

In cooperation with the
Government of Kaluga Oblast



Investments in Kaluga Oblast

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Introduction

The economic development in Russia in recent years has made Russian regions outside the megapolises increasingly attractive. The regions are coming into foreign investors' focus as an alternative to the classic business locations of Moscow and St. Petersburg.

Kaluga Oblast is an example of such an emerging, prospering business location. Volkswagen's announcement about its intention to locate its Russian production site in Kaluga made the headlines. The laying of the foundation stone met wide public interest and drew international attention to the region. With an attractive geographical location, about 180 km from Moscow, the region is currently becoming a focus of attraction especially for the automotive industry. In April 2007, the Volvo concern announced that it plans to set up a production site for trucks. These developments will certainly significantly influence other branches of economy as well.

This brochure, which has been created together with the Government of Kaluga oblast, shall give potential investors in Kaluga an overview of general Russian commercial law provisions as well as of specific investment incentives in Kaluga Oblast. Another part of the brochure is particularly dedicated to the automotive industry and depicts the legal framework of this specific market.

Further publications of the BEITEN BURKHARDT series on Russian law include:

- Investments in Russia
- Real Estate Investments in Russia
- Labor Law in Russia
- Banking Law in Russia. Credit Relations with Foreign banks.

Complimentary copies of this brochure, as well as other publications, may be downloaded from our Internet site www.beitenburkhardt.com.

Moscow, 02 May 2007

I. Legislative Basics

The document regulating foreign investments in the Russian Federation is the Federal Law "On Foreign Investments in the Russian Federation," No. 160-FZ of July 9, 1999 (hereinafter the "Law On Foreign Investments"). In accordance with this law, which determines and guarantees the fundamental rights of foreign investors, there are other documents that are also both directly and indirectly aimed at regulating investment-connected relations, such as, for instance, the Federal Law "On Agreements for the Division of Commodities," No. 225-FZ of December 30, 1995.

In addition, investors may be granted certain extra guarantees under bilateral international agreements concluded by the Russian Federation. In particular, the Russian Federation is a legal successor to the former USSR under the agreement between the USSR and the Federal Republic of Germany "On Promotion and Mutual Protection of Investments," of June 13, 1989. This agreement protects investments (tangible assets contributed by foreign investors) with respect to their composition, usage, and discrimination.

1. Federal Laws on Foreign Investments and on Capital Investments

1.1 Law on Foreign Investments

Foreign investments in the Russian Federation may be carried out in any form not specifically prohibited by the laws of the Russian Federation.

The legal structure provided for foreign investors in the Russian Federation is analogous to the one provided for Russian organizations. Any restrictions on rights of foreign investors may be imposed only by federal laws and only to the extent necessary for the protection of the fundamentals of the constitutional regime, morals, health, rights and lawful interests of other persons, and for the provision of national defense and security.

Any property belonging to foreign investors or commercial organizations in which foreign investors participate may not be the subject of seizure. Exceptions to this rule may only be established by a legislative procedure and must provide for compensation for losses.

Upon payment of taxes and charges stipulated by the laws of the Russian Federation, foreign investors are entitled to freely use revenues and profits in the Russian Federation and to transfer the same outside Russia.

Foreign investors may transfer their rights and obligations to another party on the basis of an agreement. Additionally, foreign investors are granted the right to reimbursement for losses inflicted by unlawful actions (or omissions) of state or local authorities, or officials of such authorities.

1.2 Law on Capital Investments

The Law “On Investment Activity in the Russian Federation Carried Out in the Form of Capital Investments” stipulates the legal and economic framework of investment activity carried out in the form of capital investments within the territory of the Russian Federation, as well as provides for guarantees of equal protection of rights, interests and property of the subjects of investment activity carried out in the form of capital investment, notwithstanding the form of ownership rights. Capital investments mean investments into the main capital (fixed assets), including costs of the new construction, development, reconstruction and technical re-equipment of the existing productions, purchase of the machinery, equipment, tools, stock, project development activities and other costs.

Objects of capital investments include various types of the created and (or) modernized property of private, state, municipal and other forms of ownership, with exceptions provided for by the federal laws. Investment activity in the form of capital investments may be carried out by investors, clients, sub-contractors, users of the objects as well as other persons.

Investors may make capital investments using their own and (or) raised funds pursuant to the laws of the Russian Federation. Investors may be any physical or legal entities, state bodies, local authorities, as well as foreign businesses.

Relations with foreign investors are governed by international agreements of the Russian Federation, the Civil Code of the Russian Federation, the Law on Capital Investments, other federal laws and other legislative acts of the Russian Federation. If an international agreement of the Russian Federation provides for regulations, other than stipulated by the Law on Capital Investments, then the regulations of an international agreement shall apply.

2. Corporate Law

2.1 Forms of Commercial Activities in Russia

Various types of commercial activities are available to foreign investors in Russia, among them:

- export/import of commodities or services without permanent presence in Russia
- joint activities through a partnership agreement
- activities through a representative office or an affiliate
- activities through a legal entity established under the laws of Russia (subsidiary, joint venture)

The legal status of representative offices and branches of foreign companies as well as the organizational and legal forms of Russian legal entities most often used in practice – Limited Liability Companies – is described in greater detail further on in this section.

2.2 Russian Legal Entities

Russian legislation considers a legal entity to be an organization that either owns or is authorized to economically use or operate separate assets, is able to charge such assets against its liabilities, and that is also entitled to acquire and enjoy property and personal non-property rights, bear obligations, and be a plaintiff or a defendant in court.

The Civil Code of the Russian Federation is the legal basis for the regulation of legal entities. The Federal Laws “On Joint Stock Companies,” No. 208-FZ of December 26, 1995, “On Limited Liability Companies,” No. 14-FZ of February 8, 1998, “On Production Cooperatives,” No. 41-FZ of May 8, 1996, as well as others, are also particularly relevant.

Legal entities are divided into commercial and non-commercial. Commercial are those legal entities whose main objective is to generate profits through their activities.

The following organizational and legal forms of commercial legal entities referred to as commercial organizations exist in Russia:

- unlimited partnership – an association whose members are fully liable for its obligations

- limited partnership – a partnership within which several partners have full liability and at least one partner has limited liability to the extent of such partner’s contribution
- limited liability company – an association in which the liability of each participant is limited to the extent of such participant’s contribution
- additional liability company – a company in which the participants are, in addition to the extent of their contributions, equally liable in accordance with a multiple applicable to all their contributions
- joint stock company
- production cooperative (called “artel” in Russian) – an association of individuals for joint production and other economic activities based on membership or personal labour or other participation
- unitary enterprise – this legal form is reserved for state and municipal enterprises

The above-mentioned forms of commercial organizations are legal entities under the laws of the Russian Federation.

As a general rule, the assets of legal entities are distinguished from the property of their founders. Therefore, legal entities are not liable for the obligations of their founders and vice versa. Nonetheless, in several types of commercial organizations the founders (shareholders or partners) are liable with their property for the obligations of such organization. However, business practice shows that commercial organizations where the founders are liable with their property for the obligations of their organization are not very common in the Russian Federation.

2.3 Limited Liability Company

The most common forms of commercial legal entities for business operations, including business operations with foreign investors in the Russian Federation are limited liability companies (OOO).

2.3.1 Legal Status

The legal status of limited liability companies is established by the Civil Code of the Russian Federation and the Federal Law “On Limited Liability Companies” No. 14-FZ of February 8, 1998 (hereinafter the “Law on Limited Liability Companies”).

A limited liability company is a company established by one or several parties, with the share capital divided into ownership interest, the amounts of which are defined in the foundation documents. A limited liability company is a legal entity and acquires legal capacity as of the moment of its registration.

2.3.2 Foundation Procedure

A limited liability company may be founded by one or several parties. However, a limited liability company may not have as its sole participant any other economic entity comprised of one party.

A company is founded by the Foundation Meeting, during which the founders adopt a resolution on establishment of a limited liability company, conclude a Foundation Agreement and approve the Articles of Association. The Foundation Agreement and the Articles of Association are the corporate documents of a limited liability company.

In accordance with the Foundation Agreement, the founders undertake to establish the company and determine the following: the composition of participants, the amount of share capital, the participants' ownership interests, the amount and terms of contributions, the founders' liability for violation of any obligations to contribute, the conditions and procedure for the company's distribution of profits, the managerial bodies, and the procedure for a participant's exit from the company. If a company is founded by one party, then a Resolution of the Sole Participant on Foundation of the Company shall be adopted instead of concluding a Foundation Agreement.

The Articles of Association of a limited liability company must include the following data: the name of the company, its location, the composition and powers of the bodies, the share capital amount and the nominal value of the ownership interests, provisions on the procedure for a participant's exit from the company and on the transfer of a participant's ownership interest in the company, requirements as to the holding of company documents and the procedure for provision of information on the company to its participants and other parties as well as other data stipulated by current legislation and included in the Articles of Association at the discretion of its founders.

The number of company participants must not exceed 50. Should the number of participants exceed 50, within a year such limited liability company must be transformed into an open joint stock company.

In certain cases described in Section 6.3.7.1 "State Control over the Establishment, Restructuring, and Liquidation of Commercial and Non-Commercial Organizations," establishing a limited liability company is subject to control by the antimonopoly authorities.

2.3.3 Share Capital. Alienation of Ownership Interest

The share capital of a limited liability company is composed of the participants' contributions. The minimum share capital amount equals 10,000 rubles (at present approximately EUR 300). The share capital of a company may be paid in monetary funds or in in-kind contributions. If the value of an in-kind contribution exceeds 20,000 rubles (at present approximately EUR 600), such value must be assessed by an independent appraiser.

A participant of a limited liability company is entitled to sell or otherwise assign (exchange, give as a gift) its ownership interest to one of more participants of the company. The consent of the company or its other participants to such transaction is not required, unless otherwise provided for by the Articles of Association of the company.

A participant of a limited liability company is also entitled to assign its ownership interest to a third party that is not a participant of the company. However, such assignment may be prohibited by the company's Articles of Association.

As a general rule, assignment of ownership interest to a third party does not require the consent of the company or its participants. At the same time, the company's Articles of Association may provide for the necessity to obtain such consent in case of assignment by a company participant of its ownership interest to a third party in a manner other than sale.

Company participants have the right of first refusal on purchase of a participant's ownership interest (or portion thereof), at the price offered to third parties and in proportion to their ownership interests, unless another procedure for exercising this right is provided for by the company's Articles of Association or Participants Agreement. The Articles of Association may also provide for the company's right of first refusal on purchase of ownership interest (or portion thereof) being sold by a participant to a third party, if other participants do not exercise their right of first refusal.

A company's Articles of Association may stipulate that transfers of ownership interests to heirs (legal successors) of company participants are possible only with the consent of the other company participants.

In the event that an assignment of an ownership interest to third parties is prohibited, and the other participants refuse to purchase such interest, or, in the alternative, in case of refusal to grant consent to the assignment of the ownership interest to heirs (legal successors), the company shall pay to the participant or its heirs (legal successors) the actual value of the ownership interest as determined on the basis of the company's accounting reports.

In certain cases described in Section 6.3.7.2 “State Control over the Observance of Antimonopoly Legislation with respect to Acquisitions of Shares (Ownership Interests) in the Share Capitals of Commercial Organizations and Other Cases,” transactions with ownership interest in the share capitals of limited liability companies are subject to control by the antimonopoly authorities.

2.3.4 Management Bodies

The **General Participants Meeting** is the supreme managerial body of a limited liability company. Major decisions (amending the company’s corporate documents, changing the size of the share capital, distributing profit) and primary rights to manage and control the company (appointment of all other company management bodies, approval of annual reports and balance sheets, decisions on conducting independent audits) fall exclusively within the competence of the General Participants Meeting.

Companies are required to hold regular General Participants Meetings once a year. Any other General Participants Meetings are extraordinary. The Articles of Association may provide, in certain cases, for the holding of extraordinary General Participants Meetings. An extraordinary General Participants Meeting may be held upon the initiative of the single-member executive body (the General Director) and other company management bodies, the company’s auditor or participants holding at least 10% of the total votes.

The Law On Limited Liability Companies regulates the procedure for convening General Participants Meetings. Failure to observe this procedure shall not entail negative legal consequences if all company participants have taken part in the meeting.

At General Participants Meetings participants hold a number of votes in proportion to their ownership interest in the company’s share capital. In accordance with Point 8 of Article 37 of the Law on limited liability companies, decisions may be adopted by a simple majority of votes. A company’s Articles of Association may, however, provide for a greater majority vote. To adopt decisions regarding amending the company’s Articles of Association and changing the share capital, no less than a two-thirds majority of the total number of votes is required. Decisions on company reorganization or liquidation, as well as on issues connected with entering amendments to the Foundation Agreement, may be adopted by a unanimous vote only.

Company participants may adopt decisions without holding a meeting by way of absentee vote. However, certain decisions are required to be taken in the course of a meeting, for instance, approval of the company’s annual reports and annual accounting balance sheets.

A company's Articles of Association may provide for the establishment of the company's **Board of Directors (Supervisory Board)**.

A company's Articles of Association may provide for the Board of Directors' (Supervisory Board's) competence to establish executive bodies of the company, terminate their powers early, decide on the company's conducting of large-scale transactions as well as interested-party transactions, and other issues.

The Articles of Association may provide for creation of the auditing commission (election of an internal auditor). Companies with more than 15 participants are required to create the auditing commission (elect an **internal auditor**).

The company's current activities are managed and all other issues not falling within the competence of the General Participants Meetings and the Board of Directors (Supervisory Board) are settled by the company's **single-member executive body**. The single-member executive body of a company acts on the company's behalf, represents its interests, and conducts transactions. The single-member executive body is usually called the General Director. The General Director is elected by the General Participants Meeting or by the company's Board of Directors (Supervisory Board). The General Director acts on behalf of the company directly on the basis of law without a special power of attorney. The General Director's powers may be limited by the Articles of Association. In the event the General Director concludes an agreement on the behalf of the company and by this exceeds his powers, such transaction may be declared invalid by a court upon the company's claim. A court adopts a decision to recognize the transaction as invalid if the company proves that the defendant was, or should have been aware of, the limits of the powers of the General Director. The agreement remains valid until the court adopts a decision to recognize the invalidity of the transaction.

A company's Articles of Association may provide for the establishment of a **collective executive body** of the company (Management Council, Directorate). Unlike the General Director, the members of the collective executive body must hold a special power of attorney in order to perform transactions on the company's behalf.

2.3.5 Liability of the Company and Its Participants

A limited liability company is liable for its obligations to the full extent of all its assets. A limited liability company is not liable for obligations of its participants.

Participants of a limited liability company are not liable for the company's obligations and bear the risk of losses related to the company's activities to the extent of the value of their contributions. In the event that participants have not completed their contributions

in full, they shall be jointly liable for the company's obligations to the extent of the value of the outstanding portions.

In a number of cases, those participants that may affect resolutions adopted by the company due to the sizes of their ownership interests in the company, or other reasons, are jointly liable with the company for the company's obligations also in cases not related to contributions to the company's share capital. So, for instance, a parent company is jointly liable with its subsidiary for transactions concluded by the latter to fulfill mandatory instructions of the parent company as well as for the subsidiary's debts in case of its bankruptcy.

2.4 Registration of Legal Entities

The Federal Law "On State Registration of Legal Entities and Individual Entrepreneurs," No. 129-FZ dated August 8, 2001 (hereinafter the "Law on Registration"), regulates the procedure for registering newly established legal entities. Currently, they are established on the basis of the "One Window Principle," in accordance with which in order to have a fully functioning legal entity registered it is sufficient to submit the documents to one state authority.

Generally, the registration of a legal entity is carried out as follows: the organization is registered as a legal entity with the tax bodies and concurrently registered with other state bodies and extra-budget funds.

The registration of legal entities presupposes their entry in the Single State Register of Legal Entities by a territorial tax body. The local tax body at the appropriate location of the head of the future legal entity is authorized to perform this action. In accordance with Article 12 of the Law on Registration, submission of the following documents is necessary for the registration of a legal entity:

- an application for state registration in the form established by the Russian Federation Government; the signature of the person submitting the application must be notarized. The application may be signed by the individual founder or by the head of the founder being a legal entity
- the decision to establish a legal entity in the form of minutes of the founders meeting or decision of the sole participant
- the legal entity's foundation documents
- excerpt from the relevant register of legal entities of the country of the founder's origin, or any other certificate proving the legal status of the founder – foreign legal entity

- document indicating payment of the duty for state registration of a legal entity in the amount of 2,000 rubles (approximately EUR 60).

In accordance with Article 8 of the Law on Registration, the state registration of legal entities is carried out within 5 business days as of the moment of submission of the necessary documents to the tax body.

Upon completion of registration, a certificate of state registration of the legal entity is issued to the company.

The registration authority shall concurrently issue documents to the legal entity verifying its registration with other state bodies and extra-budget funds:

- certificate of the company's registration as a taxpayer with the local tax authority, depending on the place of location of the legal entity
- information letter issued by the Territorial Body of the Federal Service of State Statistics (Rosstat) on assignment of statistics codes to the legal entity
- notice on the legal entity's registration with the Territorial Body of the Russian Federation Pension Fund
- notice on the legal entity's registration with the Territorial Body of the Russian Federation Social Insurance Fund
- certificate of the legal entity's registration with the Territorial Body of the Russian Federation Obligatory Medical Insurance Fund

In the event that the amount of assets or overall earnings of the founders of a legal entity exceeds the amount established by Russian Federation legislation, then establishing the legal entity requires obtaining the preliminary consent of or further notifying the Russian antimonopoly authorities. The grounds and the procedure for applying the antimonopoly authorities are described in more details in Points 6.3.7.1 and 6.3.7.2 in Section 6.3.7 "Enforcement of Antimonopoly Legislation and Control over Competition by Governmental Authorities" below.

2.5 Relevant contacts in Kaluga Oblast

Ministry of Economic Development of Kaluga Oblast

Minister: Nikolay Viktorovich Lyubimov

Russia, 248000, Kaluga, ul. Kutuzova, 2/1, building 1

Phone (reception): (4842) 570106

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Department of the Federal Tax Service for Kaluga Oblast

Head: Vladimir Pavlovich Blinov

Address: Russia, 248021 Kaluga, ul. Moskovskaya 282

Phone (reception): (4842) 553203

Kaluga Customs

Acting Head: Evgeny Germanovich Timofeyev

Address: Russia, 248021, ul. Moskovskaya 282

Phone (reception): (4842) 749317

3. Basics of Legislation on Real Estate

3.1 General Characteristics of the Existing System for Legal Regulation in the Real Estate Field

In terms of volume of investments, the Russian Federation real estate market has recently proven itself to be one of the most dynamically developing markets. In 2004, prices in the main sectors of this market reached the level that had existed prior to the 1998 financial crisis. Russia has also attained pre-crisis levels in terms of the number of transactions in the real estate market and the volume of construction, and such growth continues.

Traditionally, growth rates remain different in the various regions of Russia. Moscow, Moscow Oblast, St. Petersburg, and Leningrad Oblast still occupy the leading positions.

A legal basis necessary for ensuring the stable and effective development of the real estate market has been created and continues to be intensively developed in Russia. The main laws that regulate real estate turnover in the Russian Federation are as follows:

- The Constitution of the Russian Federation
- The Civil Code of the Russian Federation
- The Land Code of the Russian Federation

- The Federal Law “On the State Registration of Rights to Real Estate and Transactions Therewith,” No. 122-FZ of July 21, 1997 (hereinafter referred to as the “Law on the State Registration of Rights to Real Estate”)
- The Federal Law “On the Turnover of Agricultural Land,” No. 101-FZ of July 24, 2002
- The Federal Law “On Concession Agreements,” No. 115-FZ of July 21, 2005
- The Federal Law “On Mortgage (Real Estate Pledge),” No. 102-FZ of July 16, 1998
- The Federal Law “On Participation in Share Participation Construction of Blocks of Apartments and Other Real Estate Objects and on Amending Certain Legislative Acts of the Russian Federation,” No. 214-FZ of December 30, 2004
- The City-Planning Code of the Russian Federation
- The Federal Law “On the State Land Cadastre,” No. 28-FZ of January 2, 2000 (hereinafter referred to as the “Law on the State Land Cadastre”)
- The Forest Code of the Russian Federation, etc.

An effective state system for registering real estate objects, rights thereto, and transactions therewith has been created in Russia. Existing court practice evidences the increased effectiveness of court protection of rights and lawful interests of real estate owners and investors working in the real estate market.

Regulation of the Russian Federation Constitutional Court № 6-Ī of April 21, 2003 serves as an example. The Constitutional Court has ruled that real estate may not be reclaimed from a bona fide possessor if the sale and purchase transaction has been invalidated. A bona fide possessor is recognized as a real estate purchaser that is able to prove that the real estate has been acquired for payment and that the purchaser did not and could not have known that the seller did not have the right to alienate the real estate.

In general, the system of legal regulation existing in Russia meets the needs of a developed and civilized real estate market. At the same time, it is necessary to keep in mind that there exists a whole number of legal regulation particularities which are typical only for Russia.

For instance, in Russia the ownership right to a building and the ownership right to the land plot on which the building is situated may still exist separately.

The following traditional rights to real estate are recognized in Russia:

- ownership rights
- rights to lease
- rights to pledge
- servitudes

In addition, rights exist which are not typical for other countries, such as, for instance, the following:

- right to perpetual (unlimited) use of a land plot
- right to lifetime inherited possession of a land plot
- right to free-of-charge short-term use of a land plot

It is important to remember that in Russia a number of restrictions have been imposed on foreign legal entities' and individuals' rights to land. The restrictions are also applicable to Russian legal entities in whose share capitals foreign parties hold ownership interests.

In this section we focus on the main issues of the legal regulation of real estate which, based on our experience, are of the most practical interest for investors. Furthermore, in this section we provide a number of recommendations for investors for securing their investments in real estate.

3.2 State Registration of Real Estate Objects and Registration of Rights Thereto

3.2.1 State Technical Registration

Within the framework of the state technical registration of objects (buildings, constructions) being the results of city-planning activities, real estate objects are individualized (they are described, their technical characteristics are determined, and cadastre numbers are assigned).

Presently, organizations accredited by the Federal Real Estate Cadastre Agency, the so-called Technical Inventory Bureau, perform state technical registrations of objects that

are the result of city-planning activities. The Technical Inventory Bureau issues technical passports for each real estate object. Technical passports are important documents worthy of investors' special attention. In addition to detailed information on the technical characteristics of the real estate object, a technical passport contains information on the designation of such real estate object.

In particular, a technical passport indicates whether the object of interest is residential or non-residential. It is necessary to remember that in Russia use of residential premises for commercial activities (for instance, to locate offices, shops, etc. thereon) is prohibited. At the same time, it is possible to convert residential premises into non-residential premises given receipt of a special permit issued by local authorities.

Should the technical characteristics of a real estate object change due to restructuring, reconstruction, a change in the level of engineering development, etc., the implemented changes must be reflected in the technical passport. Transactions with real estate objects that require state registration may be conducted only subject to the existence of the technical passports, which evidence the current technical conditions of the respective real estate objects as of the conclusion of the transactions.

3.2.2 State Cadastral Registration

Land plots in Russia are subject to state cadastral registration. Conducting transactions with land plots that have not undergone state cadastral registration is prohibited.

The document that confirms the fact of a land plot's cadastral registration is an excerpt from the land cadastre indicating the land plot's borders and cadastre number. Currently, the Federal Agency of Real Estate Cadastre performs state cadastral registrations of land plots. The procedure for performing cadastral registrations of land plots is regulated in detail by the Federal Law on the State Land Cadastre.

3.2.3 State Registration of Rights to Real Estate

State registrations of rights to real estate are performed on the basis of technical and cadastral registrations.

According to the general rule, rights to real estate and transactions therewith are subject to obligatory state registration in the Single State Register of Rights to Real Estate and Transactions Therewith. The state registration is a legal act of the state's recognition and confirmation of rights to real estate.

Rights to lease buildings and constructions are exceptions to the general rule, but only in case such rights have been established for a period of no less than one year. In addition, rights to real estate that commenced prior to the entry into force of the Law on the State Registration of Rights to Real Estate, i.e. prior to January 31, 1998, are recognized without the state registration.

The Federal Registration Service is vested with the responsibility of maintaining the Single State Register of Rights. Territorial divisions (departments) of the Federal Registration Service, which maintain the Register and perform registrations of rights and transactions with real estate, are present in all regions of Russia. State registrations of rights to real estate objects are performed at the places of location of such objects. The Law on the State Registration of Rights to Real Estate determines the procedure for registering rights and the documents required for registration, as well as other procedural issues.

Presently, registrations of real estate objects and rights to real estate and transactions therewith are performed separately in the Russian Federation. However, the system of registration of real estate objects is currently undergoing both structural and qualitative changes directed towards developing a single state real estate cadastre. Decree of the Government of the Russian Federation No. 1017-r dated July 15, 2006, introduced to the State Duma of the Russian Federation the draft federal law "On State Real Estate Cadastre," which was developed by the Ministry of Economic Development of Russia and is directed towards resolving the issues of real estate registration, informational support for the processes of state control, management, economic evaluation and taxation of real estate, as well as towards improving activities in the sphere of real property formation.

It is crucial for investors to realize that the fact of state registration of rights to real estate, in and of itself, is not an absolute guarantee of the protection of the rights and interests of investors. A state registration of rights to real estate may be cancelled on the basis of a court ruling in case the legal act or agreement which serves as the basis for the registration of the rights has been invalidated. Therefore, an independent legal examination of the rights to be acquired by an investor is an obligatory condition for any transaction with real estate in Russia.

3.3 Acquiring Rights to Land Plots, Buildings and Constructions

3.3.1 Types of Rights

The main types of rights to land plots provided for by Russian legislation are:

- ownership right
- right to lease
- right to perpetual (unlimited) use of a land plot
- right to lifetime inherited possession of a land plot
- right to free-of-charge short-term use of a land plot

3.3.2 Acquiring Rights to Land Plots

Rights to land plots may be acquired from private persons (legal entities and individuals) as well as from state and local authorities. In any case, it is crucial for the investor to know who the owner of the land plot is and what authorities the party intending to transfer the rights to the land plot has.

The extent of the authorities held by parties which have rights is determined on the basis of documents stipulating rights. An investor may be provided with such documents in the form of acts of state or local authorities, certificates of the state registration of rights, agreements, etc. A thorough legal examination of such documents allows an investor to obtain the necessary information on those rights to the land plot that the investor can acquire.

A right may commence only with respect to a land plot that has been formed in conformity with the legislation on land utilization and the land cadastre. The formation of a land plot is interpreted as the determination of the land plot's borders, the land plot's permitted use, and the technical conditions for connecting objects to engineering networks.

A right to a land plot may commence on various bases, for instance, it may stem from agreements, acts of state or local authorities, court rulings, etc.

In any case, a right to a land plot may commence only upon its state registration, with the exception of a leasehold right for a term of less than one year.

Rights may be acquired only with respect to those land plots that have not been barred from turnover. The Land Code of the Russian Federation determines the closed list of the types of land plots barred from turnover. In particular, land plots barred from turnover include state wilderness areas and national parks, as well as land on which objects intended for ensuring national security and defense are located.

It is important to realize that if buildings (constructions) situated on a land plot belong to the owner of the land plot, such land plot may not be acquired without the buildings (constructions) located thereon.

3.3.3 Restrictions on the Rights of Foreigners

According to the general rule, foreign citizens, legal entities, and Russian legal entities in whose share capitals ownership interests are held by foreigners are entitled to acquire the same rights to land plots as Russian citizens and legal entities without foreign participation.

Agricultural land plots are the exception to this rule. Foreign parties (individuals and legal entities) and Russian legal entities with more than 50% foreign share participation in their share capitals are only entitled to have the right to lease agricultural lands.

In addition, pursuant to the Land Code of the Russian Federation, foreign parties may not have ownership rights to land plots located on border territories, the list of which is established by the President of the Russian Federation, and other specifically determined territories. As of the moment of preparation of this edition for publication, the list of such territories had not yet been determined. Until such list is determined, granting any land plots located on border territories to the ownership of foreign citizens, individuals holding no citizenship or foreign legal entities is prohibited.

3.3.4 Status of a Land Plot

While choosing a land plot an investor should carefully study the land plot's status. In particular, the investor should determine which category, of the seven land categories stipulated by the Land Code of the Russian Federation, the land plot belongs to. It is important to know which territorial zone the land plot has been assigned to pursuant to the land use and development regulations, as well as the type of permitted use of the land plot in accordance with the city-planning rules.

It is necessary to remember that land plot owners are obligated to use the land plots in conformity with their designations, their belonging to this or that land type, and their permitted use. Law provides for administrative penalties for breaking the stipulated rules.

3.3.5 Acquiring Rights to Buildings and Constructions

Investors are entitled to acquire the ownership rights to buildings (constructions) that already exist, are under construction, or to have them constructed anew.

No restrictions on acquisitions of rights to buildings (constructions) have been stipulated for foreign parties (individuals and legal entities) or Russian legal entities with foreign participation.

While acquiring an already existing building it is important to verify the building's status. It is necessary for the investor to know whether the building is residential or non-residential, has the status of a historical or architectural landmark, etc. The investor's subsequent use of the building (construction) depends on such characteristics.

In acquiring the ownership right to a building (construction), the investor should know that certain rights to demand with respect to the land plot on which such building (construction) is located are also simultaneously acquired.

If a building (construction) to be acquired by an investor and the land plot located thereunder belong to one party, then, according to the general rule, the building (construction) must be sold to the investor together with the land plot.

If the land plot located under a building (construction) being of interest to an investor does not belong to the owner of such building (construction), the investor is entitled to demand that the same rights to the land plot which belonged to the building's (construction's) former owner be transferred to the investor. In case of sale of the land plot, the building's (construction's) owner has the right of first refusal on its purchase.

A building (construction) under construction or reconstruction may be the subject of transactions as a real estate object. Subject to certain conditions, rights to such an object may be inserted in the Single State Register of Rights to Real Estate and Transactions Therewith.

In cases of acquiring a building (construction) having the status of an unfinished construction object, it is important to verify the existence of the rights to the land plot and the type of permitted use of the land plot on which the construction is being performed, as well as the existence of a construction permit for the object that the investor is interested in, design documentation, documents containing descriptions of the construction object, and other initial data assuring the investor of the legitimacy of the construction works.

In cases of constructing a building (construction) on a land plot, rights to which have been acquired by the investor, it is necessary to keep in mind that until January 1, 2007,

construction works in the Russian Federation require special permits (licenses). After the indicated date, licensing construction activities is no longer required.

Furthermore, it is important to know that preparation and realization of design documents for construction is not allowed without execution of the corresponding engineering survey. Prior to commencing construction works it is necessary to obtain in the established procedure a positive conclusion of the state expertise of (the state inspectorate's positive conclusion on) the engineering survey results and design documentation, as well as to obtain a construction permit.

3.3.6 Procedure of Obtaining a Construction Permit

Issuance of construction permits is regulated by the City-Planning Code of the Russian Federation.

Permit for construction on a land plot is issued by a local authority where the land plot is located. Application for issuance of a construction permit shall be submitted by the developer to the relevant executive authority of the subject of the Russian Federation or to the local authority.

Construction permit is issued for the term of no more than three years. Construction permit is executed in two copies. One copy is given to the developer. The other copy is kept in the archive of the local authority.

Construction permit may be prolonged based on an application of the developer. Procedure and term of prolongation of construction permit is established by the local authorities.

The developer shall submit an application for permit for construction of commercial buildings to the Department of Architecture and City-Planning addressed to the Head of the district.

The following documents shall be submitted:

- application
- request of the Head of the territorial subdivision of the district
- copy of the certificate of ownership right to the land (designation of the land plot)
- cadastral plan of the land plot

- architectural project of the commercial building (the project is developed by an organization or an individual having license for such activities)
- topographical survey of the land plot 1:500
- plan of the land plot from the Technical Inventory Bureau

Construction permit is not required:

- if construction and reconstruction works on the real estate objects do not affect structural and other safety characteristics of buildings, structures and constructions, as well as in case of erection of temporary buildings, structures and constructions on the plots required for organization of construction works
- in case of erection of structures and constructions in a non-commercial union for horticulture, gardening or summer cottages society

3.4 Relevant contacts in Kaluga Oblast

Ministry of Economic Development of Kaluga Oblast

Russia, 248000, Kaluga, ul. Kutuzova, 2/1, building 1

Minister: Nikolay Viktorovich Lyubimov

Phone (reception): (4842) 570106

www.inkaluga.ru

Department of the Federal Registration Service for Kaluga Oblast

Address: Russia, 248023, Kaluga, ul. Fridrikha Engelsa 25

State registration of title to real property and transactions therewith: Russia, 248600, Kaluga, ul. Vilonova 5

Phone (reception): (4842) 545197

Department of the Federal Service of Ecological, Technological and Nuclear Control for Kaluga Oblast

Head: Vasily Georgiyevich Chelenko

Address: Russia, 248620, Kaluga, Starichkov per. 2à

Phone (reception): (4842) 533150

Department of the Main State Expertise of Russia for Kaluga Oblast

Head: Valery Fedorovich Reshitko

Address: Russia, 248001, Kaluga, ul. Plekhanova 45

Phone (reception): (4842) 741564

Division for Geology and Licensing for Kaluga Oblast of the Regional Agency of Subsurface Use for the Central Federal Okrug of the Russian Federation

Head: Mikhail Mikhailovich Rozhdestvin

Address: Russia, 248620, Kaluga, Starichkov per. 2à

Phone (reception): (4842) 573025

**Division for Water Resources for Kaluga Oblast of the Moscovsko-Oksky River Basin
Water Department**

Head: Egor Mikhailovich Petukhov

Address: Russia, 248620, Kaluga, Starichkov per. 2à

Phone (reception): (4842) 563126

Department of the Federal Environmental Control Service for Kaluga Oblast

Head: Anatoly Nikolayevich Stepansov

Address: Russia, 248620, Kaluga, Starichkov per. 2à

Phone (reception): (4842) 563505

Forestry Management Agency for Kaluga Oblast

Head: Nikolay Vasiljevich Kobozev

Address: Russia, 248620, Kaluga, Starichkov per. 2à

Phone (reception): (4842) 724711

Department of the Federal Agency of Real Property Cadastre for Kaluga Oblast

Head: Nadezhda Georgievna Katsyra

Address: Russia, 248600, Kaluga, ul. Vavilova 5

Phone (reception): (4842) 578756

Federal State Organization “Land Cadastral Chamber” for Kaluga Oblast

Director: Viktor Anatoljevich Dymov

Address: Russia, 248023, Kaluga, ul. Tulsкая 66

Phone (reception): (4842) 544938

Council of the Municipality of the “City of Kaluga” District

Head of the City: Maxim Alexeyevich Akimov

Address: Russia, 248600, Kaluga, ul. Lenina 93

Phone (reception): (4842) 562646

Administration of the Municipality of the “City of Obninsk” District

Head of Administration: Nikolay Evgenjevich Shubin

Address: Russia, 249030, Kaluga region, Obninsk, ul. Preobrazheniya 1

Phone (reception): (48439) 58080

Administration of “Borovsky” Municipal District

Head of Administration: Viktor Nikolayevich Ternikov

Phone (reception): (48438) 41844

Administration of the Municipal District of the “Town of Lyudinovo and the Lyudinovo District”

Head of Administration: Alexander Timofeyevich Balabayev

Address: Russia, 249400, Kaluga region, Lyudinovo, ul. Lenina 20

Phone (reception): (48444) 62861

Administration of the Municipal District of the “Town of Kirov and the Kirov District”

Head of Administration: Vladimir Alexandrovich Abramenzov

Address: Russia, 249440, Kaluga region, Kirov, ul. Proletarskaya 36

Phone (reception): (48456) 52211

Administration of “Babyninsky” Municipal District

Head of Administration: Anatoly Vladimirovich Suyarko

Address: Russia, 249210, Kaluga region, Babynino, ul. Novaya 4

Phone (reception): (48448) 21952

Administration of “Baryatinsky” Municipal District

Head of Administration: Valentin Nikolayevich Trutnev

Address: Russia, 249650, Kaluga region, Baryatino, ul. Sovetskaya 20

Phone (reception): (48454) 24235

Administration of “Dzerzhinsky” Municipal District

Head of Administration: Vyacheslav Valentinovich Dmitriyev

Address: Russia, 249860, Kaluga region, Kondrovo, pl. Tsentralnaya 1

Phone (reception): (48434) 33052

Administration of “Duminichsky” Municipal District

Head of Administration: Viktor Ivanovich Tamarov

Address: Russia, 249300, Kaluga region, Duminichi, ul. Lenina 26

Phone (reception): (484247) 91352

Administration of “Zhizdrinsky” Municipal District

Head of Administration: Grigory Vasiljevich Pavlov

Address: Russia, 249340, Kaluga region, Zhizdra, ul. Kustareva fi

Phone (reception): (48445) 21995

Administration of “Zhukovsky” Municipal District

Head of Administration: Ilya Ivanovich Blagodatskikh

Address: Russia, 249190, Kaluga region, Zhukovsk, ul. Guryanova 31

Phone (reception): (48432) 56175

Administration of “Iznoskovsky” Municipal District

Head of Administration: Vladimir Viktorovich Leonov

Address: Russia, 249880, Kaluga region, Iznoski, ul. Lenina 27

Phone (reception): (48449) 45405

Administration of “Kozelsky” Municipal District

Head of Administration: Yury Nikolayevich Nikolayevich

Address: Russia, 249720, Kaluga region, Kozelsk, ul. Bolshaya Sovetskaya 53

Phone (reception): (48442) 22426

Administration of “Kuybyshevsky” Municipal District

Head of Administration: Andrey Vladislavovich Olenichev

Address: Russia, 249500, Kaluga region, Betlitsa, ul. Lenina 28

Phone (reception): (48457) 21328

Administration of “Maloyaroslavetsky” Municipal District

Head of Administration: Alexander Efimovich Chernov

Address: Russia, 249096, Kaluga region, Maloyaroslavets, pl. Lenina 1

Phone (reception): (48431) 21446

Administration of “Medynsky” Municipal District

Head of Administration: Nikolay Vasiljevich Kozlov

Address: Russia, 249950, Kaluga region, Medyn, ul. Lunacharskogo 45

Phone (reception): (48433) 21317

Administration of “Meshchovsky” Municipal District

Head of Administration: Evgeny Valentinovich Komov

Address: Russia, 249240, Kaluga region, Meshchovsk, pr. Revolutsiy 55

Phone (reception): (48446) 92585

Administration “Mosalsky” Municipal District

Head of Administration: Vladimir Borisovich Bortkevich

Address: Russia, 249930, Kaluga region, Mosalsk, ul. Sovetskaya 16

Phone (reception): (48452) 21524

Administration of “Peremyshlsky” Municipal District

Head of Administration: Nadezhda Basiljevna Badeyeva

Address: Russia, 249130, Kaluga region, Permyshl, pl. Svobody 4

Phone (reception): (48441) 31536

Administration of “Spas-Demensky” Municipal District

Head of Administration: Vladimir Anatoljevich Buzanov

Address: Russia, 249610, Kaluga region, Spas-Demensk, ul. Sovetskaya 99

Phone (reception): (48455) 21888

Administration of “Sukhinichsky” Municipal District

Head of Administration: Anatoly Dmitriyevich Kovalev

Address: Russia, 249270, Kaluga region, Sukhinichi, ul. Lenina 56-à

Phone (reception): (48451) 53187

Administration of “Tarussky” Municipal District

Head of Administration: Yury Viktorovich Nakhrov

Address: Russia, 249100, Kaluga region, Tarusa, ul. Lenina 3

Phone (reception): (48435) 25130

Administration of “Ulyanovsky” Municipal District

Head of Administration: Mikhail Ilyich Korneyev

Address: Russia, 249750, Kaluga region, Ulyanovo, ul. Bolshaya Sovetskaya 91

Phone (reception): (48443) 21802

Administration of “Frezikovsky” Municipal District

Head of Administration: Valery Vasiljevich Tyrin

Address: Russia, 249800, Kaluga region, Frezikovo, ul. Karpova 25

Phone (reception): (48437) 31141

Administration of “Khvastovichsky” municipal District

Head of Administration: Sergey Egorovich Vedenkin

Address: Russia, 249360, Kaluga region, Khvastovichi, ul. Lenina 23

Phone (reception): (48453) 91430

Administration of “Yukhnovsky” Municipal District

Head of Administration: Nikolay Nikolayevich Kotov

Address: Russia, 249910, Kaluga region, Yukhnov, ul. Karla Marksa 6

Phone (reception): (48436) 21200

4. Labour Legislation

4.1 Labour Relations under Russian Legislation

Labour relations and other relations directly connected therewith are regulated by labour legislation (including labour protection legislation), consisting of the Labour Code of the Russian Federation and other federal laws and laws of subjects of the Russian Federation containing norms of labour law, and by other regulatory legal acts which contain provisions of labour law: decrees of the President of the Russian Federation, enactments of the Government of the Russian Federation, regulatory legal acts of federal executive bodies, regulatory legal acts of executive bodies of the subjects of the Russian Federation, and regulatory legal acts of local governments.

In accordance with the labour laws of the Russian Federation, labour relations may be regulated through the conclusion of collective contracts and employment agreements between employees and the employer.

Collective contracts, agreements, and employment agreements may not provide for conditions concerning the level of employees' rights and guarantees that are less advantageous than those established by labour legislation and other regulatory legal acts containing provisions of labour law. In the event that such conditions are introduced into collective contracts, agreements, or employment agreements, they may not be applied.

The regulations of the Labour Code of the Russian Federation are mostly mandatory ones providing employees with a wide range of guarantees and privileges. Such regulations are applicable, first of all, to guarantees for such categories of employees as women, the young, and those combining work and studies.

4.2 Social Partnership. Collective Agreements

A new aspect of the new Labour Code of the Russian Federation is the regulation of social partnership in the labour sphere, with section 2 of the Code dedicated to this matter.

Social partnership is a system of relations between employees, employers, and state and local authorities intended to ensure that the interests of both employees and employers are met with respect to the regulation of labour relations and other relations directly connected therewith.

State and local authorities may be parties to social partnership in cases when they act as employers or their representatives. The Amendments provide for cases where the participation of state or local authorities in social partnership relations is mandatory.

Moreover, these bodies are representatives of such categories of employers as federal state institutions, state institutions of subjects of the Russian Federation, municipal institutions, and other organizations financed from the corresponding budgets.

In social partnership, employees are represented by trade unions or, in the absence of trade unions, by other authorized representatives. The employer is represented by the director of the enterprise or by his/her authorized representatives. In accordance with legislation, employees who are not members of trade unions may authorize a trade union to represent their interests in relations with the employer in connection with individual labour relations issues on the terms stipulated by the given primary trade union organization. Cases of choosing employees' representatives other than trade unions are also specified: if an organization has a trade union uniting over half of the employees but which is not the primary trade union organization.

Available forms of social partnership include:

- collective negotiations concerning the preparation and conclusion of collective agreements
- negotiations on the regulation of labour relations
- employees' and their representatives' participation in the management of the enterprise
- participation of employees' and employers' representatives in the pre-judicial resolution of disputes
- discussion by the employees' representatives of the plan for social and economic development of the organization

Conclusion of a collective agreement is one of the most important forms of social partnership. Collective agreements are agreements between employees and the employer (representative of the owner of the enterprise) which establish their mutual obligations as to the main employment issues of the particular enterprise.

According to law, the parties are entitled to decide on the necessity of concluding a collective agreement. Nonetheless, law establishes their mutual obligation to conduct negotiations on the conclusion of a collective agreement in the event that any of the parties considers it necessary and has submitted a proposal in writing to the other party.

Representatives of the party being the recipient of a proposal to conclude a collective agreement are obligated to send, within seven calendar days, a response to the proposal with indication of the representatives and their powers.

4.3 Conclusion of Employment Agreements

An individual employment agreement must be concluded with each employee in writing. Labour relations between an employee and an employer also commence on the basis of actual admission of the employee to work, with the employer's knowledge or under its or its representatives' instructions, in case the employment agreement was not duly executed.

The parties to labour relations are the employee and the employer.

Article 65 of the Labour Code of the Russian Federation provides for a list of the documents that must be presented by the employee for the conclusion of an employment agreement:

- passport
- work book
- document confirming education
- state pension insurance certificate

In accordance with the Labour Code of the Russian Federation, it is possible to conclude employment agreements:

- for an indefinite term of employment
- for a definite period which may not exceed five years (fixed term employment agreements), unless another term is specified by the Labour Code of the Russian Federation or other federal laws

A fixed term employment agreement is concluded in cases when labour relations may not be established for an indefinite term due to the characteristics of the work or the conditions for performing it, unless Russian Federation legislation and other federal laws specifically provide otherwise. The new Labour Code of the Russian Federation contains a detailed list of the grounds for concluding a fixed term employment agreement.

A fixed term employment agreement may be concluded at the initiative of either the employer or the employee, in particular, in the following cases:

- to fulfill the obligations of an employee who is absent from work
- for temporary (up to two months) work

- for seasonal work
- for persons to be sent to work abroad
- to conduct works that are outside the organization's normal activities (reconstruction, assembly, start-up and other works), as well as to conduct works connected with a knowingly temporary (up to one year) expansion of production or of the volume of provided services
- with persons employed at organizations established for a knowingly certain period of time or for fulfilling knowingly certain specific tasks
- with persons employed to fulfill certain specific tasks in cases when their completion cannot be defined as a particular date
- to fulfill works directly connected with traineeship or internship
- in cases of election, for a certain period of time, to be a member of an elected body or to occupy an elective post for reimbursement, and in cases of employment to perform works connected with direct securing of the activities of the members of elected bodies or officials of state authorities, local governments, political parties, and other social organizations
- with persons sent by the employment service to perform temporary and social works
- with persons sent to perform alternative civil service
- in other cases provided for by effective Russian Federation legislation or other federal laws

Upon agreement of the parties, a fixed term employment agreement may be concluded:

- with persons employed by small business enterprises (including individual entrepreneurs) employing not more than 35 people (in the sphere of retail sales and household services - 20 people)
- with retirement pensioners and persons permitted to perform only temporary works due to the state of their health and in accordance with a medical resolution issued in the course of the procedure provided for by federal laws and other regularly legal acts of the Russian Federation
- with persons employed by organizations located in the Far North and territories considered equal to the Far North, if it is connected with moving to live in the region of work

- to conduct urgent works connected with prevention of catastrophes, accidents, disasters, epidemics, epizootics, and to eliminate consequences of the indicated and other extraordinary circumstances
- with persons selected in a competition to occupy the corresponding positions, conducted in accordance with labour legislation and other regulatory legal acts containing provisions of labour law
- with art-related specialists of mass media, cinema organizations, theatres, theatre and concert organizations, circuses, and with other persons participating in the creation and (or) performance (exhibiting) of pieces of art, professional athletes in accordance with the lists of works, professions, positions of such employees approved by the Government of the Russian Federation with consideration of the opinion of the Russian trilateral commission on regulating social and labour relations
- with directors, deputy directors, and chief accountants of organizations, regardless of the organizational and legal forms and ownership patterns of such organizations
- with persons attending daytime classes
- with persons combining work in various organizations
- in other cases provided for by the effective laws of the Russian Federation

An employment agreement is considered to be extended for an indefinite term if neither party requests termination of the fixed term agreement upon its expiration and if the employee continues to work after expiration of the term of the employment agreement.

An employment agreement concluded for a fixed term without proper grounds is considered to have been concluded for an indefinite term. Legislation prohibits concluding fixed term employment agreements for purposes of avoiding granting employees the rights and guarantees they would have under an employment agreement for an indefinite term.

If an employee did not start working on the first day of work as specified in the employment agreement, the employer has the right to cancel the agreement. A canceled agreement is deemed to be non-concluded.

A probationary period may be established at the conclusion of an agreement between the parties. Such period may not, in most cases, exceed three months, although it may be up to six months for directors and deputy directors of organizations, chief accountants and deputy chief accountants, heads of branches, representative offices and other separate subdivisions of organizations. Within the established probationary period the

employee may be dismissed on three days' notice. However, if the probationary period expires and the employee continues to work, he/she is considered to have passed probation and the agreement may then only be terminated on general grounds. Legislation establishes the categories of employees for which a probationary period may not be established, which includes persons under 18 years of age and young specialists upon their graduation from educational institutions, and women with a child aged less than eighteen months.

Both organizations (legal entities) and individuals (including individual entrepreneurs) may act as employers. Individual employers are obligated to:

- execute employment agreements with employees in writing and register such agreements with the respective local authorities
- pay insurance contributions and other mandatory payments
- provide for the issuance of state pension insurance certificates for persons employed for the first time

The labour legislation clearly distinguishes employers — individuals being and not being individual entrepreneurs, i.e. individuals hiring employees for personal assistance and housekeeping support. As for individual entrepreneurs, legal provisions have been toughened: individual entrepreneurs are obligated to keep the work books of their employees.

When concluding an employment agreement with an individual employer, the parties are entitled to establish additional grounds for agreement termination and are not limited by the general provisions stipulated by the Labour Code of the Russian Federation.

4.4 Conditions of an Employment Agreement

The Labour Code of the Russian Federation (Article 57) provides for a list of the essential conditions of an employment agreement. The provisions of the employment agreement are divided into obligatory for inclusion into an employment agreement and additional. The obligatory provisions are:

- workplace (indicating the structural subdivision)
- employment function (the position in accordance with the personnel list, profession, specialization and qualification; the particular type of work assigned to the employee)

- date of commencement of work, and in the case of a fixed term employment agreement – the period of its validity and the circumstances (reasons) serving as the grounds for conclusion of a fixed term employment agreement
- terms of labour remuneration (including the amount of the employee’s wage rate or post salary (official salary), additional payments, and bonuses
- work and vacation schedule (if for the particular employee it differs from the general rules established in the organization)
- terms of labour remuneration
- compensation paid to the employee for working in difficult, harmful, and/or dangerous conditions, if the employee is employed for working in such conditions, with indication of the labour conditions at his/her workplace
- provision on social insurance of employees in accordance with the Labour Code of the Russian Federation and other federal laws

An employment agreement can provide for additional agreements, if they do not make the employee’s conditions less advantageous than those established by labour legislation and other regulatory legal documents containing provisions of labour law, by a collective agreement, contracts, or local regulatory acts.

Upon agreement of the parties, an employment agreement can include the rights and obligations of the parties.

4.5 Wages

Wages must be paid in the currency of the Russian Federation (rubles). At the same time, in accordance with a collective or employment agreement, upon an employee’s written application a portion of the wages (not in excess of 20%) may be paid in a non-monetary form, e.g. by goods of one’s own production. In addition to the prohibition on payment of wages with alcohol beverages, narcotic, toxic, poisonous and hazardous substances and objects, the free turnover of which is prohibited or restricted, it is also prohibited to pay wages in bonds, warrants, debt obligations, and receivables.

In accordance with Article 133 of the Labour Code of the Russian Federation, the minimum wage is established for the entire territory of the Russian Federation and may not be lower than the minimum cost of living of a person of working age.

Pursuant to the Federal Law "On the Minimum Wage," No. 82-FZ of June 19, 2000, as of January 1, 2005, the minimum wage in the Russian Federation equals 1,100 rubles (at present approximately EUR 32) per month. However, the minimum cost of living established by the Russian Federation Government for the fourth quarter of 2004 equaled 2,690 rubles (approximately EUR 76,62). At the moment of preparation of this brochure for publication, the minimum cost of living has not changed. At the present moment, neither Russian legislation nor court practice provides any explanations for the contradiction between the minimum wage and the minimum cost of living in the Russian Federation.

Wages must be paid biweekly on the days established by the internal regulations of the organization, the collective agreement, or the employment agreement.

An important new aspect of the effective labour legislation is the employer's liability for delays in paying wages or other sums due an employee. In the event of a delay in the payment of wages, leave allowance, resignation allowance, or other sums due an employee, the employer is obligated to pay not only those sums but also interest thereon. Interest is accrued during the period of delay. Collective and employment agreements may not change the minimum interest rate established by the Labour Code of the Russian Federation as to discriminate an employee's interests. The obligation to pay the indicated monetary compensation commences regardless of presence of the employer's fault.

If a delay in the payment of wages persists for a period exceeding 15 days, the employees have the right to suspend work until full payment of the delayed amount has been received. Within the period of such work suspension, an employee has the right to be absent from his/her workplace during working hours. An employee who has been absent from his/her workplace during working hours within the period of work suspension is obligated to start working not later than on the day following the day of receipt of written notification from the employer about the possibility to pay the delayed wages on the day the employee comes to work.

In addition, an employee may request that the employer compensate him/her for personal damages caused to the employee by the employer's unlawful actions or inactions. Delay in the payment of wages is an example of the employer's unlawful actions. The amount of personal damages is determined by agreement of the parties to the employment agreement. In case of a dispute, the level of personal damages due the employee and the amount of compensation are to be determined by a court.

4.6 Working Time

For the first time, the Labour Code of the Russian Federation provides definitions for working time and vacation time.

Working time is the time during which the employee is supposed to fulfill his/her working duties in accordance with internal regulations and the conditions of the employment agreement, as well as other periods of time which, in accordance with legislation and other legal regulatory acts, can be considered as working time (Article 91 of the Labour Code of the Russian Federation).

The Labour Code of the Russian Federation has not changed the normal duration of working time (40 hours per week) fixed earlier.

Employers have the right to engage employees to work longer hours than those stipulated for such employees in accordance with the Labour Code of the Russian Federation, other federal laws and regulatory legal documents, the collective agreement, contract, local regulatory acts, employment agreement (hereinafter “the duration of the employee’s working hours”):

- for overtime work
- if the employee works on terms of a non-standardized workday

Overtime work is work performed by an employee on the employer’s initiative during a time beyond the limits of the working hours specified for the employee: daily work (shift), and in consideration of the total working time recorded, beyond the normal number of working hours for the reporting period. Employers may engage employees to work overtime without their consent, in particular for performance of works necessary to prevent catastrophes or production accidents or to eliminate consequences of a catastrophe, to eliminate unforeseen circumstances which interfere with the normal operation of water and gas supply systems, heating, lighting, sewage, transport, and communication, and in other cases when life or normal living conditions of all or part of the population is threatened. In the remaining cases, engaging an employee to work overtime is possible only with his/her written consent and with consideration of the opinion of the elected body of the trade union organization.

In case of overtime, the employee must be either compensated or (at the employee’s choice) given additional time off in an amount not less than the overtime worked.

Employees have the right to conclude employment agreements on working, during time free from the main work, another regularly paid job for the same employer (internal secondary job) and (or) with another employer (external secondary job).

Legislation also establishes the concept of non-standardized workdays, which is a special work schedule in which certain employees can, from time to time, fulfill their working duties beyond the working time if so requested by the employer. The list of employment positions relevant to non-standardized workdays is established by a collective agreement, agreement, or internal regulations of the organization. Employees with non-standardized workdays are granted additional leave that may not be less than three calendar days. If such leave is not granted, extra hours beyond normal working time are compensated for as overtime upon the employee's written consent.

At the request of certain categories of employees (e.g. pregnant women, a parent with a child under 14 years of age, etc.), part-time work schedules may be set.

4.7 Holidays

Article 112 of the Labour Code of the Russian Federation enumerates all general non-working holidays:

January 1, 2, 3, 4, 5	New Year holiday
January 7	Christmas
February 23	Day of the Defender of the Fatherland
March 8	International Women's Day
May 1	Spring and Labour Holiday
May 9	Victory Day
June 12	Day of Russia
November 4	Day of National Unity

If a holiday falls on a weekend day, the day off for such holiday shall be transferred to the workday that immediately follows the holiday. The Government of the Russian Federation is also entitled to shift holidays to other days in order to use them more rationally. The duration of the workday preceding a non-working holiday is reduced by one hour.

Every employee is granted an annual vacation of at least 28 calendar days with pay. The Code sets no limit on the maximum duration of vacation time.

An employee may take vacation time for the first year of work following six months of consecutive employment with the organization. Vacation time for the second and further years of work may be taken at any time of the year in accordance with the annual vacation schedule. The annual vacation schedule is binding on both the employer and the employee. An employee should be notified of the date of the beginning of his/her vacation not later than two weeks prior to that date.

Upon agreement between the employer and employee vacation time may be divided into parts, however one of the parts must be at least 14 calendar days.

Law also stipulates that vacation time exceeding 28 days may be substituted with monetary compensation upon the employee's written application. However, substitution of vacation time with monetary compensation is prohibited for certain categories of persons.

Labour legislation provides for other types of leaves:

- additional annual leave (granted to certain categories of employees, e.g. employees working under harmful and dangerous conditions, employees with non-standardized workdays, those combining work and studies for taking examinations)
- short-term leave of absence without pay, granted at the employee's request for family or other admissible reasons
- leave related to women's privileges (maternity leave – 70 days prior to and 70 days after childbirth; parental leave – up to three years)

4.8 Termination of an Employment Agreement

Grounds for terminating an employment agreement are:

- agreement of the parties
- the employee's initiative
- the employer's initiative
- the employee's refusal to continue work due to significant changes in the employment agreement
- the employee's refusal to continue work in connection with change of the owner of the organization's property, change of the organization's jurisdiction (subordination), or its reorganization
- the employee's refusal to be transferred to another position due to his/her health condition in accordance with a medical certificate
- circumstances beyond the parties' control, such as, in particular, the employee being drafted into National Service, recognition of the employee as being fully disabled in

accordance with a medical certificate, death of the employee or the individual employer, emergence of circumstances that render continuation of the labour relations impossible (war actions, catastrophe, natural disaster, serious accident, epidemic, etc.)

- violation of rules established by the Labour Code of the Russian Federation or other federal laws for the conclusion of an employment agreement, if such violation renders continuation of work impossible

The above list is not exhaustive.

Fixed term agreements may be terminated in accordance with Article 79 of the Labour Code of the Russian Federation. According to the general rule, a fixed term agreement is terminated upon its expiration, of which the employee must be notified in writing at least three calendar days prior to dismissal.

In particular, an employment agreement may be terminated on the employer's initiative in case of:

- the employee's inadequacy for his/her position or for the work to be fulfilled due to his/her low qualification as confirmed by the result of an evaluation
- change of the owner of the organization's property (concerning the director of the organization, deputy directors, and chief accountant)
- the employee's repeated non-fulfillment of his/her working duties without valid reasons, if he/she had been previously disciplined
- the employee's single gross violation of his/her working duties, which, in particular includes:
 - non-attendance, i.e. absence from work without valid reasons for more than four consecutive hours during a workday
 - divulgence of a secret (state, commercial, official, etc.) protected by law which had become known to the employee in the course of fulfilling his/her working duties
 - larceny (including petty larceny) of another's property at work, embezzlement, intentional destruction or damage of property
 - violation of occupational safety requirements, if such violation entailed severe consequences (industrial or other accident) or clearly created a real threat of such consequences

- the employee’s submission to the employer of forged documents or patently false data while concluding the employment agreement

On the employee’s initiative the employment agreement may be terminated with a two week written notice to the employer.

4.9 Employment Agreements with Company Directors

Article 43 of the Labour Code of the Russian Federation is devoted to the specific requirements for the regulation of directors’ work.

The rights and obligations of the director of an organization, with respect to labour relations, are determined by the Labour Code of the Russian Federation, other legal regulatory acts (including the Laws on Joint Stock Companies and on Limited Liability Companies), the employment agreement, and the company’s foundation documents.

An employment agreement should be concluded with the director for the term determined by the company’s foundation documents or agreed upon by the parties.

A director may be gainfully employed by other organizations (i.e. employed by multiple employers) only upon the consent of the authorized body of the legal entity or the owner of the organization.

Apart from the general grounds for terminating an employment agreement, the Labour Code of the Russian Federation establishes additional grounds for terminating employment agreements with directors of organizations on the initiative of the owners of property. Such grounds include:

- change of owner of the organization’s property (no later than three months after transfer of the ownership rights)
- the director’s adoption of an unfounded decision which has caused damage to property of the organization
- single gross violation of working duties
- grounds stipulated in the employment agreement
- removal from office of the director of a debtor organization in accordance with the legislation on insolvency (bankruptcy)

- adoption by the authorized body of the legal entity or the owner of the organization's property of a decision to early terminate the employment agreement

In case of termination of an employment agreement with a director under a resolution of the authorized body of the legal entity or property owner, provided there are no faulty actions (omissions) of the director, compensation is paid to such person at the rate specified by the employment agreement, but may not be less than triple the average monthly wage.

Termination of an employment agreement on the director's initiative requires the provision of a one-month's notice.

4.10 Peculiarities of Hiring of Foreign Employees

4.10.1 Attraction of Foreign Labour

The Law on legal status of foreign citizens establishes that an employer who has invited a foreign citizen to the Russian Federation to perform labour activities or has concluded a new employment agreement with a foreign citizen is obligated to:

- have a permit to attract and use foreign labour
- ensure that the foreign citizen obtains a work permit
- provide the documents necessary for the registration of the foreign citizen at his/her place of residence in the Russian Federation
- notify the tax body, at the place of the employer's registration, of the attraction and usage of foreign labour
- facilitate the foreign employee's departure from Russia upon expiry of the term of the employee's employment agreement
- pay the expenditures for the administrative expulsion or deportation from the Russian Federation of a foreign citizen employed in a way that violates the procedure established by law for employing and using foreign labour
- notify territorial bodies of internal affairs of breaches by the foreign employee of terms of the employment agreement, of voluntary quitting the place of work or place of living, or of early termination of such agreements

Labour activities may be performed by foreign citizens in the territory of the Russian Federation under the following major conditions: the employer must hold the requisite permit for attracting and using foreign labour and the foreign citizen must hold a work permit.

As of January 15, 2007, the issuance of work permits and permits for attracting and using foreign labour is carried out by the territorial bodies of the federal executive migration authorities.

Permits for attracting and using foreign labour are issued, as a rule, for the term of one year. A permit specifies the number of foreign employees the organization-employer is allowed to attract. A foreign citizen temporarily residing in the Russian Federation has no right to carry out labour activities beyond the boundaries of the subject of the Russian Federation in whose territory he/she has obtained a work permit.

It is important to note that permits for attracting and using foreign labour are issued subject to a positive report of a territory body of the Russian Federation Ministry of Labour and Social Development responsible for issues of employment of the population (Department of the Federal State Service of Employment of the Population in a subject of the Russian Federation) on the expedience of attracting foreign labour.

Decree of the Russian Federation Government "On the Procedure for Issuing Work Permits to Foreign Citizens and Persons without Citizenship," No. 941 of December 30, 2002, establishes the procedure, terms, and list of documents necessary for the issuance of work permits.

For having permits issued, employers attracting foreign labour are currently charged 3,000 rubles (approximately EUR 90) for each foreign employee, for having invitations issued to enter the Russian Federation – 200 rubles (approximately EUR 6) for each invited person.

For having work permits issued, foreign citizens are charged state duty in the amount of 1,000 rubles (approximately EUR 30).

The above procedure is not applied to the following foreign citizens:

- persons permanently living in the Russian Federation
- persons temporarily living in the Russian Federation
- employees of diplomatic representative offices, employees of consular offices of foreign countries in the Russian Federation, employees of international organizations, as well as private home workers of the said persons

- employees of foreign legal entities (producers and suppliers) performing assembly (contract supervision) works, rendering after-sale services, as well as providing warranty and after-warranty repair of technical equipment supplied to the Russian Federation
- journalists accredited in the Russian Federation
- students attending institutions of professional education in the Russian Federation and performing works (rendering services) during their vacation periods
- students attending institutions of professional education in the Russian Federation and working during time free from their studies as teaching and auxiliary personnel at the same educational institutions
- persons invited to the Russian Federation as teachers at educational institutions, with the exception of persons arriving in the Russian Federation as teachers at institutions of professional religious education (clerical educational institutions)

4.10.2 Procedure for Entering the Russian Federation to Perform Labour Activities

The Federal Law “On the Procedure for Leaving and Entering the Russian Federation,” No. 114 FZ of August 15, 1996, establishes the procedure for entering the Russian Federation. In accordance with the said Federal Law, foreign citizens are entitled to enter the Russian Federation given that they hold a Russian visa.

Entering the Russian Federation to work is permitted on the basis of a common work visa. Such a visa is issued for the term of the employment agreement, but for not longer than one year. An invitation to enter the Russian Federation, prepared in accordance with the federal law, serves as the basis for issuing such a visa.

Invitations for foreign citizens to enter the Russian Federation to perform labour activities are prepared in accordance with the procedure established by the Law on the Legal Status of Foreign Citizens. From January 15, 2007, for issuance of such invitation an employer must submit the following documents to the federal executive migration body or its territorial body:

- petition for issuance of such an invitation
- permit to attract and use foreign labour

As of January 15, 2007, an employer must submit the documents necessary for issuance of work permits for each foreign employee, that is preparation of an invitation is possible prior to obtaining work permit for the invited employee. Along with the petition for invitation issuance, the inviting party submits guarantees of material, medical and accommodation security of the foreign citizen for the entire period of his/her stay in the Russian Federation. Simultaneously with the invitation, for the purpose of performance of labour activities, the employer is issued work permits for each invited foreign citizen.

As of January 15, 2007, foreign citizens temporarily residing in the territory of the Russian Federation obtain work permits from territorial bodies of the federal executive body, provided the employer has credited to an account opened by the federal executive migration body the funds necessary for ensuring that the foreign citizen will exit the Russian Federation by the corresponding means of transportation.

The quantity of invitations issued for entering the Russian Federation to perform labour activities is limited. The Government of the Russian Federation annually approves the quota for the issuance of invitations. An approval is given on the basis of proposals of state executive bodies of Russian Federation subjects in consideration of the demographic situation in the corresponding subject of the Russian Federation and its possibilities to accommodate foreign citizens.

4.10.3 Registration of Foreign Citizens in the Russian Federation

A foreign citizen who has entered the territory of the Russian Federation is obligated to be registered within three workdays as of the day of entering the Russian Federation.

The registration of a foreign citizen who has entered the Russian Federation is carried out by the respective department of the territorial bodies in charge of internal affairs (Administration of the Passport and Visa Service) upon the foreign citizen's application. The registration of a foreign citizen is carried out at the place of his/her residence in the Russian Federation. In the event of moving to another place of residence in the Russian Federation, the foreign citizen must then register within three workdays of arrival at the new residence at the new location. The registration of a foreign citizen is carried out upon his/her presentation of a migration card containing a customs control stamp for his/her entry to the Russian Federation.

For a foreign citizen using a hotel as his/her place of residence, information on the date of arrival and the term of residence must be submitted by the hotel administration to the territorial body of the federal executive authority in charge of internal affairs on the day of arrival of such foreign citizen.

As of January 15, 2007, due to the introduction of amendments to legislation on the legal status of foreign citizens, control over the residence of foreign citizens in the Russian Federation is carried out by the federal executive migration body and its territorial bodies. Other federal executive bodies may exercise certain powers in the sphere of migration registration in accordance with Russian Federation legislation.

Also, on January 15, 2007, Federal Law No. 109-FZ of July 18, 2006 “On Migration Registration of Foreign Citizens and Persons without Citizenship in the Russian Federation” came into effect and now regulates the relations arising during registration of foreign citizens’ migration in connection with their entry to, relocation within and exit from the Russian Federation. Migration registration includes registration at the place of residence, as well as recording of other data. The fact of a foreign citizen’s entry to the Russian Federation provides the grounds for his/her migration registration, the fact of exit – for his/her deregistration.

From January 15, 2007, the registration of a foreign citizen is conducted by migration bodies upon the foreign citizen’s submission of an identification document and the migration card submitted via the inviting organization or, in certain cases, directly by the foreign citizen. The foreign citizen will have to register upon arrival to the Russian Federation at the place of residence, except in certain cases, in particular if the foreign citizen stays at a hotel or other organization providing accommodations services. In such case, the inviting party should within 24 hours notify the migration registration body of the arrival of such citizen.

In conclusion of this section, it is necessary to add that the described conditions and procedure for foreign citizens’ performance of labour activities are new. At present, there appear to be definite difficulties in the application of these rules, which leads to delays in obtaining work permits. Executive authorities are entitled to supplement, at their discretion, the list of the documents that must be submitted in accordance with law.

4.11 Relevant contacts in Kaluga Oblast

Ministry of Economic Development of Kaluga Oblast

Minister: Nikolay Viktorovich Lyubimov
Russia, 248000 Kaluga, ul. Kutuzova, 2/1, building 1
Phone (reception): (4842) 570106
www.inkaluga.ru

Department of the Federal Migration Service for Kaluga Oblast

Acting Head: Alexander Ivanovich Doroshin
Address: Russia, 248001 Kaluga, ul. Kirova 9 A
Phone (reception): (4842) 737436, 737472

Department of State Employment Service for Kaluga Oblast

Head: Vasily Ilyich Kuznetsov

Address: Russia, 248650, Kaluga, ul. Ryleyeva 39

Phone (reception): (4842) 720350

5. Taxation

5.1 The System of Taxes and Levies

As of January 1, 2005, the system of taxes and levies charged in the Russian Federation is regulated by the Tax Code of the Russian Federation.

The existing classification divides all current taxes and levies into three groups: federal taxes, taxes of the subjects of the Russian Federation (regional taxes), and local (municipal) taxes. The tax group determines the procedure for introducing taxes and establishing tax elements (rate, object of taxation, concessions, payment terms, etc.).

5.2 Federal Taxes

Federal taxes are established and introduced by federal laws. With respect to a number of taxes, regional authorities have been vested with the authority to alter federal tax rates for the parts payable to regional budgets.

Concessions on federal taxes are established only by federal acts. With respect to certain federal taxes, regional authorities are allowed to alter the tax rates (as is the case, for instance, with the organizations' profits tax) or correct other tax elements (for instance, the amount of deductions for the individuals' income tax).

At present, the most important federal taxes and levies are:

- value-Added Tax (VAT)
- excise taxes
- individuals' income tax
- unified social tax
- organizations' profits tax
- tax on the extraction of minerals

- water tax
- charges for use of wildlife and objects of biological resources
- state tax

It should be noted that, under the Tax Code, prior to January 1, 2005, the customs duty and customs charges were classified as federal taxes. Starting January 1, 2005, they are no longer mentioned in the Tax Code, and the imposition thereof is regulated by Russian Federation customs legislation.

5.3 Regional Taxes

At present, regional taxes are regulated by both federal legislation and legislations of subjects of the Russian Federation. Most commonly, the basic tax elements (taxable base, maximum rate, taxpayers) are defined at the federal level, while exact rates, and the payment and tax reporting procedures are determined at the regional level.

Concessions on regional taxes are established by federal legislation or regional legislation within its powers stipulated by federal legislation.

The most important regional taxes are:

- organizations' property tax
- gambling tax
- vehicle tax

5.4 Local Taxes and Levies

According to the general rule, local taxes are introduced by acts of the governing bodies of a municipality. In St. Petersburg and Moscow local taxes are introduced by acts of these cities.

Certain elements of local taxes (maximum rate, basis) are currently established at the federal level. Tax concessions and the taxation procedure are usually established by acts of the governing bodies of a municipality. The following are the most important local taxes and levies:

- Land tax
- Personal property tax

5.5 Regulation of Tax Relationships

5.5.1 Particularities of Taxation of Foreign Companies

One of the particularities of taxation of foreign companies is the fact that the income of such companies may be taxed at different rates depending on the types of activities carried out by the particular foreign company in Russia, the types of income gained, and the country in which the company is based.

According to the Russian Federation tax legislation, a permanent establishment of a foreign company is the place of performance of entrepreneurial activities in the territory of Russia.

If a foreign company's activities create a permanent establishment in Russia, its profit gained through such permanent establishment may be taxed in Russia according to the rules applied to Russian organizations.

If a foreign company's activities do not create a permanent establishment, its income derived from Russian sources may also be taxed (see section 5.5.2 "Tax Rates" above). If a Double Taxation Treaty exists between the particular foreign company's country of residence and the Russian Federation, certain rates may be reduced or may not apply at all. Income tax at the source in the Russian Federation is usually withheld by the Russian counterparty (payer) of the foreign company and transferred directly to the Russian budget.

5.5.2 Tax Concessions

Federal Laws

Most of the tax concessions for different enterprises are cancelled in the course of the Russian tax reform. Generally, cancellation of concessions is a positive trend which facilitates healthy competition in the Russian market.

At the same time, when most of the concessions are cancelled, some concessions for investors still remain. Some regions also carry out general liberalization of tax rules to indemnify the enterprises for the loss from the cancellation of concessions. For instance, there is a possibility to lower the organizations' profits tax rate for certain categories

of taxpayers where this is provided for by the laws of the subjects of the Russian Federation.

Concessions on VAT

The most important VAT concessions are:

- company participating founders' contributions to the share capital

The taxable turnover does not include goods transferred to the share capitals of subsidiary companies, as such transfers are not considered to be sales of goods. However, if such goods are imported, they are liable to "customs" VAT, i.e. VAT on imported goods.

The import of production equipment and parts thereof, which are exempt from "customs" VAT if contributed to a share capital of a Russian legal entity, is an exception to this rule. It is necessary to note that production equipment is considered as such if it is mentioned in the List of Production Equipment approved by the federal customs authorities.

- Exemption from VAT of exported goods and services

Exported goods, along with works and services associated therewith (mainly cargo forwarding, transferring and loading, and goods processing under special customs regimes) are exempt from VAT.

There is a specially developed procedure for confirmation of the right to exemption from VAT applied to exported goods.

Concessions on property tax

In accordance with the Tax Code of the Russian Federation, subjects' laws which establish the organizations' property tax may provide for tax concessions and the bases for their application.

For example, laws of many subjects of the federation provide for tax concessions concerning property acquired or created for implementing investment projects in the form of a reduced tax rate or full exemption from paying the tax for a certain period of time (usually for the payback period of the investment project, but not exceeding the maximum deadline established in regional legislation).

Concessions on customs duties

At present, the concession most frequently used by foreign investors is the concession in the form of exemption from payment of customs duties on goods imported as a foreign founder's/participant's contribution to the share capital of a Russian company with foreign investments.

The concession is granted when such goods meet all the following requirements:

- not excisable
- to be included into the fixed production assets
- imported during the period of formation of the share capital established in the foundation documents of a legal entity

Tax concession in Kaluga Oblast

This aspect will be analyzed in more detail in section II.

Non-tax forms of investment projects support

Subjects of the RF are authorized to provide additional support of investment projects from their own budget funds in the form of:

- loans and credits (provision of budget funds on repayable and onerous basis)
- subventions (provision of budget funds on non-repayable and gratuitous basis for particular purpose expenses)
- guarantees and sureties (civil-law securities of obligations)

Certain forms and terms for provision of the said types of support are stipulated by regional legislation.

5.6 Relevant contacts in Kaluga Oblast

Ministry of Economic Development of Kaluga Oblast

Russia, 248000 Kaluga, Kutuzova street, 2/1, building 1

Minister: Nikolay Viktorovich Lyubimov

Phone (reception): (4842) 570106

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Ministry of Finance of Kaluga Oblast

Minister: Ms. Valentina Ivanovna Avdeeva

Address: Russia, 248000 Kaluga, Dostoevskogo street 48

Phone (reception): (4842) 563757

Department of the Federal Tax Service for Kaluga Oblast

Head: Vladimir Pavlovich Blinov

Address: Russia, 248021 Kaluga, Moskovskaya street 282

Phone (reception): (4842) 553203

II. Economic activity incentives in Kaluga Oblast

Federal legislation creates the bases for regulation of the investment process in the territory of a subject of the Russian Federation. The Law “On Investment Activities in the Russian Federation Performed in the Form of Capital Investments” provides for the possibility to regulate investments in the form of capital investments made by subjects of the Russian Federation.

Russian tax legislation provides for the possibility of introduction of a number of taxes on the level of subjects of the Russian Federation on the basis of laws of the respective subjects: organizations’ property tax, gambling tax and vehicle tax.

If regional taxes are introduced, the subject of the Russian Federation may independently establish the following taxation elements: tax rates, the procedure and terms for paying the taxes, as well as tax concessions and the bases and procedure for applying them.

The main regulatory acts of the supreme authorities of Kaluga Oblast serving as the basis for business activities in the oblast are reviewed below.

1. Summary of Regional Investment Legislation of Kaluga Oblast

Law on Governmental Support for Investing Entities

The Law “On Governmental Support for Investing Entities in Kaluga Oblast” No. 31-OZ dated December 16, 1998, was adopted by Decree of the Legislative Assembly of Kaluga Oblast No. 537 dated December 3, 1998 (as amended on April 5, 2005).

The law establishes the principles and forms of and the procedure and terms for provision by the state authorities of Kaluga Oblast of state support to investors. In accordance with the law, the priority branches of industry and sectors for governmental support are, in particular, those related to manufacturing of competitive, import-substituting and export products, including high-technology products, creation of infrastructure necessary for accelerating the technological conversion of production.

This law does not apply to activities related to investing in banks, other lending and insurance organizations.

Decree of the Governor on Public Protection of Investment Projects and Projects of Oblast Target Programs

Decree of the Governor of Kaluga Oblast "On Public Protection of Investment Projects and Projects of Oblast Target Program" No. 636 dated October 16, 2001 (as amended on July 16, 2004) is aimed at stimulation of investment activities of economic entities and provision of government support for implementation of investment projects and oblast target programs.

This decree includes an annex determining the procedure for provisionally assessing investment projects, projects of oblast target programs and for documenting the results thereof.

Law on the Conditions and Procedure for Granting Subventions to Investors to Compensate for Expenses for Payment of the Organization' Profits Tax Paid to the Oblast Budget

The Law "On the Conditions and Procedure for Granting Subventions to Investors to Compensate for Expenses for Payment of the Organizations' Profits Tax Paid to the Oblast Budget" No. 80-OZ dated June 27, 2005, determines the conditions and procedure for providing governmental support in the form of subventions at the expense of the oblast budget to investors implementing economically and socially significant investment projects in the territory of Kaluga Oblast.

In accordance with the law, subventions are granted if a number of criteria are satisfied. An investment project must provide for an amount of investments in the territory of Kaluga Oblast during the first three years as of the commencement of implementation of the investment project of at least 50 million rubles. Subventions are granted subject to approval of the investment projects being implemented or planned for implementation by investors based on their economic and social significance in the order established by the Government of Kaluga Oblast.

Relations connected with financial investments and other investments in intangible or current assets are not regulated by this law.

Organizations' Profits Tax

The Law "On Organizations' Profits Tax" No. 263-OZ dated November 10, 2003, was adopted by Decree of the Legislative Assembly of Kaluga Oblast No. 750 dated October 30, 2003. As of January 1, 2007, a new version of this law is in force.

This law establishes the organizations' property tax in the territory of Kaluga Oblast and determines the tax rate, the procedure and terms for paying the tax, tax concessions and the bases for their application.

2. Regulation of Investment Relations and Regional Investment Policy in Kaluga Oblast

A target-oriented open policy is carried out in Kaluga Oblast for the purpose of creating the necessary conditions for investment activities. The forms, procedure and conditions for governmental support in Kaluga Oblast are determined by the basic law "On Governmental Support for Investment Activities in Kaluga Oblast" No. 31-OZ dated December 16, 1998.

The Law "On the Conditions and Procedure for Granting Subventions to Investors to Compensate for Expenses for Payment of the Organizations' Profits Tax Paid to the Oblast Budget" No. 80-OZ dated June 27, 2005, and other abovementioned laws improve the investment climate and induce investment processes in the territory of Kaluga Oblast.

Currently in the oblast there exists a system of legislative support for investment activities which provides for concessionary taxation of investment activities with respect to payments to the oblast budget, granting investment tax loans and guarantees of Kaluga Oblast, etc. The legal base for improving the conditions of investment activities is formed by a number of bylaws of municipal entities of the oblast. The state investment policy in the oblast is coordinated by the Investment Council of the Governor of Kaluga Oblast and the Regional Development Agency.

Apart from improvement of the legislative and regulatory base, stable and fiducial relations are being developed among investors and the oblast authorities. The Government of Kaluga Oblast provides comprehensive support to investors in the implementation of their projects. In particular, the Government finds necessary areas for locating new production facilities, arranges negotiations with the management of enterprises of the oblast, and provides support for issuance of permits and assistance in the development of necessary infrastructure.

The favorable business environment created in the oblast has allowed a number of investors, both foreign and domestic, to locate their production in the territory of Kaluga Oblast and achieve stable operation in the Russian market.

2.1 Tax concessions

In accordance with powers granted by federal legislation, in 2003 the Law "On Organizations' Property Tax" was adopted. This law establishes the organizations' property tax in the territory of Kaluga Oblast as well as the tax rate, the procedure and terms for paying it, tax concessions and the grounds for applying them.

If there are no tax concessions, the tax rate is 2.2%.

A reduced rate of 1.1% is provided for by the law with respect to:

- newly created, acquired property
- modernized fixed assets

The reduced rate does not apply if the total amount of the taxpayer's revenues includes more than 30% earned from the following types of activities:

- wholesale and retail; repair of cars, motorcycles, domestic appliances and personal items
- financial activities
- operations with real estate, leasing and rendering of services

In accordance with the Law "On Organizations' Property Tax", the following companies are exempt from the tax:

- organizations performing activities related to production and storage of agricultural products, if revenues from the said types of activities constitute at least 70% of the total amount of revenues from sales of products
- organizations with respect to property used for implementing in the territory of Kaluga Oblast investment projects connected with construction, with an amount of investments:
 - from 100 million rubles up to 300 million rubles – for two tax periods
 - from 301 million rubles up to 500 million rubles – for three tax periods
 - above 500 million rubles – for four tax periods
- organizations with respect to property created and acquired as a result of implementation of an investment project related to construction, starting from the first day of the month following the month in which the construction object was put into operation:
 - with an amount of investments from 100 million rubles up to 300 million rubles
 - for 12 months

- with an amount of investments above 300 million rubles up to 500 million rubles – for 24 months
- with an amount of investments above 500 million rubles – for 36 months
- organizations performing activities related to production and storage of agricultural products, as well as organizations with respect to property created and acquired as a result of implementation of an investment project related to construction, are granted concessions with respect to their property if it is not partially or entirely leased, transferred for gratuitous use, possession, use, disposal or trust.

The Law “On Organizations’ Property Tax” establishes the procedure and terms of the tax and advance payments thereunder:

- tax payable upon lapse of the tax period shall be paid within ten days as of the date established for submission of the tax return
- advance payments shall be paid not later than the fifth day of the second month following the reporting period

Taxpayers shall submit tax returns for the organizations’ property tax and calculations of advance payments thereunder using the forms established in accordance with legislation.

2.2 Overview of conditions of support of investment activities

2.2.1 Federal Taxes

Type of Tax	Rate	Notes	Most Important Tax Concessions	Comment
Federal Taxes				
Organizations' Profits Tax (Chapter 25 of the TC RF)	24%	24%, including: 6.5% – to the federal budget, 17.5% to the budget of Kaluzhskaya oblast and the local budget.	For the portion paid to the Kaluga Oblast budget and the local budget the rate is reduced to 13.5%.	The concession is granted to organizations investing into agricultural production in Kaluga Oblast. The amount of the concession granted to organizations may not exceed the volume of investment into agricultural production.

Type of Tax	Rate	Notes	Most Important Concessions
Federal Taxes			
Value Added Tax (Chapter 21 of the	0%	0% for goods exported according to the customs regime of export and services associated with such procedures	Manufacturing equipment imported as a contribution to the share capital is subject to exemption from the VAT at customs
	10%	10% for food products, goods for kids, books, periodicals, medical products	
	18%	18% for other goods (works, services)	

Type of Tax	Rate	Notes
Federal Taxes		
Excise Taxes (Chap. 22) of the TC RF	23.5 rubles per 1 liter	Ethyl alcohol produced from any raw materials
	Zero-rated	Alcohol containing perfume and cosmetic products in metal aerosol packages; and alcohol containing household chemistry in a metal aerosol package
	162.00 rubles per 1 liter	Alcoholic and alcohol containing products
	2.20 rubles per 1 liter	Natural wines
	10.50 rubles per 1 liter	Champagne, sparkling wines
	from 0.00 rubles to 7.45 rubles per 1 liter	Beer

Type of Tax	Rate	Notes
Federal Taxes		
Excise Taxes (Chap. 22) of the TC RF	300.00 rubles per 1 liter	Smoking tobacco, except for tobacco used as a raw material for other tobacco products
	17.75 rubles per 1 cigar	Cigars
	217 rubles per 1,000 cigarillos	Cigarillos
	100 rubles per 1,000 cigarettes + 5% of the estimated cost calculated on the basis of the maximum retail price, but no less than 115 rubles.	Filter cigarettes
	45 rubles per 1,000 cigarettes + 5 % of the estimated cost calculated on the basis of the maximum retail price, but no less than 0.00 rubles per 1,000 cigarettes.	Non-filter cigarettes
	Zero-rated	Automobiles with engine power up to 67.5 kW (90 HP) inclusively
	181.00 rubles per 0.75 kW (1 HP) inclusively	Automobiles with engine power from 67.5 (90 HP) to 112.5 kW (150 HP)
	18.00 rubles per 0.75 kW (1 HP)	Automobiles with engine power exceeding 112.5 kW (150 HP), motorcycles with engine power exceeding 112.5 kW (150 HP)
	2,657 rubles per ton	Gasoline having an octane number of up to "80" inclusively

Type of Tax	Rate	Notes
Federal Taxes		
Excise Taxes (Chap. 22) of the TC RF	3,629 rubles per ton numbers	Gasoline having other octane
	1,080 rubles per ton	Diesel fuel
	2,951 rubles per ton	Oil for diesel and/or carburetor (injector) engines
	2,657 rubles per ton	Straight run gasoline
Federal Taxes Individuals' Income Tax (Chapter 23 of the TC RF)	13 % for residents and 30% for non-residents. From 9% (dividends) or 35% (certain types of income).	Flat scale. Some types of income are taxed at rates from 9% or 35%.
Water Tax (Chapter 25.2 of the TC RF)		The tax rate is fixed according to the basins of rivers, lakes, seas and economic regions (Article 333.12 of the TC RF).
State Duty (Chapter 25.3 of the TC RF)		According to Articles 333.20 – 333.33 of the TC RF.
Tax on mining operations (Chapter 26 of the TC RF)	From 0 to 17.5%	From 0 to 17.5% depending on the type of extracted minerals (Article 342 of the TC RF). Special regulations for hydrocarbons.

2.2.2 Regional Taxes

Type of Tax	Tax Rate	Notes	Tax Concessions	Comment
<p>Organizations' Property Tax (Chapter 30 of the TC RF)</p>	<p>Not more than 2.2 %</p>	<p>Not more than 2.2 % of the taxable base – average annual cost of basic assets according to the Russian Accounting Standards.</p>	<p>The rate is reduced to 1.1 %</p>	<p>The reduced rate is applied to the following property:</p> <ol style="list-style-type: none"> 1) property used for processing of agricultural products 2) property used for rendering services associated with production of agricultural crops 3) newly created, acquired property 4) modernized basic assets for the increase in their cost due to modernization. <p>The reduced rate must not be applied if the proceeds from the following activities amount to more than 30% of the total volume of proceeds: trade, repairing of vehicles and household utilities, operations with real estate and rendering of services.</p>

Type of Tax	Tax Concessions	Comment
Regional Taxes		
Organizations' Property Tax (Chapter 30 of the TC RF)	<p>Except for the property that is in whole or in part leased; transferred for use, uncompensated use; transferred into ownership, transferred to disposal or placed into trust.</p> <p>Tax exemption:</p> <ul style="list-style-type: none"> ▪ property of organizations producing or storing agricultural products, if the proceeds account for at least 70% of the total amount of proceeds from marketing of products (works, services) 	
	<ul style="list-style-type: none"> ▪ organizations' property created or acquired as a result of implementation of an investment project related to construction, starting from the first day of the month following the month when the object was put into operation; 	The concession is granted starting from the taxable period of the actual beginning of installation and construction works.
	<ul style="list-style-type: none"> ▪ organizations' property created or acquired as a result of implementation of an investment project related to construction, starting from the first day of the month following the month when the object was put into operation. 	The grounds for obtaining the concession is the commission's act of acceptance / putting of the construction object into operation.

Type of Tax	Tax Rate	Notes
Regional Taxes		
Vehicle Tax (Chapter 28 of the TC RF)	from 5 to 200 rubles per 1 HP.	The tax is collected depending on engine power.

2.2.3 Local Taxes

Type of Tax	Tax Rate	Notes
Land Tax (Chapter 31 of the TC RF)	Not more than 0.3% or 1.5 %	<p>Tax rates are fixed by regulatory legal acts of representative bodies of municipal entities and may not exceed 0.3% of the cadastral value of land plots:</p> <p>à) attributed to agricultural lands or lands included into the zones of agricultural use within settlements and used for agricultural production</p> <p>á) occupied by housing facilities and objects of engineering infrastructure of housing and public utilities (except for a share in the right to a land plot, if the share is related to an object not belonging to housing facilities and objects of engineering infrastructure of housing and public utilities) or allocated for personal auxiliary farm/garden, gardening, horticulture or livestock farming.</p> <p>1.5 % of the cadastral value of other land plots.</p>

2.2.4 Special Tax Regimes

Type of Tax	Tax Rate	Notes	Comment
<p>Unified Agricultural Tax (Chapter 26.1 of the TC RF)</p>	<p>15%</p>	<p>The tax is collected from profits of organizations and individual entrepreneurs – producers of agricultural products who converted to payment of the unified agricultural tax reduced by the amount of expenses.</p>	<p>Organizations – taxpayers of the unified agricultural tax are exempt from payment of:</p> <ul style="list-style-type: none"> ▪ the organizations' profits tax ▪ the organizations' property tax ▪ the unified social tax <p>Organizations – taxpayers of the unified agricultural tax are not recognized as VAT taxpayers (except for VAT to be paid according to the TC in case of import of goods to the customs area of the RF).</p>

Type of Tax	Tax Rate	Notes	Concessions
Special Tax Regimes			
Unified Tax collected according to the simplified taxation procedure (Chapter 26.2 of the TC RF)	6%	Profits of organizations and individual entrepreneurs that converted to the simplified taxation procedure are taxed at the rate of 6%.	Individual entrepreneurs using the simplified taxation procedure are exempt from obligatory payments of: <ul style="list-style-type: none"> ▪ the individuals' income tax ▪ the individuals' property tax ▪ the unified social tax
	15%	Profits of organizations and individual entrepreneurs that converted to the simplified taxation procedure reduced by the amount of expenses are taxed at the rate of 15%.	Individual entrepreneurs using the simplified taxation procedure are not recognized as VAT taxpayers, except for the VAT paid according to the TC in case of import of goods to the customs area of the RF.

Type of Tax	Tax Rate	Notes	Comment
Special Tax Regimes			
Unified Tax on Imputed Earnings for Certain Types of Activities (Chapter 26.3 of the TC RF)	15%	The amount of imputed earnings for organizations and individual entrepreneurs.	<p>Payment of the unified tax by organizations implies their exemption from payment of:</p> <ul style="list-style-type: none"> ▪ the organizations' profits tax ▪ the organizations' property tax ▪ the unified social tax <p>Payment of the unified tax by individual entrepreneurs implies their exemption from:</p> <ul style="list-style-type: none"> ▪ the individuals' income tax ▪ the individuals' property tax ▪ the unified social tax <p>Organizations and individual entrepreneurs that are taxpayers of the unified tax are not recognized as VAT taxpayers, except for VAT to be paid subject to the TC in case of import of goods to the customs area of the RF.</p>

2.3 Non-tax support for investment projects

The Law "On State Support of Investment Activities Subjects in Kaluga Oblast" No. 31-OZ dated December 16, 1998, provides for the following types of support:

- providing investors with funds from the oblast budget in the form of a budget loan, budget investment, subvention, subsidies, funds for payment for the public order of Kaluga Oblast
- provision of state guarantees
- participation of state bodies in the development, consideration and implementation of target programs and certain investment projects
- providing investors with property owned by the oblast, including land plots, on favorable terms. Regional authorities take part in the construction of engineering infrastructure: gas and electricity networks, water pipelines, telecommunications, etc.
- informational support
- ensuring consulting support for investment projects

State support is given mainly in the following spheres:

- construction (reconstruction) of production facilities for manufacturing competitive products for export that can adequately substitute imported goods
- construction of infrastructure necessary for accelerating the technological reconstruction of production facilities.

The Law "On the Terms and Procedure for Provision of Subventions to Investors for Compensation for Payment of the Organizations' Profit Tax to the Oblast Budget" No. 80-OZ dated June 27, 2005, establishes the terms and procedure for provision of state support in the form of subventions to investors implementing investment projects. Subventions may be provided if the investment projects are approved on the basis of their economic and social significance in accordance with the procedure established by the Government of Kaluga Oblast. The amount of investments for the first three years from the moment of commencement of the investment project must be at least 50 million rubles. Also, it should be noted that subventions are provided only if the investors have no liabilities for taxes, levies and other obligatory payments to budgets of all levels, as well as other outstanding payments to the oblast budget.

Subventions are provided in the amount of expenses incurred by investors for paying the organizations' profit tax to the oblast budget for the past tax period. Subventions are provided starting from the next year after the financing of the project within the payback period of the investment project and two years following the year of the end of the payback period of the project.

Decree of the Governor "On Public Protection of Investment Projects and Projects within the Framework of Oblast Target Programs" No. 636 dated October 16, 2001, determines the procedure for preliminary appraisal of investment projects, public protection of investment projects and projects implemented within the framework of oblast target programs, as well as for execution of the results of a preliminary appraisal. Public protection is the process of publicly presenting and reasoning the economic expediency and efficiency of an investment project. Public protection of investment projects and projects implemented within the framework of oblast target programs is carried out by the Investment Council of the Governor of Kaluga Oblast. The protection is provided in order to ensure equal opportunities for investors to obtain state support.

Public protection is carried out at the initiative of investors. Investors willing to participate in public protection must submit a number of necessary documents to the Investment Council. Within one month from the date of submission of the documents the Investment Council preliminarily appraises the investment project. Information on projects which have undergone preliminary appraisal is published in mass media, with indication of the date of public protection.

Public protection must be conducted within two months from the day of submission of the documents. Information on a project approved by the Investment Council is published in mass media.

3. Technological parks

A technological park is a form of conducting innovative business that is widely used in global practice, has a good potential in the current economic conditions and is used with various types of state support. The purpose of technological parks is to develop mutually beneficial partnership relations of the scientific and educational complex, science-intensive business and state authorities.

In the last message to the Federal Assembly, President of Russia Vladimir Putin stated the necessity of creating such innovative sphere that will "ensure production of new knowledge on an industrial scale". Technological parks, in the idea of the president, should be the core part of such sphere, for which, in particular, it is necessary to provide favorable tax conditions for their financing.

Technological parks as a form of conducting innovative business

Global experience in operating technological parks is greater than 50 years. The first technological park in the territory of the Russian Federation, the Tomsk Scientific Technological Park, was created in 1990.

Nonetheless, there is currently no generally accepted definition and established classification of technological parks.

It is important to keep in mind that the notions “technological park”, “technopol”, “technological area”, “research park”, and “science park” are used by the International Association of Technological Parks as synonyms. In Great Britain the term “scientific park” is usually used, in the USA - “research park”, in Russia - “technological park”.

In early 2002, the International Association of Technological Parks proposed the following definition:

“A technological park is an organization run by specialists for the main purpose of increasing the welfare of the local society by way of promoting innovative culture as well as competition of innovative business and scientific organizations. In order to achieve these goals, a technological park stimulates and manages streams of knowledge and technologies between universities, research and development institutes, companies and markets. It facilitates creation and growth of innovative companies with the help of incubatory and spin-off processes of new companies.”

The above definition is sufficiently broad and covers the objectives of practically all known models of technological parks. National legislation establishes the specific objectives of and the procedure for creating technological parks.

The general term “technological park” is absent from Russian legislation. Nevertheless, various federal and regional regulatory legal acts provide for the creation of technological parks in certain science and production industries and trends.

As for science-intensive projects in the sphere of nano-, bio-, information and other technologies, in 2006 the federal state program “Creation in the Russian Federation of Technological Parks in the Field of High Technologies” was adopted, approved by Decree of the Government No. 328- ∂ dated March 10, 2006. The program directly provides for state financial support from the federal budget for the creation of technological parks in the field of high technologies. Construction of necessary office buildings, production facilities, as well as objects of engineering, transport, residential and social infrastructure of technological parks is financed at the expense of budget funds of all levels within the framework of federal and regional programs and non-budget sources.

The functions of creating and managing technological parks in the sphere of high technologies are performed by a management company determined by the coordinating body. Moreover, the functions and powers, as well as the procedure and terms for cooperating with organizations participating in the creation of technological park objects in the sphere of high technologies and with companies located in the territory of a technological park in the sphere of high technologies, are also determined by the coordinating body.

The coordinating body is established by a collective decision of the Ministry of Information Technology and Communications of the Russian Federation and the Administration of the subject of the Russian Federation. Its composition must include representatives of state federal bodies, authorities of the respective subjects of the Russian Federation and local authorities, industry associations, scientific and educational institutions, as well as representatives of investors in technological parks in the sphere of high technologies.

Funds received by the management company in the course of activities aimed at ensuring the operation and development of a technological park in the sphere of high technologies are used exclusively for taking measures related to development of the infrastructure of the technological park and for marketing events aimed at support for hi-tech enterprises during their entry to the global market.

The absence of federal legislation at the current stage allows for resolving at the level of federal subjects many issues connected with the creation and operation of technological parks. This, in turn, allows for resolving issues more quickly and efficiently depending on the regional industrial structure and the goals of social and economic development of the particular region.

3.1 Creation of technological parks in Kaluga Oblast

Legislation of Kaluga Oblast supports the creation of technological parks within the territory of the oblast and thereby reflects the general state concept described above. At the present moment, the respective regional regulatory legal base has been developed under several technological parks projects.

3.1.1 Technological park “Grabtsevo”

In accordance with the Law of Kaluga Oblast on the Governor’s investment program for developing the technological park “Grabtsevo” in Kaluga Oblast dated June 28, 2006, No. 211-OZ, the technological park “Grabtsevo” was created, as a result of which the

project for constructing the largest automobile production facility in Russia is currently being implemented with participation of foreign capital (investor – Volkswagen).

The customers of the project for creating the technological park are a number of local authorities, ministries and departments, as well as several infrastructure companies of the oblast (OJSC Kalugaoblgaz, Kaluga Oblast Water Treatment Plant, OJSC Kalugaenergo). The program is coordinated by the Ministry of Economic Development of Kaluga Oblast.

The objective of the project is growth of investments attracted to the oblast economy by way of forming mechanisms for creating industrial areas and, on the basis of which, providing investors with good offers of sites for industrial construction.

The managing bodies of technological parks have the following objectives:

- to facilitate the initial stages of investment projects and eliminate administrative barriers
- to provide industrial sites with engineering infrastructure
- to create new working positions

The list of the main measures for creating the technological park includes, in accordance with the program, all necessary measures, in particular:

- preparation of a land plot for industrial construction works
- provision of engineering networks
- establishing a regime of concessional taxation for organizations – residents of the technological park
- provision of employees
- organizational support for development of the technological park

For creating and further developing the technological park, a land plot of 800 hectares was chosen not far from Kaluga, to the northwest from the village Selo Grabtsevo in Ferzikovsky Rayon of the oblast. The selected land plot is located near an existing industrial area along the Grabtsevskoye shosse of Kaluga, which explains its name.

Creating the technological park will allow for more effectively utilizing the advantages of the region, such as: developed production potential, qualified O resources, high

educational level of the oblast population, social infrastructure, developed road transportation network.

The established term for implementation of the program is until 2008.

The program is financed by its customers under the respective aspects. Financing is provided both by means of budget funds and enterprises' own funds. General coordination of the program measures is carried out by the Ministry of Economic Development of Kaluga Oblast.

The specially established management company LLC Technopark Grabtsevo is responsible for the organizational issues of development of the technological park.

Day-to-day management and ensuring control over the process of implementation of the program is carried out by a working group organized by decree of the Governor of Kaluga Oblast out of representatives of state authorities, local authorities and interested organizations. The working group performs day-to-day coordination with the authorities in order to resolve issues related to creation of the technological park.

3.1.2 Technological park "Obninsk"

The technological park will be created in the first science town of the Russian Federation – Obninsk. It is located in the northeast of Kaluga Oblast, 100 kilometers from Moscow (to the southwest), where two federal highways cross – Kievskoye and Varshavskoye shosse.

The technological park in Obninsk will be the center of development of innovations in chemical, pharmaceutical, medical, nano- and biotechnological industries, as well as of further commercialization of these innovations.

In accordance with the state program adopted by the Government of the Russian Federation "Creation of Technological Parks in the Sphere of High Technologies in the Russian Federation", in the science town of Obninsk in 2006-2020 the project for creating the technological park "Obninsk" is being implemented with primary specialization in the areas of biotechnology, pharmaceuticals and new materials.

The project implies attracting major Russian and foreign investors for implementing projects in the territory of the technological park.

The technological park will occupy two sites of a total area of approximately 60 hectares.

Site No. 1 is situated in the northern part of town and is part of the territory of the Obninsk State Technical University of Atomic Energy Industry, 16.9 hectares. This university is the main higher educational institution, preparing specialists in the atomic energy industry; its students and post-graduates number more than four thousand. The university conducts a broad range of research in the spheres of the atomic energy industry, new materials, physics and chemistry, ecology, biology, nuclear medicine, and other fields of science.

Site No. 1 is planned to be a universal territory for introducing innovative projects in the fields of information technology, nanotechnology, development of new polymeric and composite materials, high precision measuring equipment and automated technological complexes.

The business area will include a business incubator, scientific and production complex, center for collective use of equipment, scientific and technical information center, regional exhibition center, premises for presentations, negotiations, etc. New residential and social infrastructure objects will be constructed in the territory of the site, including a hotel with superior rooms and swimming and sport facilities.

Site No. 2 is situated in the southern part of town and is part of the municipal land neighboring the territory of the experimental sector of State Enterprise Medicine Radiological Scientific Center of the Russian Academy of Medical Sciences, total area of 41.2 hectares. The site will include the biotechnological and pharmaceutical production complex of the technological park.

Further expansion of the area of the technological park using neighboring territories is planned.

According to estimates, the total amount of investments in 2007–2010 attracted from both state and private investors will equal 17.7 billion rubles, more than half of which should be private investments.

Presently, 18 requests for occupancy in the technological park Obninsk have been approved. The amount of declared investments of residents of the technological park Obninsk is 4275.65 million rubles (as of the end of 2006).

To date, the terms for implementation of the project and its basic parameters are determined as:

- term for implementation of the project: 2006 – 2012. The technological park will be created in a few stages:

Stage I 2006–2007: design of the engineering infrastructure objects, buildings and structures meant for the main activities of the technological park

Stage II 2007–2009: construction of the engineering networks, buildings and structures meant for the main activities of the technological park

Stage III 2010–2012: construction of the social infrastructure of the technological park

- expected number of working positions in companies – residents of the technological park by 2012: over 4,600
- planned production capacity upon completion of construction and achievement of design capacity by the enterprises (by approximately 2011): over 13 billion rubles

According to preliminary estimates, payback of the federal funds invested in the technological park project via taxes paid to all budget levels will take approximately five years. In 2011, the total amount of taxes collected to the budget will exceed three billion rubles. High efficiency projects with a payback period of from two to four years will be selected for implementation in the technological park.

At the present moment, a number of similar projects are being planned, such as, for example, “Industrial Park Vorsino”.

Information on technological parks in Kaluga Oblast

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III. Automotive industry

1. **Commercial aspects of production organization in the automotive sector**

For several years now, the automotive industry has been one of the most attractive sectors in Russia to investors.

In 2006, 2.06 million cars were sold in Russia, including 800 000 domestic models, 280 000 "Russian foreign models" (including the Chevrolet Niva), 720 000 new and 260 000 used import cars. Growth as compared to 2005 constituted 20%.

The main development trends in the Russian automobile market are determined by the expanding middle class. According to the Federal State Statistics Service (Rosstat), the real monetary income of Russians is increasing on average by 10% per year, with income among middle class and affluent citizens growing at an even faster rate. The rise in the population's buying power has resulted in a reorientation of consumers to foreign models. According to general information, for the period 2002 to 2006, the sales share of new import models increased from 26% to 71% in monetary terms. Consumers' preferences have also shifted towards new foreign models, including those assembled in Russia. In 2006, the segment of Russian-made foreign models increased by approximately 100% and the segment of new import models by 78%.

Foreign companies have increased their car production in Russia by several times. According to experts' opinions, the growth in local production of foreign car brands in Russia during the next 7 years will equal approximately another 400 %. This growth will be stimulated by a flow of investments due to new projects of major foreign producers.

Production volume, pcs*			
Manufactured foreign models	2005	2006	Increase, %
Ford Focus	25691	44763	74
Daewoo Nexia	27629	33164	34
Renault Logan	262	32845	1352
Mazda3	6610	12945	96
Ford Mondeo	3670	6899	88

*Association of European Business, Automobile Manufactures Committee Members 2006

Russia is also becoming ever more attractive when it comes to opening plants for manufacturing car components. Thus, ZF-KAMA is already operating a joint venture of KamAZ and German producer Zahnrad Fabrik, producing passenger car components. The Austrian company Magna Steyr is planning to set up a plant for plastic car interior components in St. Petersburg. Toyota Boshoku intends to establish a production site for car seats in St. Petersburg, as well. Siemens VDO Automotive AG has announced its acquisition of shares in Autoelektrika and Avtel & Co., who will deliver components directly to German manufacturer Volkswagen.

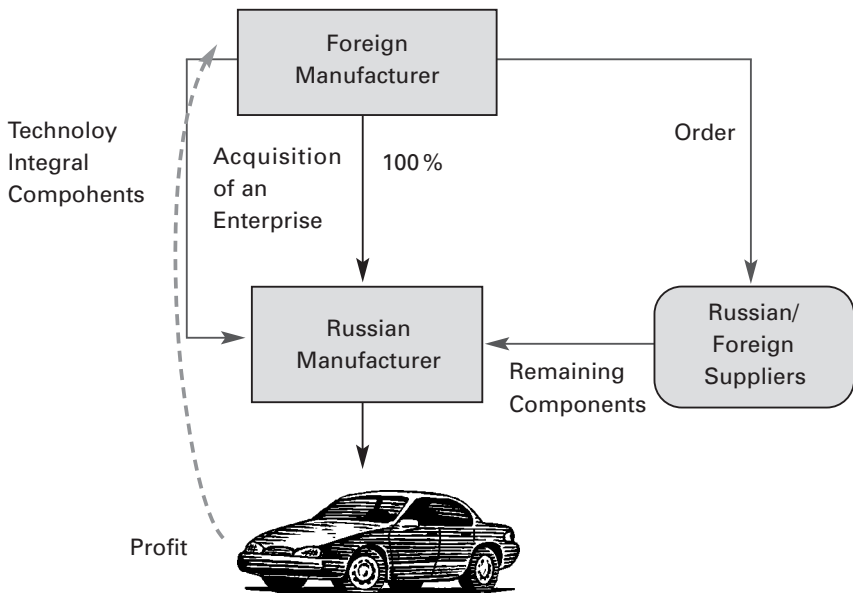
The project of German joint stock company VW in Kaluga is one of the largest foreign projects in the Russian automotive industry. In May 2006, Volkswagen signed an investment agreement with the administration of Kaluga Oblast and the Ministry of Economic Development and Trade of Russia on setting up a passenger car production plant in Kaluga Oblast.

Industrial production is taking up a leading position within the structure of the Kaluga Oblast business complex. There are around 1700 industrial enterprise organizations, 238 of which are large and mid-size enterprises accounting for more than 85 % of overall industrial production. The main industrial branch is the mechanical engineering complex. The share of the mechanical engineering and metal-working sectors within the industry of Kaluga Oblast makes up 40%, which is almost double the respective figure for Russia (22 %) and one and a half times in comparison to the respective figure for the Central Federal District (30 %). Priorities are electronic engineering and instrument making, power and vehicle engineering and production of components for the car industry and metal works.

2. Organization schemes for production in the automotive sector

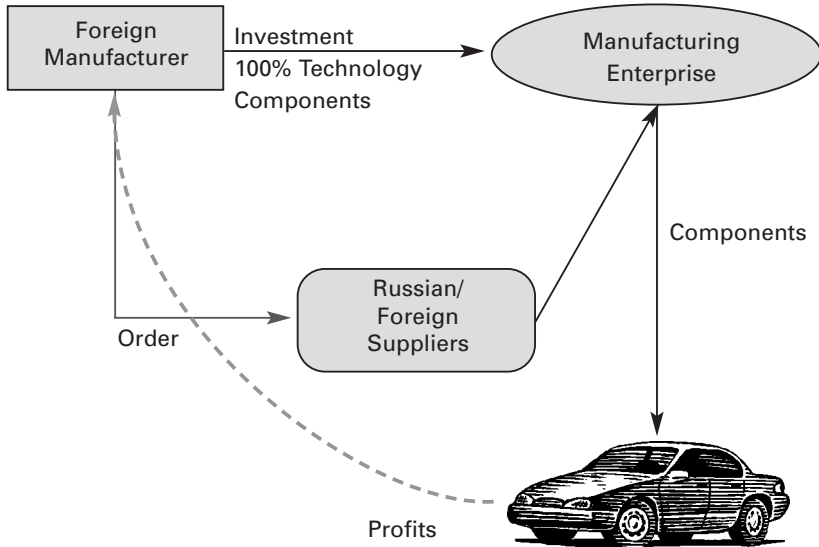
2.1 Acquisition of an existing production site (BROWNFIELD)

A foreign manufacturer buys an existing enterprise in Russia, furnishes it with equipment and supplies important production components. All other production components are supplied at the request of the foreign manufacturer by Russian or foreign suppliers located within the territory of Russia. The sales profits from the assembled cars manufactured in Russia go to the foreign manufacturer's parent enterprise.



2.2 Setting up a new production site (GREENFIELD)

A foreign manufacturer with 100 % capital investment creates a new Russian manufacturing enterprise, completely furnishes it with technical equipment and supplies the components required for production. All other components are ordered from Russian and foreign suppliers located within the territory of Russia. The sales profits from the assembled cars manufactured in Russia go to the foreign manufacturer's parent enterprise.



3. Free warehouse

Pursuant to Russian law, customs regulations concerning free warehouses are currently applied only to automotive production (specialized free production warehouse), although existing laws (in particular, the Customs Code of the Russian Federation) do not contain any restrictions on application of the free warehouse regulation in other branches of the economy.

Free warehouse means a customs regulation under which foreign goods are stored and used within respective territorial boundaries or premises (places) without any customs duties or VAT levied or economic policies (such as quantitative restrictions, etc.) applied to the said goods.

Only goods not prohibited from being imported and exported to and from the Russian customs territory may be stored under the free warehouse regulation. The import of certain categories of goods or their storage in free warehouses may be restricted or entirely prohibited by the Government of the Russian Federation and customs authorities.

The free warehouse regulation has certain features in common with the extraterritoriality regulation determining the applicable customs tariff regulations and the administrative regulation of foreign trade relations (non-tariff arrangements, including assignment of quotas and licensing).

With respect to measures of customs tariff arrangements, a free warehouse represents a customs free storage and trade territory on which goods of foreign origin may be stored, sold and bought without payment of customs duties and taxes, as if such storage warehouse, as far as customs and taxes are concerned, was located outside the customs boundary of the Russian Federation. Thus, the boundary of a free warehouse represents the inner customs boundary of the Russian Federation.

As for its legal status under administrative law, the inner customs boundary is equivalent to the outer boundary. The territory of the free warehouse is considered a borderland area. Customs authority staff guard the inner customs boundary. Entry to a free warehouse is permitted only upon producing an entrance permit at special checkpoints.

Apart from the free warehouse regulation, there also is a customs free zone regulation. The legal regulatory management of this regulation is very similar to the free warehouse regulation, such as with respect to:

- the storage periods for goods
- the operations to be executed with goods

- record keeping rules with respect to such goods, collection of customs duties, taxes and application of economic policy measures
- responsibility for the settlement of customs payments

A free warehouse differs from a customs free zone with respect to procedural characteristics of its establishment and liquidation.

The provisions of chapter 12 of the Customs Code of 1993 are still applicable to the free warehouse customs regulation. No other special provision with respect to this regulation has yet been adopted. As for the customs free zone, Federal Law No. 116-FZ of 22 July 2005 "On Special Economic Zones in the Russian Federation" (version of 18 December 2006) is applied.

3.1 Procedure of establishment and liquidation of free warehouses

Only Russian persons may act as owners of free warehouses. Licenses for establishing a free warehouse are issued by the Federal Customs Service (FCS of Russia) on the grounds of a respective decision by the Government of the Russian Federation within one month after such decision. On 2 November 1999, the State Customs Committee of Russia, together with the Ministry of Economy of Russia, ratified the procedure for applying for a license to open a free warehouse, comprising a directive for preparing technical and economic justifications (TEJ). This procedure contains the main requirements as to the content of such TEJ with respect to justification of the necessity to set up free warehouses, as well as the necessity to establish customs free zones and implement local projects on their territory. The submitted information should be supported by project information, and if there is no project, by initial licensing documentation.

A fee established by legislation is charged for the issuance of a license.

A license for establishing a free warehouse may be cancelled, revoked or suspended.

The cancellation of a license is stipulated if the license was issued to the applicant in violation of the established procedure, or if the decision to grant such license was taken on the grounds of invalid/ incomplete data.

If there is enough evidence to deem that the storage warehouse owner is abusing his rights, the license may be suspended for up to three months.

A license may be revoked if it does not conform to the "economic policy of the Russian Federation", which means that the customs authorities are provided with extensive discretionary authorities.

A license may also be revoked in case of non-compliance with requirements stipulated by the license or law.

The obligations of an owner of a free warehouse include:

- observance of the license conditions for establishing a free warehouse; fulfillment of the requirements of the customs authorities of the Russian Federation, including granting officers of the customs authorities of the Russian Federation access to the goods in the free warehouse as well as providing them with premises, equipment and means of communication in the free warehouse free of charge so that they can carry out customs control and customs clearance operations
- facilitation of customs control processes
- prevention of the possibility of withdrawal of goods from the warehouse, avoiding customs control

Consequently, the premises or other place intended for setting up a free warehouse shall be duly equipped in order to ensure customs control and, if necessary, furnished with double locking devices, one of which is to be controlled by a customs authority of the Russian Federation.

If such free warehouse is operated in violation of effective law, the Government of the Russian Federation may revoke its decision on the establishment of the free warehouse.

As of the moment of revocation of the decision on establishment of a free warehouse the customs free zone shall be liquidated within 6 months.

A free warehouse may be liquidated in the following cases:

- upon lapse of the license term
- at the option of the storage warehouse owner
- upon cancellation or revocation of the license by the customs authorities of the Russian Federation

As of the moment of the decision to liquidate a free warehouse, it is transformed into a temporary storage warehouse. The storage period for goods in such a warehouse is limited to 6 months.

In case of suspension of a license, storage of goods in the warehouse is subject to customs duties and taxes, and economic policy measures are applied with respect to foreign goods.

Upon liquidation of a free warehouse as a result of revocation of the license or in case of removal of goods from the free warehouse and their storage under different customs regulations, within the automotive industry these goods must be cleared by customs.

3.2 Operations conducted within free warehouses

Goods stored under the free warehouse or the customs free zone regulation may be subject to production as well as other commercial operations, with the exception of retail sales of goods. Depending on the type of goods to be stored under the said customs regulations, the State Customs Commission of Russia and the Russian Agency for International Cooperation and Development may take respective decisions and introduce specific limitations and prohibitions.

It must be noted that the customs authorities are entitled to regulate issues pertaining to the performance of production and other commercial operations with respect to goods stored under the free warehouse regulation as applied to each individual case.

The customs authorities may prohibit persons violating Russian law from conducting the abovementioned operations and deny them access to free warehouses.

Any changes with respect to goods within the boundaries of free warehouses must be duly reflected in the records.

3.3 Features of customs and custom tariff regulations

The storage of foreign/Russian goods within free warehouses entails neither customs duties and taxes nor reimbursement of paid sums. Furthermore, the storage of goods intended for export within the territory of free warehouses is exempt from payments provided that such goods are actually exported within six months from the reimbursement of customs duties, taxes or the exemption from them.

The obligation to pay customs duties and taxes arises if the goods are exported from the customs free zone or free warehouse to other parts of the customs territory of the Russian Federation and if they are exported from free warehouses outside the Russian Federation.

If goods intended for export return from the territory of the customs free zone or free warehouse to other parts of the customs territory of the Russian Federation, not only customs duties and taxes must be paid, but also the interest thereon in accordance with the rates established by the Bank of Russia for the granting of credit.

The same rule applies if goods intended for export are not exported within the established six-month period.

In the case of goods being stored under the free warehouse regulation, the person importing the goods is liable for the customs payments.

4. Industrial assembly regulation

4.1 Legislative aspects of the regulation

The industrial assembly regulation was originally devised by the Government of the Russian Federation as a comprehensive solution for the creation of new or modernization of existing capacities in the Russian automotive industry, for the launch of automobile manufacturing projects, and as an operative alternative to importing finished foreign models. To that end, a legal entity organizing car assembly in Russia assumes the obligation to reduce imports of foreign-made components to Russia step by step and to gradually replace them with Russian components. The last two years have shown that the adopted decisions were absolutely necessary and have started to change the overall picture of the car market in Russia.

The industrial assembly regulation was introduced into Russian law by Decree No. 166 of the Government of the Russian Federation of 29 March 2005 "On Amendments to the Tables of Customs Tariffs of the Russian Federation with respect to Car Components to be Imported for Industrial Assembly". This document reduced or did away with customs duties for the import of several categories of car components intended for car assembly in Russia (commodity items 8701-8705 on the TN VED – Nomenclature of Goods within the Framework of Foreign-economy Activities). Furthermore, Decree No. 196 of the Government of the Russian Federation of 7 April 2005 "On Non-application of Import Customs Rates with respect to Certain Types of Technological Equipment" was adopted, abolishing customs duties for key items of welding, painting and assembly equipment.

In 2005, for the purposes of implementation of Decree No. 166 by the Ministry of Economic Development and Trade of Russia, the Ministry of Industry and Energy of Russia and the Ministry of Finance of Russia in their joint Order No. 73/81/58n of 15 April 2005 approved the concept of "industrial assembly" and established a procedure for its implementation in the territory of the Russian Federation. The said document continues to be in effect with amendments, the last of which were made on 05 October 2006.

4.2 Conclusion and implementation of an assembly agreement

Pursuant to the said order, “industrial assembly” of motorized transportation vehicles is understood as a serial production system based on technological processes that provides project production capacities of at least 25 thousand units annually in a two-shift work schedule, including:

- welding, painting and assembly of car bodies
- installation of passenger compartment components
- installation of the engine unit, steering mechanism, front and rear suspension, exhaust system
- installation of electrical equipment, suspension elements
- installation of exterior elements
- compulsory tests of finished motorized transportation vehicles

Car parts for manufacturing transportation vehicles (commodity items 8701 – 8705 of the TN VED) are imported to the territory of the Russian Federation on the grounds of an agreement concluded between the Ministry of Economic Development and Trade of Russia and a Russian legal entity as the investor (“Assembly Agreement”), indicating, among other things, a list, the number and cost of the car components on the conditions of “seller’s warehouse” as agreed with the Ministry of Industry and Energy of the Russian Federation.

The assembly agreement serves as a basis for the classification of the goods to be imported by the investors with respect to special concessionary TN VED commodity items. The investor applies to the Ministry of Economic Development and Trade of Russia in order to conclude an assembly agreement. Such application shall be accompanied by a business plan, a list of car components and a draft of the respective assembly agreement.

The draft agreement shall contain the following data:

- a work schedule with a breakdown into years and indication of the proposed launch of production (obligatory indication of on-site organization periods for body welding, painting and assembly) of motorized transportation vehicles or their modules and assembly units as well as the transition to projected production capacities

- a list of the car components or their parts designated for export to the territory of the Russian Federation in order to perform the “industrial assembly” of motorized transportation vehicles or of their modules and assembly units according to their classification under the TN VED and indicating the number and cost of each car component or its part on the conditions of “seller’s warehouse”
- obligations of the legal entity to gradually reduce imports of the car components indicated in the list
- prospective capital investment volumes for the years of implementation of the assembly agreement
- liability of the parties, including warranties of the Russian legal entity in case of violation of established conditions
- obligations of the Russian legal entity to provide the necessary reports to the customs authorities for verification of the intended use of the imported car components or their parts

The assembly agreement is concluded:

- for up to 7 years if the Russian legal entity undertakes to organize body welding, painting and assembly not later than within 18 months, or
- for up to 8 years if the Russian legal entity undertakes the abovementioned obligations not later than within 30 months

The same procedure applies to the import of car components for the production of modules and assembly units of transportation vehicles. In this case, the respective agreement will be concluded for 5 or 7 years, depending on the category of modules or assembly units.

The Ministry of Economic Development and Trade, together with the Ministry of Industry and Energy of the Russian Federation, must examine the documents provided by the investor within a period of 45 days from their submission. Based on the results of the examination of the documents and an expertise, the Ministry of Economic Development and Trade shall, in agreement with the Ministry of Industry and Energy of Russia, conclude an assembly agreement with the Russian legal entity or send him a substantiated refusal with an explanatory statement as to the impossibility of its conclusion.

The order sets forth the following deadlines for organizing a production cycle under the industrial assembly regulation for motorized transportation vehicles:

- the start-up phase of the technological processes of body welding, painting and assembly not later than:
 - 18 months for an existing production site (brownfield), and
 - 30 months for a newly established production site (greenfield)
- The deadlines for and volumes of import of components (according to the list specified in the assembly agreement and as established on the basis of a calculation of their overall cost) are to be reduced:
 - by at least 10% within 24 months after start-up of the assembly/welding/painting processes
 - by at least another 10% after 42 months
 - by at least another 10% after 54 months

Thus, the reduction in import volume shall reach 30% in 4.5 years after the organization of the assembly, welding and painting processes for production of transportation vehicles. The deadline for production of the modules and assembly units is 3 years and 4 months.

With respect to the industrial assembly of modules and assembly units of transportation vehicles, Order No. 73/81/58n establishes a number of minimum requirements for the production of certain components.

The following requirements are imposed upon the production of internal combustion engines:

- with a maximum capacity of 2.5 liters – projected capacity in a two-shift work schedule of at least 25 thousand per year
- with a capacity of more than 2.5 liters – projected capacity in a two-shift work schedule of at least 15 thousand per year
- obligatory inclusion of the following technological operations into the production cycle:
 - with a maximum capacity of 2.5 liters – mechanical treatment of at least 4 basic components (cylinder block, cylinder head, crankshaft and camshaft)
 - assembly and monitoring operations, engine tests after assembly

- with a capacity of more than 2.5 liters – mechanical treatment of at least 2 basic components (cylinder block, cylinder head)
- assembly and monitoring operations, engine tests after assembly

The following requirements apply to the production of transmissions:

- projected production capacities in a two-shift work schedule:
 - at least 25 thousand annually for units with a rotation torque of up to 30 kg/m
 - at least 5 thousand annually for units with a rotation torque of more than 30 kg/m
- obligatory inclusion of the following technological operations into the production cycle:
 - mechanical treatment of casing components
 - assembly and monitoring operations

The production of driving axles shall be set at a minimum production volume of 5 thousand units per year in a two-shift work schedule. During this, mechanical treatment of the casing and assembly and monitoring operations must be performed.

During the production of other modules and assembly units of automotive vehicles, the production cycle shall include technological operations with respect to treatment of parts as well as assembly and monitoring operations.

Apart from that, Order No. 73/81/58n indicates that certain operations within the context of industrial assembly of transportation vehicles and their modules and assembly units may be executed in cooperation with other Russian enterprises.

In the process of implementing the project, the investor submits the following documents to the Ministry of Economic Development and Trade of Russia in order to confirm his observance of the conditions of the assembly agreement:

- a report on the actual capital investments aimed at implementation of the agreement
- information on output volume
- a report on car components and their parts that were actually imported to the territory of the Russian Federation and used for industrial assembly of motorized transportation vehicles or their modules and assembly units

- a report confirming the use of the car components or their parts imported to the Russian Federation for the purpose of industrial assembly, including information on consumption rates, surpluses in warehouses and unfinished production
- accounting statements for the preceding and current year

The Ministry of Economic Development and Trade of Russia analyzes the submitted documents and forwards them to the Ministry of Industry and Energy and the Ministry of Finance of Russia.

If necessary, apart from the analysis of the provided documents, the Ministry of Economic Development and Trade of Russia may organize an additional verification of the investor's compliance with the agreement.

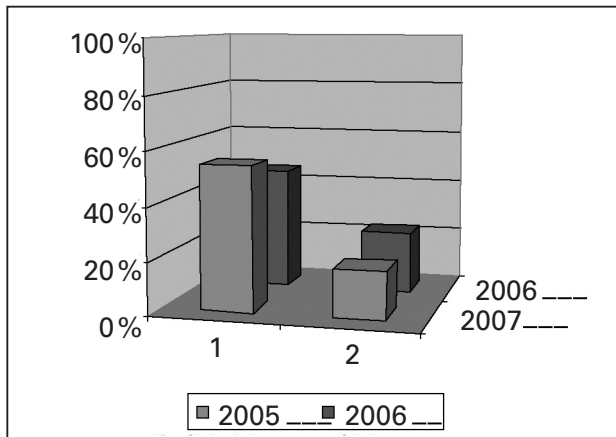
In case of non-performance or undue performance of the agreement by the investor, he is required to pay the full amount of the customs duties payable for all goods imported under the agreement from the moment of discovery of the violation. The investor will also be subject to measures set forth in the Customs Code of the Russian Federation, the Code of Administrative Offences of the Russian Federation and other laws and regulatory legal acts of the Russian Federation. The import of goods classified under the Russian TN VED as items "for the purpose of industrial assembly" shall be ceased immediately on the day of discovery of such violations.

Thus, the existing industrial assembly regulation provides car manufacturers with a range of significant advantages as compared to general regulations. It allows for flexible production organization and, at the same time, for utilizing concessions immediately upon the signing of an assembly agreement.

During the first two and a half years, companies may assemble cars under a shortened production cycle ("screwdriver technology"). Consequently, a factory can already produce cars and yield profit and simultaneously conduct adjustment processes and proceed to a full industrial production cycle (including body welding and painting).

4.3 Development of the automobile industry in Russia

The automobile market has undergone significant changes in connection with the increased prosperity of the population. According to the Ministry of Industry and Energy of Russia, in 2005, 54% of cars bought in Russia belonged to the price category of up to \$10 000 and 18% belonged to the price category of up to \$20 000, while in 2006, purchasing behavior changed significantly. At present, 46% of cars are being bought within the price category of up to \$10 000 and 23% of cars bought cost up to \$20 000. These numbers indicate a shift in buying interest towards more expensive cars.



1	Price category of cars of up to \$10 000
2	Price category of cars of up to \$20 000

Many car and car component manufacturers have already reacted to the increase in buying power, as illustrated by the conclusion of agreements with a number of leading international car producers on setting up new car factories in the territory of the Russian Federation, working full cycle (Completely Knocked Down), such as "IzhAvto", "ZMA", "GM-AVTOVAZ", "Avtoframos", "General Motors Avto", "Volkswagen Rus", "Nissan Motor Rus", "Toyota Motor Manufacturing Russia", ZAO "Ford Motor Company", "AVTOVAZ", "Severstalavto-ELABUGA".

From its side, the state is also taking measures aimed at promoting the development of the Russian automobile industry. The following main courses of state support can be singled out:

- development of tax and legal practice: simplification of tax deduction procedures, also within the framework of production implementation in the automotive industry
- support for exporters by way of compensating out of the federal budget for parts of their expenses for paying interest on credit from Russian credit organizations
- preparation of draft technical regulations, including:
 - special technical regulation "On Safety of Automotive Transportation Vehicles" (already drawn up and currently being coordinated with the federal executive authorities)

- special technical regulation “On the Requirements for Constructional Safety of Automotive Transportation Vehicles” (currently in the stage of development; the first hearings in the Ministry of Industry and Energy of Russia have taken place)
- special technical regulation “On Requirements for Petrol, Diesel and Other Fuels” (coordination procedures are currently under way with regard to comments from the relevant authorities)
- discontinuation of production of automobiles not meeting Euro-2 standards. Import ban on the import of models with a toxicity level below Euro-2 to the territory of the Russian Federation
- amendments to the Table of Customs Tariffs, to the effect of extending the list of car components intended for “industrial assembly” by more than 300 items

Russia’s accession to the WTO will inevitably influence future economic policy. This might, in particular, lead to changes in or refusal of further application of the “industrial assembly” regulation. Currently, the Ministry of Economic Development and Trade of Russia is planning to abandon the practice of concluding assembly agreements as of the second half of 2007. This is due to, among other things, the successful implementation of the program for attracting foreign manufacturers. According to analysts' predictions, sales numbers of foreign models assembled in Russia might increase to 735 000 cars by 2010 due to the implementation of concluded agreements, representing an increase of more than 3.5 times as compared to 200 000 cars in 2006.

Thus, the first half of 2007 might be the decisive period for the alignment of forces in the automobile market of Russia and, consequently, its neighboring countries.

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