Guide to investment

Volume 1: The Republic of Tatarstan
Guide to automotive component industry

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PRICEWATERHOUSECOOPERS

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Welcome letter from the President of the Republic of Tatarstan

Dear readers and prospective partners!

The Republic of Tatarstan is one of the most economically developed regions of the Russian Federation. Due to historical, geographical, natural and socioeconomic reasons, the Republic of Tatarstan is one of the biggest industrial centres of the country acknowledged both in the Russian Federation and abroad. According to international rating agencies Tatarstan is one of the most favourable regions for investment. Since 1998 international rating agencies such as "Moody's", "Standard&Poor's" and "Fitch" have been estimating credit rating of the Republic of Tatarstan.

In 2007, rating agencies "Standard&Poor's" and "Fitch Ratings Ltd" estimated long-term foreign money liability credit rating of the Republic of Tatarstan as "BB+", with the forecast "Stable". The rating agency "Moody's" estimated rating of international lending deals as "Bal", the forecast determined was "Stable".

The growth of GRP in the Republic of Tatarstan in 2007 totaled 108.7%, the index of industrial production – 108.8%. The high rate of growth observed in the production of transport and equipment made up 125% and that is higher than in Russia on average.

To improve these rates the Republic is forming an appropriate innovative and investment infrastructure. The major emphasis is made on the expansion of business-incubators activities.

Under the Federal jurisdiction, the Republic formed a special economic area of industrial and productive type which starts working in the Elabuga region. New high-technology chemical and petrochemical, mechanical engineering and metalworking productions will be set there. All necessary legislative and regulatory legal acts providing additional tax benefits for participants have already been passed.

The Republic has taken and keeps improving a set of special legislative and organizational measures in order to create favourable conditions for every economic agent, to promote investment and innovative activities, to create competitive, science intensive and high-tech productions.

The Republic of Tatarstan is open to efficient and mutually beneficial collaboration.

President of the Republic of Tatarstan

M.Sh. Shaimiev

Introduction

Relative political stability and a rapidly expanding economy have resulted in a sustained increase in the disposable income of ordinary Russians. As disposable income has grown the demand for automobile ownership has increased dramatically over the past decade.

The automotive industry in Russia appears to be poised for a sustained period of rapid expansion. Global automotive OEMs are set to take advantage of this expansion by locating manufacturing facilities in Russia. This creates a significant opportunity for automotive component manufacturers to expand operations in one of the world's fastest growing economies.

The Republic of Tatarstan is one of the major industrial regions of Russia, with a strong tradition of automotive production. This document serves as an aid to investment for foreign automotive component producers seeking to expand operations in Russia. This guide is the first in a series focusing on the competitive advantages offered by different regions of Russia, to help potential investors compare the relative advantages of different regions.

This document has been prepared in collaboration withthe Tatarstan Ministry of Economics and draws extensively on material supplied by the Ministry.

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Republic of Tatarstan automotive industry

The Automotive industry of the Tatarstan Republic is represented by a number of powerful conglomerates: OJSC “Kamaz”, “OJSC ZMA” (Severstal-Auto) and OJSC “Elabuga Automotive Plant (ELAZ)”. There are over one hundred automotive enterprises of all sizes in the region.

During 2006 the largest growth was recorded in the spheres of production of electric systems (26%), transport and transport equipment (26%), metallurgical production and production of finished metal products (15%). In 2006 manufacturing output totalled 140 billion roubles with regional production up 20% compared to 2005.

Among the most successful enterprises is the truck-maker OJSC “Kamaz” with an overall turnover of 54,9 billion roubles and a production increase of 28% in 2006 compared to 2005. Other companies which recorded significant production increases in 2006 compared to 2005 include; OJSC “Alnas”(3,3 billion rubles turnover and a production increase of 6%), OJSC “Elaz” (2,4 billion rubles turnover and production increase of 11%) and OJSC “Tatelectromash” (2 billion rouble turnover and production increase of 82%). In order to fulfill the Tatarstan regional government’s strategy of creating clusters in key spheres of the Republic’s economy, further development of the automotive cluster is a priority.

The automotive cluster includes the production of trucks, passenger cars as well as autocomponents for Russian and foreign OEMs.

The largest role in the Tatarstan automotive industry is that of OJSC "Kamaz". Kamaz has entered into a joint venture ZAO "Cummins Kama" with US-based Cummins Inc. This entity will produce 15-20 thousand truck engines compliant with EURO-2, EURO-3 and EURO-4 requirements. Another joint venture is that with German firm Friedrichshafen AG to assemble automatic transmissions. These joint ventures will enable Kamaz to produce an additional 6,5 thousand heavy and 4,3 thousand medium sized trucks per year.

Small and medium manufacturers of autocomponents include OJSC "Alnas", "Kvart" and "Tatelectromash" among others. During the course of the last five years Alnas has invested more than 800 million rubles in R&D of brake disks and brake drum technology for automotive plants in Togliatti, Nizhniy Novgorod and Izhevsk. Kvart has purchased and installed specialist equipment for the production of components for Avtovaz. During 2006/7 Tatelectromash invested almost 600 million roubles into the enlargement of its autocomponent manufacturing operations.
Since 2001 Tatelectromontazh has pursued an active development programme, including the manufacture of truck components and specialist parts for the Kamaz chassis.

In 2006 a large Russian company OJSC "Severstal-Avto", which owns OJSC "ZMA" (one of the older automotive plants in the region), fully reconstructed and modernised its manufacturing facilities, created additional logistical and customs infrastructure, installed new welding and assembly and modernised its painting units. This modernisation has allowed the company to begin the production of Korean SsangYong SUVs and the Fiat Albea. In 2008 Severstal-Avto will also produce the multifunctional van Fiat Doblo and sedan Fiat Linea. The total investment by Severstal-Avto in ZMA will exceed 120 million dollars. Such investment underlines the fact that the development of the domestic automotive industry is one of the key economic objectives of the Russian government, as well as the local Tatarstan government.

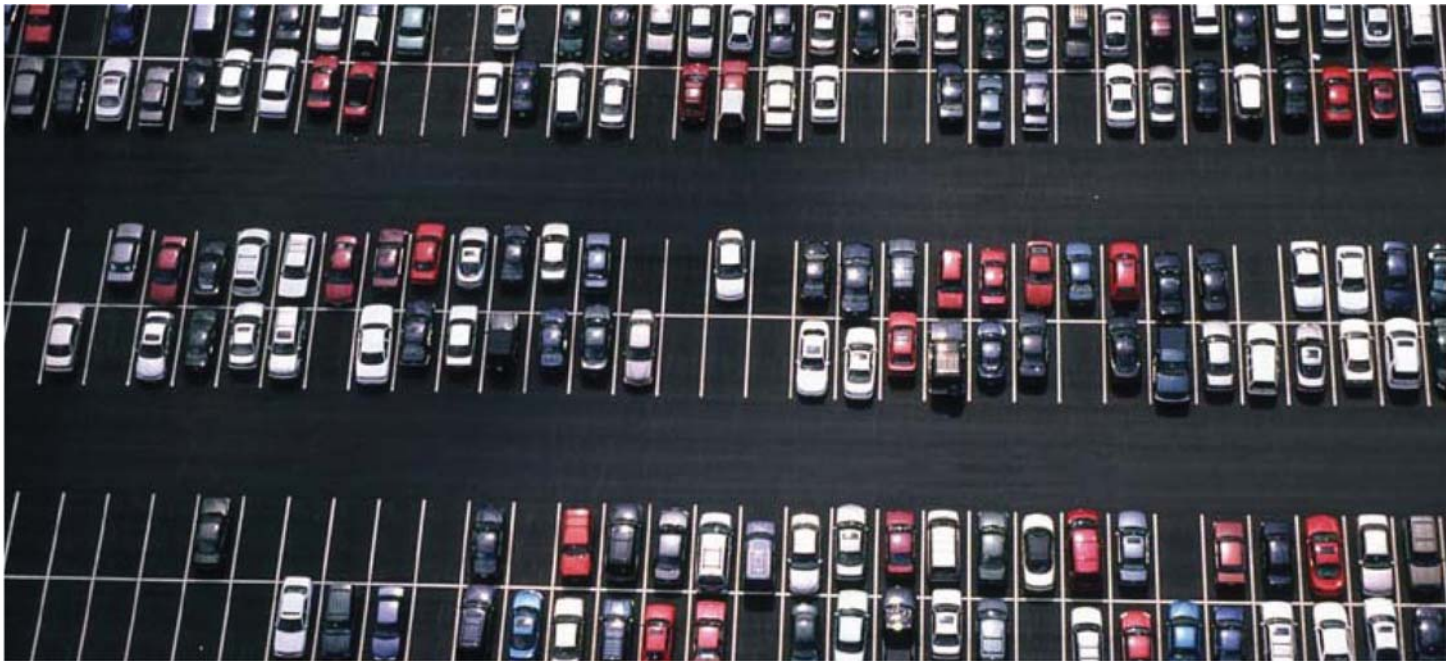
Industrial parks

Special Economic Zone - Alabuga

Near the historic town of Elabuga within the Republic of Tatarstan, an innovative Special Economic Zone (SEZ) has been established. The SEZ is located within the “Alabuga” industrial district. The territory is located close to major industrial centres such as Naberezhnye Chelny (25 km) and Nizhnekamsk (40 km). Competing against 72 similar territories within the Russian Federation, the application from Tatarstan was one of the six winning proposals.

The Tatarstan application was viewed favourably by the Federal Government for a number of reasons; the region is geographically well placed to service booming Moscow to the north and resource rich Central Asia to the south, as well as Europe to the west and China to the east. The region also has a highly developed manufacturing base and transport infrastructure. The SEZ has local access to Begishevo international airport and the Federal Moscow-Kazan-Ufa-Chelyabinsk Motorway. There also are river cargo ports in the adjacent cities of Naberezhnye Chelny and Nizhnekamsk, which connect the Zone to the common deep-water transport system of Western Russia.

The SEZ is managed by the Territorial Body of the Federal Agency for Special Economic Zones Management (RosOEZ) in the Republic of Tatarstan.



A resolution of the government of the Russian Federation approved the Regulations of the Supervisory Board of the SEZ, which is responsible for the development of the territory and its budgetary resources. The Supervisory Board is composed of representatives from RosOEZ, the authorised ministries of the Republic and municipal authorities, and representatives from SEZ residents. The Chairman of the Supervisory Board is Prime Minister of the Republic of Tatarstan Roustam Minnikhanov.

The aim of the SEZ is to diversify the regional economy so as to reduce its dependence on exports of oil-based raw materials and to foster high-technology, export-oriented and import-substituting projects. New entrants are required to invest at least 10 million Euros in production facilities within the territory over a period of 10 years, including not less than 1 million Euros during the first year of development.

Residents of SEZ Alabuga have competitive advantages in the spheres of tax, customs, and industrial and business infrastructure.

Alabuga residents are entitled to:

- Tax benefits;
- Free customs zones treatment.

Other state support to SEZ Alabuga residents includes:

- Financing from federal, regional and municipal budgets, as well as support in the engineering, transport, social and innovative spheres;
- “Single window” approach for registration;
- Preparation of invitations for foreigners arriving in Russia to work;
- Obligation to conclude land-plot lease agreements (land plots may be subsequently purchased by SEZ residents upon construction and ownership of immovable property);
- Assistance in obtaining construction permits.

Regional tax benefits:

- A reduced regional profits tax rate of 13.5% as opposed to standard 17.5% (i.e. total profits tax rate of 20% instead of 24%);
- Transport tax exemption for ten years from the vehicle registration date;
- Property tax exemption for ten years from the date of recording the property on the balance sheet;
- Land tax exemption for ten years for land plots located on SEZ territory;
- A higher depreciation rate for tax purposes may be used (i.e., the standard depreciation rate may be multiplied by a coefficient not more than 2);
- Expenses incurred on research and development projects (even if unsuccessful) can be deducted in full for profits tax purposes when they are incurred.

Additional incentives and guarantees may be granted to investors according to a Cabinet of Ministers of the Republic of Tatarstan degree of 7 May 1999 (e.g., investment of regional budget funds in residents, provision of tax credits, etc.). Depending on the circumstances, the incentives can total up to 15-20%.

SEZ Alabuga provides free customs zone services with the following benefits:

- Exemption from import customs duty and VAT for equipment and property imported to construct production facilities.
- Foreign goods delivered to and used within the SEZ are free from import customs duties and VAT. But when foreign goods are released into free circulation to the rest of Russia, import customs duties and VAT will be due for these goods and/or products of their processing. (This provides a cash flow advantage since customs duty and VAT will be due not when raw materials are imported, but when the finished goods are released into free circulation to the rest of Russia).
- Possibility of choosing the import customs duty rate on processed goods (i.e., either the rate applicable for raw materials or the rate applicable for finished goods). Independent of the customs duty rate chosen, the customs value for determination of the customs duty should be taken as the value of raw materials.

Please note that if the finished goods are not sold in Russia, but rather exported, they will be subject to export duties (if any).

"One stop shop":

The objective of "One stop shop" is to facilitate the investment process by providing investors with a single point of contact for all dealings with the government One-stop-shop provides a single window access to all government services and information.

16 governmental agencies reside under one roof at SEZ "Alabuga". These are:

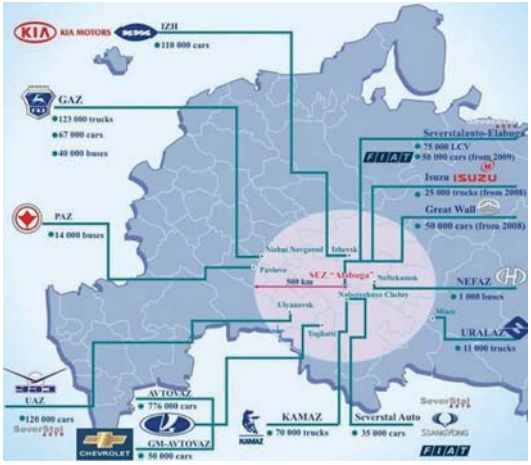
- The Regional Administration of the Federal Agency for the Management of Special Economic Zones in the Republic of Tatarstan;
- The Ministry of Ecology and Natural Resources;
- The Ministry of Labor and Social Security;
- The Service of Environmental, Technological and Nuclear Oversight;
- The Federal Real Estate Cadastre Agency;
- The Social Insurance Fund;
- The Fund of Obligatory Medical Insurance;
- The Inspection of State Architectural Building Supervision;
- The Registration Service;
- The Chamber of Commerce and Industry;
- The Tax Service;
- The Customs Service;
- The Migration Service;
- The Pension Fund;
- The Certification Test Center;
- The Technical Inventory Bureau.

Other benefits:

The 20 sq km site dedicated to the SEZ has been constructed at the expense of the federal and regional budgets. The complex includes all the necessary industrial infrastructure, such as power and heating, a gas pipeline, a modern telecommunications system, a customs post and a bonded warehouse. This infrastructure will shorten the time and expense required for processing imported and exported commodities.

A "Work, Live and Play" principle will be implemented to attract residents. This includes the construction in the town of Elabuga of new housing, social sphere projects, a river port, and a central bus service station.

The Republic of Tatarstan is one of the more investment attractive regions of the Russian Federation. The region has attracted over $1bln of foreign direct investment since 1991.



Kama industrial park

The Kama industrial park, known as KIP Master, is designed to provide premises for small businesses to rent and logistical support to those tenants. The project is jointly financed by KAMAZ and the Tatarstan government and functions as an automotive industrial park providing office space, production premises and warehouses for rent.

KIP Master owns:

- Advanced production facilities covering 107,000 sq m;
- Administration and on-site office premises of 31,000 sq m;

The number participants in the KIP Master project has increased significantly during the 2005-2007 period. The government of Tatarstan support the park in the following ways:

- Financing the creation of a park infrastructure;
- Granting KIP Master with tax benefits with the aim facilitating lower rent payments for participants;
- Granting access to advantageous credit facilities;
- Creation of favourable conditions for the development of businesses in the KIP Master area.

As the main stakeholder KAMAZ provides the following support:

- To maintain supplies of materials to for participants;
- To handle technical documentation for supply orders;
- To provide participants with KAMAZ branded retail and distribution outlets;

The Kama industrial park offers investors the following advantages:

- The presence of the significant demand for output from KAMAZ
- Long-term strategic benefits;
- Preferences in the KAMAZ supply chain;
- Local presence of business infrastructure (leasing, bank, customs service etc);
- Access to potential of the second-hand auto components market;
- Access to trained and educated workforce;
- Favorable geographic location.

Transport logistics of the Republic of Tatarstan

The Republic of Tatarstan is situated in the European part of the Russian Federation at the confluence of the Volga and the Kama rivers. The republic extends some 460 km west to east and 290 km north to south. The area of the republic is 67,836 square kilometres, which is approximately equal to that of Belgium and the Netherlands taken together. Tatarstan borders on eight regions of the Russian Federation: the Republic of Bashkortostan, the Udmurt Republic, the Republic of Mari El, the Chuvash Republic, the Kirov, Orenburg, Ulyanovsk and Samara Regions.

Key characteristics of Tatarstan transportation infrastructure can be summarised as follows:

- Access to the transcontinental railway line to eastern and western destinations;
- North-south railroad connecting the largest Volga region industrial cities;
- Access to European Russia's main rivers: Volga, Kama, Belaya and Vyatka. These rivers connect the north-western, southern and north-eastern regions of Russia as well as the Urals;

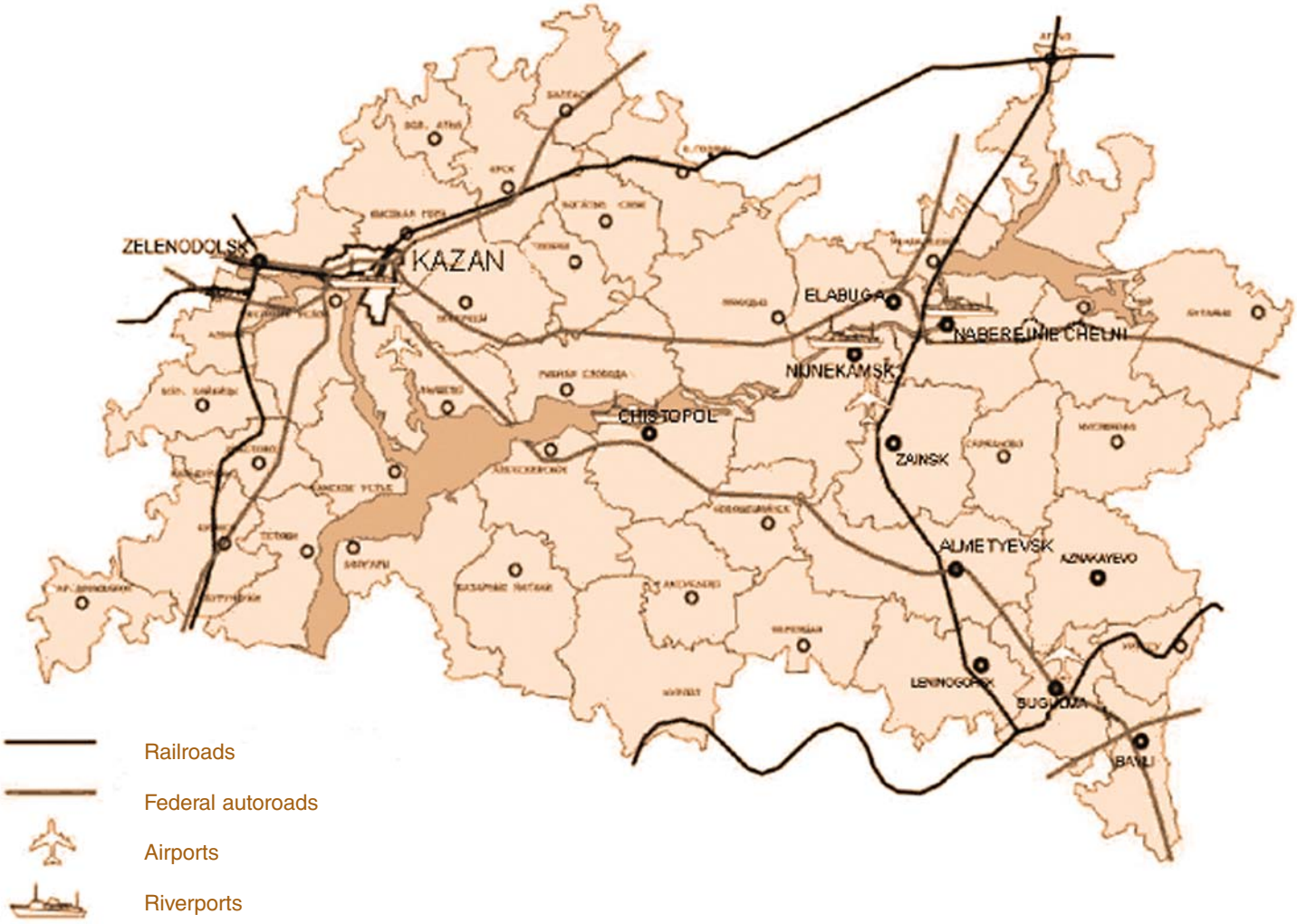
- Access to federal highways in three directions: 'West–East', 'West–Southeast' and 'Northwest – South';
- Three airports serving international and domestic destinations.

Tatarstan transport statistics:

- 848 km of railroads;
- 18,500 km of highways (including 1,086 km of federal purpose roads, 13,486 km of republic purpose roads, 4,000 km of urban roads);
- 843 km of internal waterways;
- 58 flight destinations (including Kazan - Frankfurt);
- 232 km of industrial railroads.

The rail network of Tatarstan connects 19 of the Republic's districts. River transportation connects 17 districts and the largest towns and cities. The largest river ports are located in Kazan and Naberezhnye Chelny. There are three airports in the region, Kazan and Begishevo service domestic and international flights, Bugulma services domestic flights only.

$4bln of investment funds have been committed to the development of the region's transport complex for the period 2006-2010.



Labour market

At the beginning of 2007 the population of Tatarstan was 3,760,500. In Russia, Tatarstan is the eighth most populous region after the cities of Moscow and St. Petersburg, the Krasnodar Territory, the Republic of Bashkortostan, and the Moscow, Sverdlovsk and Rostov regions. In the Volga Federal Region, only Bashkortostan has a larger population.

Region	2007 ('000s)		
	Total	Urban	Rural
Tatarstan	**3760.5**	**2806.2**	**954.3**
Cities			
1. Kazan	1116.0	1116.0	
2. Naberezhnye Chelny	506.4	506.4	
3. Nizhnekamsk	226.6	226.6	
4. Almetyevsk	141.9	141.9	
5. Bugulma	90.9	90.9	
6. Elabuga	70.0	70.0	
7. Chistopol	61.5	61.5	

Tatarstan is home to a diverse range of ethnic groups including over 115 different nationalities. The three largest groups are Tatars, Russians and Chuvashes. There are more than two million Tatars in the republic, or 52.9% of its total population. Russians account for about 1.5 million or 39.5% and Chuvashes are next with 126,500 or 3.4%.

There are more than 90 institutes of higher education in Tatarstan. This includes the following highly regarded establishments:

- Kazan State Finance & Economics Institute
- Kazan State Technical University (A.N.Tupolev (KAI))
- Kazan State Technological University
- Kazan State University

Graduates from these establishments work in all spheres of the local economy. Several institutes provide professional training and guaranteed employment programmes through in collaboration with the region's major businesses. There are also more than 193 secondary technical schools and colleges in Tatarstan.

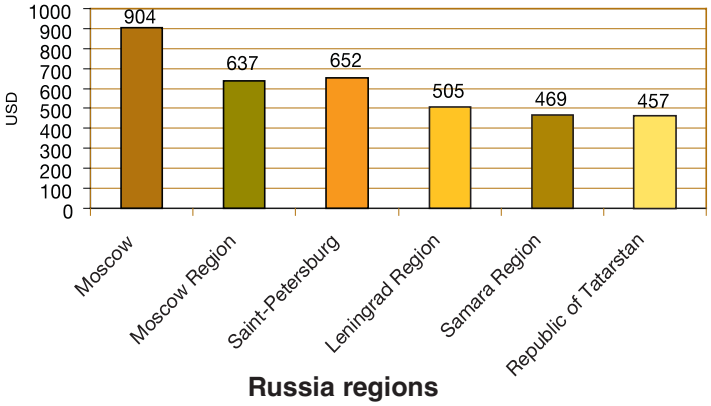
The population of Tatarstan is highly educated, 435 out of every 1,000 residents hold secondary vocational training or higher education qualifications. 13-15% of the adult population holds a higher level of education, the largest percentage in the Volga region.

The rate of registered unemployment is approximately 1.6% of the urban population and 4% of the rural population.

According to the Russian Statistical State Bureau the average wage rates in Tatarstan are approximately $457 USD per month. This is equivalent to 52% of the Moscow average (2007 figures).

A graphical comparison of the average wage rate is presented as follows:

Average wage rates by September 2007



Source: Russian Statistical State Bureau, http://www.gks.ru

There is a significant variation of average rates depending on occupation. For the first half of 2007 average monthly wage rates of different specialists are approximately as follows:

Profession	Average monthly wage (US$)
Economist	495
Accountant	400
Chief accountant	645
Engineer	700
IT specialist	675
Chief engineer	1,200
Sales representative	850
Power engineer	560
Logistic manager	740
Staff manager	350
Financial manager	2,250
Area, regional manager	4,000

Following the trend of Russia as a whole, the population of Tatarstan is expected to decline and become more urbanised. The table below shows predicted population levels to the year 2030:

Tatarstan's presumable population amount at 2030 (yearend)						
	2005		**2020**		**2030**	
	Whole population	**Urban population's share, %**	**Whole population**	**Urban population's share, %**	**Whole population**	**Urban population's share, %**
Russian federation	142 754	73%	135 853	75%	131 700	80%
Privoljskiy federal district	30 511	7020%	28 350	73%	26 900	78%
Tatarstan repub-lic	3 762	75%	3 718	78%	3 670	81%

Source: Russian Statistical State Bureau, http://www.gks.ru

Government support on investment

A key constituent of progressive economic development is the attraction of foreign investors to the region.

Tatarstan is considered one of the most investor-friendly regions of the Russian Federation according to international rating agencies such as Standard & Poor's that improved their long-term credit rating of Tatarstan in 2006 up to 'BB- stable outlook'. Moody's Investor's Service assigned the rating 'BA1 stable outlook' with respect to the region's borrowings in foreign exchange. In January 2007 Fitch assigned a 'BB+ stable outlook' long-term rating to Tatarstan in foreign and national currency.

The legal framework of the Republic of Tatarstan has been tailored to create additional guarantees to foreign investors. For example, Law No. 2180-XII of the Republic of Tatarstan of July 19, 1994 "On Foreign Investments in the Republic of Tatarstan" (as amended on June 27, 2001 and on September 23, 2003) states that a foreign investor in the territory of the Republic of Tatarstan is granted full and unconditional legal protection of its rights and interests, which is provided by legislation of the Republic of Tatarstan, Russian Federation, international treaties, and this law. The legal guarantees for foreign investors stipulated within this law have had a positive impact on the successful development of regional investment policy and the creation of a favourable investment climate.

Amendments and additions to the above law have been made in order to harmonise the Tatarstan legal framework with the Russian Federation, these include:

- Foreign investment is defined as a contribution of foreign capital to an object of entrepreneurial activity in the form of objects of civil rights belonging to a foreign investor.
- The procedure for the registration of commercial organisations with foreign investments has been simplified and is now the same as for the registration of Russian companies.

The Republic of Tatarstan fits within the common framework of the Russian Federation, including legislation in respect of taxes, customs, and foreign exchange.

Investor rights and protection

Chapter 2 of Law No.2180-XII of the Republic of Tatarstan of July 19, 1994 "On Foreign Investments in the Republic of Tatarstan" provides for the following State guarantees in relation to the protection of foreign investments:

- Legal protection of foreign investors;
- Compensation in the event of nationalisation and requisitioning of assets of a foreign investor or a commercial organisation with foreign investments;
- Indemnification and compensation for damages to foreign investors;
- Guarantees against unfavourable changes in legislation of the Republic of Tatarstan.

Article 11 of this law stipulates that where new legal acts or regulations of the Republic of Tatarstan impair the conditions of the activity of foreign investors and commercial organisations with foreign investments, then the legal framework in place at the time of the investment will still apply. This applies to the length of the payback period of the investment project, but not more than for seven years from the date of the change in legislation.

Law No. 1872 of the Republic of Tatarstan of November 25, 1998 "On Investment Activity in the Republic of Tatarstan" established the provision whereby the State guarantees the stability of the rights of the subjects of an investment activity. In case any legislative acts are adopted that limit the rights of the subjects of an investment activity, which were granted to them by agreements concluded prior to adoption of these acts, the conditions of these agreements (contracts) hold true for their entire term.

State support to foreign investors

The legislation of the Russian Federation, for the purposes of State support of the implementation of commercial investment projects which have passed the competitive selection, allows for the allocation of funds from the federal budget in the following formats:

- Funds granted on a returnable basis;
- Funds granted in the form of State ownership of part of the shares of joint-stock companies created;
- State guarantees granting reimbursement of part of the financial resources contributed by the investor in the event of non-fulfillment of the investment project through no fault of the investor.

The Republic of Tatarstan, as a constituent entity of the Russian Federation, may also grant, in accordance with the Budget Code of the Russian Federation, State guarantees for top-priority investment projects.

Other state support of investment activities

The State Council of the Republic of Tatarstan can grant certain categories of taxpayers a privilege in the form of a reduced rate of a tax payable to the budget of the Republic of Tatarstan, which cannot be lower than 13.5%.

Tax privileges to subjects of investment activities are granted for the payback period of the investment project, but they may not exceed seven years from the moment of commencing the investment. Subjects of investment activities implementing projects in the field of mechanical engineering may be granted tax privileges for the period of up to thirteen years from the moment of commencing the investment.

Taxes

The tax legislation in the Republic of Tatarstan is determined in accordance with the Tax Law of the Russian Federation. Special tax concessions are permitted in the Special Economic Zone “Alabuga” as outlined in the Industrial Parks section, however the remainder of Tatarstan is subject to the federal tax legislation. The main aspects of tax legislation in the Russian Federation have been outlined below.

Corporate income tax

The standard profits tax rate of 24% is applicable to all types of income of corporations except for dividends (from 2008, it is 9% or 0%) and interest income on state securities (15%, 9% or 0%, depending on the type of securities). The standard profit tax rate may be reduced, but the minimum rate is 20%. The tax accounting period is the calendar year. The taxable base is generally calculated on an accrual basis.

Taxable income

Generally, all types of income are subject to taxation, unless they are directly mentioned in the tax law as exempt.

Some types of income are exempt from profits tax:

- Income in the form of property received from a parent which owns more than 50% of shares in the receiving party, or from a subsidiary in which the recipient owns more than 50%;
- Income from revaluation of fixed assets and securities;
- Income in the form of property received as a contribution to the charter capital;
- Income in the form of property received by a shareholder upon distribution of its subsidiary's assets (within an amount of its contribution);
- Certain other forms of income.

Deductibility of expenses

Expenses are generally recognized for tax purposes on an accrual basis. The list of deductible expenses is open and the main criteria for deductibility of expenses is that the expenses should be (a) economically justified, (b) properly documented, (c) incurred in the course of an income generating activity and (d) not specially mentioned in the Tax Code as non-deductible for tax purposes.

Deductibility of some types of expenses are subject to limits, for instance, business entertainment expenses, certain types of advertising expenses, interest on loans.

Also the Russian Tax Code establishes a list of non-deductible expenses, for instance:

- Cost of assets transferred free-of-charge;
- Penalties paid to the budget of Russia;
- Allowance accrued in financial reporting for revaluation of fixed assets or securities;
- Some types of insurance expenses (except those specially mentioned in the Tax Code);
- Employee remunerations not mentioned in labour contracts, some other expenses.

Carry-forward of losses

Tax losses may be carried forward for ten years without limitations (i.e., they can be used to offset the entire taxable profit before a loss carry forward deduction). Carry back is not allowed. Losses from sale of securities can be credited only to the future income from sale of the same type of securities (publicly traded or privately held). Losses from the sale of fixed assets are recognized evenly during the remaining useful life of the respective assets.

Dividends payable by Russian legal entities

The standard 15% tax rate is applicable to dividends paid by Russian legal entities to their foreign shareholders. The tax should be withheld by the Russian legal entity paying dividends. The tax may be reduced based on a relevant double tax treaty (typically to 10% or 5%).

Related party transactions, transfer pricing

The tax authorities may examine the prices applied in "controllable" transactions:

- Transactions between related parties;
- Barter transactions;
- Foreign trade transactions;
- Transactions in which the prices fluctuated by more than 20% within a short period of time.

The prices used in these transactions may only be adjusted for tax purposes if they differ from the market price by more than 20%.

The three methods available to determine market price are (in order of preference): (1) comparable uncontrolled price (CUP) method, (2) resale-minus method and (3) cost-plus method.

VAT

The standard VAT rate is 18%. This rate applies to all goods and services that do not qualify for another rate or exemption. A reduced rate of 10% VAT applies to some food, medical and baby products. A zero VAT rate is applicable to certain operations, for instance, to export of goods outside Russia.

Scope of VAT

A taxable transaction for VAT purposes is the supply of goods, services and works on Russian territory, as well as the importation of goods into Russia.

Place of supply of goods Russia is deemed the place of supply of goods when either of the following conditions are met:

- The goods are located in Russia and are not shipped or transported; or
- The goods are located in Russia when shipment or transportation begins.

The general rule is that works and services are supplied according to where the supplier has its place of activity. However, there are some exceptions:

- Works and services connected with immovable and movable property (for example, repairs and maintenance) are deemed to be supplied in Russia if the property is located in Russia;
- Services in the area of education, culture, art, tourism and sport are deemed to be supplied where physically performed;
- Consulting, data processing, marketing, legal, accounting, advertising services; transfer of copyrights, licenses and similar rights; engineering services; types of provision of personnel and some agency services relating to procurement are deemed to be supplied in Russia if the buyer carries out its activity in Russia. The rules determining whether a business has its place of activity in Russia are complex and should be assessed on a case-by-case basis.

Exempt supply

Exemption from import VAT is available for technological equipment and associated spare parts imported into Russia as in-kind contributions to the charter capital of an organization.

This exemption applies to both domestic and foreign investors. VAT exceptions apply to other types of goods and services, for instance, from 2008 transfer of exclusive and non-exclusive rights to software, know-how, databases, inventions, etc. is VAT exempt (trademarks are not covered by the exemption).

Import VAT

Goods imported into Russia are subject to import VAT. Import VAT is recoverable if the usual VAT recovery requirements are met. However, foreign companies that are not tax registered in Russia are not entitled to recover Russian import VAT.

Reverse-charge VAT

If a foreign supplier of goods (or services) that are subject to Russian VAT is not tax registered in Russia, the Russian purchaser should act as a tax agent. The tax agent must calculate VAT, withhold it from the payment to the foreign supplier, and remit the withheld VAT to the Russian authorities. The withheld VAT may be recovered by the Russian tax agent, provided it meets the recovery requirements.

Taxable amount

The taxable amount is normally defined as the market value of goods (services, works) supplied including the amount of excise duty and excluding the amount of VAT. The taxable value for import VAT purposes is defined as the value applied for customs purposes (including freight, insurance and other costs incurred prior to the customs border), increased by any applicable customs and excise duties.

Refunds

VAT on goods and services (work) acquired in order to carry out VATable transactions is recoverable. Input VAT related to both VATable and non-VATable activities should be allocated between these two types of activities. Input VAT related to VAT exempt or non-VATable activities is non-recoverable, but rather should be expensed. If a business is due a VAT refund, it is entitled to receipt of such refund under the law. In practice, VAT refunds are difficult to obtain in Russia and they are usually only granted after lengthy court litigation. There is no cross-border refund mechanism for non-registered businesses. Only entities that obtain a general tax registration in Russia are entitled to a VAT refund, provided the taxpayer has supplies which are subject to Russian VAT.

VAT registration

There is no separate VAT registration in Russia, but general tax registration includes registration for VAT purposes. Russian legislation provides each taxpayer with an identification number applicable for all taxes.

Customs duties

Classification of goods

The Russian tariff classification system is based on the internationally adopted Harmonized Commodity Description and Coding System.

Valuation rules

The customs valuation procedure is established in line with GATT/ WTO principles and is generally equivalent to the DAF/Russian border transaction value of the goods concerned.

Rates

Import duty applies to most goods. The majority of customs duty rates in Russia are ad valorem (i.e., a percentage of the goods' customs value). There are also specific duties for certain types of imports, calculated by volume, weight or quantity. Some duties have a combined rate incorporating the above two types of duty and, therefore, the tax base may vary. Base customs duty rates vary widely, from 100% on spirits to 0% for some printed matter and some other priority imports. Zero duty applies, for example, to a wide range of equipment and machinery. On average, duty rates fall between 5% and 20% of goods' customs value. The base rates specified in the legislation apply to countries that have been granted Most Favoured Nation status. Some goods from "developing" and "least developed" countries may be imported at 75% of the base rates or zero rates, respectively. However, these are limited to raw materials and handmade goods. Goods originating in other countries will be subject to duty at double the base rates.

Free trade agreements

Russia has adopted free trade agreements with countries of the Commonwealth of Independent States (CIS). Goods originating from CIS countries (e.g., Ukraine) are exempt from customs duty for import to Russia (subject to certain conditions). Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan form a Customs Union, and goods originating from these countries are not subject to customs duty within it.

Other taxes

Property tax

The property tax base includes only the book value of fixed assets reflected on the taxpayer's balance sheet (including property leased out). Intangible assets, inventories, work-in-progress and financial assets are not subject to property tax in Russia. The property tax rate in Tatarstan is 2.2%.

Excise

Certain categories of goods are subject to excise tax for import to Russia (e.g., alcoholic beverages, cigarettes, cars, motorcycles with a capacity of over 150 horsepower, etc.). Generally, the excise tax rates are specific (i.e. the rates are based on the volume, weight or other characteristics of goods).

Conclusion

Driven by rising disposable income and the development of the credit market the Russian automotive industry appears poised for a sustained period of rapid expansion. This growth is encouraging global automotive OEMs to locate manufacturing facilities within the Russian Federation.

The rise in the number of OEMs operating in Russia creates significant opportunities for automotive component producers. One key consideration for automotive component producers who intend to take advantage of these opportunities is where within the Russian Federation to invest.

Industrial manufacturing in Russia is organised into regional clusters, one of the largest being the Republic of Tatarstan. The Tatarstan regional government is committed to developing the automotive component industry in the region. This commitment is driven by the significant growth in output anticipated from Tatarstan-based KAMAZ and Severstal Avto, which are two of the largest automotive OEMs operating in Russia.

The Tatarstan regional government believes that its open approach to foreign investors, modern legal framework, special economic zone and highly skilled labour market presents a significant advantage over other regions competing for foreign-based automotive component investment.

Further information and assistance can be obtained via the various contact details provided in Appendix 2.

Appendix 1:
Some Tatarstan automotive component suppliers

Automotive plant Kamaz	
Contact details:	**www.kamaz.net**
29, Prospekt M.Jalilya, Naberezhnye Chelny, 423808, Russia Phone: +7 (8552) 37-46-93, Fax: +7 (8552) 37-47-86	**About the company:** Automotive plant is the final assembling subdivision of Kamaz Group that produces a wide range of trucks. The line-up includes more than 30 models and about 400 modifications. Productive capacity of the plant is: for trucks – 65,000 items; for engines – 70,000; for trailers and semi-trailers 21,000; for buses – 1,500. In 2006 were sold 30,920 units. **Main products:** KAMAZ trucks and spare parts; cutting and assembly of basic parts and units of chassis for trucks, and complete chassis sets for buses **Main consumers:** Russia, CIS countries (64,9% of export), Asia and Pacific countries (25.6%), Europe (3.3%), Africa (6.2%)

OJSC Kamaz-Metallurgy	
Contact details:	**www.kamlit.ru**
Foundry plant: 29, Prospekt M.Jalilya, Naberezhnye Chelny, 423808, Russia Phone: +7 (8552) 37-45-92, Fax: +7 (8552) 37-44-99 Forge plant: 29, Prospekt M.Jalilya, Naberezhnye Chelny, 423808, Russia Phone: +7 (8552) 37-24-94, Fax: +7 (8552) 53-16-27	**About the company:** OJSC Kamaz-Metallurgy includes foundry and forging production. Total area of production building is about 172,800 sq.m. Production capacity of the plant is 238,270 tons of castings per year, including grey iron and ductile iron castings. Over 11,000 employees. **Main products:** Foundry plant: moulded completing and spare parts for KAMAZ trucks, agricultural machinery, iron, steel, non-ferrous castings. Forge plant: hot-stamped forgings and blanks for automobile production **Main consumers:** OJSC Kamaz, OJSC Izh-Avto, OJSC URALAZ, OJSC Gaz

OJSC Kamsky Frame & Stamping Plant	
Contact details:	**www.kamaz.net/ru/company/plants/prz**
P.O 26, 29 Prospekt M.Jalilya, Naberezhnye Chelny, 423808, Russia Phone: +7 (8552) 39-46-92, Fax: +7 (8552) 37-46-51	**About the company:** OJSC Kamsky Frame & Stamping Plant consist of 7 productions: procuring, compression, limited edition and original details making production, welding and assembling, instrument plant and auto-mechanical production. Sales in 2005 were more than 5,200 mln.rub. Over 7,500 employees. **Main products:** Spare parts for passenger cars; front suspension levers (lower and uper); body parts and exhaust system; die tooling and turned components **Main consumers:** OJSC Avtovaz, OJSC Kamaz and other consumers in Russia and CIS countries

OJSC Kamaz-Diesel	
Contact details:	**www.kamaz.net/ru/company/plants/kamazdiesel**
29, Prospekt M.Jalilya, Naberezhnye Chelny, 423808, Russia Phone: +7 (8552) 53-42-28, Fax: +7 (8552) 37-42-58	**About the company:** OJSC Kamaz-Diesel Is one of the largest and advanced enterprises in Republic of Tatarstan. Productive capacity is more than 100,000 engines; number of employees is more than 7,000. **Main products:** Engines for KAMAZ vehicles: diesel engines, power units, transmissions, hydrocylinders for trailers, turbocompressors for buses and tractors: stationary power units; components for KAMAZ vehicles **Main consumers:** OJSC Avtovaz, OJSC Kamaz

OJSC Kamazinstrumentspetcmash	
Contact details:	**www.kamaz.net/ru/company/ plants/kism**
29, Prospekt M.Jalilya, Naberezhnye Chelny, 423808, Russia Phone: +7 (8552) 38-42-71, Fax: +7 (8552) 37-24-22, 37-25-68	**About the company:** OJSC Kamazinstrumentspetcmash produces industrial tools. Products of Kamazinstrumentspetcmash find the market not only in Russia, but also in CIS countries, in USA, Italy and Germany. **Main products:** Measuring tools, metal-cutting tools, auxiliary tools, press tools, accessories and tooling, pneumatic tools, steering booster, pumps, winches, platforms, refuse tippers, spare parts for equipment and vehicles **Main consumers:** OJSC Avtovaz, OJSC Kamaz, Iveco, Man

OJSC Industrial association ELAZ	
Contact details:	**www.elaz.ru**
1, Neftyanikov prospekt, Elabuga, 423630, Russia	**About the company:** The territory of the industrial site is 16.5 sq. km area. Sales in 2006 were more than 2000 mln.rub **Main products:** Automotive components and spare parts, equipment for use and repair of oil and gas boreholes, wheel tractors and machinery on their base for municipal and road purposes. **Main consumers:** OJSC Izh-Avto, OJSC Kamaz, OJSC URALAZ, OJSC Gaz

OJSC ZMA	
Contact details:	**www.severstalauto.ru/ en/about/pro-duction/ production_sites_zma**
Elabuga, Republic of Tatarstan, Russia	**About the company:** 99,6% owned by OJSC Severstal-Auto. ZMA has the license to produce SSANGYONG and Fiat Albea, Linea and Doblo vehicles. **Main products:** Automobiles SSANGYONG and Fiat Albea, Linea and Doblo; autocomponents for OKA (production of this automobile was stopped in 2006. More than 330 thousand OKA vehicles have been produced)

OJSC Severstal-Auto Elabuga	
Contact details:	**www.severstalauto.ru**
Special Economic Zone Alabuga, Elabuga, Republic of Tatarstan, Russia	**About the company:** The estimated production capacity of the enterprise is about 75,000 vehicles per year. Production started in April 2008. **Main products:** Fiat Ducato

OJSC Severstal-Auto Isuzu	
Contact details:	**www.severstalauto.ru**
Special Economic Zone Alabuga, Elabuga, Republic of Tatarstan, Russia	**About the company:** OJSC Severstal-Auto Isuzu, which is the joint venture of Japan Isuzu company and OJSC Severstal – Auto, gained Special Economic Zone Alabuga resident status in 2007. It is planned that the first trucks will come off the assembly line in 2008. Productive capacity of the enterprise is 25,000 trucks and 50,000 engines **Main products:** Isuzu trucks and engines

LLC ZF Kama	
Contact details:	**www.zf .com, www.kamaz.net**
Naberezhnye Chelny, Russia, area of OJSC Kamaz Phone: +7 (8552) 38-72-94	**About the company:** JV “ZF-Friedrichshafen AG and OJSC Kamaz”. Production capacity at the JV is approximately 15,000 gearboxes. ZF Kama floor area is about 4000 m2. **Main products:** Gearboxes for Kamaz which comply with "Euro - 2" and “Euro - 3”, clutches and steering gears, transmission parts. **Main consumers:** OJSC Kamaz, OJSC Maz

CJSC Cummins Kama	
Contact details:	**www.cummins.com, www.kamaz.net**
Naberezhnye Chelny, Russia, OJSC Kamaz premises Contact office: 140, Moskovsky Prospekt, office 203, Naberezhnye Chelny, 423827, Russia Phone/fax: +7 (8552) 59-91-67	**About the company:** Joint venture between Cummins Inc. and OJSC Kamaz with USD 20 million of authorized capital. Each company has a 50% share. Production capacity is more than 20,000 engines **Main products:** Engines for trucks of medium payload and vehicles that adhere to Euro-3 and Euro-4 standards, low-power and medium-power engines, motor components, diesel-generator sets, suction filters and components for conventional engine **Main consumers:** OJSC Kamaz, OJSC MAZ and other trucks, buses and agricultural equipment producers in Russia, Belarus and the Ukraine

LLC Siemens VDO Automotive	
Contact details:	**www.siemens.ru, www.mettem.com**
Chistopol (production), Republic of Tatarstan, Russia Address of head office: 19, Presnenskiy Val St., Moscow, 123557 Phone: +7 (495) 737-2514, +7 (495) 737-2616	**About the company:** LLC Siemens VDO Automotive was created in 1996. **Main products:** Speedometers, vehicle dashboards, tachographs, consumption indicators motor fuel fevices **Main consumers:** OJSC Avtovaz, OJSC Kamaz

OJSC Tatelectromash	
Contact details:	**www.tatelectromash.ru**
P.O. Box 72, Novy Gorod, Naberezhnye Chelny, 423838 Russia Phone/fax: +7 (8552) 39-98-05	**About the company:** This company manufactures electric drivers for BelAZ heavy-duty dump trucks. **Main products:** Traction electric motors, generators and start-adjusting equipment for BelAZ heavy-duty dump trucks, traction motors and starting regulator equipment for municipal electric transport; lifting electric devices; autocomponents for trucks **Main consumers:** OJSC Kamaz, Belaz

CJSC KMZ (Kamsky machinery plant)	
Contact details:	**www.kammz.ru**
Naberezhnye Chelny, Russia, area of OJSC Tatelectromash Phone: +7(8552) 39-98-71 +7 (495) 221-93-50	**About the company:** CJSC KMZ belongs to the group of companies "Technopark-Tatelectromash". Production facilities of the enterprise are more than 7,533 sq.m, with more than 300 employees. **Main products:** Full-trailer and semi-trailers (carrier type according with Euro3 standards); dump trucks on running gears from different producers; nonstandard metal products **Main consumers:** OJSC ZMA, OJSC Kamaz

OJSC Nizhnekamskneftekhim	
Contact details:	**www.nknk.ru**
Nizhnekamsk, Republic of Tatarstan, Russia, 423574 Phone: +7(8555) 37-71-81, Fax: +7(8555) 37-93-09,22	**About the company:** Nizhnekamskneftekhim is one of the largest petrochemical complexes in Russia and Eastern Europe. Sales in 2006 were more than 46,672 mln.rub; the company has 20,000 employees. **Main products:** Diesel oil, fuel oil, high-octane additives to petrol, antifreezes **Main consumers:** OJSC Kamaz and others

OJSC Nizhnekamskshina	
Contact details:	**www.shina-kama.ru**
Promzona 10, Nizhnekamsk, Russia, 423580 Phone: +7(8555) 49-70-98, 49-77-55, 49-71-18 Fax: +7 (8555) 34-08-22	**About the company:** The largest tyre producing plant in Russia. Production facilities of this enterprise are more than 1,7 mln. m2, personnel – more than 10,000 employees. **Main products:** Tyres for trucks and passenger cars **Main consumers:** OJSC Avtovaz, OJSC Kamaz

OJSC Alnas	
Contact details:	**www.alnas.ru**
Almetyevsk, Russia, 423461 Phone: +7(8553) 25-46-00 Fax: +7 (8553) 39-35-20	**About the company:** OJSC Almetyevsk Plant for Submersible Electrical Pumps (Alnas) was founded in 1978 and recorded sales of more than 3,300 mln. rubles in 2006. **Main products:** Autocomponents for brake systems for VAZ, GAZ, UAZ motor vehicles, spare parts, car brake pads, iron castings **Main consumers:** OJSC Avtovaz, OJSC Kamaz, OJSC Uaz, OJSC Gaz

OJSC Kazan Plant Elektropribor	
Contact details:	**www.elp.ikaz.ru, www.priborist.net**
20, Yershov St., Kazan, Russia, 420061 Phone: +7(843) 272-40-01 E-mail: elp@mi.ru	**About the company:** The Kazan "Electropribor" plant, founded in 1917, is one of the oldest enterprises in the aviation instrument making industry in Russia. Production facilities of the plant are more than 77,105 sq.m, and 2,150 employees. **Main products:** Systems and gauges for measuring, control, conversion and regulation of motor temperature and speed; systems and gauges for fire-alarm and other indicators for light vehicles **Main consumers:** OJSC Kamaz, OJSC ZMA, OJSC Avtovaz

CJSC Kvart	
Contact details:	**www.kvart-rti.ru**
25, Tekhnicheskaya St., Kazan, Russia, 420054 Phone: +7(843) 278-48-91 Fax: +7(843) 278-48-91	**About the company:** CJSC Kvart is a large manufacturer of industrial rubber products for all industries. **Main products:** Rubber compounds (150 brands), hose items (1500 types and sizes), mounded rubber articles, unmoulded articles in the form of vulcanite profiles, dinamic thermoplastic elastomers, industrial rubber plants, glues, sealants **Main consumers:** OJSC Kamaz, OJSC UAZ

LLC Industrial association Nachalo	
Contact details:	**www.nachalo.com**
P.O 57, Naberezhnye Chelny, 423814 Russia Phone: +7 (8552) 77-83-84, +7 (8552) 77-83-27 E-mail: info@nachalo.com commerce@nachalo.com	**About the company:** Industrial association Nachalo (PO «Nachalo») can produce annually over 1,5 million clutch driven and pressure plates, 4,5 million brake pads and shoes, more than 1,5 million car body parts and about 1 million ball bearings for all VAZ modifications as well as for the majority of other Russian car brands. At present the company is working actively on the project of launching the production of auto parts for foreign-branded cars. **Main products:** Clutch plates, brake blocks, body parts of cars, trunnion balls and other autocomponents **Main consumers:** OJSC Avtovaz, OJSC Kamaz, OJSC Gaz

OJSC Kazan Motor-Building Production Association	
Contact details:	**www.kmpo.ru**
1, Dementyev St., Kazan Russia. 420036 Phone: +7(843) 571-94-64, 570-81-04, 526-76-85 Fax: +7 (843) 571-93-63	**About the company:** OJSC Kazan Motor-Building Production Association has over 70 years experience in full-scale production, repair and maintenance of aircraft engines and engines for gas-pumping stations. **Main products:** Hydromechanical gearboxes for city buses **Main consumers:** OJSC Kamaz, OJSC UAZ

OJSC Vostok-Amfibia	
Contact details:	**www.amfiby.vostok-inc.com**
127, Engels St., Chistopol, Russia, 422981 Phone: +7 (84342) 4-40-20, 9-46-92, 9-44-92	**About the company:** OJSC Vostok-Amfibia was formed in 1997 as OJSC Chistopol Watch Factory Vostok, manufacturer of reliable and inexpensive car quartz clocks. **Main products:** Car clocks, car seat belts, operation time counters, driving movements, jams to gasoline tank, gear reducers, speedometres, fuel tank plugs **Main consumers:** OJSC Avtovaz

Appendix 2: Contact information

Ministry of Trade and Industry of the Republic of Tatarstan

4, Ostrovsky St., Kazan, Russia, 420111
Phone: +7 (843) 299 1007, 299 1067, 299 1109
Fax: +7 (843) 292 1645
E-mail: mtorg@kabmin.tatarstan.ru
www.tatarmintorg.ru

Ministry of Economy of the Republic of Tatarstan

55, Moskovskaya Street, Kazan, 420021
Phone: +7 (843) 524 9111; +7 (843) 524 9181
Fax: +7 (843) 264 4593
E-mail: minecomon@tatar.ru
www.mert.tatar.ru

Marat Safiullin
Minister
E-mail: me.rt@tatar.ru

Board of the Authorised Representative's of the Ministry of Economic Development and Trade of the Russian Federation for the Republic of Tatarstan

1, Akhtyamov St., Kazan, Russia, 420014
Phone: +7 (843) 293 2401
E-mail: reostorg042@telecet.ru

Department for Foreign Affairs of the President of the Republic of Tatarstan

Kremlin, Kazan, Russia, 420014
Phone: +7 (843) 567 8746
Fax: +7 (843) 292 0092
E-mail: secretariat@tatar.ru
www.tatar.ru

The Volga Customs Board Tatarstan Custom House

56, Korolenko St., Kazan, Russia, 420094
Phone: +7 (843) 291 9227
E-mail: custom@kabmi.tatrstan.ru
www.customs.ru

State Registration Chamber under the Ministry of Justice of the Republic of Tatarstan

8, Ostrovsky St., Kazan, Russia, 420111
Phone/Fax: +7 (843) 292 3201
E-mail: tatregpal@bancorp.ru

Committee for External Relations and Tourism of Kazan

2a, Kremlyovskaya St., Kazan, Russia, 420014
Phone: +7 (843) 292 8196, 292 6121
Fax: +7 (843) 292 9672
E-mail: kvs@bancorp.ru
www.kazan.org.ru/admin

Chamber of Commerce Chamber of Commerce and Industry of the Republic of Tatarstan

18, Pushkin St., Kazan, Russia, 420503
Phone: +7 (843) 264 6207
Fax: +7 (843) 236 0966
E-mail: tpp@i-set.ru
www.tpprt.ru

Alabuga Special Economic Zone

14 St., the Industrial Zone "Alabuga"
Elabuga, Russia, 423602
Phone: +7 (85557) 5 90 00, 5 90 26
Fax: +7 (85557) 5 90 01
E-mail: protocol@mail.ru
www.alabuga.rosoez.ru, www.invest.tatr.ru

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