EXPORT CUSTOMS DUTY ON CRUDE OIL

a) In accordance with clause 4 of Article 3.1 of Law of the Russian Federation No. 5003-1 dated 21 May 1993 "On the Customs Tariff" (as amended by Federal Law No. 366-FZ dated 24 September 2014), export customs duty rates on oil should not exceed the amount of the maximum duty rate calculated as follows:

Urals price quotes (P), USD/t	Maximum export customs duty rate
≤109.50	0%
109.50 < P ≤ 146.00	35.0% x (P – 109.50)
146.00< P ≤182.50	12.78 + 45.0% x (P – 146.00)
182.50	29.20 + 59.0% x (P – 182.50) for 2014 29.20 + 42.0% x (P – 182.50) for 2015

Oil exported to Kazakhstan and Belarus shall not be subject to the export customs duty.

b) Federal Law No. 239-FZ dated 3 December 2012 legally settled the issue of the Russian Government establishing special formulas used to calculate reduced export customs duty rates on crude oil with special physical and chemical features classified under FEACN codes TS 2709 00 900 1 and 2709 00 900 3 for which the rates are set depending on the average price of Urals oil over the monitoring period in accordance with Resolution No. 276 of the Russian Government dated 29 March 2013 in the following amount:

Urals price quotes (P), USD/t	Export customs duty rate (R)
≤365	0
>365	45.0% x (P – 365)

Federal Law No. 366-FZ dated 24 November 2014 and Resolution No. 1274 of the Russian Government dated 29 November 2014 adjusted the procedure described above for calculating the reduced rates of customs export duties for crude oil.

In accordance with the new procedure, rates shall be calculated as follows:

- R = (P – 182.5) x C – 56.57 – 0.14 x P, where P – is the price of Urals oil (USD/tonne) and C is the incremental coefficient, which was equal to 42% in 2015.

Resolution No. 846 of the Russian Government dated 26 September 2013 approved the procedure for preparing proposals on the use of the special formulas for calculating export customs duty rates for crude oil and monitoring of the validity of their application, including with respect to new projects located on the territory of the Republic of Sakha (Yakutia), the Irkutsk Region, the Krasnoyarsk Territory and areas located north of 65 degrees of the Yamalo-Nenets Autonomous District.

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

c) In accordance with clause 1.1 of Article 35 of Law No. 5003-1 dated 21 May 1993 "On the Customs Tariffs", an exemption from the payment of the export customs duty has been established for oil extracted at a new offshore field for the period until:

- 31 March 2032 – for fields that are entirely located in the Azov Sea or that have 50% or more of their area in the Baltic Sea, Black Sea (depth up to 100 m), Pechora Sea or White Sea, Sea of Okhotsk (south of 550º N latitude) or the Caspian Sea;
- 31 March 2042 – for fields that have 50% or more of their area in the Black Sea (depth up to 100 m), Sea of Okhotsk (north of 550º N latitude) or the Barents Sea (south of 720º N latitude);
- indefinitely – for fields that have 50% or more of their area in the Kara Sea, Barents Sea (north of 720º N latitude) or the east Arctic (the Laptev Sea, the East Siberian Sea, Chukchi Sea or Bering Sea).

In accordance with sub-clause 5 of Article 11.1 of the Tax Code of the Russian Federation, a new offshore field is recognised as an offshore field at which the start date of commercial raw hydrocarbon production is after 1 January 2016. At the same time, if the depletion of all types of raw hydrocarbons (except for associated gas) at the offshore field is less than 1%, the taxpayer shall be entitled to make a decision about classifying the field as a new offshore field.

EXPORT CUSTOMS DUTY FOR PETROLEUM PRODUCTS

In accordance with Article 3.1 of the Law of the Russian Federation "On the Customs Tariff", the export customs duty rate for certain categories of goods produced from oil shall be set by the Russian Government. Petroleum products exported to Kazakhstan, Belarus and Kyrgyzstan shall not be subject to the export customs duty. In addition, petroleum products exported to Tajikistan and Armenia shall be exempted from export customs duty as part of indicative balances starting from 13 November 2013 and 19 January 2015, respectively.

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

Rcod = K × Rco, where Rco is the export customs duty rate on crude oil, and C is the estimated coefficient with respect to the category of petroleum products.

In accordance with Resolution No. 2 of the Russian Government dated 3 January 2014, an estimated coefficient (C) of 0.65 was set for diesel field, 0.90 for petrol and naphtha, and 0.66 for other light and dark petroleum products.

As of 1 January 2015, Federal Law No. 366-FZ dated 24 November 2014 and Resolution No. 1274 dated 29 November 2014 set the following coefficients for the calculation of export customs duty rates for petroleum products:

	2015	2016	Starting from 2017
Light and middle distillates			
Diesel fuel	0.48	0.4	0.3
Lubricants			
Naphtha	0.85	0.71	0.55
Petrol	0.78	0.61	0.3

EXCISE TAX FOR PETROLEUM PRODUCTS

Producers of petroleum products are recognised as taxpayers that pay excise taxes for petroleum products on the territory of the Russian Federation.
In addition, the tax is paid by legal entities when importing excisable goods to the territory of Russia.
In accordance with Article 193 of the Tax Code of the Russian Federation (as amended by Federal Law No. 34-FZ dated 29 February 2016), the following excise tax rates have been set for petroleum products (RUB per tonne):

	2014	2015	2016 (01/01–31/03)	2016 (01/04–31/12)	2017
PETROL					
Below Class 3	11,110	7,300	10,500	13,100	12,300
Class 3	10,725	7,300	10,500	13,100	12,300
Class 4	9,916	7,300	10,500	13,100	12,300
Class 5	6,450	5,530	7,530	10,130	7,430
Straight-run	11,252	11,300	10,500	13,100	12,300
DIESEL FUEL					
Below Class 3	6,446	3,450	4,150	5,293	5,093
Class 3	6,446	3,450	4,150	5,293	5,093
Class 4	5,427	3,450	4,150	5,293	5,093
Class 5	4,767	3,450	4,150	5,293	5,093
Heating oil	6,446	3,000	4,150	5,293	5,093
Motor oils	8,260	6,500	6,000	6,000	5,400
MIDDLE DISTILLATES			**4,150**	**5,293**	**5,093**

MINERAL EXTRACTION TAX (MET)

a) In accordance with Article 342 of the Tax Code of the Russian Federation (as amended by Federal Law No. 366-FZ dated 24 November 2014), the following formulas have been established for determining the MET rate for oil:

	2014	2015	2016	2017
MET for oil	493 × Cp × Cd × Cr × Ce × Cdp	766 x Cp – Dm	857 x Cp – Dm	919 x Cp – Dm

Dm = Cmet x Cp x (1 – Cd x Cr x Ce x Cdp x Ccan)

Cmet = 530 for 2015, 559 – starting from 2016

Cp is the coefficient that describes the dynamics of global oil prices and is determined using the following formula: Cp = (P – 15) × R / 261, where P is the average monthly price of Urals on the Rotterdam and Mediterranean exchanges (USD/ barrel) and R is the average monthly RUB exchange rate vs. the USD.

Cd – is the coefficient that describes the degree of depletion of a particular subsoil site. This coefficient envisages a reduction in the MET rate on oil for fields with a high degree of depletion. The degree of depletion of reserves is determined as N/V, where N is the amount of cumulative oil production at a particular subsoil site and V is the initial recoverable oil reserves under categories A, B, C_1 and C_2 for a particular subsoil site as of 1 January 2006. If the degree of depletion of the reserves of a particular subsoil site is greater than or equal to 0.8 and less than or equal to 1, Cd shall be calculated using the formula: Cd = 3.8 – 3.5 × N/V. If the degree of depletion of the reserves of a particular subsoil site is greater than 1, Cd shall be assumed as equal to 0.3. In other cases, Cd shall be assumed as equal to 1. For a subsoil site that contains an oil deposit(s) for which Ce is less than 1, Cd shall be assumed as equal to 1.

Cr is the coefficient that describes the size of the reserves of a particular subsoil site. This coefficient envisages a reduction in the MET rate for small fields. If the initial recoverable oil reserves (Vr – the initial recoverable oil reserves under categories A, B, C_1 and C_2 for a particular subsoil site as of 1 January of the year preceding the year of the tax period) are less than 5 million tonnes and the degree of depletion of its reserves is determined to be less than or equal to 0.05 in accordance with the provisions of clause 5 of Article 342 of the Tax Code of the Russian Federation, Cr shall be calculated using the formula: Cr = 0.125 × Vr + 0.375.

Ce is the coefficient that describes the degree of difficulty of extracting oil. Its value varies from 0.2 to 1 depending on the difficulty of extracting oil from a particular deposit:

- 0.2 – when extracting oil from a particular deposit of raw hydrocarbons with an approved permeability index of no more than 2×10^{-3} μm^2 and formation net pay of no more than 10 m for the particular deposit;
- 0.4 – when extracting oil from a particular deposit of raw hydrocarbons with an approved permeability index of no more than 2×10^{-3} μm^2 and formation net pay of more than 10 m for the particular deposit;
- 0.8 – when extracting oil from a particular deposit of raw hydrocarbons falling under the Tyumen Formation productive deposits in accordance with the data of the State Register of Mineral Reserves;
- 1 – when extracting oil from other raw hydrocarbon deposits.

Cdp is the coefficient that describes the degree of depletion of a particular raw hydrocarbon deposit. This coefficient envisages a reduction in the MET rate on oil for deposits with a high degree of depletion. The degree of depletion of reserves is determined as Ndp/Vdp, where Ndp is the amount of cumulative oil production at a particular deposit and Vdp is the initial recoverable oil reserves under categories A, B, C_1 and C_2 for a particular deposit as of 1 January of the year preceding the year of the tax period. If the degree of depletion of the reserves of the deposit is greater than or equal to 0.8 and less than or equal to 1, Cdp shall be calculated using the formula: Cdp = 3.8 – 3.5 × Ndp/Vdp. If the degree of depletion of the reserves of a particular deposit is greater than 1, Cdp shall be assumed as equal to 0.3. In other cases, Cdp shall be assumed as equal to 1. If a subsoil section contains oil for which the value of Ce is less than 1, the Cdp coefficient with respect to other deposits of this section (for which Ce is equal to 1) shall be assumed as equal to the Cd coefficient determined for the entire subsoil site.

Ccan is the coefficient that describes the region of production and the properties of the oil. This coefficient envisages a reduction in the MET rate for oil at subsoil sites located fully or partially in regions with difficult climatic and geological conditions (in particular, the Yamal Peninsula in the Yamalo-Nenets Autonomous District, the Irkutsk Region and the Republic of Sakha (Yakutia)). The Ccan coefficient is assumed as equal to 0 until the first day of the month following the month during which at least one of the following conditions occurs: the maximum volume of cumulative oil production is achieved at the subsoil section (1) or the deadline expires (2). Upon expiration of the deadline for applying the tax incentive, Ccan is assumed as equal to 1.

b) In accordance with clause 2.1 of Article 342 and clause 6 of Article 338 of the Tax Code of the Russian Federation, the following ad valorem MET rates have been set for oil extracted at new offshore fields (as a % of cost):

- 30% upon expiration of 5 years following the start date of commercial hydrocarbon production, but no later than 31 March 2022 for fields that are located fully within the Azov Sea or that have 50% or more of their area in the Baltic Sea;
- 15% upon expiration of 7 years following the start date of commercial hydrocarbon production, but no later than 31 March 2032 for fields that have 50% or more of their area in the Black Sea (depth up to 100 m), the Sea of Japan, the Pechora Sea or White Sea, Sea of Okhotsk (south of 550° N latitude) or the Caspian Sea;
- 10% upon expiration of 10 years following the start date of commercial hydrocarbon production, but no later than 31 March 2037 for fields that have 50% or more of their area in the Sea of Okhotsk (north of 550° N latitude), the Black Sea (depth up to 100 m) or the Barents Sea (south of 720° N latitude);
- 5% upon expiration of 15 years following the start date of commercial hydrocarbon production, but no later than 31 March 2042 for fields that have 50% or more of their area in the Kara Sea, Barents Sea (north of 720° N latitude) or the east Arctic (the Laptev Sea, the East Siberian Sea, Chukchi Sea or Bering Sea)

In addition, tax laws prescribe a zero tax rate for oil extracted from deposits classified as Bazhenov productive sediments subject to compliance with the requirements of the Tax Code of the Russian Federation.

EFFECTIVE MET RATE ON OIL FOR THE GROUP //

	2014	2015	Change, %
Standard MET rate for oil	5,831	6,326	8.5
Effective MET rate for oil (taking into account Cd, Cr and Ce)	5,588	5,961	6.7
Deviation of the effective MET rate for oil from the standard rate (RUB/t)	243	365	
Deviation of the effective MET rate for oil from the standard rate (%)	4.2	5.8	

At the end of 2015, the effective MET rate for oil was RUB 5,961/tonne, which is RUB 365/tonne below the standard rate in accordance with Russian legislation.

This deviation is due to the influence of the incentives on the MET for oil prescribed by tax legislation, including the reduction coefficients Cd, Cr, Ce and Ccan.

MET FOR NATURAL GAS AND GAS CONDENSATE

In accordance with Article 342 of the Tax Code of the Russian Federation (as amended by Federal Law No. 366-FZ dated 24 November 2014), the following MET rates have been set for flammable natural gas and gas condensate:

	2014 (01/01–30/06)	2014 (01/07–31/12)	2015
Natural gas (RUB/1,000 cub. m)	471[1] 700	35 x Feu x Kd	35 x Feu x Kd + Tg
Gas condensate (RUB/tonne)	647	42 x Feu x Kd	42 x Feu x Kd x Kkm

[1] The reduced MET rate for gas is for taxpayers that are not owners of facilities of the Unified Gas Supply System and are not organisations in which the owners of facilities of the Unified Gas Supply System are directly and/or indirectly involved and the share of such involvement exceeds 50%.

Feu is the base value of the fuel equivalent unit calculated by the taxpayer depending on the price of the natural gas and gas condensate as well as the ratio for the production volume of such hydrocarbons.

Kd is the coefficient that describes the degree of difficulty of extracting minerals from a raw hydrocarbon deposit. This coefficient envisages a reduction in the MET rate on natural gas and gas condensate and is assumed as equal to the minimum value of the following 5 reduction coefficients – Kr (incentive on a territorial basis), Kvg (incentive for depleted subsoil sections), Kgz (incentive for deposits with depth of more than 1.7 km), Kas (incentive for subsoil sections of the regional gas supply system) and Korz (incentive for deposits classified as Turonian productive sediments).

Tg is the indicator that describes expenses on the transportation of natural gas (assumed as equal to 0 for 2015 according to information from the Russian Federal Tariffs Service).

Kkm is the adjusting coefficient, which is equal to 4.4 for 2015.

TAX INCENTIVES

Current legislation on taxes and fees envisages various tax incentives utilised by the Company's subsidiaries (including reduced tax rates and reduction coefficients on the MET rate for oil and natural gas):

TYPES OF TAX INCENTIVES //

Tax incentives applied in 2015	Applicability to Group
MET FOR OIL	
Cr reduction coefficient on MET rate	OJSC Gazpromneft-Noyabrskneftegaz (Vorgenskoye, East Vyngayakhinskoye, North Karamovskoye, Valyntoyskoye, South Purpeyskoye) CJSC Zhivoy Istok (Baleykinskoye)
Cd reduction coefficient on MET rate	OJSC Gazpromneft-Noyabrskneftegaz (Pogranichnoye, Kholmogorskoye, Chatylkinskoye, Muravlenkovskoye, Sugmutskoye) LLC Gazpromneft-Vostok (West Lugineysky section) OJSC Yuzhuralneftegaz (Kapitonovskoye)
Ce reduction coefficient on MET rate	OJSC Gazpromneft-Noyabrskneftegaz (Vyngayakhinskoye, Yety-Purovskoye, West Noyabrskoye, Krayneye) LLC Gazpromneft-Vostok (Urmanskoye, Archinskoye, South Shinginskoye) LLC Zapolyarneft (Vyngapurovskoye, Novogodneye) LLC Gazpromneft-Khantos (Priobskoye)
Ccan reduction coefficient on MET rate	LLC Gazpromneft-Angara (Tympuchikanskoye, Ignyalinskoye) LLC Gazpromneft-Yamal (Novoportovskoye)
0 rate for oil production from Bazhenov productive sediments	LLC Gazpromneft-Khantos (Krasnoleninskoye)
fields that have 50% or more of their area in the Pechora Sea	LLC Gazpromneft Shelf (Prirazlomnoye)
MET FOR GAS	
Cs reduction coefficient on MET rate	LLC Gazpromneft-Yamal (Novoportovskoye) CJSC Gazprom Neft Orenburg (Eastern section of Orenburg Oil and Gas Condensate Field)
PROFIT TAX OF ORGANISATIONS	
Use of a reduced rate of 16% (4% benefit in accordance with the regional legislation of the Khanty-Mansi Autonomous District-Yugra)	LLC Gazpromneft-Khantos OJSC Gazpromneft-Noyabrskneftegaz
Use of a reduced rate of 15.5% (4.5% benefit in accordance with the regional legislation of the Khanty-Mansi Autonomous District-Yugra)	OJSC Gazpromneft-Noyabrskneftegaz
Use of a reduced rate of 19.3% (discount of 0.7% in accordance with the regional legislation of the Tyumen Region)	LLC Gazpromneft-Khantos
PROPERTY TAX	
Exemption from property tax for investment projects in the Khanty Mansi Autonomous District-Yugra announced before 1 January 2011 (in accordance with the regional legislation of the Khanty-Mansi Autonomous District-Yugra)	LLC Gazpromneft-Khantos
Exemption from property tax for fields under development after 1 January 2011 (in accordance with the regional legislation of the Khanty-Mansi Autonomous District-Yugra)	LLC Gazpromneft-Khantos
Use of a reduced rate of 1.1% for property created/acquired when implementing investment projects in the Yamalo-Nenets Autonomous District (in accordance with the regional legislation of the Yamalo-Nenets Autonomous District)	OJSC Gazpromneft-Noyabrskneftegaz LLC Zapolyarneft
Exemption from property tax for property created/acquired when implementing investment projects in the Orenburg Region (in accordance with the regional legislation of the Orenburg Region)	CJSC Gazprom Neft Orenburg, CJSC Centre for Science-Intensive Technologies