410)	(202)	<i>1,588.1</i>	(4,920)	(1,302)	<i>277.9</i>
<b>Total income tax expense</b>	<b>(5,722)</b>	<b>(6,924)</b>	<b>(17.4)</b>	<b>(26,296)</b>	<b>(22,947)</b>	<b>14.6</b>
<b>Profit for the period</b>	<b>19,718</b>	<b>23,352</b>	<b>(15.6)</b>	<b>97,677</b>	<b>78,344</b>	<b>24.7</b>
Less: Profit attributable to non-controlling interest	(1,075)	(1,333)	<i>(19.4)</i>	(5,450)	(7,512)	<i>(27.4)</i>
<b>Profit attributable to Group shareholders</b>	<b>18,643</b>	<b>22,019</b>	<b>(15.3)</b>	<b>92,227</b>	<b>70,832</b>	<b>30.2</b>

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### MD&A for the three months and the year ended 31 December 2014

#### Sales and other operating revenues

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

(RR million)	3 months ended		Change, %	12 months ended		Change, %
	31 December 2014	30 September 2014		31 December 2014	31 December 2013	
Crude oil						
<i>Sales</i>	66,276	86,512	(23.4)	327,009	358,146	(8.7)
<i>Less related export duties</i>	(26,445)	(32,349)	(18.3)	(114,871)	(140,939)	(18.5)
	39,831	54,163	(26.5)	212,138	217,207	(2.3)
Refined products						
<i>Sales</i>	61,506	68,178	(9.8)	256,476	230,043	11.5
<i>Less related export duties     and excise taxes</i>	(15,451)	(12,605)	22.6	(55,093)	(50,702)	8.7
	46,055	55,573	(17.1)	201,383	179,341	12.3
Petrochemicals	10,731	9,761	9.9	34,890	33,774	3.3
Corporate and other sales	7,928	7,456	6.3	27,949	24,661	13.3
<b>Total Sales and other operating revenues, net</b>	<b>104,545</b>	<b>126,953</b>	<b>(17.7)</b>	<b>476,360</b>	<b>454,983</b>	<b>4.7</b>

Decrease in sales and other operating revenues in the fourth quarter of 2014 in comparison to the third quarter of 2014 was mainly due to decreased sales of crude oil and oil products.

Increase in sales and other operating revenues in 2014 in comparison to 2013 was mostly due to increased sales of refined products as well as the effect of decreased export duties paid on crude oil sales in the current period.

In the fourth quarter of 2014 and twelve months ended 31 December 2014, export duties, paid by the Group, decreased by 7.2% and by 13.6% in comparison to the third quarter of 2014 and twelve months ended 31 December 2013 and amounted to RR 40,310 million and RR 164,350 million, respectively, due to lower volumes of crude oil sold for export to non-CIS directions in the current periods.

Our expenses on excise taxes in the fourth quarter of 2014 remained at the same level as in the third quarter of 2014 and amounted to RR 1,586 million (see table on p.9).

Our expenses on excise taxes in 2014 increased to RR 5,614 million compared to the RR 1,513 million in 2013 due to higher volumes of refined products sold which are subject to excise tax as well as an increase of excise tax rates in the current period.

#### ***Export of crude oil and refined products from Russia***

For crude oil export the Group is using transportation services of OAO AK Transneft (“Transneft”), the state-owned monopoly owner and operator of Russia’s trunk crude oil pipelines.

#### Three months ended 31 December 2014

In the fourth quarter of 2014, the Group exported approximately 49% of all its crude oil sold compared to approximately 58% in the third quarter of 2014.

In the fourth quarter of 2014 the Company delivered 38% (52% in the third quarter of 2014) of its own crude oil for export through Transneft’s Druzhba pipeline (mainly to Poland, Hungary and Slovakia); 23% (24% in the third quarter of 2014) of crude oil was shipped through Russian Black Sea ports (mainly Novorossiysk) and 39% (24% in the third quarter of 2014) of crude oil exported through Russian Baltic Sea ports (mainly Primorsk).

In the fourth quarter of 2014 the Group exported 1,191 thousand tonnes of refined products (including 11 thousand tonnes of purchased refined products) in comparison to 1,182 thousand tonnes in the third quarter of 2014 (including 25 thousand tonnes of purchased refined products).

#### Twelve months ended 31 December 2014

In 2014, the Group exported approximately 53% of all its crude oil sold compared to approximately 68% in 2013.



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### MD&A for the three months and the year ended 31 December 2014

In 2014 the Company delivered 44% (46% in 2013) of its own crude oil for export through Transneft's Druzhba pipeline (mainly to Poland, Hungary and Slovakia); 30% (16% in 2013) of crude oil was shipped through Russian Black Sea ports (mainly Novorossiysk) and 26% (38% in 2013) of crude oil exported through Russian Baltic Sea ports (mainly Primorsk).

In 2014 the Group exported 4,989 thousand tonnes of refined products (including 66 thousand tonnes of purchased refined products) in comparison to 5,684 thousand tonnes in 2013 (including 64 thousand tonnes of purchased refined products).

#### Sales breakdown

##### Sales revenues

(RR million)	3 months ended		Change, %	12 months ended		Change, %
	31 December 2014	30 September 2014		31 December 2014	31 December 2013	
<b>Crude oil</b>						
Non-CIS						
Export sales	46,851	64,183	(27.0)	230,365	293,433	(21.5)
Less related export duties	(26,445)	(32,349)	(18.3)	(114,871)	(140,939)	(18.5)
CIS sales <sup>(1)</sup>	1,882	1,986	(5.2)	8,825	7,057	25.1
Domestic sales	17,543	20,343	(13.8)	87,819	57,656	52.3
	<b>39,831</b>	<b>54,163</b>	<b>(26.5)</b>	<b>212,138</b>	<b>217,207</b>	<b>(2.3)</b>
<b>Refined products</b>						
Non-CIS export sales						
Export sales	22,013	26,292	(16.3)	111,382	121,454	(8.3)
Less related export duties	(13,796)	(10,998)	25.4	(49,053)	(47,912)	2.4
CIS sales						
CIS sales	5,134	3,549	44.7	12,513	8,453	48.0
Less related export duties	(69)	(95)	(27.4)	(426)	(1,277)	(66.6)
Domestic sales						
Domestic sales	34,359	38,337	(10.4)	132,581	100,136	32.4
Less related excise taxes	(1,586)	(1,512)	4.9	(5,614)	(1,513)	271.1
	<b>46,055</b>	<b>55,573</b>	<b>(17.1)</b>	<b>201,383</b>	<b>179,341</b>	<b>12.3</b>
<b>Petrochemical products</b>						
Tires sales	10,243	9,323	9.9	33,092	32,430	2.0
Other petrochemicals sales	488	438	11.4	1,798	1,344	33.8
	<b>10,731</b>	<b>9,761</b>	<b>9.9</b>	<b>34,890</b>	<b>33,774</b>	<b>3.3</b>
<b>Other sales</b>	<b>7,928</b>	<b>7,456</b>	<b>6.3</b>	<b>27,949</b>	<b>24,661</b>	<b>13.3</b>

<sup>(1)</sup> CIS is an abbreviation for Commonwealth of Independent States

##### Sales volumes

(thousand tonnes)	3 months ended		Change, %	12 months ended		Change, %
	31 December 2014	30 September 2014		31 December 2014	31 December 2013	
<b>Crude oil</b>						
Non-CIS export sales	1,895	2,510	(24.5)	8,867	12,010	(26.2)
CIS sales	174	162	7.4	698	565	23.5
Domestic sales	2,130	1,943	9.6	8,459	5,959	42.0
	<b>4,199</b>	<b>4,615</b>	<b>(9.0)</b>	<b>18,024</b>	<b>18,534</b>	<b>(2.8)</b>
<b>Refined products</b>						
Non-CIS export sales	992	1,047	(5.3)	4,483	5,331	(15.9)
CIS sales	199	135	47.4	506	353	43.3
Domestic sales	1,578	1,760	(10.3)	6,098	4,651	31.1
	<b>2,769</b>	<b>2,942</b>	<b>(5.9)</b>	<b>11,087</b>	<b>10,335</b>	<b>7.3</b>

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### MD&A for the three months and the year ended 31 December 2014

#### Realized average sales prices

(th. RR per tonne)	3 months ended		Change, %	12 months ended		Change, %
	31 December 2014	30 September 2014		31 December 2014	31 December 2013	
<b>Crude oil</b>						
Non-CIS export sales	24.72	25.57	(3.3)	25.98	24.43	6.3
CIS sales	10.82	12.26	(11.7)	12.64	12.49	1.2
Domestic sales	8.24	10.47	(21.3)	10.38	9.68	7.2
<b>Refined products</b>						
Non-CIS export sales	22.19	25.11	(11.6)	24.85	22.78	9.1
CIS sales	25.80	26.29	(1.9)	24.73	23.95	3.3
Domestic sales	21.77	21.78	0.0	21.74	20.89	4.1

#### Sales of crude oil

In the fourth quarter of 2014 in comparison to the third quarter of 2014 sales of crude oil decreased by 23.4% to RR 66,276 million mainly due to relatively lower average prices of crude oil in the current period.

Increased volumes of own refining throughput resulting in decreased volumes of crude oil sales was one of the reasons of decreased sales of crude oil in 2014 in comparison to 2013 by 8.7%.

#### Sales of refined products

In the fourth quarter of 2014 decrease in sales of refined products by 9.8% to RR 61,506 million from RR 68,178 million in the third quarter of 2014 was due to lower volumes of refined products sold on domestic market in the current period.

In 2014 increase in sales of refined products by 11.5% to RR 256,476 million from RR 230,043 million in 2013 was due to increased volumes of refined products sold on domestic market as well as higher average prices of refined products sold in non-CIS and CIS export markets in the current period.

Non-CIS export sales	3 months ended				Change*, %		12 months ended				Change*, %	
	31 December 2014		30 September 2014		Sales	Vol- umes	31 December 2014		31 December 2013		Sales	Vol- umes
	RR mln	mln tonnes	RR mln	mln tonnes			RR mln	mln tonnes	RR mln	mln tonnes		
Vacuum gasoil	3,802	0.16	4,298	0.16	(11.5)	0.0	15,812	0.61	42,572	1.77	(62.9)	(65.5)
Fuel oil	5,706	0.35	8,158	0.43	(30.1)	(18.6)	30,061	1.66	32,671	1.89	(8.0)	(12.2)
Naphtha	10,896	0.42	10,911	0.36	(0.1)	16.7	47,359	1.58	35,975	1.26	31.6	25.4
Gas products	369	0.01	561	0.03	(34.2)	(66.7)	2,443	0.10	2,091	0.09	16.8	11.1
Middle distillates	-	-	-	-	n/a	n/a	6,220	0.20	4,938	0.18	26.0	11.1
Diesel fuel	1,156	0.04	1,908	0.04	(39.4)	0.0	7,723	0.23	1,250	0.05	517.8	360.0
Other	84	0.01	456	0.03	(81.6)	(66.7)	1,764	0.10	1,957	0.09	(9.9)	11.1
<b>Total</b>	<b>22,013</b>	<b>0.99</b>	<b>26,292</b>	<b>1.05</b>	<b>(16.3)</b>	<b>(5.7)</b>	<b>111,382</b>	<b>4.48</b>	<b>121,454</b>	<b>5.33</b>	<b>(8.3)</b>	<b>(15.9)</b>

CIS export sales	3 months ended				Change*, %		12 months ended				Change*, %	
	31 December 2014		30 September 2014		Sales	Vol- umes	31 December 2014		31 December 2013		Sales	Vol- umes
	RR mln	mln tonnes	RR mln	mln tonnes			RR mln	mln tonnes	RR mln	mln tonnes		
Fuel oil	5	0.00	11	0.00	(54.5)	0.0	272	0.02	68	0.01	300.0	100.0
Vacuum gasoil	-	-	-	-	n/a	n/a	-	-	2,749	0.13	n/a	n/a
Gas products	253	0.01	435	0.02	(41.8)	(50.0)	1,247	0.06	1,016	0.04	22.7	50.0
Naphtha	1,353	0.10	1,298	0.07	4.2	42.9	4,147	0.25	-	-	n/a	n/a
Diesel fuel	2,795	0.08	1,207	0.03	131.6	166.7	4,770	0.13	2,436	0.09	95.8	44.4
Other	728	0.01	598	0.02	21.7	(50.0)	2,077	0.05	2,184	0.08	(4.9)	(37.5)
<b>Total</b>	<b>5,134</b>	<b>0.20</b>	<b>3,549</b>	<b>0.14</b>	<b>44.7</b>	<b>42.9</b>	<b>12,513</b>	<b>0.51</b>	<b>8,453</b>	<b>0.35</b>	<b>48.0</b>	<b>45.7</b>

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	3 months ended				Change*, %		12 months ended				Change*, %	
	31 December 2014		30 September 2014				31 December 2014		31 December 2013			
	RR mln	mln tonnes	RR mln	mln tonnes	Sales	Vol- umes	RR mln	mln tonnes	RR mln	mln tonnes	Sales	Vol- umes
Domestic sales												
Middle distillates	12,655	0.62	15,012	0.74	(15.7)	(16.2)	51,897	2.51	46,216	2.21	12.3	13.6
Petrol fuel	7,667	0.22	8,436	0.24	(9.1)	(8.3)	29,657	0.89	27,827	0.94	6.6	(5.3)
Diesel fuel	8,867	0.30	8,455	0.31	4.9	(3.2)	30,293	1.08	15,073	0.56	101.0	92.9
Gas products	2,699	0.19	2,701	0.20	(0.1)	(5.0)	10,309	0.74	8,290	0.66	24.4	12.1
Other	2,471	0.25	3,733	0.27	(33.8)	(7.4)	10,425	0.88	2,730	0.28	281.9	214.3
<b>Total</b>	<b>34,359</b>	<b>1.58</b>	<b>38,337</b>	<b>1.76</b>	<b>(10.4)</b>	<b>(10.2)</b>	<b>132,581</b>	<b>6.10</b>	<b>100,136</b>	<b>4.65</b>	<b>32.4</b>	<b>31.2</b>

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

#### Sales of petrochemical products

The increase in sales of petrochemical products in the fourth quarter of 2014 by 9.9% compared to the third quarter of 2014 and increase in the twelve months ended 31 December 2014 by 3.3% compared to the twelve months ended 31 December 2013 were primarily due to the higher volumes of tires sold.

The Group's production of tires in the fourth quarter of 2014 and in twelve months ended 31 December 2014 decreased by 3.2% and 7.2% and amounted to 3.0 million and 11.6 million tires compared to the third quarter of 2014 and twelve months ended 31 December 2013, respectively.

#### Other sales

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

In the fourth quarter of 2014 other sales increased by 6.3% to RR 7,928 million from RR 7,456 million in the third quarter of 2014.

In 2014 other sales increased by 13.3% to RR 27,949 million from RR 24,661 million in 2013.

#### Costs and other deductions

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

(RR million)	3 months ended		12 months ended	
	31 December 2014	30 September 2014	31 December 2014	31 December 2013
Crude oil extraction expenses	14,636	13,360	50,181	47,398
Refining expenses	2,938	3,933	10,734	4,693
Petrochemical production expenses	8,999	8,444	29,597	28,006
Other operating expenses	5,828	2,915	12,932	9,600
Operating expenses not attributed to the revenue in the current period <sup>(1)</sup>	(732)	(105)	(830)	(63)
<b>Total operating expenses</b>	<b>31,669</b>	<b>28,547</b>	<b>102,614</b>	<b>89,634</b>

<sup>(1)</sup> This change includes extraction expenses related to crude oil produced by the Group in one period but sold to fourth 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 2014 lifting expenses averaged to RR 306.8 per barrel compared to RR 280.1 per barrel in the third quarter of 2014.

In 2014 lifting expenses averaged to RR 265.6 per barrel compared to RR 251.9 per barrel in 2013.

Higher injection costs, equipment services and expenses on artificial stimulation of reservoirs were the primary reason for the increase in lifting expenses in the fourth quarter and year ended 31 December 2014 compared to the third quarter of 2014 and year ended 31 December 2013, respectively.

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

The refining expenses incurred at TANECO in the fourth quarter of 2014 were RR 1,240.1 per tonne of refining throughput (RR 1,285.5 per tonne of products output) compared to RR 1,587.0 per tonne of refining throughput (RR 1,699.1 per tonne of products output) in the third quarter of 2014. Expenses on purchases of vacuum gasoil, used as a raw material in production were the primary reason for the decrease in refining expenses in the fourth quarter of 2014 compared to the third quarter of 2014.

The refining expenses incurred at TANECO in 2014 were RR 1,149.2 per tonne of refining throughput (RR 1,202.7 per tonne of products output) compared to RR 562.2 per tonne of refining throughput (RR 565.5 per tonne of products output) in 2013. Expenses on purchases of vacuum gasoil, used as a raw material in production were the primary reason for the increase in refining expenses in the year ended 31 December 2014 compared to the year ended 31 December 2013.

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

Cost of petrochemical products increased in the fourth quarter of 2014 and in the twelve months ended 31 December 2014 by 6.6% and 5.7% to RR 8,999 million and RR 29,597 million, respectively, compared to the third quarter of 2014 and the twelve months ended 31 December 2013 primarily due to the higher volumes of tires sold in current periods.

**Other operating expenses** include costs of other services, goods and materials not related to the core production activities of the Group.

In the fourth quarter of 2014 and in the twelve months ended 31 December 2014 other operating expenses increased by 99.9% to RR 5,828 million and 34.7% to RR 12,932 million, respectively, in comparison to the third quarter of 2014 and twelve months ended 31 December 2013, due to increase in sales of other services, goods and materials.

**Cost of purchased crude oil and refined products.** A summary of purchased oil and refined products in the respective periods of 2014 and 2013 were as follows:

	3 months ended		12 months ended	
	31 December 2014	30 September 2014	31 December 2014	31 December 2013
Purchased crude oil (RR million)	3,926	6,021	22,315	15,399
Volume (thousand tonnes)	298	392	1,440	654
Average price (th. RR per tonne)	13.17	15.36	15.50	23.55
Purchased refined products (RR million)	8,783	9,469	32,163	34,913
Volume (thousand tonnes)	303	332	1,133	1,307
Average price (th. RR per tonne)	28.99	28.52	28.39	26.71
<b>Total purchased oil and refined products</b>	<b>12,709</b>	<b>15,490</b>	<b>54,478</b>	<b>50,312</b>

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

In the fourth quarter of 2014 exploration expenses decreased to RR 540 million compared to RR 732 million in the third quarter of 2014.

Exploration expenses in 2014 increased to RR 2,100 million compared to RR 1,839 million in 2013.

**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. Decrease of transportation expense in the fourth quarter of 2014 by 3.4% to RR 5,682 million in comparison with the third quarter of 2014, and decrease for the twelve months ended 31 December 2014 by 23.6% to RR 23,209 million, compared to the twelve months ended 31 December 2013 were due to decreased volumes of crude oil sold for export in the current periods as well as decrease in refined products' transportation expenses in the twelve months ended 31 December 2014.

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

In the fourth quarter of 2014 selling, general and administrative expenses increased by 15.1% compared to the third quarter of 2014 and amounted to RR 12,465 million which was attributed, among other factors, to increase in advertising expenses and information services.

Decrease in selling, general and administrative expenses by RR 768 million to RR 43,355 million in 2014 compared to 2013 was attributed, among other factors, to a decrease in bad debt provision and charitable expenses.

**(Loss)/ gain on disposals of property, plant and equipment and impairment of investments.** Loss for the year 2014 is attributable to the loss on disposal of one of the subsidiaries and loss on disposal of some of our fixed assets.

**Taxes other than income taxes.** Taxes other than income taxes include the following:

(RR million)	3 months ended		12 months ended	
	31 December 2014	30 September 2014	31 December 2014	31 December 2013
Mineral extraction tax	23,034	28,784	110,416	105,302
Property tax	1,384	1,276	5,161	4,518
Penalties and interest	9	12	53	40
Other	524	325	1,430	1,476
<b>Total taxes other than income taxes</b>	<b>24,951</b>	<b>30,397</b>	<b>117,060</b>	<b>111,336</b>

Taxes other than income taxes decreased in the fourth quarter of 2014 in comparison to the third quarter of 2014 by 17.9% due to lower mineral extraction tax mostly due to decrease in crude oil market prices to which the tax rates are linked.

Taxes other than income taxes increased in 2014 in comparison to 2013 by 5.1% due to higher mineral extraction tax mostly due to an increase in base tax rate and devaluation of Ruble against US Dollar. Other taxes include land tax and non-recoverable VAT.

Effective 1 January 2007, the tax rate formula for mineral extraction tax was modified to provide for fields whose depletion rate is 80% or above as determined under Russian reserves classification. Under these rules, the Group receives a benefit of 3.5% per field for each percent of depletion within the limits of 80% to 100%. As Romashkinskoye field, the Group's largest, along with certain other fields is more than 80% depleted, the Group received a benefit in the fourth quarter of 2014 and twelve months ended 31 December 2014 of RR 6.8 billion and RR 29.7 billion, respectively (in comparison to RR 7.5 billion and RR 24.4 billion, respectively, in the third quarter of 2014 and twelve months ended 31 December 2013).

Since April 2007, a zero mineral extraction tax rate is applied to the production of highly viscous crude oil from the Group's Ashalchinskoye, Mordovo-Karmalskoye, and since 2010 and 2011 – also from some other fields, resulting in the tax benefit RR 1.2 billion and RR 3.8 billion in fourth quarter of 2014 and twelve months ended 31 December 2014, respectively, in comparison to RR 0.9 billion and RR 2.7 billion, in the third quarter of 2014 and twelve months ended 31 December 2013, respectively.

**Maintenance of social infrastructure and transfer of social assets.** In the fourth quarter of 2014 maintenance of social infrastructure expenses and transfer of social assets increased to RR 1,382 million compared to RR 900 million in the third quarter of 2014.

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Maintenance of social infrastructure expenses and transfer of social assets for the year 2014 decreased to RR 4,091 million from RR 4,828 million for the year 2013. These social infrastructure expenses relate primarily to housing, schools and cultural buildings in Tatarstan.

**Foreign exchange gain/ (loss).** In the fourth quarter of 2014 and twelve months ended 31 December 2014 the Group recorded foreign exchange gains in respective amounts of RR 14,320 million and RR 14,876 million, compared to a foreign exchange gain of RR 1,359 million and a foreign exchange loss of RR 438 in the third quarter of 2014 and twelve months ended 31 December 2013, respectively.

**Interest income** increased by 18.2% and 106.4% in the fourth quarter of 2014 and twelve months ended 31 December 2014 to RR 2,043 million and RR 6,944 million, respectively, compared to the third quarter of 2014 and twelve months ended 31 December 2013 due to increase in interest income received from the certificates of deposit.

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

In the fourth quarter of 2014 interest expense, net of amounts capitalized, decreased to RR 1,189 million compared to RR 1,420 million in the third quarter of 2014.

In the twelve months ended 31 December 2014 interest expense, net of amounts capitalized, decreased by 20.8% to RR 5,482 million, compared to the corresponding period of 2013 due to decrease in the current period's amounts outstanding of foreign currency denominated debt, excluding the effect of foreign currency translation differences.

**(Loss)/ earnings from equity investments.** In the fourth quarter of 2014 losses from equity investments amounted to RR 427 million compared to earnings of RR 74 million in the third quarter of 2014. The loss in the fourth quarter of 2014 was mainly due to loss received from certain investments of the Group's holdings in the amount of RR 582 million compared to a RR 86 million loss in the third quarter of 2014.

In 2014 the Group recorded a loss from equity investments amounted to RR 313 million compared to RR 350 million gain in 2013. The loss in 2014 was mainly due to loss received from certain investments of the Group's holdings in the amount of RR 714 million compared to a RR 217 million loss in 2013.

**Other income.** Other income, net, in the fourth quarter of 2014 amounted to RR 1,707 million compared to RR 26 million of other income, net, in the third quarter of 2014.

In 2014 the Group recorded other income, net, amounted to RR 1,415 million compared to RR 529 million of other income, net, in 2013.

#### Income taxes

The Group's effective income tax rate in 2014 was 21.2%, compared to the statutory tax rate of 20% in the Russian Federation.

#### EBITDA reconciliation

(RR million)	3 months ended		12 months ended	
	31 December 2014	30 September 2014	31 December 2014	31 December 2013
Sales and other operating revenues, net	104,545	126,953	476,360	454,983
Costs and other deductions	(95,559)	(98,444)	(369,827)	(350,574)
Depreciation, depletion and amortization	5,778	5,111	21,121	19,323
<b>EBITDA</b>	<b>14,764</b>	<b>33,620</b>	<b>127,654</b>	<b>123,732</b>

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

**Credit ratings**

In June 2014, Fitch Ratings has upgraded Long Term Issuer Default Rating (IDR) of the Group to “BBB-” with a stable outlook from “BB+” with stable outlook. Fitch has also upgraded the Short Term IDR to “F3” from “B”.

In January 2015, Fitch Ratings affirmed Long Term Issuer Default Rating (IDR) of the Group at “BBB-“ but outlook was revised to negative from stable following the agency’s rating action on the Russian sovereign downgrade. Short Term IDR affirmed at “F3”.

In October 2014, Moody’s has changed to negative from stable the outlook on the Group’s “Baa3” rating. Concurrently, Moody’s has affirmed the investment grade “Baa3” rating of the Group.

In January 2015, following downgrade of Russia and Tatarstan, Moody’s has downgraded to “Ba1” from “Baa3” the rating of Group and converted the Group’s Long-term Issuer rating into a corporate family rating (CFR). Concurrently, Moody’s has assigned a “Ba1-PD” probability of default rating (PDR) to the Group. The rating remains on review for further downgrade.

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



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**Financial Condition Summary Information**

The following table shows certain key financial indicators:

<b>(RR million)</b>	<b>At 31 December 2014</b>	<b>At 31 December 2013</b>
Current assets	180,602	151,998
Long-term assets	552,332	522,091
<b>Total assets</b>	<b>732,934</b>	<b>674,089</b>
Current liabilities	68,464	83,173
Long-term liabilities	82,226	86,934
<b>Total liabilities</b>	<b>150,690</b>	<b>170,107</b>
<b>Shareholders' equity</b>	<b>582,244</b>	<b>503,982</b>
Working capital	112,138	68,825

**Working capital position**

As of 31 December 2014 working capital of the Group amounted to RR 112,138 million compared to RR 68,825 million as of 31 December 2013. The increase in the working capital in the current period compared to previous period was attributable to an increase in current assets (mainly cash and cash equivalents and prepaid expenses and other current assets).

**Liquidity and Capital Resources**

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

<b>(RR million)</b>	<b>12 months ended</b>	
	<b>31 December 2014</b>	<b>31 December 2013</b>
Net cash provided by operating activities	136,483	118,149
Net cash used in investment activities	(71,858)	(57,866)
Net cash used in financing activities	(54,192)	(44,072)
<b>Net change in cash and cash equivalents</b>	<b>10,433</b>	<b>16,211</b>

**Net cash provided by operating activities**

Our primary source of funds is cash flow generated from our operations. Net cash generated by operating activities increased by 15.5% to RR 136,483 million in 2014 from RR 118,149 million in 2013 which is explained primarily through higher profit attributable to Group shareholders earned in 2014.

**Net cash used in investing activities**

Net cash used in investing activities increased by 24.2% to RR 71,858 million in 2014 from RR 57,866 million in 2013, which was primarily due to increase in cash used to purchase certificates of deposit.

**Net cash used in financing activities**

Cash flow used in financing activities was RR 54,192 million in 2014 in comparison to RR 44,072 million used in 2013. It was in line with net debt repayments of RR 33,759 million in 2014 compared to net debt repayments of RR 23,562 million in 2013.

**Additions to property, plant and equipment**

The following additions to property, plant and equipment (by segment, excluding non-cash additions) were made in the fourth quarter of 2014 and year ended 31 December 2014 compared to the third quarter of 2014 and year ended 31 December 2013:



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(RR million)	3 months ended		12 months ended	
	31 December 2014	30 September 2014	31 December 2014	31 December 2013
Exploration and production	9,817	7,425	25,175	27,447
Refining and marketing	13,637	7,482	29,432	20,723
Petrochemicals	260	108	1,254	942
Corporate and other	1,451	471	6,713	7,715
<b>Total additions to property, plant and equipment</b>	<b>25,165</b>	<b>15,486</b>	<b>62,574</b>	<b>56,827</b>

**Calculation of Free Cash Flow**

(RR million)	3 months ended		12 months ended	
	31 December 2014	30 September 2014	31 December 2014	31 December 2013
Net cash provided by operating activities	36,284	31,478	136,483	118,149
Additions to property, plant and equipment	(25,165)	(15,486)	(62,574)	(56,827)
<b>Free Cash Flow</b>	<b>11,119</b>	<b>15,992</b>	<b>73,909</b>	<b>61,322</b>

**Analysis of Debt**

At 31 December 2014, long-term debt, net of current portion, amounted to RR 12,888 million as compared to RR 12,785 million at 31 December 2013.

The increase in total debt outstanding in the current period was due to revaluation of loans denominated in foreign currencies resulted from Ruble devaluation partly offset by the scheduled repayments under dual (3 and 5 year) tranches secured syndicated pre-export credit facility for up to US\$ 1.5 billion arranged in October 2009 and a triple (3, 5 and 7 year) tranches secured credit facility for up to US\$ 2 billion arranged in June 2010.

Under the US\$ 1.5 billion facility the undiscounted amount outstanding, including the current portion, as of 31 December 2013 was RR 2,478 million (US\$ 76 million). The loan was fully repaid in October 2014.

Under the US\$ 2 billion facility the undiscounted amounts outstanding, including the current portion, as of 31 December of 2014 and 2013 were RR 11,513 million (US\$ 205 million) and RR 15,789 million (US\$ 482 million), respectively.

In June 2011, the Company entered into a US\$ 550 million unsecured credit facility with a fixed rate of 3.50% per annum with bullet repayment in three years, arranged by BNP Paribas (Suisse) SA, The Bank of Tokyo Mitsubishi UFJ, LTD., Commerzbank Aktiengesellschaft, ING Bank N.V., Natixis, Open Joint Stock Company Nordea Bank, Sumitomo Mitsui Banking Corporation and WestLB AG, London Branch. The undiscounted amount outstanding under this credit facility as of 31 December 2013 was RR 18,001 million (US\$ 550 million). The Group repaid the loan in full in June 2014.

In November 2011, TANECO entered into a US\$ 75 million credit facility with equal semi-annual repayments during ten years. The loan was arranged by Nordea Bank AB (Publ), Société Générale and Sumitomo Mitsui Banking Corporation Europe Limited. The loan bears interest at LIBOR plus 1.1% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios. The undiscounted amounts outstanding under this credit facility, including the current portion, as of 31 December of 2014 and 2013 were RR 2,954 million (US\$ 53 million) and RR 1,964 million (US\$ 60 million), respectively.

Also in November 2011, TANECO entered into a US\$ 144.5 million credit facility with equal semi-annual repayments during ten years with the first repayment date on 15 May 2014. The loan was arranged by Société Générale, Sumitomo Mitsui Banking Corporation Europe Limited and the Bank of Tokyo-Mitsubishi UFJ, LTD. The loan bears interest at LIBOR plus 1.25% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. The undiscounted amounts outstanding under this credit facility, including the current portion, as of 31 December of 2014 and 2013 were RR 4,273 million (US\$ 76 million) and RR 2,762 million (US\$ 84 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

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Europe Limited. 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 amount outstanding under this credit facility, including the current portion, as of 31 December of 2014 and 2013 was RR 3,521 million (EUR 52 million) and RR 2,018 million (EUR 45 million), respectively.

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

<b>(RR million)</b>	<b>At 31 December 2014</b>	<b>At 31 December 2013</b>
Due for repayment:		
Between one and two years	2,848	5,535
Between two and five years	5,021	3,554
After five years	5,019	3,696
<b>Total long-term debt, net of current portion</b>	<b>12,888</b>	<b>12,785</b>

#### Calculation of Net Debt

<b>(RR million)</b>	<b>At 31 December 2014</b>	<b>At 31 December 2013</b>
Short term debt	15,859	36,561
Long term debt, net of current portion	12,888	12,785
<b>Total debt</b>	<b>28,747</b>	<b>49,346</b>
Cash and cash equivalents	41,548	29,535
<b>Net Debt</b>	<b>(12,801)</b>	<b>19,811</b>

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

#### Guarantees

The Group has no outstanding guarantees at 31 December 2014 and 2013.

#### Commitments and Contingent Liabilities

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

#### *Ukratnafta*

In May 2008, Tatneft commenced international arbitration against Ukraine on the basis of the agreement between the Government of the Russian Federation and the Cabinet of Ministries of Ukraine on the Encouragement and Mutual Protection of Investments of 27 November 1998 ("Russia-Ukraine BIT") in connection with the forcible takeover of Ukratnafta and seizure of shares of the Group in Ukratnafta. In July 2014 the arbitral tribunal issued the award holding Ukraine liable for violation of the Russia-Ukraine BIT and required Ukraine to pay Tatneft US\$ 112 million plus interest.

#### *Libya*

As a result of the political situation in Libya, in February 2011 the Group had to entirely suspend its operations in that country and evacuate all its personnel. In February 2013 the Group started the process of resuming its activities in Libya, including the return of its personnel to a branch in Tripoli and recommencement of some exploration activities. Due to the deterioration of security situation in Libya in the second half of 2014 the Group had to suspend all of its operations and announced a force-majeure under the Exploration and Production Sharing

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Agreements, acknowledged by the National Oil Company, which is continuing as of the date of this report. The Group is constantly monitoring the security and political situation in Libya, and plans to resume its operations once the conditions permit to do so.

#### Social commitments

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

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

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

#### Crude oil and refined products prices

The primary driver of our revenue is the selling price of crude oil and refined products. During the fourth quarter of 2014, Brent crude oil price fluctuated between \$55 and \$94.6 per barrel and averaged \$76.3 per barrel in comparison to average \$101.8 per barrel in the third quarter of 2014.

During 2014, Brent crude oil price fluctuated between \$55 and \$115.3 per barrel and averaged \$99.0 per barrel in comparison to average \$108.7 per barrel in 2013.

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

	Average for the 3 months ended		Change, %	Average for the 12 months ended		Change, %
	31 December 2014	30 September 2014		31 December 2014	31 December 2013	
<b>World market</b> <sup>(1)</sup>	(in US\$ per barrel, except for figures in percent)					
Brent crude	76.3	101.8	(25.0)	99.0	108.7	(8.9)
Urals crude (CIF Mediterranean)	75.7	101.5	(25.4)	98.0	108.0	(9.3)
Urals crude (CIF Rotterdam)	74.9	100.7	(25.6)	97.3	107.4	(9.4)
	(in US\$ per tonne, except for figures in percent)					
Gasoil 0.1 1/2 (CIF NWE/Basis ARA + FOB Rotterdam)	680.4	865.1	(21.4)	842.2	921.5	(8.6)
Fuel oil 3.5% 1/2 (CIF NWE/Basis ARA+ FOB Rotterdam)	396.2	555.8	(28.7)	524.3	589.1	(11.0)
Fuel oil 3.5% (FOB Med (Italy))	399.5	558.3	(28.4)	526.2	587.8	(10.5)
Naphtha Phy 1/2 (CIF NEW/Basis ARA+ FOB Rotterdam)	608.8	878.9	(30.7)	834.2	901.0	(7.4)
Naphtha (FOB Med)	577.2	858.8	(32.8)	809.3	875.4	(7.6)
Naphtha (FOB Med+CIF Med)	586.7	865.0	(32.2)	816.9	884.5	(7.6)
HS VGO(2) 1/2 (CIF NWE/Basis ARA+ FOB Rotterdam)	511.3	693.0	(26.2)	690.1	761.1	(9.3)
Diesel fuel 10 ppm (CIF NWE/Basis ARA+ FOB Rotterdam)	701.1	882.8	(20.6)	859.3	943.0	(8.9)

Source: Platts

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	Average for the 3 months ended		Change, %	Average for the 12 months ended		Change, %
	31 December 2014	30 September 2014		31 December 2014	31 December 2013	
<b>World market</b> <sup>(1)</sup>	(in th. RR per tonne, except for figures in percent)					
Brent crude	25.77	26.24	(1.8)	27.09	24.66	9.9
Urals crude (CIF Mediterranean)	25.57	26.16	(2.3)	26.82	24.50	9.5
Urals crude (CIF Rotterdam)	25.30	25.96	(2.5)	26.63	24.37	9.3
	(in th. RR per tonne, except for figures in percent)					
Gasoil 0.1 1/2 (CIF NWE/Basis ARA + FOB Rotterdam)	32.26	31.31	3.0	32.36	29.35	10.3
Fuel oil 3.5% 1/2 (CIF NWE/Basis ARA+ FOB Rotterdam)	18.79	20.11	(6.6)	20.14	18.76	7.4
Fuel oil 3.5% (FOB Med (Italy))	18.94	20.20	(6.2)	20.22	18.72	8.0
Naphtha Phy 1/2 (CIF NEW/Basis ARA+ FOB Rotterdam)	28.87	31.81	(9.2)	32.05	28.70	11.7
Naphtha (FOB Med)	27.37	31.08	(11.9)	31.09	27.88	11.5
Naphtha (FOB Med+CIF Med)	27.82	31.30	(11.1)	31.39	28.17	11.4
HS VGO(2) 1/2 (CIF NWE/Basis ARA+ FOB Rotterdam)	24.25	25.08	(3.3)	26.51	24.24	9.4
Diesel fuel 10 ppm (CIF NWE/Basis ARA+ FOB Rotterdam)	33.25	31.95	4.1	33.01	30.03	9.9

Source: Platts

	Average for the 3 months ended		Change, %	Average for the 12 months ended		Change, %
	31 December 2014	30 September 2014		31 December 2014	31 December 2013	
<b>Russian market</b> <sup>(1)</sup>	(in th. RR per tonne (incl. excise tax and VAT), except for figures in percent)					
Crude oil	12.96	13.51	(4.1)	13.65	12.69	7.6
Diesel (summer)	30.84	31.20	(1.2)	31.00	29.63	4.6
Diesel (winter)	35.31	33.20	6.4	33.21	32.22	3.1
Fuel oil	8.76	10.17	(13.9)	9.43	8.58	9.9

Source: Kortes

<sup>(1)</sup> The Company sells crude oil 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 in Russia primarily because a significant portion of crude oil destined for sale in Russia is produced by vertically integrated Russian oil companies and is refined by the same vertically integrated companies. Crude oil that is not exported from Russia, refined by the producer or sold on previously agreed terms, offered for sale in the domestic market at prices determined on a transaction-by-transaction basis. However, there may be significant price differences between regions for similar quality crude oil as a result of the competition and economic conditions in those regions.

**Inflation and foreign currency exchange rate fluctuations**

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

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

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	3 months ended		12 months ended	
	31 December 2014	30 September 2014	31 December 2014	31 December 2013
Ruble inflation, %	5.1	1.5	11.4	6.5
Period-end exchange rate (Ruble to US\$)	56.26	39.39	56.26	32.73
Average exchange rate (Ruble to US\$)	47.42	36.19	38.42	31.85

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

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

**Taxation**

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

Tax	3 months ended		Change, %	12 months ended		Change, %	Taxable base
	31 December 2014	31 September 2014		31 December 2014	31 December 2013		
Income tax – maximum rate	20%	20%	-	20%	20%	-	Taxable income
Value Added Tax (VAT)	18%	18%	-	18%	18%	-	Sales from goods/services
Property tax – maximum rate	2.2%	2.2%	-	2.2%	2.2%	-	Taxable property
	(in RR per tonne, except for figures in percent)						
Mineral extraction tax, average rates <sup>(1)</sup>	5,267	5,839	(9.8)	5,831	5,329	9.4	Tonne produced (crude oil)
	(in US \$ per tonne, except for figures in percent)						
Crude oil export duty, average rates	313.0	380.4	(17.7)	366.7	392.2	(6.5)	Tonne exported
<i>Refined products export duty average rates:</i>							Tonne exported
Gasoline, straight-run gasoline	281.6	342.3	(17.7)	330.0	353.0	(6.5)	
Diesel fuel	203.4	247.2	(17.7)	238.6	258.8	(7.8)	
Light and middle distillates, gasoils, fuel oil (mazut)	206.5	251.0	(17.7)	242.0	258.8	(6.5)	

<sup>(1)</sup> Without taking into account differentiated taxation

Starting from 1 May 2011 the Russian Government (“the Government”) introduced a special export duty on gasoline equivalent to 90% of the export duty on crude oil. Starting from 1 June 2011 the Government introduced a special export duty on straight-run gasoline equivalent to 90% of the export duty on crude oil. The Group’s results of operation are not materially affected by these special export duties.

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

**Mineral extraction tax (MET) rate.** The base tax rate for the production of oil in 2014 is set at RR 493 per tonne (an increase from RUR 470 base tax rate applied in 2013) and is adjusted depending on the international market price of Urals blend and the Ruble exchange rate. The tax rate is zero when the average Urals blend international market price for a tax period is less than or equal to \$15.00 per barrel. Each \$1.00 per barrel increase in the international Urals blend price over the threshold (\$15.00 per barrel) results in an increase of the tax rate by \$1.89 per tonne extracted.

The MET rate is applied with a discount based on the level of depletion of the related oil fields as determined under Russian reserves classification guidelines. Such formula benefits producers with oil fields having a depletion level 80% and above as determined by the Russian reserves classification. The Group receives a benefit of 3.5% per field for each percent of depletion within the limits of 80% to 100%. As Romashkinskoye field, the Group’s largest, along with certain other fields, is more than 80% depleted, the Group received a benefit related to crude oil

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production from these fields in the fourth quarter of 2014 and twelve months ended 31 December 2014 of RR 6.8 billion and RR 29.7 billion, respectively (in comparison to RR 7.5 billion and RR 24.4 billion, respectively, in the third quarter of 2014 and twelve months ended 31 December 2013).

Also a zero MET rate applies to the production of highly viscous crude oil (defined as crude oil of more than 200 Megapascal fourth in reservoir conditions). Since April 2007, the Group's production of highly viscous crude oil from the Ashalchinskoye and Mordovo-Karmalskoye fields, and since 2010 and 2011 - also from some other fields is subject to a zero MET rate, resulting in a tax benefit RR 1.2 billion and RR 3.8 billion in the fourth quarter of 2014 and twelve months ended 31 December 2014, respectively, in comparison to RR 0.9 billion and RR 2.7 billion in the third quarter of 2014 and twelve months ended 31 December 2013, respectively.

At the end of November 2011 amendments to the Tax Code of the Russian Federation were signed into law, which provide for a possibility to decrease the mineral extraction tax payable on production of crude oil until 2016 from certain fields located entirely or partially in Tatarstan.

**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:

<b>Quoted Urals price (P), US\$ per tonne</b>	<b>Maximum Export Duty Rate</b>
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 + 60.0% * (P - 182.50) (from 1 October 2011 till 31 December 2013)
	US\$ 29.20 + 59.0% * (P - 182.50) (from 1 January 2014 till 31 December 2014)

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 15<sup>th</sup> day of each calendar month and the 14<sup>th</sup> day of the following calendar month (inclusive).

Effective from 1 October 2011 the Government sets the export duty for crude oil at a marginal rate of 60% of the Urals crude oil price during the monitoring period. Starting from January 2014 the marginal export duty rate decreased to 59%.

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

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

	<b>From 1 January 2014 till 31 December 2014</b>	<b>Prior to 1 January 2014</b>
Diesel fuel	0.65	0.66
Jet fuel	0.66	0.66
Fuel oil	0.66	0.66
Oil lubricants	0.66	0.66
Gasoline	0.90	0.90
Straight-run gasoline	0.90	0.90

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



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Starting from January 1, 2014 calculation of the export duty rate for diesel fuel applies lower factor 0.65 instead of 0.66.

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

**Excise tax on refined products.** According to the legislation introduced in December 2010 the excise tax rates on the refined products were increased and linked to the environmental characteristics of the products. The responsibility to pay excise taxes on refined products in Russia is imposed on refined product producers (except for straight-run gasoline). The excise tax is paid per metric tonne produced and sold domestically. The table below shows average excise tax rates on refined products for indicated periods.

(RR per tonne)	3 months ended		12 months ended	
	31 December 2014	30 September 2014	31 December 2014	31 December 2013
<i>Gasoline:</i>				
High octane gasoline below Euro-3,4,5	11,110	11,110	11,110	10,100
High octane gasoline Euro-3	10,725	10,725	10,725	9,750
High octane gasoline Euro-4	9,916	9,916	9,916	8,755
High octane gasoline Euro-5	6,450	6,450	6,450	5,447
Straight-run gasoline	11,252	11,252	11,252	10,229
<i>Diesel fuel:</i>				
Diesel below Euro- 3,4,5	6,446	6,446	6,446	5,860
Diesel Euro-3	6,446	6,446	6,446	5,860
Diesel Euro-4	5,427	5,427	5,427	5,017
Diesel Euro-5	4,767	4,767	4,767	4,417
Motor oils	8,260	8,260	8,260	7,509
Heating oil	6,446	6,446	6,446	5,860

Excise tax rates on refined products increased in 2014 by 11% on average in comparison to 2013.

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

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

**Income tax.** The total income tax rate of 20% includes federal part of 2.0%, and the regional part, which varies between 13.5% and 18.0%.

**Changes in tax and customs legislation in 2015**

Starting from 1 January 2015, the method for calculation of certain tax and duty rates applied to oil companies in Russian Federation is amended. The mineral extraction tax rate increases significantly along with simultaneous decrease of export duty rates and excises.

During the period from 1 January 2015 to 31 December 2015, the base mineral extraction tax rate increases to 766 Rubles per tonne from 493 Rubles per tonne in 2014. At the same time, during the period from 1 January 2015 to 31 December 2015, the marginal export duty rate on crude oil decreases to 42% from 59% in 2014.

Export duty rates on refined products are to be calculated by multiplying the current crude oil export duty rate by a coefficient according to the table below.

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	<b>From 1 January 2015 till 31 December 2015</b>
Light, middle distillates, diesel fuel	0.48
Jet fuel	0.48
Fuel oil	0.76
Oil lubricants	0.48
Gasoline	0.78
Straight-run gasoline	0.85

From 1 January 2015 excise tax rates are amended as follows:

(RR per tonne)	<b>From 1 January 2015</b>
<i>Gasoline:</i>	
High octane gasoline below Euro-3,4,5	7,300
High octane gasoline Euro-3	7,300
High octane gasoline Euro-4	7,300
High octane gasoline Euro-5	5,530
Straight-run gasoline	11,300
<i>Diesel fuel:</i>	
Diesel below Euro- 3,4,5	3,450
Diesel Euro-3	3,450
Diesel Euro-4	3,450
Diesel Euro-5	3,450
Motor oils	6,500
Heating oil	3,000
Jet fuel	2,300
Benzol, paraxylene	2,300

**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. The Group benefits from this blending since the quality of its crude oil is generally lower than that produced by some other oil companies due to the relatively high sulfur content.

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

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

Transportation of refined products in Russia is mostly performed by railway transport. The Russian railway infrastructure is owned and operated by OAO Russian Railways.

Transneft and OAO Russian Railways are state-owned companies. As the activities of the above mentioned companies fall under the scope of natural monopolies, the fundamentals of their tariff policies are defined by the state authorities to ensure the balance of interests of the state and all participants in the transportation process. Transportation tariffs of natural monopolies are set by the Federal Service for Tariffs of the Russian Federation



(“FST”) and are dependent on transport destination, delivery volume, distance of transportation, and several other factors. Tariffs are revised by the FST at least annually.

### **Critical accounting policies**

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

### **Forward-looking statements**

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

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

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

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

These factors include:

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

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

## **Corporate Governance Statement**

### **Corporate Governance Code**

The Company's corporate governance standards are set out in the Corporate Governance Code of JSC Tatneft, approved by our Board of Directors on 27 December 2007 (as amended) (the "Code").

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

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

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

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

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

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

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

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

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

### **Information About Share Capital**

#### *Significant Holding of Ordinary Shares*

At 31 December 2014, OJSC Svyazinvestneftekhim ("Svyazinvestneftekhim"), a joint stock company wholly-owned by the Republic of Tatarstan, owned, directly and through its subsidiary LLC Investneftekhim, 781,404,369 ordinary shares and 95,500 preferred shares, or 33.59% of our capital stock and 35.86% of our ordinary shares.

The following table sets forth information regarding the record ownership of our ordinary shares by shareholders who own more than 5% of such shares, as per Russian statutory requirements:

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<i>Ordinary Shareholders</i>	<i>Number of Ordinary Shares</i>	<i>Per cent. of Ordinary Shares</i>
Svyazinvestneftekhim <sup>(1)</sup>	781,404,369	35.86%
BNY Mellon, as depositary <sup>(2)</sup>	620,908,368	28.50%

(1) Includes 73,209,590 ordinary shares, representing 3.2% of our charter capital and 3.36% of our ordinary shares, which are owned by LLC Investneftekhim, a subsidiary of OJSC Svyazinvestneftekhim

(2) BNY Mellon is the depositary bank for our ADR facility.

Data as of 1 January 2015

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 OJSC 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;

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### **MD&A for the three months and the year ended 31 December 2014**

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- approval of any distribution of profits, except net profit that has been distributed as quarterly dividends or losses; and
- approval of an independent auditor.

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

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

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

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

#### *Right to Dividends*

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

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

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

#### *The Powers of Directors*

Please see section "Board of Directors" below.

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**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:

<i>Name</i>	<i>Titles</i>	<i>Year of Birth</i>
Rustam Nurgalievich Minnikhanov*	Chairman of the Board, President of the Republic of Tatarstan	1957
Nail Ulfatovich Maganov**	Director, General Director of Tatneft	1958
Radik Raufovich Gaizatullin	Director, Finance Minister of the Republic of Tatarstan	1964
Sushovan Ghosh	Independent Director, Chairman of Audit Committee, Managing Director of SGI Group Ltd.	1957
Nail Gabdulbarievich Ibragimov	Director, First Deputy General Director of Production, Chief Engineer	1955
Azat Kiyamovich Khamaev	Director, Minister of Land and Property Relations of Tatarstan	1956
Rais Salikhovich Khisamov	Director, Deputy General Director, Chief Geologist	1950
Vladimir Pavlovich Lavushchenko	Director, Deputy General Director of Economics	1949
Shafagat Fakhrazovich Takhautdinov***	Director, Advisor to the Chairman of the Board	1946
Renat Haliulloevich Muslimov	Director, Assistant to the President of the Republic of Tatarstan on Exploration of Oil and Gas Fields	1934
Rinat Kasimovich Sabirov	Director, Advisor to the Prime-Minister of the Republic of Tatarstan on the Matters of Oil, Gas and Chemical Industry	1967
Valery Yurievich Sorokin	Director, General Director of Svyazinvestneftekhim	1964
Mirgaziyan Zakievich Taziev	Director, Head of the Almetievneft NGDU	1947
Maria Leonidovna Voskresenskaya	Independent Director, Director of Brentcross Holding Ltd.	1955
Rene Frederic Steiner	Independent Director, Head of Private Equity Investments of FIDES Business Partner AG	1964

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

\*\* Until November 2013 Mr. Nail U. Maganov was First Deputy General Director, Head of Crude Oil and Refined Products Sales Department

\*\*\* Until November 2013 Mr. Shafagat F. Takhautdinov was the General Director

Biographies of the Directors are set out below:

*Rustam Nurgalievich Minnikhanov.* Mr. Minnikhanov was born in 1957. In 1978, he graduated from the Kazan Agricultural Institute with a specialization in mechanical engineering, and from the Institute of Soviet Trade in 1986 with a degree in merchandizing of foodstuffs. He has a Ph.D. in Economics. He started work in 1978 as an

engineer and was responsible for diagnostics at the Sabinsky district union of Agricultural Equipment. He further worked as senior and chief power engineer at the Sabinsky Forestry Engineering Co. From 1983 to 1985, he was Deputy Director of Trade of the Sabinsky district, and from 1985 to 1990, he was Chairman of the Arsky Consumer Supplies Board. He was then elected Chairman of the Executive Committee of the Arsky Council of Peoples' Deputies. In 1992, he was First Deputy Head of the Administration of the Arsky district of the Republic of Tatarstan. From 1993 to 1996, he was Chairman of the Visokogorsky district Council of People's Deputies and then Head of Administration of the Visokogorsky district of the Republic of Tatarstan. From 1996 to 1998, he was Minister of Finance of the Republic of Tatarstan. From 1998 to 2011, he was Prime Minister of the Republic of Tatarstan. Since 25 March 2010, he has been President of the Republic of Tatarstan. He has been a member of the Board of Directors since 1997 and has served as Chairman of the Board of Directors since June 1998.

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

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

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

*Sushovan Ghosh.* Mr. Ghosh was born in 1957. He graduated with First Class Honors in 1979 from Queen Mary's College of the University of London with a specialization in electronics and electrical engineering. He is also a Fellow of the Institute of Chartered Accountants, England and Wales. From 1998 to 2000, and since 2002, he has served as the Managing Director of SGI Group Ltd. (U.K.), and from 2001 to 2002, he was Deputy Head of the International Investments and Trading Department and Director of Finance of Renaissance Capital in Russia. He has been a member of the Board of Directors since 2004.

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

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



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appointed the Minister of Land and Property Relations of the Republic of Tatarstan in March 2009. He has been a member of the Board of Directors since 2009.

*Rais Salikhovich Khisamov.* Mr. Khisamov was born in 1950. In 1978, he graduated from the evening department of the Gubkin Petrochemical and Gas Industry Institute of Moscow with a specialization in mining engineering. He has a Ph.D. in Geology and Mineralogy. He started work as an oil production operator at the Elkhovneft NGDU, then worked as a collector at the Birk 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.

*Vladimir Pavlovich Lavushchenko.* Mr. Lavushchenko was born in 1949. In 1972, he graduated from the Gubkin Petrochemical and Gas Industry Institute of Moscow. He has a Ph.D. in Economics. After serving in the army, he worked as an engineer, then as a senior engineer and chief of a computing equipment group at the Research and Production Division of the Almeteyvneft NGDU. In 1984, he became Head of the Scientific Organization of Work Section of the Yamashneft NGDU, and, from 1986, he worked as Deputy Director of Economic Matters of the Almeteyvneft NGDU. In April 1995, he was appointed Chief Accountant of Tatneft, and, since 1997, he has been Deputy General Director for Economics. He has been a member of the Board of Directors since 1998.

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

*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 OAO Neftekhiminvest-Holding. In June 2003, he was appointed as Chief Consultant of the Organizational Department in the Administration of the President of the Republic of Tatarstan. From August 2003 until June 2010, he was the Counsel (later – Assistant) to the Prime Minister of the Republic of Tatarstan on the Matters of Oil, Gas and Chemical Industry, as well as from 2006 to June 2010, the Head of Department on Matters of Oil, Gas and Petrochemical Industry of the Cabinet of Ministers' Administration. Since June 2010 he has been Assistant to the President of the Republic of Tatarstan. He has been a member of the Board of Directors since 2006.

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

*Mirgaziyan Zakievich Taziev.* Mr. Taziev was born in 1947. He graduated from the Oktyabrsk Oil Technical College with a specialization in mechanics. In 1972, he graduated from the Gubkin Petrochemical and Gas Industry Institute of Moscow with a specialization in machine and equipment of the oil and gas industry. In 1965, Mr. Taziev began working as a machinist-repairman in the oil-industrial section of Tyumazineft of Production Association "Bashneft". From 1966 to 1978, he worked at the Elkhovneft NGDU, as a mechanic, a specialist in oil production and the head of exchange of the regional engineering-technological service. In 1978, he joined Tatneft as the Head of the repair shop and Assistant Head of Central Production Services for the repair of electrical loading stations. In 1984, he became Assistant Head of Construction at Elkhovneft. From 1988 to 2001 he served as Head of the Irkenneft NGDU. From 2001 to 2005, Mr. Taziev served as Head of the Djalilneft NGDU. In 2005, he was appointed Head of the Almetievneft NGDU. He has been a member of the Board of Directors since 2004.

*Maria Leonidovna Voskresenskaya.* Ms. Voskresenskaya was born in 1955. She graduated from the Moscow Financial Academy in 1977 with a specialization in economics. She is a U.S. Certified Public Accountant and a certified Russian Auditor. She worked at Ernst & Young's Moscow office from 1991 until 2003, including as a

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partner, and on secondment to Ernst & Young's Philadelphia office in the United States from 1993 until 1994. Since 2004, she has been a director at Brentcross Holding Ltd. She has been a member of the Board of Directors since 2005.

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

#### *Authority of the Board of Directors*

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

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



- adopting the Corporate Governance Code and effecting amendments thereto;
- forming committees of the Board of Directors and approving related regulations;
- approving other internal documents of the Company on the regulation of the matters related to the competence of the Board of Directors, excluding internal documents that are within the competence of the shareholders' meeting, the General Director and the Management Board as provided for in the Charter; and
- making other decisions that are not within the competence of the shareholders' meeting, the General Director and the Management Board.

#### *Meetings of the Board of Directors*

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

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

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

#### *Committees of the Board of Directors*

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

*Human Resources and Compensation Committee.* The Human Resources is comprised of the following directors and members of the Management Board: Mr. Rene F. Steiner (Chairman), Mr. Sushovan Ghosh 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. Victor I. Gorodny (Chairman), Mr. Rais S. Khisamov, Mr. Rinat K. Sabirov, Mr. Valeriy D. Ershov, Mr. Rustam M. Khisamov, Mr. Denis V. Tsovma and Mr. Vasily A. Mozgovoi. The Corporate Governance Committee provides reports and recommendations to the Board of Directors regarding

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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.

*Disclosure Committee.* The Disclosure Committee is comprised of the following directors and members of senior management: Mr. Vladimir P. Lavushchenko (Chairman), Mr. Victor I. Gorodny, Ms. Nuria Z. Valeyeva, Mr. Evgeniy A. Tikhturov, Mr. Denis V. Tsovma, Mr. Alexander T. Yukhimets, Mr. Vladlen A. Voskoboinikov and Mr. Vasily A. Mozgovoi. The Disclosure Committee is responsible for assisting the chief executive officer and the chief financial officer in developing, carrying out and evaluating internal controls and procedures in connection with information disclosure.

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*Management Board*

Our Management Board currently consists of 15 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:

<i>Name</i>	<i>Titles</i>	<i>Year of Birth</i>
Valeriy Dmitrievitch Ershov	Head of Legal Department	1949
Nikolay Mikhailovich Glazkov	Deputy General Director for Capital Construction	1960
Iskandar Gatinovich Garifullin	Chief Accountant, Head of Accounting and Financial Reporting Department	1960
Viktor Isakovich Gorodny	Deputy General Director, Head of Property Department	1952
Nail Gabdulbarievich Ibragimov	Director, First Deputy General Director for Production, Chief Engineer	1955
Vladimir Pavlovich Lavushchenko	Director, Deputy General Director for Economics	1949
Nail Ulfatovich Maganov	Director, General Director	1958
Rustam Nabiulloevich Mukhamadeev	Deputy General Director for Personnel and Social Development	1952
Rafael Saitovich Nurmukhametov	Head of the Leninogorskneft NGDU	1949
Fyodor Lazarevich Shelkov	Deputy General Director for General Matters	1948
Nurislam Zinatulovich Syubaev	Head of Strategic Planning Department – Advisor to General Director for Foreign Economic Affairs and Financial/Banking Issues	1960
Evgeniy Aleksandrovich Tikhturov	Head of Finance Department	1960
Anvar Fasikhovich Vakhitov	Director of OOO UK Tatneft-Neftekhim	1951
Vladlen Aleksandrovich Voskoboinikov	Head of Consolidated Financial Reporting Department	1965
Alexander Trofimovich Yukhimets	Secretary of the Board of Directors	1949

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

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

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

*Iskandar Gatinovich Garifullin.* Mr. Garifullin was born in 1960. In 1981, he graduated from the Kazan Financial and Economic Institute with a specialization in accounting. Between 1981 and 1982, he worked as Deputy Chief Accountant in a mobile unit of PA Tatneftestroi. Subsequent work includes serving as an accountant at the Construction and Installation Department of the Suleevneft NGDU (1983-1985); chief accountant of a state farm (1985-1989); Chief Accountant of the Almetyevsk District Agro-Industrial Production Association (1989-1991); Chief Accountant of the Almetyevneft NGDU (1991-1997); and Chief Accountant of Tatneft (1997-1999). Since 1999, Mr. Garifullin has served as Chief Accountant and Head of the Accounting and Financial Reporting Department of Tatneft.

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

*Nail Gabdulbarievich Ibragimov.* See "Board of Directors" above.

*Vladimir Pavlovich Lavushchenko.* See "Board of Directors" above.

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

*Rustam Nabiulloevich 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 Almeteyevsk (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 Almeteyevsk repair and construction division of Tatneft (1998-2001). Mr. Mukhamadeev has served as Tatneft's Deputy General Director for Personnel and Social Development since August 2001.

*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.

*Fyodor Lazarevich Shelkov.* Mr. Shelkov was born in 1948. In 1972, he graduated from the Gubkin Petrochemical and Gas Industry Institute of Moscow with a specialization in oil and gas field machinery and equipment. He started work in 1966 as a driller's assistant at the directorate Tatburneft. His subsequent work positions include: mechanic, driller's assistant, senior mechanical engineer at Leninogorskburneft (1972-1973); service in the army (1973-1974); mechanic, Deputy Manager, Manager of the Production Servicing Unit, Secretary of the Communist Party Committee of the Leninogorsk Drilling Work Department (1974-1983); Head of the Leninogorsk Oil Well Repair and Oil Enhanced Recovery Department (1983-1985); First Deputy General Director of PA Tatneft for Western Siberia (1985-1987); Head of the Department for the Preparation of Processing Fluid for Maintaining Reservoir Pressure of PA Tatneft (1987); and as Deputy General Director of PA Tatneft and Head of the Industrial Transport and Special Purpose Equipment Department (1987-1996). Since 1996, he has served as Tatneft's Deputy General Director for General Matters.

*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

## **ОАО Татнефт**

### **MD&A for the three months and the year ended 31 December 2014**

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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.

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

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

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

*Alexander Trofimovich Yukhimets.* Mr. Yukhimets was born in 1949. He graduated from the evening department of the Tatarstan branch of the Gubkin Petrochemical and Gas Industry Institute of Moscow in 1972. He started working in 1966 as a machinist and then as master in oil production of RITS-1 of the Almeteyevneft NGDU. After serving in the army, he worked as an engineer and as Head of Shift of RITS-1. In 1974, he was elected Deputy Secretary of the Communist Party Committee of the Almeteyevneft NGDU. From 1976 to 1979, he worked as Deputy General Engineer for Safety. He was elected Head of the Trade Union of the Almeteyevneft NGDU in 1979 and Head of the Trade Union of Tatneft in 1985. He served as Deputy Head of the Suleevneft NGDU from 1990 to 1995. Since 1995, Mr. Yukhimets has served as Secretary of Tatneft's Board of Directors.

#### *Authority of the Management Board*

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

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

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

The Management Board is convened either by the General Director, or at the request of one-third of the members of the Management Board, the Board of Directors, the Revision Committee or the Chairman of the Board of Directors.

## **ОАО ТАТНЕФТ**

### **MD&A for the three months and the year ended 31 December 2014**

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

#### *The General Director*

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

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

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

The General Director also chairs meetings of our Management Board.

#### *Revision Committee*

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

The current members of the Revision Committee are:

- Saria Kashibulkhakovna Yusupova\*, Deputy Head of Economic Analysis Department of Ministry of Finance of the Republic of Tatarstan;
- Ksenia Gennadievna Borzunova, Head of Department of the Ministry of Land and Property Relations of the Republic of Tatarstan;
- Nazilya Rafisovna Farkhutdinova, Deputy Director of Economics and Finance of OAO Tatneft-Remservis;
- Ranilya Ramilyevna Gazitova, Head of Investments Department of Elhovneft NGDU of Tatneft;
- Venera Gibadullova Kuzmina, Economist, NIS Tatneft;



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### **MD&A for the three months and the year ended 31 December 2014**

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- Oleg Mikhailovich Matveev, Chief Accountant of URNiN of Tatneft;
- Nikolai Kuzmich Lapin, a shareholder of Tatneft;
- Lilya Rafaelovna Rakhimzyanova, Head of Department of the Ministry of Industry and Trade of the Republic of Tatarstan; and
- Tatiana Victorovna Tsyganova, Deputy Chief Accountant of Tatneft, Deputy Head of the Accounting Department of Tatneft

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