

Recent developments in Russia's shelf oil and gas regime

Why does Russia need incentives to stimulate offshore investments?

- * Major offshore fields (discovered or potential) placed in the Arctic;
- * Long distance from the shore, deep water;
- * The Arctic weather conditions;
- * No infrastructure.

All these factors lead to:

- * Extremely high capital investments;
- * Challenging technical solutions;
- * High level of risks;
- * Low level of profitability for investors .

Main areas of government incentives

New fiscal regime:

- *Introduces regional differences and tax holiday periods
- *MET (mineral extraction tax) has been reduced
- *No export duties within tax holiday periods

But:

- *Post-holiday rate to be determined – base case assumption is to return to the current tax regime

Background for improvements:

- * On 12 April 2012, Prime Minister Vladimir Putin signed Russian Government Regulation No. 443-r, concerning measures to enhance Russia's Investment Appeal. The Regulation envisages special conditions for projects that develop offshore hydrocarbon deposits in Russia's inland and territorial seas and on its continental shelf (offshore projects), in situation when such projects are not currently eligible for tax benefits or exemptions from export duties and their commercial production phase is to be started after 1 January 2016;
- * Russian major oil and gas companies in cooperation with Government authorities have drafted proposed amendments for incorporating Government Regulation No. 443-r into the relevant Russian laws;
- * On July 2013 the Ministry of Finance submitted draft normative legal acts to the Parliament of the Russian Federation.

New fiscal regime main assumptions

	Category 1	Category 2	Category 3	Category 4
Offshore area	Azov & Baltic Sea	White and Pechora Seas, Southern Okhotsk Sea and Shallow Black Sea	Deep Black Sea, Northern Okhotsk Sea, Southern Barents Sea	Northern Barents Sea, Kara Sea, Bering East- Siberian Sea, Chuckchi and Laptev Sea
Mineral Extraction Tax (MET) holiday period (years)	5 (no later than 2022)	7 (no later than 2032)	10 (no later than 2037)	15 (no later than 2042)
MET rate (revenue-based)	30%	15%	10%	5%
Export duty	Exempted until 31.03.2032		Exempted until 31.03.2042	
Corporate Tax	20%			
VAT	General order			
Import Duty	General order			
Property Tax	Exempted			
Losses carry forward	Without limitations			
Depreciation of fixed assets	Accelerated			
Abandonment fund	Tax deductible			
Production start-up	After 01.01.2016			