

TAX OBLIGATIONS OF ZARUBEZHNEFT GROUP COMPANIES

TAX PAYMENTS

In addition to such macroeconomic factors as changes in oil prices and the Ruble's exchange rate, taxation has a substantial effect on the activity of Zarubezhneft Group. The tax and other compulsory accruals in the revenue of the Exploration and Production segment is 45%.

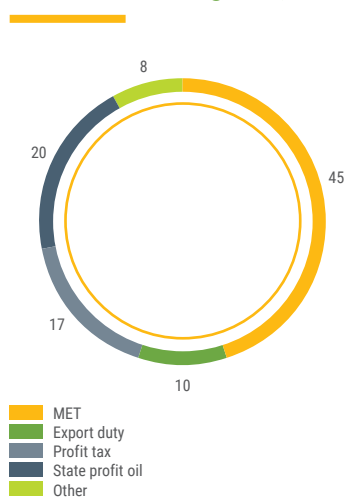
Zarubezhneft Group's tax and other compulsory payments are calculated and paid in strict compliance with the applicable legislation of the Russian Federation, Bosnia and Herzegovina, and Vietnam.

The subsidiaries of Zarubezhneft JSC completely fulfill their obligations to pay taxes, levies, duties, insurance contributions to local, regional and national budgets and to non-budgetary funds of the Russian Federation.

A substantial increase of tax payments in 2019 is primarily related to the growth of expenditures on mineral extraction tax (MET) under the current tax policies. Furthermore, in 2019 a new damper mechanism was implemented, which increases the tax burden by more than **250 RUB** per ton on average in case of no Downstream segment in the Company.

It should be separately noted that in the second half of 2019, per amendments to the Russian Tax Code, the MET was permanently modified to add a Kk coefficient of **429 RUB** per

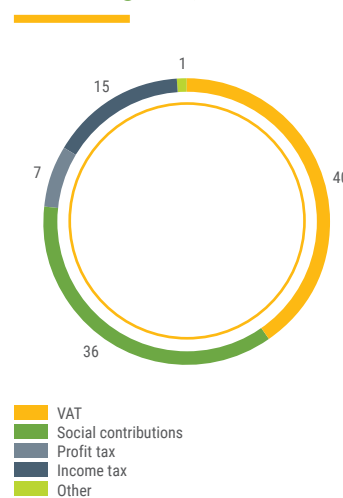
Structure of tax and other compulsory payments of the Exploration and Production segment, %



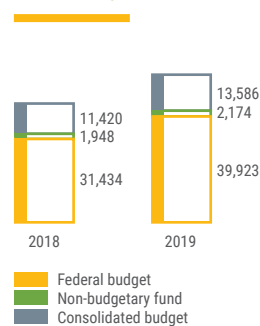
ton, which was previously valid until 2022 and was implemented as a temporary measure to replenish the Russian Federation's budget.

The structures of tax payments for the Exploration and Production segment and the Service and Other Assets segment have significant differences, which is related to branch-specific taxes in the Exploration and Production area (MET, export customs duties on oil, royalty and profit petroleum of the country under the Kharyaga production sharing agreement (PSA)).

Structure of tax and other compulsory payments of the Service and Other Assets segment, %

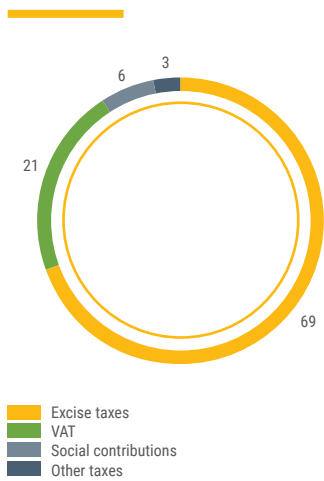


Tax and other compulsory payments going to the Russian Federation budget system, MM RUB



The total amount of tax and other compulsory payments in the Russian Federation in 2019 was 55,683 MM RUB, which is 24% higher than in 2018, with 72% of the aforementioned payments going to the Russian Federation federal budget (FB), 24% to consolidated budgets (CB) of constituents, and 4% to non-budgetary funds (NBF).

Structure of tax and other compulsory payments of the Downstream segment, %



Companies in the Bosnian region of Zarubezhneft Group are cumulatively the largest taxpayers to the budget system of Bosnia and Herzegovina. Payments to the budgets of all levels in 2019 amounted to 87.64 MM EUR. The primary burden of the companies is indirect taxes (69% excise taxes, 21% VAT), social contributions are 6%, while other taxes are 3%.

Mineral extraction tax, income tax, and royalty make up the highest share in the structure of compulsory payments of production companies under the Kharyaga PSA (KPSA).

The primary burden of the service segment companies is VAT, social contributions and income tax.

