

# APPENDIX 6.

## OIL INDUSTRY TAXATION

### AVERAGE TAX RATES EFFECTIVE IN REPORTING PERIODS FOR THE TAXATION OF OIL AND GAS COMPANIES IN RUSSIA

	2015	2016	Change, %
Export duty, (USD/ tonne)			
Crude oil	120.25	75.61	(37.1)
Light petroleum products	57.67	30.21	(47.6)
Diesel	57.67	30.21	(47.6)
Gasoline	93.75	46.07	(50.9)
Naphtha	102.17	53.63	(47.5)
Heavy petroleum products	91.34	61.96	(32.2)
Mineral extraction tax			
Crude oil (RUB/ tonne)	6,326	5,770	(8.8)

## CRUDE OIL AND PETROLEUM PRODUCTS EXPORT DUTY RATES

Resolution of the Russian Government No. 276 (March 29, 2013) establishes a methodology for the Ministry of Economic Development of the Russian Federation to calculate export duty rates for crude oil and certain petroleum products

### CRUDE OIL EXPORT DUTY RATE

According to Russian Federal Law No. 5003-1 (May 21, 1993) clause 3.1. subclause 4, export duty rates for oil shall not exceed the marginal export duty rates calculated according to the following formulas.

Quoted Urals Price (P), USD/ tonne	Maximum Export Customs Duty Rate
≤ 109.50	0 %
109.50 < P ≤ 146.00	35 % x (P – 109.50)
146.00 < P ≤ 182.50	12.78 + 45 % x (P – 146.00)
> 182.50	29.20 + 42 % x (P – 182.50) for 2015 r.
	29.20 + 42 % x (P – 182.50) for 2016 r.
	29.20 + 30 % x (P – 182.50) for 2017 r.

Crude oil exports to Kazakhstan and Belarus are not subject to oil export duties.

According to Russian Federal Law No. 5003-1 (May 21, 1993) clause 3.1. subclause 4, export duty rates for oil shall not exceed the marginal export duty rates calculated according to the following formulas.

Under Federal Law No. 239-FZ (December 3, 2012), the Government of the Russian Federation established formulas for lower export duty rates for crude oil with special chemical and physical properties, identified by the specific customs codes (TN VED TS 2709 00 900 1 and 2709 00 900 3). According to Russian Government Resolution No. 276 (March 29, 2013), these lower export duty rates are calculated based on the average Urals price in the monitoring period using the following formula:

- >  $Ct = (P - 182.5) \times K - 56.57 - 0.14 \times P$   
 where P is the Urals price (USD/tonne)  
 and K is an incremental coefficient equal to 42% for 2015 and 36% for 2016.

Resolution of the Russian Government No. 846 (September 26, 2013) sets out the rules for applying specific export duty rates and monitoring their use for crude oil produced, inter alia, at fields located in Sakha Republic (Yakutia), Irkutsk Oblast, Krasnoyarsk Krai, and to north of latitude 65° in Yamalo-Nenets Autonomous Okrug

Order No. 868 (December 3, 2013) of the Ministry of Energy establishes the application form and methodology to analyze the applicability of these special rates for crude oil.

Under Federal Law No. 5003-1 (May 12, 1993) clause 35 subclause 1.1, crude oil produced at offshore fields is exempt from export duties until:

- > March 31, 2032 – for fields located entirely in the Sea of Azov, or located 50% or more in the Baltic Sea, Black Sea (at water depths of less than 100 meters), Pechora Sea, White Sea, Sea of Okhotsk (to south of 55° N), or the Caspian Sea;

- > March 31, 2042 – for fields located 50% or more in the Black Sea (at depths exceeding 100 meters), Sea of Okhotsk (to north of 55°), or Barents Sea (to south of 72°N)
- > Indefinitely – for fields located 50% or more in the Kara Sea, Barents Sea (to north of 72° N), or the Eastern Arctic (Laptev Sea, East Siberian Sea, Chukchi Sea, Bering Sea)

According to clause 11.1, subclause 5 of the Russian Federation Tax Code, a new offshore field is a field where commercial hydrocarbon production has commenced no earlier than January 1, 2016.

## EXPORT DUTY RATE ON PETROLEUM PRODUCTS

In accordance with clause 3.1 of Russian Federal Law No. 5003-1 (May 21, 1993), the export duty rate on petroleum products is determined by the Government. Petroleum products exported to Kazakhstan, Belarus and Kyrgyzstan are not subject to export duties. Exports of petroleum products to Tajikistan and Armenia within the indicative limits are not subject to export duties from November 13, 2013 and January 19, 2015, respectively.

According to Resolution of the Russian Government No. 276 (March 29, 2013), the export duty rate on petroleum products is calculated using the following formula

- >  $R = K * R_{crude}$ , where  $R_{crude}$  is the export duty rate per tonne of crude oil and K is a coefficient depending on the type of petroleum product.

### COEFFICIENTS, K, FOR DIFFERENT PETROLEUM PRODUCTS ARE AS FOLLOWS

Petroleum products	2015	2016	2017
Light and middle distillates			
Diesel	0.48	0.4	0.3
Lubricants oil			
Naphtha	0.85	0.71	0.55
Gasoline	0.78	0.61	0.3

## EXCISE DUTIES ON PETROLEUM PRODUCTS

In Russia, excise duties are paid by producers of refined products. Excise duties are also applied to petroleum products imported into Russia.

Clause 193 of the Russian Federation Tax Code (as amended by Russian Federal Laws No. 34-FZ dated February 29, 2016 and No. 401-FZ dated November 30, 2016) established the following excise duty rates for petroleum products.

### EXCISE DUTIES ON PETROLEUM PRODUCTS (roubles/tonne)

Petroleum products	2015	2016		2017
		January 1 – March 31	April 1 – December 31	
Gasoline				
Below Class 5	7,300	10,500	13,100	13,100
Class 5	5,530	7,530	10,130	10,130
Naphtha	11,300	10,500	13,100	13,100
Diesel fuel	3,450	4,150	5,293	6,800
Heating oil	3,000	4,150	5,293	7,800
Motor oil	6,500	6,000	6,000	5,400
Middle distillate	–	4,150	5,293	7,800

## MINERAL EXTRACTION TAX (MET) ON CRUDE OIL

According to clause 193 of the Russian Federation Tax Code (as amended by Russian Federal Law No. 401-FZ dated November 30, 2016), the MET rate on crude oil (R, in roubles/tonne) is calculated using the following general formula.

### CHANGE IN MET SINCE 2015

Tax	2015	2016	from 2017
MET oil - R	$766 \times Kc - Dm$	$857 \times Kc - Dm$	$919 \times Kc - Dm$

$Dm = Kmet \times Kc \times (1 - Kv * Kz * Kd * Kdv * Kkan)$  for 2015-2016

$Dm = Kmet \times Kc \times (1 - Kv * Kz * Kd * Kdv * Kkan) - Kk$  from 2017

where  $Kmet = 530$  for 2015, 559 starting from 2016

**Kc** reflects the volatility of crude oil prices at the global market.

**Kc** =  $(P - 15) * D / 261$ , where P is the average monthly Urals oil price at the Rotterdam and Mediterranean markets (in USD/bbl.) and D is the average monthly rouble/ US dollar exchange rate.

**Kv** characterizes the degree of depletion of the specific field, providing lower tax rates for highly depleted fields. Depletion is measured by  $N/V$ , where N is the cumulative production volume of the field and V is the total volume of initial extractable reserves as at January 1, 2006. For fields with depletion between 0.8 and 1,  $Kv = 3.8 - 3.5 * N / V$ . Where depletion is greater than 1,  $Kv$  is 0.3. In all other cases  $Kv = 1$ . Where fields include deposits with  $Kd < 1$ ,  $Kv$  is equal to 1.

**Kz** characterizes the size of the field (by reserves) and provides lower tax rates for small fields. For fields with initial reserves (designated by  $V3$ , defined as total extractable reserves for all categories as at January 1 of the year preceding the tax period) below 5 MMtonnes and depletion ( $N/V3$ , where N is the cumulative production volume of the field) less than 0.05,  $Kz = 0.125 * V3 + 0.375$

**Kd** is designed for specific deposits with hard-to-recover oil. It varies between 0.2 and 1 depending on the deposit as follows:

- > 0.2 – for oil produced from deposits with permeability no greater than  $2 * 10^{-3} \mu^2$  and effective formation thickness no greater than 10 meters
- > 0.4 – for oil produced from deposits with permeability no greater than  $2 * 10^{-3} \mu^2$  and effective formation thickness greater than 10 meters
- > 0.8 – for oil produced from deposits classified in the state mineral reserves balance as related to the Tyumen formation
- > 1 – for oil produced from other deposits

**Kdv** characterizes the degree of depletion of the deposit, providing lower tax rates for highly depleted deposits. Depletion is measured by  $Ndv/Vdv$ , where  $Ndv$  is the cumulative production volume from the deposit and  $Vdv$  is total initial extractable reserves (total reserves for all categories as at January 1 of the year preceding the tax period). For deposits with depletion between 0.8 and 1,  $Kdv = 3.8 - 3.5 * Ndv / Vdv$ . Where depletion is greater than 1,  $Kdv$  is 0.3. In all other cases,  $Kdv = 1$ . For fields containing deposits for which the coefficient  $Kd$  is less than 1, the coefficient  $Kdv$  for all other deposits of the field (for which the coefficient  $Kd=1$ ) is the value of  $Kv$  as calculated for the entire area.

**Kkan** – characterizes the oil production region and oil quality. This coefficient provides lower tax rates for fields located partly or completely in regions with challenging climate and geological conditions (specifically, Yamal Peninsula in Yamalo-Nenets Autonomous Okrug, Irkutsk Oblast, and Sakha Republic (Yakutia)). The **Kkan** coefficient is set at 0 until the first day of the month following a month in which one of the following conditions is met: (1) Achieving a particular cumulative production level of the field; (2) Expiration of the stipulated term. When the tax exemption period expires **Kkan** is equal to 1.

**Kk** – 306 for the period from 1 January 2017 to 31 December 2017

## MINERAL EXTRACTION TAX (MET) ON NATURAL GAS AND GAS CONDENSATE

According to the Russian Federation Tax Code clause 342, subclause 2.1 and clause 338, subclause 6 the following ad valorem MET rates should be used for oil produced at new offshore fields (as a % of price):

- > 30% from the start of commercial hydrocarbon production for a five-year period, ending not later than March 31, 2022 – for fields located entirely in the Sea of Azov or for fields located more than 50% in the Baltic Sea;
- > 15% from the start of commercial hydrocarbon production for a seven-year period, ending not later than March 31, 2032 – for fields located more than 50% in the Black Sea (at water depths of less than 100 meters), the Sea of Japan, Pechora Sea, White Sea, Sea of Okhotsk (to south of 55o N), Caspian Sea;
- > 10% from the start of commercial hydrocarbon production for a ten-year period, ending not later than March 31, 2037 – for fields located more than 50% in the Sea of Okhotsk (to north of 55o N), Black Sea (at depths exceeding 100 meters), Barents Sea (to south of 72o N);
- > 5% from the start of commercial hydrocarbon production for a 15-year period, ending not later than March 31, 2042 – for fields located more than 50% in the Kara Sea, Barents Sea (to north of 72o N), and Eastern Arctic (Laptev Sea, East Siberian Sea, Chukchi Sea, Bering Sea).

The Russian Federation tax law also provides for a zero MET rate on oil produced from deposits classified in the state mineral reserves balance as related to the Bazhenov formation, provided all other Tax Code conditions are met.

### EFFECTIVE MET RATE FOR THE GROUP

Rates	2015	2016	Change, %
Nominal crude oil MET rate, RUB/tonne	6,326	5,770	(8.8)
Effective crude oil MET rate, RUB/tonne	5,961	5,149	(13.6)
Difference between nominal and effective rates, RUB/tonne	365	621	
Difference between nominal and effective rates, %	5.8	10.8	

In 12 months 2016, the Group's effective MET rate was 5,149 RUB/tonne, or 621 RUB/tonne lower than the nominal MET rate established in Russian legislation. The difference results from the application of certain coefficients (Kv, Kz, Kd and Kkan) that reduce the MET rate.

Clause 342 of the Russian Federation Tax Code establishes mineral extraction tax rates for natural gas and gas condensate

### MINERAL EXTRACTION TAX (MET) ON NATURAL GAS AND GAS CONDENSATE

MET on natural gas (RUB/mcm)	$35 * E_{ut} * K_c + T_g$
MET on gas condensate (RUB/tonne)	$42 * E_{ut} * K_c * K_{km}$

**E<sub>ut</sub>** is the base value per fuel-equivalent unit calculated by the taxpayer depending on natural gas and gas condensate prices and their relative production amounts.

**K<sub>c</sub>** characterizes the degree of difficulty of the extraction of natural gas and gas condensate. The coefficient is designed to reduce the tax rate on natural gas and gas condensate, and is equal to the lowest of the following reducing coefficients: K<sub>r</sub> – depending on location, K<sub>vg</sub> – for depleted deposits, K<sub>gz</sub> – for deposits at depths of more than 1,700 meters, K<sub>as</sub> – for deposits related to the regional gas supply system, and K<sub>orz</sub> – for deposits classified as Turonian formations.

**T<sub>g</sub>** reflects gas transportation costs (set at zero for 2015 2016 according to the Federal Tariff Service of the Russian Federation).

**K<sub>km</sub>** is a correction coefficient equal to 5.5 for 2016 (4.4 for 2015).

# TAX BENEFITS

Under effective tax legislation, the Group's subsidiaries apply the following tax benefits (including lower tax rates and coefficients that reduce the MET rate).

## TYPES OF TAX INCENTIVES

Tax benefits applied during 12 m 2016	Subsidiaries (Oil Fields) belonging to the Group
<b>MET FOR GAS</b>	
Hard-to-recover factor Kc	Gazpromneft Yamal LLC Gazpromneft Orenburg LLC
<b>MET FOR OIL</b>	
Small fields factor Kz	Gazpromneft-Noyabrskneftegaz OJSC Gazpromneft Orenburg LLC
Depletion factor Kv	Gazpromneft-Noyabrskneftegaz OJSC Gazpromneft-Vostok LLC Yuzhuralneftegas JSC
Hard-to-recover factor Kd	Gazpromneft-Noyabrskneftegaz OJSC Gazpromneft-Vostok LLC Zapolyarneft LLC Gazpromneft-Khantos LLC
Oil production region and oil quality factor Kkan	Gazpromneft-Angara Gazpromneft-Yamal LLC
Zero MET rate for fields classified as belonging to Bazhenov formation	Gazpromneft-Khantos LLC
Lower MET rate for new offshore fields in the Pechora Sea	Gazpromneft-Shelf LLC
<b>PROFITS TAX</b>	
16% rate (4% concession under Khanty-Mansiysk Autonomous Okrug regional legislation)	Gazpromneft-Khantos LLC Gazpromneft-Noyabrskneftegaz OJSC
15.5% rate (4.5% concession under Yamalo-Nenets Autonomous Okrug regional legislation)	Gazpromneft-Noyabrskneftegaz OJSC Zapolyarneft LLC
19.3% rate (0.7% concession under Tumen regional legislation)	Gazpromneft-Khantos LLC
15.5% rate (4.5% concession under St. Petersburg regional legislation)	Gazpromneft PJSC Gazpromneft Aero JSC Gazpromneft-NTC LLC Gazpromneft-Razvitie LLC Gazpromneft-Bisness Service LLC Gazpromneft-Regionalnie prodazhi LLC Gazpromneft-Marine Bunker LLC
<b>PROPERTY TAX</b>	
Property tax exemption for hydrocarbon fields in Khanty-Mansiysk Autonomous Okrug with the first hydrocarbon extraction after January 1, 2011 (under Khanty-Mansiysk Autonomous Okrug regional legislation)	Gazpromneft-Khantos LLC
1.1% rate on property purchased/constructed for investment projects in Yamalo-Nenets Autonomous Okrug (under Yamalo-Nenets Autonomous Okrug regional legislation)	Gazpromneft-Noyabrskneftegaz OJSC Zapolyarneft LLC
Property tax exemption for investment projects in Orenburg region (under Orenburg regional legislation)	Gazpromneft Orenburg LLC