

## APPENDIX 6. TAXATION IN THE OIL INDUSTRY

### Average tax and fee rates imposed on oil and gas companies in Russia during the reporting periods

Indicators	2018	2017	Δ, %
<b>Export customs duty, \$/t</b>			
Oil	93.10	86.74	7.3
Light petroleum products	27.91	25.99	7.4
Diesel fuel	27.91	25.99	7.4
Petrol	27.91	25.99	7.4
Naphtha	51.17	47.67	7.3
Heavy petroleum products	93.10	86.74	7.3
<b>Mineral extraction tax, ₽/t</b>			
Oil	9,319	8,134	14.6

### Rates of export customs duties on oil and petroleum products

The rates of oil and petroleum product export duties are calculated by the Ministry of Economic Development of the Russian Federation in accordance with the *Method for calculating export customs duties on crude oil and individual categories of goods produced from oil* approved by the Russian Government's Decree No. 276 dated 29 March 2013.

#### Export customs duty on crude oil

According to Clause 4, Article 3.1 of the Russian Federation Law No. 5003-1 dated 21 May 1993 *On the Customs Tariff*, the rates of oil export customs duties shall not exceed the maximum duty rate calculated as follows:

Urals price quote (P), \$/t	Maximum rate of export customs duty
≤109.50	0%
109.50 < P ≤ 146.00	35% × (P – 109.50)
146.00 < P ≤ 182.50	12.78 + 45% × (P – 146.00)
>182.50	29.20 + 30% × (P – 182.50) in 2017–2018 C <sub>oil</sub> * × (29.20 + 30% × (P – 182.50)) from 2019

\* C<sub>oil</sub> = 0.833 in 2019, 0.667 in 2020, 0.5 in 2021, 0.333 in 2022, 0.167 in 2023, 0 in 2024.

The export customs duty is not imposed on oil exported to the Republic of Kazakhstan. Oil exported to Kyrgyzstan and the Republic of Belarus is exempt from the export customs duty to the extent envisaged by the indicative balances.

According to Federal Law No. 305-FZ dated 3 August 2018, the Russian Government shall be entitled to introduce a protective export customs duty on crude oil, to be calculated as follows:

Urals price quote (P), \$/t	Maximum rate of export customs duty
≤182.50	0%
P > 182.50	29.20 + 45% × (P – 182.50)

This procedure shall remain in effect for six months, starting with the month following a change in crude oil prices that exceeds 15% for three consecutive months.

According to Subclause 4, Clause 5, Article 3.1 of the Law of the Russian Federation No. 5003-1 dated 21 May 2003 *On the Customs Tariff*, the Russian Government shall be entitled to establish special formulas for calculating reduced rates of export customs duties imposed on crude oil with certain physical and chemical properties. These customs duties shall be defined in accordance with Resolution No. 276 of the Russian Government dated 29 March 2013, depending on the average Urals price over the monitoring period, as follows:

$R = (P - 182.5) \times C - 56.57 - 0.14 \times P$ , where P is the Urals price (\$/t) and C is the increment coefficient, which from 2017 stood at 30%.

The Russian Government Resolution No. 846 dated 26 September 2013 established a procedure for preparing proposals on using special formulas to calculate crude export duties and for monitoring the validity of these formulas' application, including with respect to new projects in the Republic of Sakha (Yakutia), Irkutsk Region, Krasnoyarsk Territory, and Yamal-Nenets Autonomous Area north of the 65<sup>th</sup> parallel north.

Decree No. 868 dated 3 December 2013 of the Russian Ministry of Energy approved the application form and methodological guidelines for analysing the validity of using the special formulas for calculating crude oil export duty rates.

Federal Law No. 305-FZ dated 3 August 2018 updated the procedure for applying special formulas to calculate export duties on oil with special physical and chemical properties produced within the geographic areas specified in Subclause 4, Clause 5, Article 3.1 of the Russian Federation Law No. 5003-1 dated 21 May 2003 *On the Customs Tariff*. Starting 1 January 2019, the tax concession applies until a set quantity of oil is exported with the use of these formulas for each of the areas.

According to Clause 1.1, Article 35 of the Russian Federation Law No. 5003-1 dated 21 May 1993 *On the Customs Tariff*, oil produced from a new offshore field shall be exempt from the export customs duty for the following periods:

- > until 31 March 2032 – for fields located entirely in the Sea of Azov or with at least 50% of their territory in the Baltic Sea, the Black Sea (up to 100 m deep), the Pechora Sea or the White Sea, the Sea of Okhotsk (south of the 55<sup>th</sup> parallel north), or the Russian stretch of the Caspian seabed;
- > until 31 March 2042 – for fields with at least 50% of their territory in the Black Sea (over 100 m deep), the Sea of Okhotsk (north of the 55<sup>th</sup> parallel north), or the Barents Sea (south of the 72<sup>nd</sup> parallel north);
- > indefinitely – for fields with at least 50% of their territory in the Kara Sea, the Barents Sea (north of the 72<sup>nd</sup> parallel north), Eastern Arctic (the Laptev Sea, the East Siberian Sea, the Chukchi Sea, the Bering Sea).

Clause 5, Article 11.1 of the Tax Code of the Russian Federation classifies a new offshore field as an offshore field that started commercial hydrocarbon production after 1 January 2016.

### Export customs duty on petroleum products

According to Article 3.1 of the Russian Federation Law No. 5003-1 dated 21 May 1993 *On the Customs Tariff*, the rate of the export customs duty on certain categories of goods produced from oil shall be set by the Russian Government. Petroleum products exported to Tajikistan, the Republic of Belarus, Armenia and Kyrgyzstan shall be exempt from export customs duties to the extent provided by the indicative balances.

The Russian Government Resolution No. 276 dated 29 March 2013 set the following procedure for determining the rates of the export customs duties on petroleum products:

$R_{op} = C \times R_{co}$ , where  $R_{co}$  is the rate of the export customs duty on crude oil and  $C$  is the estimated coefficient associated with the category of petroleum products.

The following coefficients are used to calculate the rates of the export customs duties on petroleum products:

#### Coefficients for calculating the rates of the export customs duties on petroleum products

Petroleum products	From 2017
Light and middle distillates	0.3
Diesel fuel	0.3
Lubricants	0.3
Naphtha	0.55
Petrol	0.3

According to Federal Law No. 305-FZ dated 3 August 2018, the Russian Government shall be entitled to introduce a protective export customs duty on certain categories of petroleum products amounting to 60% of the export customs duty on crude oil. This procedure shall apply for six months starting with the month following a change in crude oil prices that exceeds 15% over three consecutive months.

## Excise duty on petroleum products

In the Russian Federation, the excise on petroleum products is levied on the producers. In addition, the duty is payable by legal entities importing excisable goods to Russia.

Article 193 of the Tax Code of the Russian Federation (as amended by Federal Law No. 301-FZ dated 3 August 2018) establishes the following excise rates for petroleum products.

#### Excise duty on petroleum products (₽/t)

Petroleum products	2017		2018	2019	2020	2021
	01/01–31/05	01/06–31/12				
<b>Petrol</b>						
Below Euro 5	13,100	13,100	13,100	13,100	13,100	13,100
Euro 5	10,130	11,213	8,213	12,314	12,752	13,262
Straight-run	13,100	13,100	13,100	13,912	14,720	15,533
Diesel fuel	6,800	7,665	5,665	8,541	8,835	9,188
Motor oils	5,400	5,400	5,400	5,400	5,616	5,841
Middle distillates	7,800	8,662	6,665	9,241	9,535	9,916

Federal Law No. 301-FZ dated 3 August 2018 introduced a new excisable product – petroleum feedstocks. The excise duty is imposed on the taxpayers that are formally registered as entities processing petroleum feedstocks either at their own production facilities or under a toll arrangement. The excise duty rate for petroleum feedstocks is defined based on global oil prices, the petroleum product mix, and region-specific features of petroleum product markets.

A tax deduction may be applicable when calculating excise duty on petroleum feedstocks. Specifically, deductions may be claimed for amounts of excise duty multiplied by 2 and increased by the value of the damping coefficient, which reflects the difference between domestic motor fuel prices and export netbacks.

### Mineral extraction tax (MET)

Article 342 of the Tax Code of the Russian Federation (as amended by Federal Law No. 301-FZ dated 3 August 2018) sets out the following formulas for calculating the mineral extraction tax rate for oil:

#### MET evolution since 2017

Tax	From 2017
MET on oil	$919 \times C_p - D_m$

$$D_m = C_{MET} \times C_p \times (1 - C_d \times C_r \times C_e \times C_{dp} \times C_{can}) - C_c \text{ in 2017–2018}$$

$$D_m = C_{MET} \times C_p \times (1 - C_d \times C_r \times C_e \times C_{dp} \times C_{can}) - C_c - C_{man} \times C_{vo} - C_{mpdf} \text{ from 2019.}$$

$$C_{MET} = 559.$$

$C_p$  is a coefficient that reflects global oil price dynamics and is calculated using the following formula:  $C_p = (P - 15) \times R / 261$ , where P is the average monthly Urals price on the Mediterranean and Rotterdam markets (\$/barrel) and R is the average monthly £/\$ exchange rate.

$C_d$  is a coefficient that reflects the depletion level of a particular subsurface site. This coefficient provides for a MET rate reduction on oil for highly depleted subsurface sites. The level of reserve depletion is determined as N/V, where N is the amount of accumulated oil extraction on a particular subsurface site and V is the initial extractable oil reserves of all categories on a particular subsurface site as at 1 January 2006. If the depletion level of a specific subsurface site is greater than or equal to 0.8 and less than or equal to 1,  $C_d$  shall be calculated using the following formula:  $C_d = 3.8 - 3.5 \times N/V$ . If the depletion level of a particular subsurface site exceeds 1,  $C_d$  shall be taken to be equal to 0.3. In other cases,  $C_d$  shall be taken to be equal to 1. If a subsurface site contains an oil deposit(s) with  $C_e$  lower than 1, the  $C_d$  coefficient shall be set at 1.

$C_r$  is a coefficient that reflects the size of reserves of a particular subsurface site. This coefficient reduces the MET rate for smaller subsurface sites. If the initial extractable oil reserves ( $V_r$  – initial extractable oil reserves of all categories of a particular subsurface site as at 1 January of the year preceding the tax year) are less than 5 million tonnes, and the site's depletion level is less than or equal to 0.05 as at 1 January 2012 (or as at 1 January of the year of the licence issue, if the licence was issued after 1 January 2012),  $C_r$  shall be calculated using the following formula:  $C_r = 0.125 \times V_r + 0.375$ .

$C_e$  is a coefficient reflecting the complexity of oil extraction. It ranges from 0.2 to 1 depending on the complexity of oil extraction at a particular deposit:

- > 0.2 – when oil is extracted from a particular deposit with an approved permeability index of no more than  $2 \times 10^3 \mu\text{m}^2$  and the net pay thickness of no more than 10 m;
- > 0.4 – when oil is extracted from a particular deposit with an approved permeability index of no more than  $2 \times 10^3 \mu\text{m}^2$  and the net pay thickness of more than 10 m;
- > 0.8 – when oil is extracted from a particular deposit recognised as part of the Tyumenskaya suite pay zone;
- > 1 – when oil is extracted from other deposits.

$C_{dp}$  is a coefficient that reflects the depletion level of a particular hydrocarbon deposit.  $C_{dp}$  applies to subsurface sites that contain deposits where  $C_e < 1$ . This coefficient reduces the MET rate on oil from highly depleted deposits. The depletion level of a deposit with  $C_e < 1$  is defined as  $N_{dp} / V_{dp}$ , where  $N_{dp}$  is the amount of accumulated oil extraction at a particular deposit, and  $V_{dp}$  is the initial extractable oil reserves of all the categories at a particular deposit as at 1 January of a year preceding the tax year. If the depletion level of a particular deposit is greater than or equal to 0.8 and lower than or equal to 1, the  $C_{dp}$  coefficient is calculated using the following formula:  $C_{dp} = 3.8 - 3.5 \times N_{dp} / V_{dp}$ . If the depletion level of a specific deposit is greater than 1,  $C_{dp}$  shall be taken to be equal to 0.3. In other cases,  $C_{dp}$  is set at 1. For other deposits of this site (with  $C_e$  equal to 1), the  $C_{dp}$  shall be taken to be equal to the  $C_d$  value defined for the entire site.

$C_{can}$  is a coefficient reflecting the region of production and properties of oil. This coefficient reduces the rate of the MET on oil for the subsurface sites located entirely or partially in regions with complex weather, climatic and geological conditions (for example, on the Yamal Peninsula in the Yamal-Nenets Autonomous Area, in the Irkutsk Region, the Republic of Sakha (Yakutia)).  $C_{can}$  is taken to be equal to 0 until the first day of the month following the month when at least one of the following occurs: the maximum amount of accumulated oil extraction from the subsurface site is reached (1) or the deadline expires (2). When the deadline for reducing the tax expires,  $C_{can}$  is set at 1.

$C_e$  is set at ₰ 357 for 2018 and ₰ 428 for 2019–2021.

$C_{man}$  is a coefficient reflecting the completion of the tax manoeuvre, which is set to equal the value of phased reduction of the export customs duty on oil.

$C_{vo}$  is 0.1 in the case of extraction of oil with a viscosity of not less than 10,000 mPa·s (under formation conditions). In other cases,  $C_{vo}$  equals 1.

$C_{mpdf}$  is a coefficient reflecting an increment for motor petrol and diesel fuel that applies if the damping coefficient is positive and serves to determine the excise duty deduction for petroleum feedstocks.

Clause 2.1, Article 342 and Clause 6, Article 338 of the Tax Code of the Russian Federation set the following ad valorem MET rates (% of the cost) for oil extracted from new offshore fields:

- > 30% for the period of 5 years from the start of commercial hydrocarbon production – for fields located entirely in the Sea of Azov or with at least 50% of their territory in the Baltic Sea;
- > 15% for the period of 7 years from the start of commercial hydrocarbon production – for fields with at least 50% of their territory in the Black Sea (up to 100 m deep), the Sea of Japan, the Pechora Sea or the White Sea, the Sea of Okhotsk (south of the 55<sup>th</sup> parallel north), or the Russian stretch of the Caspian seabed;
- > 10% for the period of 10 years from the start of commercial hydrocarbon production – for fields with at least 50% of their territory in the Sea of Okhotsk (north of the 55<sup>th</sup> parallel north), the Black Sea (over 100 m deep), or the Barents Sea (south of the 72<sup>nd</sup> parallel north);
- > 5% for the period of 15 years from the start of commercial hydrocarbon production – for fields with at least 50% of their territory in the Kara Sea, the Barents Sea (north of the 72<sup>nd</sup> parallel north), Eastern Arctic (the Laptev Sea, the East Siberian Sea, the Chukchi Sea, the Bering Sea).

In addition, the tax legislation established a reduced tax rate for oil extracted from the deposits recognised as part of the Bazhenovskaya suite pay zone, subject to the requirements of the Russian Tax Code being met. According to Federal Law No. 305-FZ dated 3 August 2019, from 1 January 2019 a tax deduction can be applied to the subsurface sites listed in Subclause 4, Clause 5, Article 3.1 of the Russian Federation Law No. 5003-1 dated 21 May 1993 *On the Customs Tariff* in the amount determined as  $C_{man} \times V_{eo}$ , where  $V_{eo}$  is the quantity of crude oil extracted at a subsurface site and exported from Russia under the preferential rate of export duty for oil.

### Effective MET rate for oil across the Gazprom Neft Group

Rates	2018	2017	Δ, %
Standard MET rate for oil, ₪/t	12,455	8,134	53.1
Effective MET rate for oil (with $C_d$ , $C_r$ , $C_e$ , $C_{dp}$ and $C_{can}$ applied), ₪/t	10,354	6,825	51.7
Deviation of the effective MET rate for oil from the standard rate, ₪/t	2,101	1,309	
Deviation of the effective MET rate for oil from the standard rate, %	16.9%	16.1%	

In 2018, the effective MET rate for oil was ₪ 10,301 / tonne, which is ₪ 2,154 / tonne below the average standard rate set in accordance with the tax legislation. This deviation is due to the concessions on the MET rate for oil prescribed by the tax legislation, including the  $C_d$ ,  $C_r$ ,  $C_e$ ,  $C_{dp}$  and  $C_{can}$  reduction coefficients.

## MET on natural gas and gas condensate

Article 342 of the Tax Code of the Russian Federation (as amended by Federal Law No. 301-FZ dated 3 August 2018) establishes the following MET rates for flammable natural gas and gas condensate.

### MET on natural gas and gas condensate

Natural gas, ₪ / 1,000 m <sup>3</sup>	$35 \times U_{fe} \times C_{com} + T_g$
Gas condensate, ₪/t	$42 \times U_{fe} \times C_{com} \times C_{adj} + 0.75 \times C_{man}$

$U_{fe}$  is the base value of a fuel equivalent unit calculated by the taxpayer based on the natural gas and gas condensate prices, as well as the ratio of these hydrocarbons' production volumes.

$C_{com}$  is a coefficient reflecting the complexity of mineral resource extraction from the deposit. This coefficient reduces the MET rate and is taken to equal the lowest of the five reduction coefficients –  $C_{reg}$  (concession based on location),  $C_{dep}$  (concession for depleted sites),  $C_d$  (concession for deposits at depths below 1.7 km),  $C_s$  (concession for the subsurface areas that are part of a regional gas supply system) and  $C_{tur}$  (concession for the deposits recognised as part of the Turonian pay zones).

$T_g$  is an indicator reflecting costs of natural gas transportation taken to be equal to 0 in 2017–2018 based on the data of the Federal Antimonopoly Service of the Russian Federation).

$C_{adj}$  is an adjustment coefficient equal to  $6.5/C_g$ , where  $C_g$  is a coefficient reflecting the export margin of a fuel equivalent unit.

In 2018, the effective MET rate for natural gas was ₪ 596 / 1,000 m<sup>3</sup>, which is ₪ 43 lower than the average standard rate set in accordance with the tax legislation. This deviation is due to the concessions on the MET rate for natural gas prescribed by the tax legislation, in particular the  $C_c$  reduction coefficient.

## Additional income tax (AIT)

Federal Law No. 199-FZ dated 19 July 2018 introduced a tax on additional income from the extraction of hydrocarbons, effective from 1 January 2019. The AIT will be levied on the income from hydrocarbon extraction at a rate of 50% minus an estimated export duty and transportation costs, as well as actual capital and operating expenses associated with the development of the subsurface site. The new tax regime envisages a reduction in the total amount of fiscal payments that depend on gross metrics (MET and oil export customs duty), achieved through changing the MET calculation formula and implementing a framework of fiscal concessions on MET and the export customs duty for certain categories of pilot projects. A set list of pilot sites eligible for the AIT was drawn up for the new fiscal regime's trial period, with the sites of all categories represented in Gasprom Neft's portfolio.

## Tax relief

The existing tax legislation provides for the following types of tax concessions, which are applied by the Group's subsidiaries (including reduced tax rates and reduction coefficients for the MET on oil and natural gas).

### Types of tax relief

Tax relief in 2018	Eligible entities of the Group
<b>MET on natural gas</b>	
The $C_{com}$ reduction coefficient on the MET rate	JSC Gazpromneft-Noyabrskneftegaz LLC Zapolyarneft LLC Gazpromneft-Yamal LLC Gazpromneft-Orenburg
<b>MET on oil</b>	
The $C_r$ reduction coefficient on the MET rate	JSC Gazpromneft-Noyabrskneftegaz LLC Gazpromneft-Orenburg
The $C_d$ reduction coefficient on the MET rate	JSC Gazpromneft-Noyabrskneftegaz LLC Gazpromneft-Vostok JSC Yuzhuralneftegaz LLC Gazpromneft-Khantos
The $C_e$ reduction coefficient on the MET rate	JSC Gazpromneft-Noyabrskneftegaz LLC Gazpromneft-Vostok LLC Zapolyarneft LLC Gazpromneft-Khantos LLC Gazpromneft-Orenburg
The $C_{dp}$ reduction coefficient on the MET rate	JSC Gazpromneft-Noyabrskneftegaz LLC Gazpromneft-Vostok
The $C_{can}$ reduction coefficient on the MET rate	PJSC Gazprom Neft LLC Gazprom Neft-Angara LLC Gazpromneft-Yamal
0 rate for oil produced at the Bazhenovskaya deposits	LLC Gazpromneft-Khantos JSC Gazpromneft-Noyabrskneftegaz
Reduced MET rate for production on a new offshore field in the Pechora Sea	LLC Gazprom Neft Shelf

<b>Tax relief in 2018</b>	<b>Eligible entities of the Group</b>
<b>Corporate income tax</b>	
A reduced rate of 16% (a 4% concession under the local legislation of KMAA – Yugra <sup>1</sup> )	LLC Gazpromneft-Khantos JSC Gazpromneft-Noyabrskneftegaz
A reduced rate of 16.5% (a 3.5% concession under the local legislation of the Yamal-Nenets Autonomous Area)	JSC Gazpromneft-Noyabrskneftegaz LLC Zapolyarneft LLC Gazpromneft-Yamal
A reduced rate of 19.475% (a 0.525 % concession under the local legislation of the Tyumen Region)	LLC Gazpromneft-Khantos
A reduced rate of 16.5% (a 3.5% concession under the local legislation of St Petersburg)	PJSC Gazprom Neft JSC Gazpromneft-Aero LLC Gazprom Neft Scientific and Research Centre LLC Gazprom Neft Development LLC Gazprom Neft Business Service LLC Gazprom Neft Regional Sales LLC Gazpromneft Marine Bunker JSC Lakhta Centre MFC LLC Gazpromneft Shipping LLC Gazprom Neft Shelf <sup>1</sup>
<b>Property tax</b>	
Exemption from property tax for fields that commenced development after 1 January 2011 (in accordance with the local legislation of KMAA – Yugra)	LLC Gazpromneft-Khantos JSC Gazpromneft-Noyabrskneftegaz
A reduced rate of 1.1% for property that was created/purchased during the implementation of investment projects in the Yamal-Nenets Autonomous Area (in accordance with the local legislation of the Yamal-Nenets Autonomous Area)	JSC Gazpromneft-Noyabrskneftegaz LLC Zapolyarneft
Exemption from property tax for property that was created/purchased during the implementation of investment projects in the Orenburg Region (in accordance with the local legislation of the Orenburg Region)	LLC Gazpromneft-Orenburg
Exemption from property tax for property that was created/purchased and put into operation during the implementation of investment projects in the amount of 50% of the tax payable to the Tomsk Region's budget (in accordance with the local legislation of the Tomsk Region)	LLC Gazpromneft-Vostok
Exemption from property tax for property that was created/purchased and put into operation during the development of the technology for prospecting and exploration of the pre-Jurassic deposits in the Tomsk Region (in accordance with the local legislation of the Tomsk Region)	LLC Gazpromneft-Vostok

1. For other activities related to PJSC Gazprom consolidated group of taxpayers.