



Industrial
Development
Fund

Mechanism for Special Investment Contracts (SPIC)

Decree of the Government of the Russian Federation
dated July 16, 2016 No. 708

SPECIAL INVESTMENT CONTRACT (SPIC) (DECREE OF THE GOVERNMENT OF THE RF NO. 708)



SPIC – an agreement between an investor and the Russian Government and/or a constituent and/or a municipality of the RF identifying

- obligations of the Russian Government and/or a constituent and/or a municipality of the RF to guarantee stable tax and regulatory conditions and to provide incentives in the industrial sector
- obligations of the investor to create (or modernize) industrial production facilities and set up production within the timeframe stipulated by the agreement



SPIC types

- creation or modernization of industrial production facilities
- implementation of the best available techniques
- setting up industrial production which is unique for Russia



Industrial Development Fund acts as an operator for signing a SPIC



Duration of a SPIC = time for a project to become operationally profitable + 5 years

(but not more than 10 years)



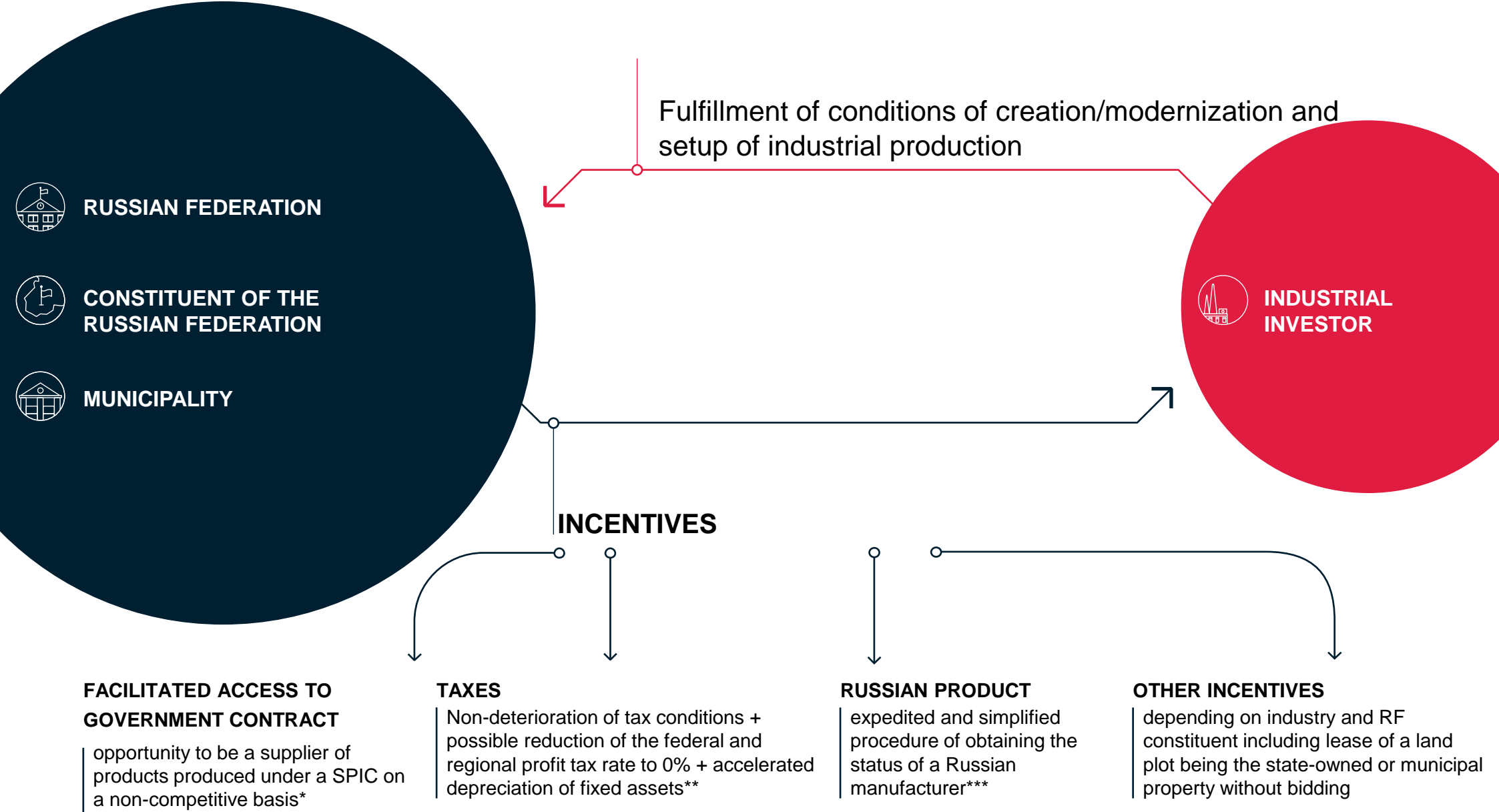
Minimal investment amount – 750 mln. RUB (for signing a SPIC with the participation of the RF Government)



Investor's benefits from the SPIC

- stable tax and regulatory business conditions
- special federal and regional incentives for parties to a SPIC


SPECIAL INVESTMENT CONTRACTS: A MUTUALLY BENEFICIAL FORMAT OF COOPERATION BETWEEN THE STATE AND BUSINESS




* - Federal Law No. 365-FZ dated July 03, 2016 "On Amendments to the Federal Law "On the contract system for the federal and municipal procurement of goods, works and services""
 ** - Federal Law No. 144-FZ dated May 23, 2016 "On Amendments to the Tax Code of the Russian Federation"
 *** - within the framework of the Order of the Ministry of Industry and Trade of the Russian Federation No. 3568 dated November 12, 2015

MANUFACTURING LOCALIZATION IN THE RF


At present, a number of resolutions by the Government of the RF (RGRF) prohibits/restricts and stipulates pre-requisites for the admission of certain types of goods of foreign origin for the purposes of procurement to satisfy State and municipal needs:

 •RGRF dated 26.09.2016 No. 968 “On Restrictions Imposed on and Prerequisites for the Admission of Certain Types of Radio-electronic Products...”;

 •RGRF dated 05.02.2015 No. 102 “On Restrictions Imposed on and Prerequisites for the Admission of Certain Types of Medical Products...”;

 •RGRF dated 30.11.2015 No. 1289 “On Restrictions Imposed on and Prerequisites for the Admission of Medicines of Foreign Origin Included into the List of Vital and Essential Medicines”;

 •RGRF dated 24.12.2013 No. 1224 “On Imposing a Ban and Restrictions on the Admission of Goods for the Needs of Defense of the Country and Security of the State”;

 •RGRF dated 14.07.2014 No. 656 “On Imposing a Ban on the Admission of Certain Types of Goods Manufactured by the Mechanical Engineering Industry...”; and

 •RGRF dated 11.08.2014 No. 791 “On Imposing a Ban on the Admission of Goods Manufactured by the Consumer Goods Industry...”.

A number of subsidiary and regulatory measures of the State support is linked to the localization level, namely RGRF dated 27.12.2012 No. 1432, RGRF dated 16.05.2016 No. 416, No. 417, No. 418, No. 419, No. 420, and No. 421, and the acquisition of the “sole supplier” status.



The restrictions may be overcome by either manufacturing products that have no counterparts in the RF or achieving the requisite level of manufacturing localization (acquiring the status of products “manufactured in the RF”).



According to the RGRF dated 17.07.2015 No. 719 “On Criteria for Classifying Industrial Products as Industrial Products That Have No Counterparts Manufactured in the RF”, such criteria are:

a) absence of product manufacturing in the RF confirmed according to the procedure* stipulated by the Russia’s Ministry of Industry and Trade with due regard to:

•requirements imposed on the products for the purposes of classifying them as products manufactured in the RF according to the Annex to the RGRF No. 719;

•**special investment contract (if any);**

•Agreement on Rules for Determining the Country of Origin of Goods in the CIS dated 20 November 2009 (in case of absence of these products in the Annex to RGRF No. 719); and

b) difference of those parameters of the products which concern their functional purpose or list of functions, area of application, and/or qualitative characteristics from parameters of industrial products manufactured in the RF determined according to the procedure* stipulated by the Russia’s Ministry of Industry and Trade.



* The procedures have been approved by the order of the Russia’s Ministry of Industry and Trade dated 12.11.2015 No. 3568 in pursuance of the RGRF dated 17.07.2015 No. 719.

TAX INCENTIVES (within the framework of the Federal Law dated May 23, 2016 No. 144)



Non-application of those provisions of legislation on taxes and charges which deteriorate conditions for parties to a SPIC before the SPIC expiry date / before the expiry dates of privileges stipulated as of the date of entry into the SPIC

Application of this incentive is possible for those investors only who have signed a SPIC with the Russian Federation



Accelerated depreciation (equalling 2 at the most) to fixed assets manufactured in accordance with conditions of a SPIC and included into depreciation groups 1 to 7

Application of this incentive is possible for purchasers of products manufactured under a SPIC



An opportunity to reduce the rate of the profit tax to be credited to the federal budget and budgets of constituents of the RF down to 0%

Application of the preferential rate is possible for those investors only who have signed a SPIC with the Russian Federation and a constituent of the Russian Federation



Reduced to 0% profit tax rate to be credited to the federal budget and budgets of constituents of the RF is possible if the following conditions are met:

- sales income of products manufactured within the framework of SPIC being no less than 90% of the total income considered for the determination of the investor's tax base
- legal entity registration in the Russian Federation
- absence of separate divisions outside of the Russian Federation
- non-application of special tax regimes
- investor is not: participant of a consolidated tax payer group; non-commercial organization, bank, insurance enterprise, non-state pension fund, professional participant of the securities market, clearing organization; resident of a Special Economic Zone or a Priority Development Territory; former participant of a Regional Investment Project / participant / successor of a participant of a Regional Investment Project being implemented



An opportunity to reduce the rate of the profit tax to be credited to budgets of constituents of the RF down to 13,5% for those investors who have sign a SPIC with a constituent of the Russian Federation

FACILITATED ACCESS TO GOVERNMENT CONTRACT AND LEASE BENEFITS (within the framework of the Federal Law dated July 03, 2016 No. 365*)



The Government of the RF is entitled to appoint a party to a SPIC as a sole product supplier for the federal and municipal procurement



CONDITIONS:

1. SPIC is concluded with the RF
2. Investment volume exceeds 3 bln. roubles
3. Product manufacturing in the RF will be undertaken by a Russian legal entity
4. Country of product origin will be the RF (it is required a confirmation of the industrial product manufacturing in the territory of the RF**)



ADDITIONAL CONDITIONS

- a) product quantity to be supplied by a manufacturer within a year under a government contract shall not exceed 30% of the manufactured products within the framework of a SPIC during the given calendar year
- b) responsibility of a product manufacturer for exceeding the stated product quantity under a government contract in the form of a 50% penalty of the value of such an excess
- c) manufacturer's responsibility to create and place a report on the compliance with the product quantity requirements in the unified information system

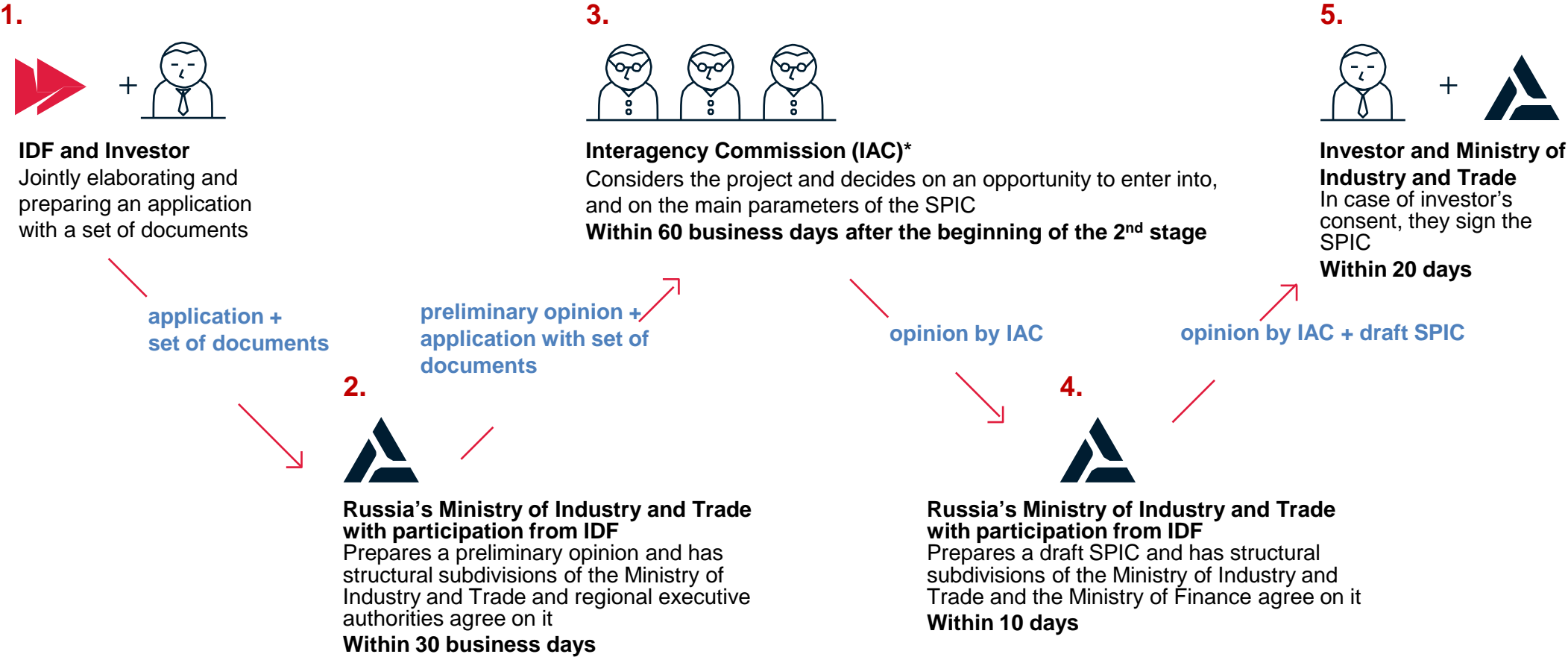


Federal Law dated July 03, 2016 No. 365 introduces amendments to the RF Land Code
A lease contract for a land plot being the state-owned or municipal property is concluded without bidding for parties to a SPIC (for the purpose of project implementation within the SPIC framework)

* Federal Law dated July 03, 2016 No. 365 amends the Federal Law dated April 05, 2013 No. 44 "On the contract system for the federal and municipal procurement of goods, works and services" and individual legislative acts of the RF. Officially published on July 13, 2016. Effective from September 01, 2016

** In accordance with the Order of the Ministry of Industry and Trade of the Russian Federation No. 3568 dated November 12, 2015 in pursuance of the decree of the Government of the RF No. 719 dated July 17, 2015

MECHANISM OF ENTRY INTO A SPIC WITH THE RUSSIAN FEDERATION



* - The composition of the IAC was approved by the RF Government's directive dated 31.10.2015 No. 2213-r.

ACTIVITY STATUS FOR FEDERAL SPIC CONCLUSION

SIGNED

MAZDA SOLLERS Manufacturing Rus LLC – Primorye Territory

Establishment of a plant for production of motor vehicle engines for export

CLAAS LLC – Krasnodar Territory

Modernization of a CLAAS agricultural machinery plant in Krasnodar

DMG MORI AG Concern – Ulyanovsk Region

Construction of the Ulyanovsk Machine Tool Plant

JSC HMS Livgidromash – Orel Region

Localization of production of pumps for oil refining

Tomskie Technologii Mashinostroeniya LLC – Tomsk Region

Setting up serial production of domestic blowoff and control valves, electric drives and electric devices

EuroChem UKK LLC – Perm Territory

Establishment of industrial production: Usolskiy Potash Complex

EuroChem-VolgaKaliy LLC – Volgograd Region

Potash processing plant with a capacity of 2.3 mln t per annum of 95% KCL from the Gremyachinskoe deposit

APPROVED BY THE INTERAGENCY COMMISSION

Mercedes-Benz RUS JSC – Moscow Region

Establishment and development of industrial production of "Mercedes Benz" wheeled vehicles

Thank you for your attention



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