

# INVESTOR'S GUIDE

ON LOCALISATION OF  
PRODUCTION FACILITIES  
IN RUSSIA



**AIP** ASSOCIATION  
OF INDUSTRIAL  
PARKS OF RUSSIA

Moscow  
2016

Investor's Guide is a unique collection of up-to-date information for investors who intend to establish production facilities in Russia. The Guide outlines the key steps necessary at each stage of the investment phase of the project, and analyses the conditions and requirements of placing the production facility in an industrial parks and in a filed. The Guide comprises extracts from federal regulations, rules and requirements of development institutions and offers by credit organizations directly related to the provision of financial and non-financial support to investors in the Russian Federation.

The Guide is intended for Russian and foreign investors, representatives of production companies, professionals, experts and consultants operating in the commercial real estate market and any other audience interested in allocation and investments conditions in Russia.

The Guide is made by  
the Association of Industrial Parks of Russia  
jointly with:



**Tebodin**



**KPMG in Russia and the CIS**



**Ministry of Industry and Trade  
of the Russian Federation**



**Industrial Development Fund**



**Monotowns Development Fund**



**Federal Center for Project Finance**



**Russian Bank for SME Support**



**Sberbank of Russia**



**Managing Company MIR**



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# ABOUT THE ASSOCIATION OF INDUSTRIAL PARKS OF RUSSIA (AIP)



The **Association of Industrial Parks of Russia** is a sectoral non-profit organization founded in 2010 that consolidates the majority of Russian industrial parks and industrial construction service providers in order to promote common interests.

The list of the Association members includes **125 entities**, representing **89 industrial parks** in **45 regions** of the Russian Federation. In addition to managing companies of industrial parks, the Association includes regional development corporations, advisory firms, engineering and construction companies.

Together we create the best investment conditions in Russia. Our goals are to develop competences of industrial platforms professional management and ensure that industrial parks comply with best Russian and global practices.

Each year we hold about 20 industry events and regularly represent our members in international associations and at investments events.

The Association owns and publishes the sectoral overview Industrial Parks of Russia, an annual analytical publication which is the one and only comprehensive source of reliable information about all Russian industrial parks. The Association regularly holds other narrow sectoral research studies as regards industrial parks and publishes analytics.

The Association serves as an «entry point» and a guide to all foreign investors who intend to locate production in Russia.

Starting from 1 September 2015, the Association is a certification authority for compliance of industrial parks with National Standard GOST R 56301 – 2014 «Industrial Parks. Requirements» in accordance with the Operating Rules of AIP Voluntary Certification System registered by the Federal Agency on Technical Regulation and Metrology (Rosstandart) in a Unified Register of Registered Voluntary Certification Systems No.ROSS RU.M1370.04IAYa0 on 10 August 2015.

For more details, see the official website of the Association [www.indparks.ru](http://www.indparks.ru).

# AIP ACTIVITIES

## FOCUS AREAS

### ATTRACTION OF INVESTORS TO INDUSTRIAL PARKS AND SPECIAL ECONOMIC ZONES

- strategic marketing of industrial parks as the best place to locate production facilities;
- expanding business contacts
- in international investment society;
- distribution of information about capabilities of AIP members;
- provision of initial information to potential investors about production facilities allocation possibilities free of charge.

### LOBBY

- expressing common interests of AIP members in expert and public councils of state authorities;
- preparing proposals on introducing changes and additions to state regulations;
- development of special products and programs jointly with development institutions.

### CENTER OF EXPERTISE IN INDUSTRIAL INFRASTRUCTURE AND ALLOCATION

- methodological assistance to AIP members, exchange of knowledge and experience between AIP members;
- certification of industrial parks;
- sectoral consulting services.

## RESOURCES

- AIP members (consolidated industry position, comprehensive picture)
- Professional team of experts
- Partners in investment societies in Europe and Asia
- Support of state authorities of the Russian Federation
- Internet resources (regular audience and active promotion)
- Brand and image of the Association in business communities
- Geographic information system «Industrial parks and technology parks»

## PRODUCTS

### INDUSTRY EVENTS OVER 20 EVENTS A YEAR

- foreign business missions to attract investors;
- introductory tours to industrial parks;
- practical workshops;
- industry conferences;
- training workshops and lectures.

### SPECIAL CONSULTING ON CREATING INDUSTRIAL PARKS AND LOCALISATION OF PRODUCTION FACILITIES

- selection of sites and support of investment projects on the allocation of production facilities;
- industrial park design documentation;
- branding, corporate identity and marketing materials of industrial parks;
- fund raising.

### INDUSTRY ANALYTICS

- Industrial Parks of Russia annual overview;
- weekly monitoring of key events in the industry;
- investor's guide on allocating production facilities in Russia;
- methodological recommendations on creating industrial parks;
- collection of laws and regulations;
- best practice research studies.

### INDUSTRIAL PARK CERTIFICATION SYSTEM

# **CHAPTER 1.**

## **CREATING AN INDUSTRIAL ENTERPRISE: FROM LAND PURCHASE TO COMMISSIONING**

# INTRODUCTION INTO INVESTMENT AND CONSTRUCTION PROJECT

**Investment project**<sup>1</sup> – economic feasibility study and substantiation of the amount and terms of capital investments including necessary design documentation developed in accordance with the requirements of the Russian law, as well as the description of practical investment activities. An investment project comprising construction activities is called an investment and construction project.

A life cycle of the investment and construction project – from a business concept to commissioning – includes various interconnected stages. Duration of the project depends directly on the specific nature and type of future facilities and financing conditions and amounts approximately to 1–5 years.

Successful implementation of investment and construction project during its entire life cycle depends on professional skills, knowledge and competence of all participants of the project – from the Customer's service to subcontractors engaged to perform particular types of work.

Ensuring effective implementation of major investment and construction projects is a complex task. Today, project implementation processes in Russia successfully adopt the approach used in western countries: a step-by-step implementation process is introduced including a comprehensive monitoring system and constant control of the progress of work at all stages of the investment project.

A standard step-by-step project implementation process includes five key stages:  
**Business Plan – Preliminary Stage – Design – Construction – Operation.**

Each stage comprises a number of predetermined events. The stages are of standard structure, and a strictly defined set of deliverables is expected at the completion of each stage. The Investor will make key decisions regarding the future prospects of the project based on the deliverables, approve the schedule of work and the budget of the project and set priorities.

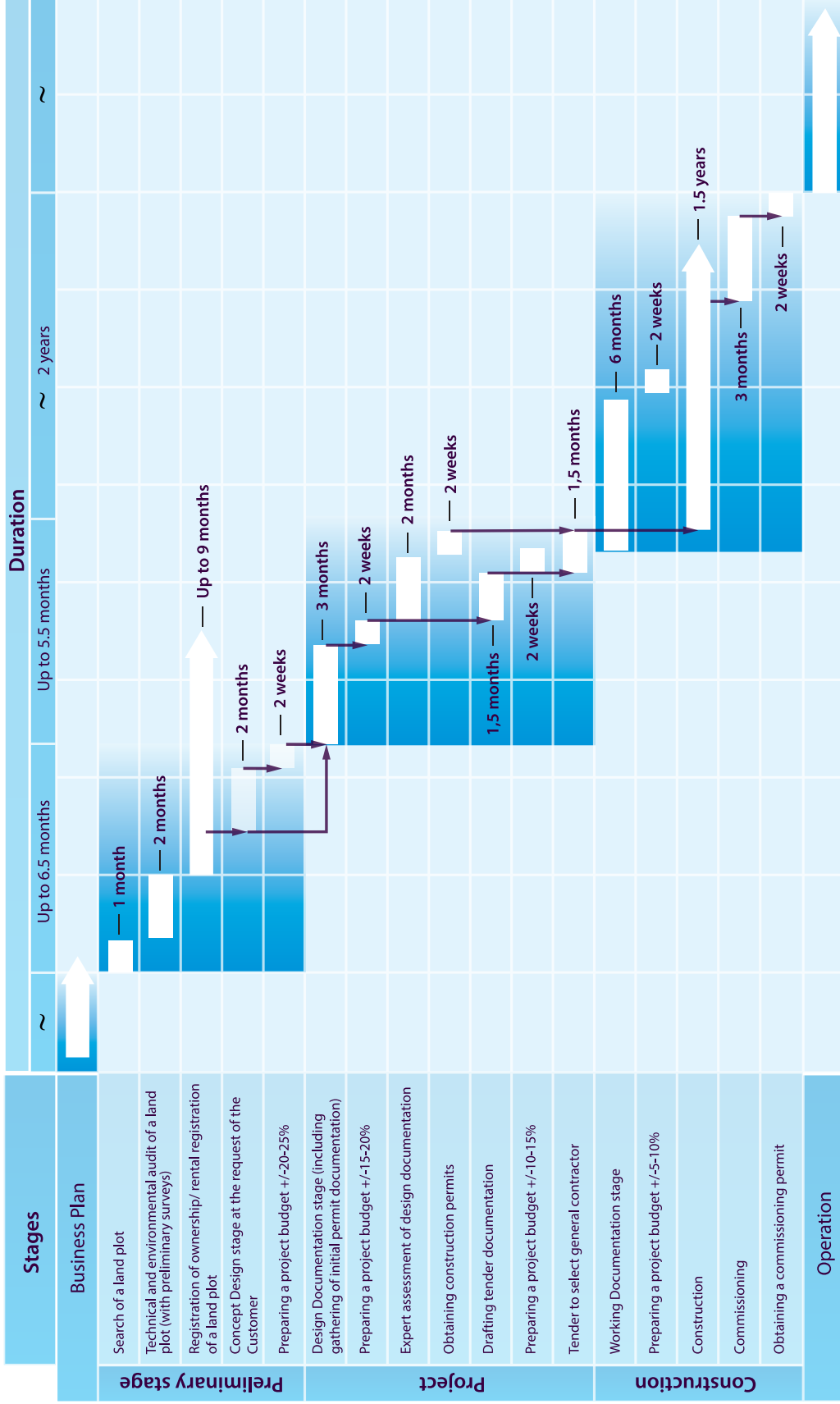
As the project progresses, the accuracy of estimating the key project parameters should improve at each subsequent stage, namely project deadlines (see General Schedule of the Project), its budget and net present value.

This chapter describes the approach to the implementation of three stages of the investment and construction project: **Preliminary Stage – Design Stage – Construction Stage.**

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<sup>1</sup>A definition of the term «Investment Project» is provided by Federal Law No. 39-FZ «On Investing in the Russian Federation in the Form of Capital Investments» dated 25 February 1999.

Diagram 1. General Schedule of the Project



\*Factors impacting land plot ownership/rental registration dates:

1. Conversion from one category of land to another.
2. Amendments to the Rules for land use and development of a population center.
3. Development of the site design and the boundary-setting plan.

4. Conversion of permitted land use.

5. Receiving permits to deviate from maximum parameters.
6. Other.

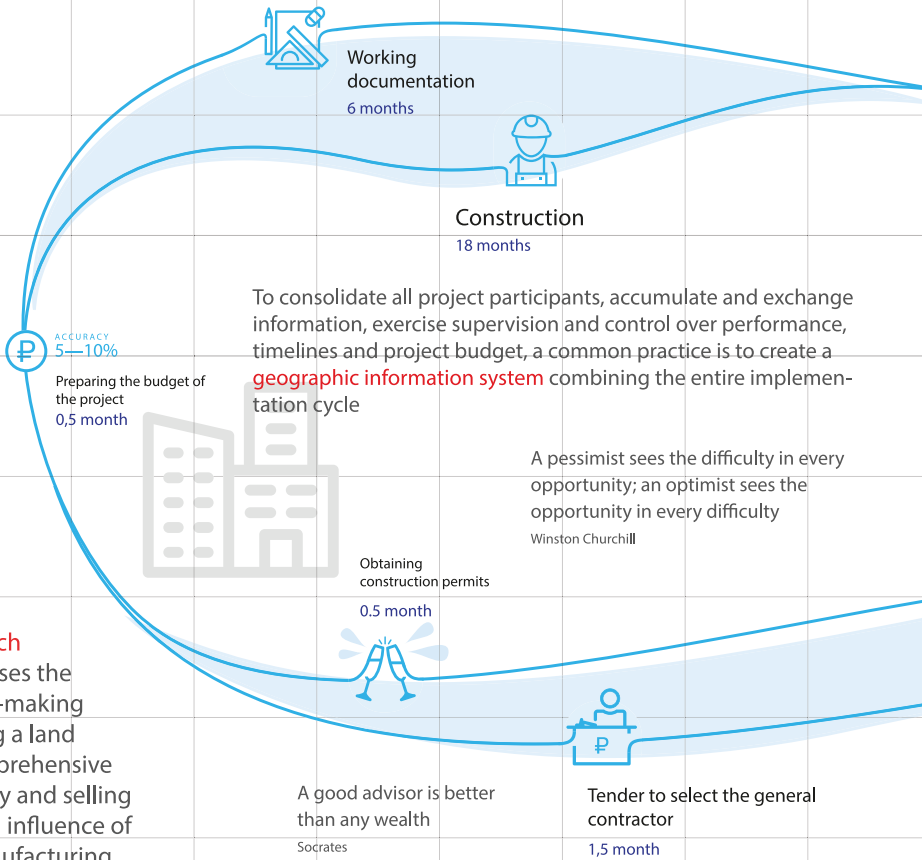




### 3. CONSTRUCTION

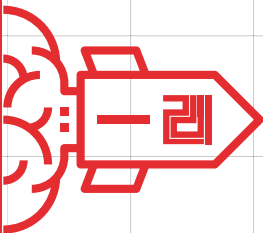
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- A lifecycle of a construction investment project – from a business concept to commissioning – includes various interconnected stages. Duration of the project depends directly on specific aspects, type of future facilities and financing conditions and ranges approximately from 1 to 5 years.



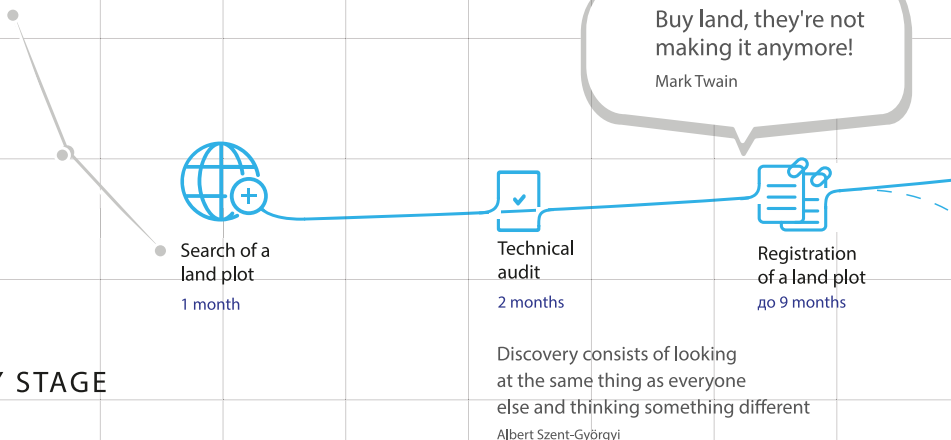
**Geomarketing research** speeds up and increases the efficiency of decision-making in respect of selecting a land plot, thanks to a comprehensive analysis of commodity and selling markets, location and influence of competitors and manufacturing logistics

Buy land, they're not making it anymore!  
Mark Twain

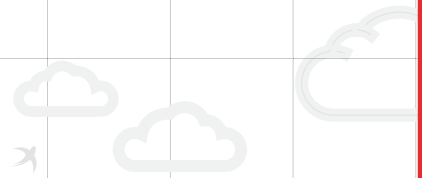


### 1. PRELIMINARY STAGE

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■ This chapter describes an approach to the implementation of three stages of a construction investment project: Preliminary Stage – Design Stage – Construction Stage.



Commissioning  
3 months

The temptation to give up is strongest just before you are about to succeed.

A Chinese saying



Obtaining a commissioning permit  
0,5 month

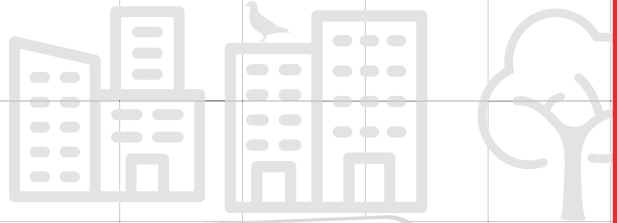


## OPERATION

What is once well done is done forever  
Henry David Thoreau

An expert is a person who no longer thinks, he already knows it  
Kin Hubbard

Expert assessment of the design documentation  
2 months



To prepare a balanced budget that will still protect your virtue, you need to learn to say "no."  
Ronald Reagan

ACCURACY  
10—15%



Preparing the budget of the project  
0,5 month



Drafting tender documentation  
1,5 month



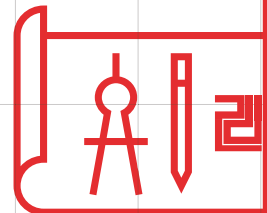
ACCURACY  
15—20%

Preparing the budget of the project  
0,5 month

Consistent application of BIM technologies from early stages reduces the design period by up to 25%



Design documentation  
3 months



## 2. DESIGN STAGE

Page 14

ACCURACY  
20—25%

Preparation of the project budget (accuracy of 20—25%)  
0,5 month



Concept design stage  
2 months

An eye-catching architectural layout of the project attracts investors and residents and reflects the underlying marketing idea. Visual identification of the project may manifest itself through the key architectural forms – **iconic landmarks** that ensure a proper associative flow in the consciousness of the target audience.

# 1. PRELIMINARY STAGE

## Step 1. Search and selection of industrial site

The **Objective** — is to select, study and analyze the information about several industrial sites and provide recommendations on the sites that best comply with the requirements for the allocation of future production facilities and strategic goals of the investment projects.

The industrial site search and selection procedure applies both to greenfield and brownfield production facilities.

### List of work:

- Forecast and overview of the main trends in the Russian industrial real estate markets to study the potential of future construction;
- Analysis of all potential offers in the market of a particular region or regions of the Russian Federation;
- Holding a preliminary technical and environmental analysis of industrial sites where the production facilities will be located (area, type of ownership, land category, type of permitted use of land plot, possibility to establish a sanitary protection zone and connect to utilities system, etc.);
- Selection of the most appropriate industrial site for subsequent location of the production facilities.

### Results for the Investor:

- Preparing a longlist of potential sites for the Investor;
- Initial analysis of potential sites;
- Selection and ranking of sites by key criteria;
- Making a shortlist of sites;
- Final selection of a site.

Audit of the selected site (comprehensive assessment of the amount of possible risks).

Industrial site search and selection procedure may be divided into the following stages:

### 1. Determining selection criteria:

- General description of technical, legal, tax and other aspects of selecting sites (Greenfield/Brownfield) for locating the production facilities in Russia (the option of creating a joint venture with similar businesses is also considered);
- Making a basic list of selection criteria:
- Regional factors: investment climate, level of industrial development, tax benefits and tax incentives, labor availability and cost, proximity of suppliers and customers, transport infrastructure, customs regulations, local laws, etc.
- Technical factors: technical properties of the site, requirements to expansion capabilities, engineering infrastructure, transport availability;
- Site acquisition options (tax and legal issues), other limitations and requirements;
- Assessment, analysis and approval of criteria. Assigning weight to each criterion.

### Deliverables:

- General description of common aspects and approaches to locating production facilities;
- Approved list of criteria for locating production facilities.

### 2. Comparative analysis of regions

- Preliminary analysis of regions to make a list of regions potentially suitable for further comparative analysis;
- Assessment and description of regions / ranking of regions in accordance with a list of criteria approved at stage 1;

- Arranging a search of sites suitable for locating production sites in the most promising regions (primary and secondary markets);
- Development of a list of questions to local authorities (to include requests for information about potential additional expenses, such as payment for connecting to engineering infrastructure);
- Establishing first contacts with local authorities;
- Establishing first contacts with real-estate brokers, private land owners and other sources of information;
- Preliminary selection of the most suitable sites based on general description (longlist).

**Deliverables:**

- Regions selected based on certain criteria;
- A long list of sites in the preferred regions.

**3. Analysis of sites included in a longlist**

- Gathering information about sites in accordance with criteria approved at Stage 1;
- Description of sites by a list of criteria approved at Stage 1;
- Comparative analysis of longlisted sites for further ranking;
- Performing sensitivity analysis, based on the results of the comparative analysis, as part of a multifactor model aimed at identifying selection criteria, significantly affecting the results of the model;
- Preparation and approval of a short list of sites for further analysis.

**Deliverables:**

- Assessment and analysis of sites included in the long list;
- Making a short list of sites for further analysis.

**4. Final selection of a site**

- Detailed analysis of shortlisted sites;
- Organization of visits and inspection of sites, arranging for negotiations with relevant owners;
- Checking technical conditions required to implement the project;
- Holding preliminary talks with the administration to identify particular conditions of purchasing shortlisted sites including information about potential and additional expenses associated with the purchase of a site;
- Holding preliminary talks with the administration to identify particular conditions for potential tax benefits and state incentives;
- Primary legal appraisal of selected sites (ownership rights and their types, encumbrances and restrictions);
- Technical, legal and tax due-diligence of the selected site, structuring of the acquisition process, advisory services on acquiring the site (optional, if necessary).

**Deliverables:**

- Final decision making on site selection.

## **Step 2. Technical and environmental audit of a land plot**

The purpose of technical and environmental audit is to perform a comprehensive assessment of the scope of possible town development, environmental, technical and engineering and other limitations and restrictions (encumbrances) that may affect the duration and budget of the investment project.

**Tentative list of work:**

- Assessment of the amount of possible architectural and town development, environmental, technical and engineering, infrastructure and other encumbrances and restrictions;
- Review of the documents of title for a land plot, identification of compliance of a land category and the type of permitted use with the planned functional purpose of the facility and town development legal regulations of the Russian Federation;

- Analysis of utilities available on the site, identification of connection points and options (power, gas, heat and water supply, water disposal, telephony and Internet);
- Receiving official conclusions on the availability/absence of natural resources, specially protected natural areas, water bodies, cultural heritage sites, etc. on the land plot;
- Assessment of city zoning borders (building lines, roadsides, water protection zones of water bodies, etc.);
- Evaluation of the maximum building footprint in terms of current limitations;
- Preliminary engineering surveys: engineering and geodesic, geological, environmental (at the Investor's request).

**Results for the Investor:**

- Evaluated risks of owning the asset and identification of the plan of existing preventative measures (if the Investor intends to purchase the asset based on the audit results);
- Preliminary budget estimate of expenses on connecting to engineering utilities networks, dismantling existing buildings and structures, relocation of utilities network, etc.;
- Reduction of asset acquisition costs in proportion to the amount of identified limitations (encumbrances);
- Taking well-founded decision on purchasing the asset including the evaluation of the potential of construction investments.

**Diagram 2. Risk assessment at preinvestment stage**

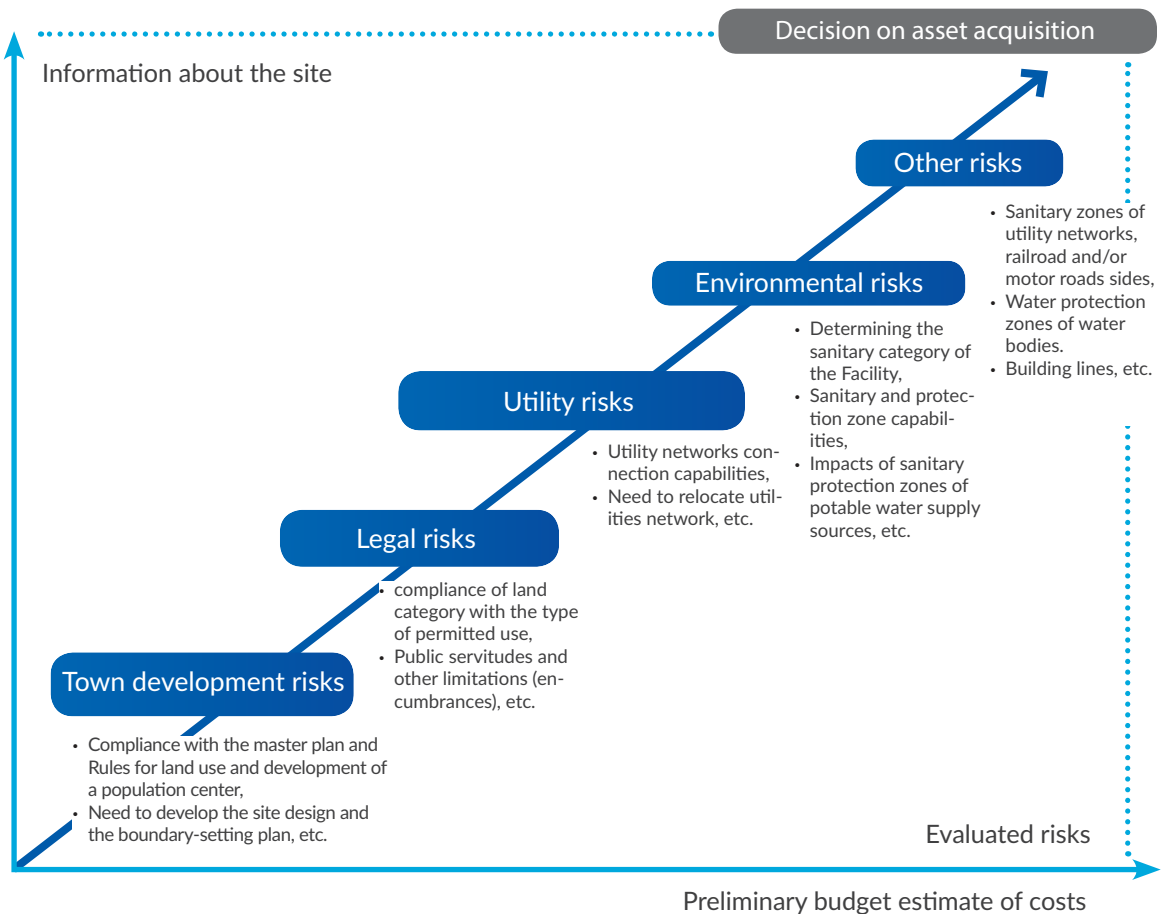
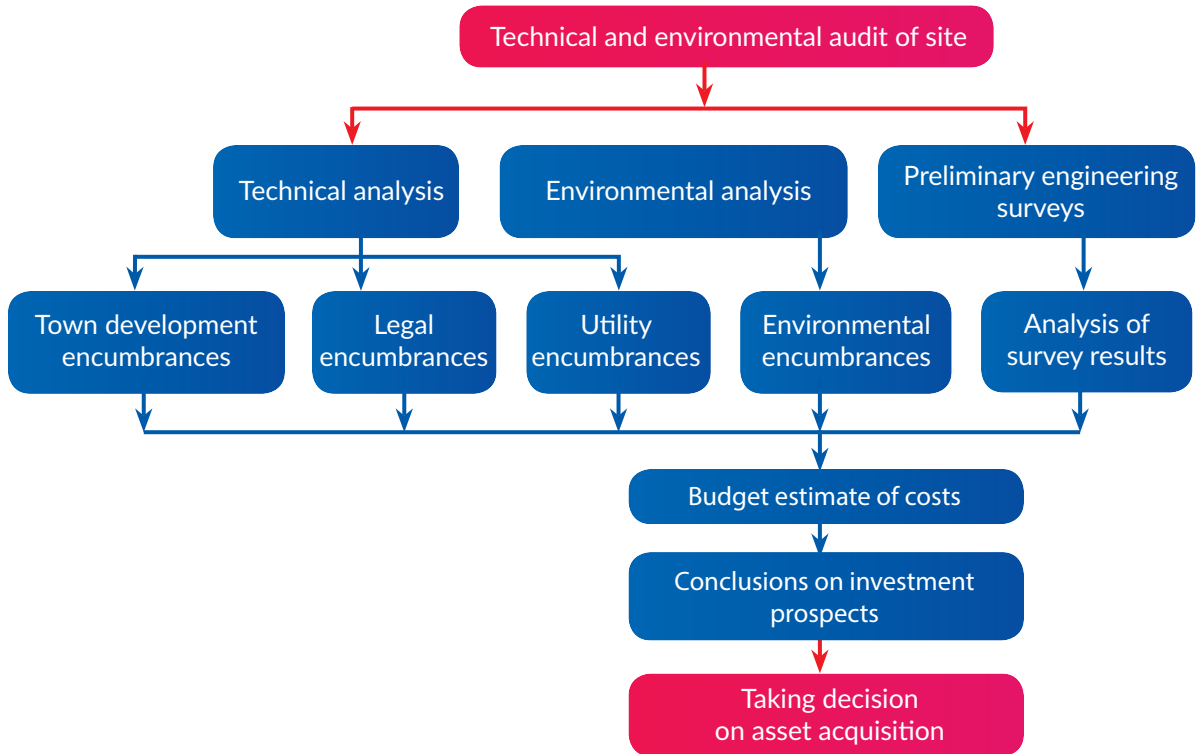


Diagram 3. Site audit diagram



### Step 3. Asset acquisition

Technical and environmental audit usually results in acquisition of the asset – a land plot (Greenfield) or existing production (Brownfield) – by signing a sales or rental agreement.

Investors should pay attention that in 2015 certain changes were introduced to the Russian land legislation aimed at improving land plot provision procedures. Adoption of Federal Law No. 71-FZ «On Changes to the Land Code of the Russian Federation and Legislative Acts of the Russian Federation» dated 23.06.2014 has become the major land reform for the last 14 years.

The law was adopted in order to improve the land plot provision procedure and solve issues related to land matters. Comprehensive changes were developed based on long standing practices of applying the effective legislation.

### Step 4. Concept Design and construction cost calculation

#### General information

General conceptual design of future facilities is identified at the Concept Design stage. Concept Design comprises basic architectural, planning, utility and estimated technical and economic indicators.

The scope of Concept Design is not regulated and completely depends on requirements and goals and objectives of the Investor and the type of facilities. The Concept Design usually includes:

- a. Master Plan;
- b. Production equipment layout;
- c. Architectural solutions (plans, facades, cross-sections);

- d. Principal utilities design (water supply and water disposal, heating, air venting, power and lighting systems, etc.);
- e. Network load estimates (preliminary);
- f. Explanatory notes;
- g. 3D visualization and presentation.

Making Concept Design is not regulated by obligatory requirements of the Russian legislation, however, the practical project implementation experience emphasizes the advantages received at this stage:

1. Ability to quickly provide the type of the construction under design, interior layout, preliminary costs required for construction purposes;
2. Concept design is simpler than a full scale working design. Concept design provides for the creation of two or three variants of the design of future facilities, thus making it possible to select the best variant and prepare working drawings on its basis;
3. Results of Concept Design may significantly affect the terms and duration and budget of the project. In case of immaterial investments, the Concept Design stage may become a key tool for the Investor in terms of making decisions on project implementation or suspension, as identification of term and budget of the project (CAPEX) directly impacts the identification of ROI terms at this stage.

### Development of Concept Design

When selecting a design company the Investor should consider the following aspects:

- Experience in designing similar production facilities;
- Experience in interacting with technology developers;
- Approach to the development of project solutions (use of patterns or designing);
- Availability of in-house resources, qualified personnel.

Concept Design starts with the development of solutions for production process and selection of production equipment. At this stage, the selection is preliminary, however, it helps to understand the layout of future facilities. After developing a general concept of selecting and placing the production equipment, the development of general construction works and utility networks begins.

Concept Design is important for making principal technical decisions as regards their compliance with design norms and standards of the Russian Federation, for example, non-compliance with standard distances at an early stage may result in the need to change the entire Concept Design – from production equipment layout to the siting of houses and constructions on the land plot.

Special attention is required when selecting a design company engaged to prepare the Concept Design, as it is the experience and qualification of the company that would allow the Investor to implement the project concept by applying efficient solutions based on global best practices.

Concept Design deliverables will be used as source data for the Design Documentation stage.

### Preparing the budget of Concept Design

At this stage, the implementation steps for the Investor will be as follows:

- Identification of the project starting date;
- Selecting a manufacture of production equipment, contracting;
- Identification of the scope of Concept Design (preparing the terms of reference);
- Selecting a design company for the development of Concept Design;
- Development of Concept Design;
- Preparing the budget of the project.

Preparation of the budget is the final stage of the Concept Design stage. Prepared solely for the benefit of the Investor, the budget may be adjusted, at the Investor's request, as regards the increase or decrease of cost items. Since the Concept Design includes basic solutions omitting the details of project solutions, the acceptable error level is 20–25% as proved by actual project implementation experience and is considered a standard value in global designing. The error value is also impacted by the amount of work as defined by the Investor in the terms of reference.

In general, the budget includes information about the Investor's main capital expenses on the project and the deliverables are the key factor for making the decision on continuing project investments.

## 2. DESIGN

### Step 1. Development of Design Documentation.

#### Gathering initial permit documentations and estimating cost of construction

##### General information

Development of design documentation is regulated by legal regulations of the Russian Federation. Design documentation contains text materials and maps (schemes, diagrams) and determines architectural, functional and technological, structural and utility solutions for purposes of construction, reconstruction of capital facilities, their components and capital repairs<sup>2</sup>.

Activities on developing design documentation that affect the safety of capital construction facilities should be performed only by individual entrepreneurs or legal entities (design companies) with relevant licenses for such types of work issued by a relevant self-regulating authority. Other types of work on design documentation may be performed by any individuals or legal entities.

When selecting a general design company the Investor should take special notice of the company's experience in constructing industrial facilities (experience in preparing technical solutions and expert assessment of design documentation is of top importance). The general design company is responsible for technical solutions and may develop and design the project using its own resources or by engaging subdesigners.

##### Obtaining initial permit documentation

Initial permit documentation (IPD) means documentation prepared in accordance with articles 44–51 and 55 of the Town Planning Code of Russia.

A list of initial permit documentation is given below as established by the legislation and other legal regulations of the Russian Federation including technical and town planning regulations, that should be submitted for expert assessment<sup>3</sup>.

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<sup>2</sup>Article 48 of the Town Planning Code of the Russian Federation.

<sup>3</sup>In addition to documents indicated in Resolution No. 87 of the Government of the Russian Federation dated 16.02.2008 «On the Sections of Design Documentation and the Requirements on Their Content».



**Table 1. A list of initial permit documentation**

№	Name of initial permit documentation	Regulating document of the Russian Federation, other legal regulations	Preliminary date of receipt
1	Land plot		
1.1	<p>Document confirming the right of a developer to use the land plot for construction/reconstruction:</p> <ul style="list-style-type: none"> <li>• Ensuring compliance of the category of land with the type of permitted use,</li> <li>• Development and approval of the site design and the boundary-setting plan,</li> <li>• Signing a sales agreement or rental agreement</li> </ul>	Town Planning Code of the Russian Federation (articles 30-40, 41-46_8, 47), Land Code of the Russian Federation	<p>The total term is determined by a list of required procedures</p> <p>From 3 to 9 months</p> <p>From 3 to 9 months</p> <p>Up to 2 months</p>
1.2	Approved and properly registered development plan of a land plot provided for locating a capital facility	Town Planning Code of Russia (article 44)	1 month
2	Engineering surveys		
2.1	Report on engineering and geodesic surveys	SP 47.13330.2012 Engineering surveys for the construction. General provisions. Updated version of SNiP 11-02-96	1.5 months
2.2	Report on engineering and geological surveys	SP 47.13330.2012 Engineering surveys for the construction. General provisions. Updated version of SNiP 11-02-96	2 months
2.3	Report on engineering and environmental surveys	SP 47.13330.2012 Engineering surveys for the construction. General provisions. Updated version of SNiP 11-02-96	2 months
2.4	Report on engineering and hydrometeorological surveys	SP 47.13330.2012 Engineering surveys for the construction. General provisions. Updated version of SNiP 11-02-96	1 month

№	Name of initial permit documentation	Regulating document of the Russian Federation, other legal regulations	Preliminary date of receipt
3	Technical conditions		
3.1	Technical conditions of connecting the Facilities to utilities networks: <ul style="list-style-type: none"> <li>• Electric power</li> <li>• Gas</li> <li>• Heating</li> <li>• Water supply</li> <li>• Sewage disposal</li> </ul>	<ul style="list-style-type: none"> <li>• Town Planning Code of Russia (article 48, clause 7);</li> <li>• Resolution of the Government of the Russian Federation No. 83 “On approving the rules for determining and providing the technical conditions for connecting capital construction facilities to utilities networks and rules for connecting” dated 13 February 2006;</li> <li>• Resolution of the Government of the Russian Federation No. 861 “Rules for technological connection of power receivers of power consumers, power generating facilities and power grid facilities of grid operators and other parties to power networks” dated 27 December 2004;</li> <li>• Resolution of the Government of the Russian Federation No. 1314 dated 30.12.2013 (revision of 14.11.2014);</li> <li>• “On approving the Rules of connection (utility connection) of capital facilities to gas networks, and on amending and invalidating certain acts of the Government of the Russian Federation”</li> </ul>	From 1 to 6 months
4	Special technical conditions		
4.1	Special technical conditions for design documentation developed and approved in an established procedure (in case of deviations from requirements established by national standards and codes of rules and regulations included into a list approved by Order of the Government of the Russian Federation No. 1047-r dated 21.06.2010, or inadequate requirements to reliability and security established by the above standards and codes of rules and regulations, or in case such requirements are not stipulated)	<ul style="list-style-type: none"> <li>• Federal Law No. 384-FZ “Technical regulations on security of buildings and constructions (article 6, part 8) dated 30.12.2009;</li> <li>• Order of Ministry of Regional Development of Russia No. 36 “On the procedure of developing and approving special technical conditions for the development of design documentation for capital facilities” dated 01.04.2008</li> </ul>	3 months

№	Name of initial permit documentation	Regulating document of the Russian Federation, other legal regulations	Preliminary date of receipt
5	Sanitary protection zone		
5.1	<ul style="list-style-type: none"> <li>• Decision of Chief Sanitary Inspector of the Russian Federation (Chief Sanitary Inspector of the constituent entities of the Russian Federation) or their deputy on establishing (changing) the dimensions of sanitary protection zone of a facility;</li> <li>• Sanitary and epidemiological inspection report of the regional authority of the Federal Service for Supervision of Consumer Rights Protection and Human Well-Being (Rostpotrebnadzor) on compliance of a sanitary protection zone of a facility with sanitary requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Federal Law No. 52-FZ “On sanitary and epidemiological welfare of the population” (articles 20, 42) dated 30.03.1999;</li> <li>• SanPiN 2.2.1/2.1.1.1200-03 “Sanitary zones and classification of companies, equipment and other assets” (clauses 4.2, 4.3)</li> </ul>	3-4.5 months (from project development to obtaining sanitary and epidemiological inspection report)
6	Machinery and equipment		
6.1	Certificate or declaration of conformity of machinery and/or equipment used for the purposes of design documentation launched for circulation on Single Customs Territory of the Customs Union with the requirements of technical regulations	<ul style="list-style-type: none"> <li>• Technical Regulations of the Customs Union 010/2011 “On safety of machinery and equipment” (article 7);</li> <li>• Technical Regulations of the Customs Union 011/2011 “Safety of lifts” (article 6)</li> </ul>	Established on an individual basis, depending on the type and certification conditions of the imported equipment
7	Other approvals		
7.1	Document confirming the absence on the land plot of specially protected natural areas of federal, regional and local significance issued by the authorized state (federal or regional) authorities or local government	<ul style="list-style-type: none"> <li>• Federal Law No. 33-FZ «On specially protected natural areas” (article 2) dated 14.03.1995;</li> <li>• Order of Ministry of Natural Resources and Environment of the Russian Federation (Minprirody) No. 69 “On approving the Rules of state cadastre of specially protected natural areas” dated 19.03.2012</li> </ul>	1 month
7.2	Document confirming the absence on the land plot of cultural heritage sites issued by an executive cultural heritage protection authority, or, should the land plot include a cultural heritage site, the approval (decision) of the above authority as regards the work and actions to protect the cultural heritage sites	Federal Law No. 73-FZ «On cultural heritage sites (historical and cultural monuments) of the peoples of the Russian Federation” dated 25.06.2002 (articles 31–36, 52)	1 month

№	Name of initial permit documentation	Regulating document of the Russian Federation, other legal regulations	Preliminary date of receipt
7.3	Document confirming the absence on the capital facility site of authorized anthrax-infected cattle burial grounds issued by a relevant sanitary, veterinary and epidemiological supervising authority	Sanitary Rules SP 3.1.7.2629-10 "Anthrax prevention" (clauses 7.2, 7.3)	1 month
7.4	<ul style="list-style-type: none"> <li>• Document confirming that the capital facility site is a habitation area of rare and protected plants and animals including those listed in the Red List of the Russian Federation and/or regional red lists, habitat of game birds and animals, migration routes of mammals;</li> <li>• Document on approving types and designs of special barrier constructions with passages installed near dangerous highways areas in places of concentration of wildlife and on their migration routes issued by a relevant authority responsible for the protection and control of the use of wildlife and their habitat</li> </ul>	<ul style="list-style-type: none"> <li>• Federal Law No. 7-FZ "On environmental protection" (article 4) dated 10.01.2002;</li> <li>• Federal Law No. 52-FZ "On wildlife" dated 24.04.1995 (articles 16, 24, 28);</li> <li>• Requirements to prevent death of wildlife during production processes and operation of highways, pipelines, communication and power lines approved by Resolution of the Russian Government No. 997 (clause 25) dated 13.08.1996.</li> </ul>	1 month
7.5	Conclusion of the federal agency managing the state subsoil stock or its regional authority about the absence of natural resources at future construction site or permit by the above authority to perform construction in the areas of natural resources or locate underground structures in the areas of natural resource occurrence	Federal Law of the Russian Federation No. 27-FZ "On the subsoil" (article 25) dated 21.02.1992	1 month
7.6	Permits establishing standard values of maximum allowed emissions (drainages) and emission (drainage) limits for chemical substances, including radioactive, other substances and microorganisms to the environment, issued by executive authorities responsible for the state environmental management (for operating companies)	Federal Law No. 7-FZ "On environmental protection" (article 23, part 3) dated 10.01.2002	

№	Name of initial permit documentation	Regulating document of the Russian Federation, other legal regulations	Preliminary date of receipt
7.7	Environmental impact statement	Town Planning Code of Russia (article 49, 51)	3 months. If the dates of state environmental expertise review are changed, its total terms should not exceed six months after commencement
7.8	Document on approving production and consumption waste generation standards and allocation limits (for operating companies)	Federal Law No. 7-FZ "On environmental protection" (article 24) dated 10.01.2002	
7.9	Document containing conditions of restoring disturbed lands for further use, as well as conditions for stripping, storing and further use of topsoil issued by an authority providing land plots for use and granting permits for work related to soil disturbance (for soil restoration on a land plot)	<ul style="list-style-type: none"> <li>• Land Code of the Russian Federation (articles 13, 22, 78, 88);</li> <li>• General provisions for soil restoration, stripping, conservation and efficient use of topsoil approved by Order of the Ministry of Natural Resources and Environment of the Russian Federation and the Committee of the Russian Federation for Land Resources and Land Management No. 525/67 (clause 6) dated 22.12.1995</li> </ul>	At least 1.5 months
	Document containing information about the background air pollution level issued by a regional hydrometeorology and monitoring center (in case of providing design documents of facilities that adversely impact air quality in cities and other settlements)	Federal Law No. 96-FZ "On atmospheric air protection" (article 16, clause 2) dated 04.05.1999	1 month
	Approval of the Federal Agency for Fishery of capital facilities construction and reconstruction matters that impact water biological resources and their habitat	<ul style="list-style-type: none"> <li>• Federal Law No. 166-FZ "On fisheries and water biological resources conservation" (articles 50) dated 20.12.2004;</li> <li>• Rules of approving by the Federal Agency for Fishery of capital facilities construction and reconstruction, implementation of new engineering processes and performing other activities that impact water biological resources and their habitat approved by Resolution of the Government of the Russian Federation No. 384 dated 30.04.2013</li> </ul>	1 month

№	Name of initial permit documentation	Regulating document of the Russian Federation, other legal regulations	Preliminary date of receipt
7.12	Information by the Federal Agency for Fishery about the categories of fishery water bodies to be affected by construction	Federal Law No. 166-FZ "On fisheries and water biological resources conservation" dated 20.12.2004 (articles 17, clause 4)	1 month
7.13	For design documentation of facilities associated with waste production: <ul style="list-style-type: none"> <li>• Document confirming waste collection point (site) in accordance with established waste handling rules, standards and requirements;</li> <li>• license to use, neutralize, transport and allocation of wastes of I-IV hazard category issued to a party accepting produced wastes from a developer</li> </ul>	Federal Law dated 24.06.1998 No. 89-FZ "On production and consumption wastes" (articles 4 and 10)	1 month
7.14	Approval of the use of underground waters for production purposes by a state authority responsible for subsoil use and protection management	<ul style="list-style-type: none"> <li>• Water Code of the Russian Federation (article 43);</li> <li>• Law of the Russian Federation No. 2395-1 "On the subsoil" dated 21.02.1992 (article 25)</li> </ul>	No less than 1 month
7.15	Sanitary and epidemiological inspection report by Rostpotrebnadzor authorities on compliance of sanitary protection zones of a household and drinking water supply sources with project sanitary rules	<ul style="list-style-type: none"> <li>• Federal Law No. 52-FZ "On the sanitary and epidemiological welfare of the population" (article 18) dated 30.03.1999;</li> <li>• SanPiN 2.1.4.1110-02 "Sanitary protection zones of water supply sources and drinking water pipes" (clauses 1.10, 1.13)</li> </ul>	3-4.5 months (from project development to receiving sanitary and epidemiological inspection report)
7.16	Source data (technical conditions) to develop civil defense activities and emergency prevention measures as part of design documentation of a capital facility issues by an executive authority of the Russian Federation, and in cases stipulated by the legislation of the Russian Federation (as regards the objects indicated in part 14 of article 48 of the Town Planning Code of the Russian Federation, and vital infrastructure) - by a regional department of the Ministry of the Russian Federation for Affairs for Civil Defence, Emergencies and Elimination of Consequences of Natural Disasters for a relevant constituent entity of the Russian Federation	<ul style="list-style-type: none"> <li>• GOST R 55201-2012 "Security in emergencies. Procedures for developing a list of civil defense activities and natural and man-made emergency prevention measures when designing capital facilities" (clause 4.8.);</li> <li>• SP 11-113-2002 "Procedures for accounting utilities events of civil defense and emergency preventing measures when making an application on intentions to invest into construction and feasibility studies of investment into construction of buildings, structures and facilities" (clause 4.2);</li> <li>• Emergency Prevention Requirements approved by the Ministry of the Russian Federation for Affairs for Civil Defence, Emergencies and Elimination of Consequences of Natural Disasters No. 105 dated 28.02.2003 (clause 28)</li> </ul>	

№	Name of initial permit documentation	Regulating document of the Russian Federation, other legal regulations	Preliminary date of receipt
7.17	Document on approving the construction of communication and power lines, pipelines, roads and other facilities on reclaimable (reclaimed) lands issued by an organization authorized by a federal executive authority responsible for providing public services, management of public property of agricultural sector including land improvement or a relevant executive authority of the Russian Federation	Federal Law No. 4-FZ "On land improvement" dated 10.01.1996 (article 30)	No less than 1 month
7.18	Approval by a senior airfield (helicopter aerodrome, landing field) aviation chief of the construction within airfield (helicopter aerodrome, landing field) boundaries: a) facilities 50m or more above the airfield level (helicopter aerodrome); b) communication and power lines, as well as other sources of radio-waves and electromagnetic radiation that may cause interference for radio equipment; c) explosion hazardous facilities; d) flare units for emergency combustion of discharged gases of 50m or more (based on the possible flame height); e) production and other facilities and structures, operation of which may deteriorate the visibility level at the airfield (helicopter aerodrome)	Federal regulations for using Russian airspace approved by Resolution of the Government of the Russian Federation No. 138 (clauses 60, 61) dated 11.03.2010	No less than 1 month
7.19	Approval by a regional authority of the Federal Air Transport Agency (for construction and allocation of facilities outside the airfield (helicopter aerodrome) if the actual height exceeds 50m)	Federal regulations for using Russian airspace approved by Resolution of the Government of the Russian Federation No. 138 (clauses 60, 61) dated 11.03.2010	1 month
7.20	Approval of design documentation by executive authorities of the constituent entity of the Russian Federation and military authorities authorized to perform management of the restricted area (in case the construction of production, social or other facilities in the restricted area is of special need)	Regulations for establishing restricted areas for armories, bases and warehouses of the Armed Forces of the Russian Federation, other military forces, military units and authorities approved by Resolution of the Government of the Russian Federation No. 135 (clause 8) dated 17.02.2000	No less than 1 month

Nº	Name of initial permit documentation	Regulating document of the Russian Federation, other legal regulations	Preliminary date of receipt
7.21	Document confirming the consent of the owner of an affected line facilities for reconstruction (if design documentation includes reconstruction solutions)	Regulations on the content of sections of design documentation and requirements to the content approved by Resolution of the Government of the Russian Federation No. 87 dated 16.02.2008 (clause 10(b) as regards the submission of title documents for capital facilities for reconstruction or capital repairs)	1 month
7.22	Approval of the terms of reference for design with regional social protection authorities of the relevant level with due account of the opinion of associations of disabled persons	SP 59.13330.2012 Accessibility of buildings and constructions for people with limited mobility. Updated version of SNiP 35-01-2001	1 month
8	Other initial permit documentation		

#### Notes:

1. As the town planning issues are in the jurisdiction of both the Russian Federation and its constituent entities, there is no single document that fully regulates the development procedures and the complete content of initial permit documentation. Legal regulations adopted in the Russian constituent entities differ significantly;
2. For the purposes of the state expert assessment of design documentation the applicant may also be required to provide other initial permit documentation as stipulated by legal regulations of the Russian Federation (including technical and town planning regulations) used as the basis of the relevant design documentation;
3. Unlike design documentation, the initial permit documentation is not a product of the designer's creative process and, therefore, is not a subject of copyright;
4. Timeframes shown in the table are approximate. IPD collection terms are determined individually for each project with due account of a list of required procedures, complexity of the project, etc.

#### Content of design documentation

The content of design documentation is regulated by article 48 of the Town Planning Code of the Russian Federation and Resolution of the Government of the Russian Federation No. 87 (up-to-date version) «On the content of design documentation and content requirements» dated 16.02.2008.

The content of the sections of design documentation for production and non-production capital facilities is shown in Table 2.

**Table 2. A list of sections of design documentation**

Section No.	Name
Section 1	Explanatory note (including initial permit documentation)
Section 2	Land plot space planning layout
Section 3	Architectural solutions
Section 4	Structural and space-planning solutions



Section 5	Information about engineering equipment, utility networks, list of utility measures, content of technological solutions
Subsection 5.1	Electric power supply system
Subsection 5.2	Water supply system
Subsection 5.3	Water disposal system
Subsection 5.4	Heating, air venting and conditioning lines
Subsection 5.5	Communication networks
Subsection 5.6	Gas supply system
Subsection 5.6	Technological solutions
Section 6	Construction Management Plan
Section 7	Capital facilities demolition management plan
Section 8	Environmental protection action plan
Section 9	Fire safety measures
Section 10	Actions to ensure access for disabled people
Section 10_1	Actions to ensure compliance with the energy efficiency requirements and requirements for equipping buildings, structures and constructions with relevant metering devices
Section 11	Capital facilities construction estimate*
Section 12	Other documentation as stipulated by federal law <ul style="list-style-type: none"> <li>a) Declaration of Industrial Safety of hazardous production facilities developed at the design stage **,</li> <li>b) Declaration of Safety of hydraulic engineering installations developed at the design stage; <ul style="list-style-type: none"> <li>b_1) A list of civil defense measures, actions to prevent natural and manmade emergencies for nuclear facilities (including nuclear plants and installations, nuclear/radioactive material storage facilities), hazardous production facilities defined as such in accordance with the legislation of the Russian Federation, highly dangerous, technically challenging and unique facilities, points of defense and security (the clause is added by Resolution of the Government of the Russian Federation No. 1044 of 21 December 2009);</li> </ul> </li> <li>c) other documentation stipulated by the laws of the Russian Federation.</li> </ul>

#### Notes:

\* Design documentation of all facilities indicated in clause 5\_1 of article 6 of the Town Planning Code of the Russian Federation, facilities construction and reconstruction of which are financed from the budget system of the Russian Federation, public roads capital repair of which is financed or will be financed from the budget system of the Russian Federation, cultural heritage sites of regional and local significance (in case the conservation activities of cultural heritage sites of regional or local significance affect structural and other reliability and safety properties of the site) and the results of engineering surveys performed to prepare such design documentation, as well as design documentation of facilities, construction or reconstruction of which is expected to be performed on specially protected natural areas, facilities used to store and(or) dispose of wastes of I-V hazard category, are subject to state expert assessment.

\*\* Federal Law №116-FZ «On industrial safety of hazardous production facilities» dated 21.07.1997 establishes the obligation to develop industrial safety declarations for hazardous production facilities of I and II category which serve to produce, use, process, generate, store, transport and dispose of hazardous substances in the amount specified in annex 2 to Federal Law No.116-FZ.

## **Step 2. Preparing the budget of the project**

Budget of the project is understood not as cost estimate as part of the design documentation (section 11 of the design documentation in section 1.3, see above) but as capital expenditures by the Investor for the implementation of the project (CAPEX) before the operation that include the costs of developing design documentation, construction and installation work (including production equipment), project management (technical customer) and so on. The budget of the project is a bill of work (or materials) for each section of the project indicating the amount and prices.

The budget of the project is a tool of the Investor that helps to make a decision to continue or cease the implementation of the project. Prepared solely for the benefit of the Investor, the budget may be adjusted, at the Investor's request, as regards the increase or decrease of cost items.

This calculation is particularly important for the Investor in cases of borrowings, as it allows full alignment of cost estimates and realistic indicators.

Resolution of the Government of the Russian Federation No. 87 dated 16.02.2008 sets the minimal requirements to a set of documents to be developed for the purposes of expert assessment of the project, thus resulting in calculation errors. The main part of the design documentation is utility lines and systems, therefore, for example, in accordance with Resolution of the Government of the Russian Federation No. 87 for the purposes of expert assessment the section «Power Supply System» should contain wiring and power supply diagrams. This means that it does not need to include nodes and fittings, detailed equipment and its components, etc., resulting in a lack of some information in the project, which is considered sufficient at this stage. All detailed information will be required at next stages of the project.

At this stage, the acceptable error of budget calculation is 15-20%. This value is based on the assumption that the Design Documentation is made in the minimum amount in accordance with Resolution of the Government of the Russian Federation No.87. This error may be decreased if the scope of design is expanded. Based on the actual experience of implementing the projects with due account of implementation deadlines, this stage mainly includes the approach involving minimum requirements as per Resolution of the Government of the Russian Federation No.87 to ensure prompt expert assessment.

A tender to select a General Contractor may be held based on the estimates and Design Documentation, which helps to avoid any significant differences in proposals submitted by general contractors.

An alternative approach to the design also reduces the calculation error, which in its turn is a risk value that a General Contractor will include in the proposal for construction and installation work. An alternative approach is described in Section 2 «Development of tender documentation».

## **Step 3. Expert assessment of design documentation**

Design documentation of capital facilities and the results of engineering surveys performed for the preparation of such design documentation are subject to expert assessment except as provided for in parts 2, 3 and 3.1 of article 49 of the Town Planning Code of the Russian Federation. Expert assessment of design documentation and (or) expert assessment of the results of engineering surveys are made in the form of state or private expert assessment. The developer or technical customer will, at their choice, submit the design documentation and results of engineering

surveys for state or private expert assessment unless a state expert assessment is required for design documentation of capital facilities and results of engineering surveys performed to prepare this design documentation.

The Town Planning Code of the Russian Federation includes a list of capital facilities which do not require an expert assessment of design documentation and the results of engineering surveys (clauses 2, 3, 3.1 of article 49 of the Town Planning Code of the Russian Federation).

In accordance with clause 7 of article 49 of the Town Planning Code of the Russian Federation, the term of the state expert assessment is based on the complexity of the capital facility but shall not exceed 60 days.

## Step 4. Obtaining construction permits

Construction permit is a document that confirms the compliance of design documentation with the requirements of a land plot development plan or a site design and a boundary-setting plan (for construction and reconstruction of line facilities) and provides the right to a developer to construct or reconstruct capital facilities except for cases stipulated by the Town Planning Code of the Russian Federation<sup>4</sup>.

Construction permit is not required in the following cases:

- building a garage on a land plot provided to an individual for purposes not related to business activities, or construction on a land plot provided for gardening;
- construction and reconstruction of facilities that are not capital facilities (stands, shelters, etc.);
- construction of auxiliary buildings and facilities on a land plot;
- changes of capital facilities and (or) their parts, if such changes do not affect their structural and other safety and security properties and do not exceed the limitations of permitted construction and reconstruction established by town planning regulations;
- in other cases where the construction permit is not required in accordance with the Town Planning Code of the Russian Federation, town-planning legislation of the constituent entities of the Russian Federation.

Construction permits will not be granted in the absence of land use and development rules except for construction, reconstruction of facilities of federal and regional significance, facilities of local municipal areas, capital facilities on land plots not covered by town planning regulations or for which no town-planning regulations are established, and in other cases stipulated by the federal law.

To perform construction, reconstruction of capital facilities the developer will, free of charge, submit an application for construction permit directly to federal executive authorities or executive authorities of constituent entities of the Russian Federation, local government bodies, other authorized organizations issuing construction permits (clause 15, article 51 of the Town Planning Code of the Russian Federation). In accordance with clause 12 of article 51 of the Town Planning Code of the Russian Federation, a construction permit can be issued for separate construction or reconstruction stages.

To obtain construction permit a Customer (Developer) will submit the following set of documents to construction permit issuing authorities:

1. application for construction permit,
2. documents of title to a land plot,
3. land plot development plan or, in the event of receiving a permit for construction of a line facility, properties of site design and boundary-setting plan;

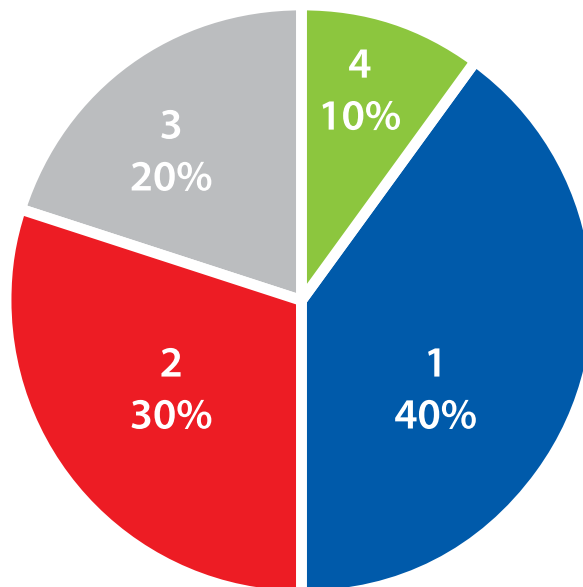
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<sup>4</sup> Article 51 of the Town Planning Code of the Russian Federation.

4. materials contained in the design documentation,
5. positive expert assessment of design documentation for a capital facility,
6. permission to deviate from maximum parameters of permitted construction/reconstruction (should such permission be granted to the developer),
7. the consent of all right holders of capital facilities in case of reconstruction of such facility,
8. a copy of the certificate of accreditation of the legal entity that issued a positive private expert assessment of design documentation, where the results of private expert assessment of design documentation are presented.

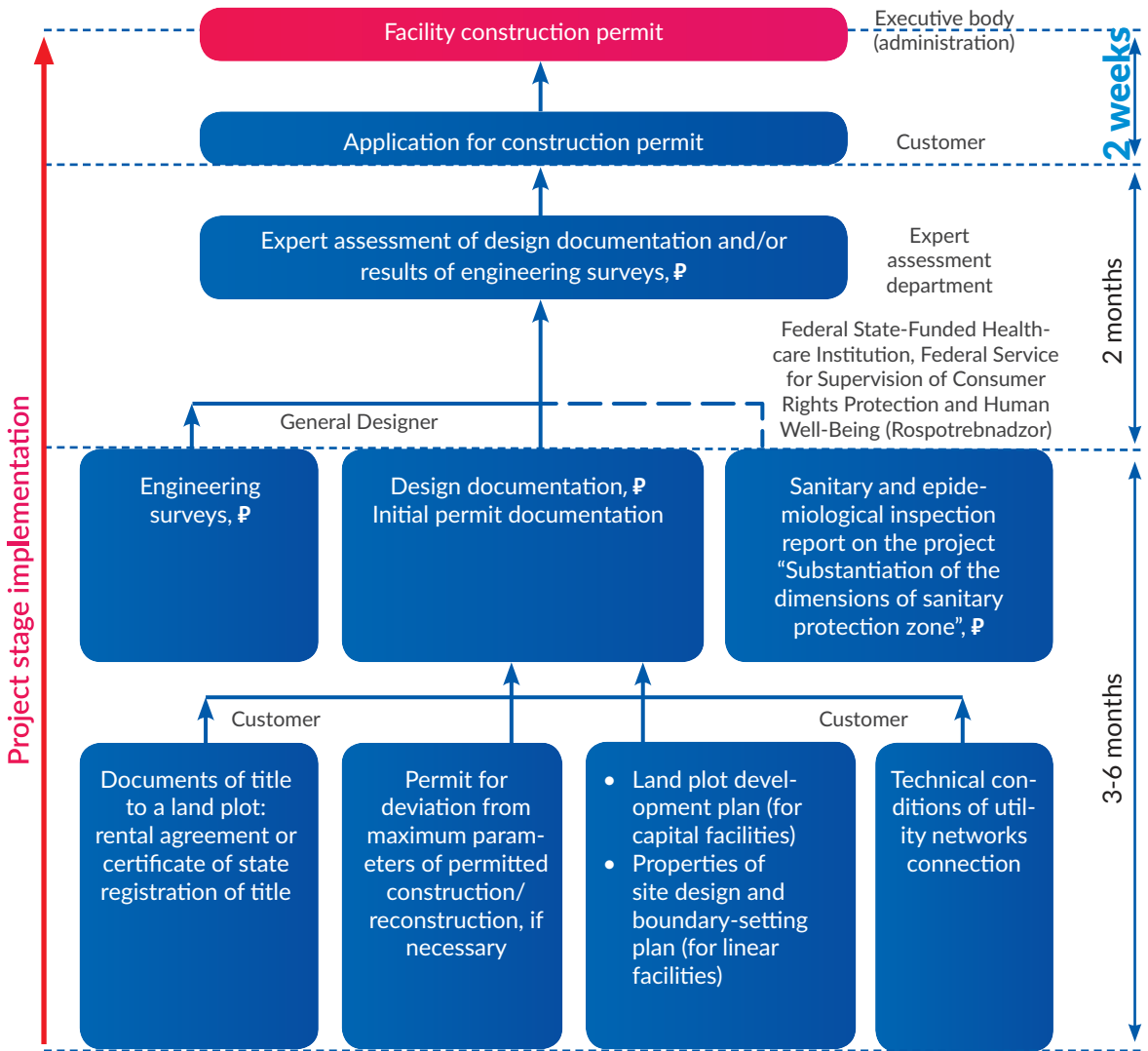
Approximate time for issuing a construction permit is 10 business days.

**Diagram 4. Main causes of denials of construction permits**



1. Design documentation contains contradictory information on technical and economic indicators, no terms of reference for design is provided, reporting documentation of the results of engineering survey is unavailable - 40%;
2. Non-compliance of the provided documentation with the requirements of a land plot development plan (minimum spacing from the boundaries of a land plot are breached, the permitted land use ratio or the maximum number of floors in a building is exceeded, etc.) - 30%;
3. Decisions related to design documentation do not comply with fire safety requirements. Information on the availability and size of sanitary protection zones is unavailable - 20%;
4. Unavailability/inconsistency of title documents for a land plot - 10%.

**Diagram 5. Procedures for obtaining construction permits**



\*\* P means that provision of relevant services and/or obtaining of certain documents is performed at extra charge

## Step 5. Drafting tender documentation

### Drafting a set of tender documentation

The procedure for developing tender documentation is not officially formalized in the structure and regulations for step-by-step designing process. However, the experience shows that holding tenders to select a General Contractor (or contractors) based on a design and estimate documentation approved by a state expert assessment is quite difficult, as, in accordance with Resolution of the Government of the Russian Federation No. 87, the underlying principle solutions of the project as regards the scope and content of the documentation require significant improvements related to issue of nodes, spare parts, specifications and bills of materials and equipment in relation to which the tenders are held and more

accurate estimates are made. A major advantage of holding a tender based on a tender documentation is a more accurate evaluation of construction and installation work by potential contractors taking part in a tender (due to lesser amount of risks included in the price). This allows the Investor to select the future General Contractor (or contractors) on more equal financial terms.

Nevertheless, the volume and the scope of tender documents should not be as detailed as that of working documentation, leaving a certain degree of freedom for competitive proposals of contractors and suppliers of alternative systems and assortment of component parts that allows the significant improvement of the project and ensures substantial savings by searching for the most innovative and efficient technical solutions that may be not obvious or still unknown at the «Project» stage.

The amount and content of project works within the tender documentation stage in each particular case should be approved by the Customer depending on the tasks, goals and objectives of tenders.

The tender documentation includes drawings and bill of quantities.

### **Preparing the budget of the project**

Development of tender documentation is a continuation or extension of the process of developing Design Documentation and implies more graphic details as opposed to Design Documentation, as well as the elaboration of a bill of quantities (or materials). At this stage, the acceptable error of budget estimate is 10-15%, which is considered a standard value in global designing as proved by actual implementation of a number of investment and construction projects. As the tender documentation is not a fully functional Working Documentation intended for construction and installation work, the error level is no less than 10%.

### **Tender to select General Contractor**

A tender and selection of a General Contractor is a complex process. A lot of factors influence the process of selecting a construction company capable of delivering the expected results as regards the quality, deadlines and budget.

The Investor can hold a tender on its own, or engage a specialist company.

When selecting a company to hold a tender, the Investor should consider the following:

- experience in holding tenders;
- approach to holding a tender to ensure the highest results;
- availability of a robust and fully functioning tendering system.

### **Preliminary qualification**

The purpose is to exclude companies that do not comply with the objectives so that only highly qualified participants remain interested in the implementation of the project.

At the first stage, a list of all potential participants is created – a long list.

At the second stage, a shortlist is made eliminating all companies that are considered unqualified for the purposes of the tender.

### **Holding a tender**

To receive proposals complying with the requirements of the project, a tender comprises several steps:

1. Preparing request for proposal (including invitation to tender, explanatory note, bill of quantities and materials (for a general contractor), the scope of work, a package of

- technical documentation (explanatory notes, drawings, master schedule of construction);
2. Answers to questions of the participants in the preparation of proposals. Clarifications in case the participants have any questions when making proposals;
  3. Collecting and opening proposal packages in the established time and manner;
  4. Financial and technical evaluation of proposals. Revision 0;
  5. Negotiations. 1<sup>st</sup> round – technical negotiations. Meetings with the participants of the tender to specify the content of the proposal, its compliance with the request, clarification of technical issues (project milestones, resources, schedule, technical optimization) and a brief discussion of the commercial aspects of the proposal (Customer's comments on the proposed cost, financing schedule, contract terms);
  6. The organizer of the tender will submit a request for proposal update based on the results of the meetings;
  7. Receiving updated proposals and their analysis. Revision 1;
  8. Negotiations. 2<sup>nd</sup> round – commercial negotiations. Meetings with selected participants for a detailed discussion of commercial proposals;
  9. Receiving final proposals from the participants.

The results of the tender includes the selection of a construction company that demonstrated the maximum compliance with the goals of the project and expectations of the Investor.

## 3. CONSTRUCTION

### Step 1. Working Documentation stage

Working Documentation is a project developed on the basis of technical solutions of design documentation (Project stage) with positive expert assessment. Working Documentation is designed for construction and installation activities, provision of construction equipment, products and materials and/or manufacturing of construction products. Should any fundamental changes be added to the Working Documentation not stipulated by the Design Documentation stage that affect the safety and structural reliability of the Facility under construction, the Design Documentation will be subject to adjustment and second expert assessment. The composition and content of Working Documentation should be determined by the Customer (Developer) depending on the level of details of solutions provided in the Design Documentation, and should be included in the terms of reference for design.

Developed Working Documentation submitted to construction site should contain the Customer's (Developer's) stamp «For production».

Working Documentation may be developed both by a General Designer or General Contractor.

Benefits of Working Documentation developed by the General Contractor:

- No discrepancies and disputes between a designer and construction company;
- Prompt delivery of documents to construction site.

When this approach is applied, the role of the General Designer consists merely in reviewing the Working Documentation for compliance with the Design Documentation to avoid any fundamental changes being made to the Design Documentation («Project» stage).

## Preparing the budget of the project

Working Documentation contains more detailed project solutions allowing the reduction of error to the minimum level. At this stage, the acceptable error of budget estimate is 5-10% which is considered a standard value in global designing. 0% accuracy is hard to achieve since the Working Documentation does not include installation drawings and solutions that cannot be evaluated, while the construction process may also require some additional work.

## Step 2. Construction (construction management and control)

### Construction and installation works

Construction and installation work is a time-consuming process that must be managed at each stage of construction to achieve goals set. The management responsibility may lie with both Investor, if it has a relevant team, and a management company (technical supervisor).

Construction and installation works may be only performed by a company authorized to perform certain types of works. Construction control (previously technical oversight) must be ensured over works performed by the General Contractor to oversee the quality of construction and installation works.

Construction works may be only performed based on a building permit.

### The Investor's construction control includes the following:

1. ensuring that the General Contractor has documents certifying the quality of materials used (certificates, technical passports, laboratory testing results, test reports, etc.) and their compliance with Russian regulatory requirements and the Investor's requirements;
2. reviewing completed construction works, building structures and materials used, equipment purchased for compliance with Russian regulatory requirements and the Investor's requirements, technical specifications and other regulations;
3. taking part in individual and comprehensive tests, organizing interim and final acceptance and operation;
4. keeping the Investor informed and prohibiting the General Contractor from using low-quality materials, structures and equipment violating Russian regulatory requirements and those of the Customer;
5. checking in a timely manner that the General Contractor has remedied all deficiencies discovered as part of design supervision by design companies, the State Construction Supervision and supervision by other regulatory authorities, design deviations discovered in the organization and the technology of works performed, remedied any other deficiencies and completed unfinished works; keeping the Investor informed of such deviations;
6. checking that the General Contractor has recorded in the main and special work progress logs any comments or requirements regarding remedying any deficiencies discovered relating to the quality of construction works performed, materials and structures used, accepting and storing materials and the remedy methods to be used;
7. checking that the General Contractor properly maintains the main and special work progress logs, overseeing drafting of technical documentation by the General Contractor;
8. organizing independent laboratory tests of the quality of construction materials and works (at the expense and with the approval of the Investor); engaging independent laboratories to review concrete, welding and other works (at the expense and with the approval of the Investor);
9. overseeing the scope and quality of works performed by the General Contractor, as well as performing a step-by-step check of the work progress;
10. controlling the physical performance of works based on the key indicators specified for each type of works and reports for the Investor;
11. taking part in accepting works and agreeing the scope of works performed in accordance with



- the terms and conditions of an agreement between the Investor and the General Contractor; approving documents prepared by the General Contractor for payment (KS-2 form);
12. ensuring that all deficiencies and unfinished works discovered during the acceptance of works, structures and equipment are remedied/completed in a timely manner;
  13. accepting on a interim basis, when ready, together with the General Contractor and design companies critical building structures, incl. supporting and bridge structures, space structures, bearing metal and concrete structures, etc.;
  14. taking part in reviewing the works performed and controlling drafting by the General Contractor of a correct certificate of the technical condition of an item or its part at the time of commissioning for the other Contractors to perform subsequent works;
  15. controlling the availability, completeness and accuracy of as-built, technical and other construction documents (certificates, as-built plans, instrumental surveys of structures installed, parts of buildings and communications, the main and the special logs, etc.) developed by the General Contractor and controlling recording in those documents any changes related to deficiencies discovered during the performance of construction works;
  16. notifying state construction supervision authorities of any emergencies on the site and the Emergency Recovery Plan.

It is required to notify of the launch of construction and installation works state construction supervision authorities that will subsequently control the construction process according to the site visit schedule developed by the authorities. The General Contractor may perform works on its own or engage other parties (subcontractors) to do so acting as the General Contractor in this case. Unless law or a contracting agreement stipulates that a contractor must perform the contractual works by himself, the contractor is entitled to engage other parties (subcontractors) to discharge its obligations. In this event the contractor acts as a general contractor.

Throughout the construction, as-built documents evidencing respective construction and installation works must be prepared, including statements of hidden works, statements of works performed, as-built drawings, passports, certificates, etc. All the parties involved (Investor, General Contractor, Technical Supervisor, General Designer, etc.) sign statements of completion and acceptance of works.

Before starting the works, the General Contractor must develop the work acceptance process (WAP) and agree it with the Investor (or the Technical Supervisor).

Broadly speaking, the WAP is comprised of the following:

- completion and acceptance of previous works performed;
- development and approval of a workspecification (WS);
- performance of construction and installation works;
- construction control inspection;
- drafting as-built documents for the works performed.

#### **Equipment installation**

As premises/buildings are ready, equipment is installed, including assembly and mounting of process, power, lifting and transporting, pump and compressor equipment and other equipment at the place of its permanent operation, incl. checking and testing the installation quality, works to install connectors to the equipment (water, air, steam, cooling agent feed; routing, pulling and installation of cables, electric and communication wires), etc.

**The Investor needs to pay attention to the following:**

- the compliance with construction and installation regulations by a construction company;
- involving in the construction process people knowledgeable about procedures and laws of the Russian Federation;
- the availability of process management, not just monitoring.

### Step 3. Commissioning

Commissioning is a legal procedure preparations for which are made during the whole construction process. The issuance of a commissioning permit is a responsibility of state authorities and governed by the Russian legislation.

The commissioning permit is a document certifying the completion of capital construction or reconstruction according to the construction permit, the compliance of a constructed or reconstructed capital facility with the land plot development plan or, in the event of construction/reconstruction of an infrastructure facility, with the site design and the boundary-setting plan, as well as the design documents<sup>5</sup>. To put the facility into operation, a developer needs to file an application for a commissioning permit with a federal executive body, an executive body of a RF constituent, a local government body or another authorized organization that issued the construction permit, either directly or through a multifunctional service center<sup>6</sup>.

To obtain a commissioning permit, the Customer (Developer) provides the following documentation pack to organizations authorized to issue construction permits:

1. documents of title to a land plot;
2. land plot development plan or, in the event of construction/reconstruction of an infrastructure facility, a site design and a boundary-setting plan;
3. construction permit;
4. statement of acceptance of a capital facility (in the event of construction/reconstruction based on an agreement);
5. document certifying the compliance of a constructed/reconstructed capital facility with the technical regulations that must be signed by a constructing party;
6. document certifying the compliance of a constructed/reconstructed capital facility with the requirements of design documents, including the energy effectiveness requirements and the requirements for equipping the facility with energy metering devices; the document must be signed by a constructing party;
7. documents certifying the compliance of a constructed/reconstructed capital facility with the technical specifications that are signed by representatives of organizations responsible for operation of utility networks (if available);
8. drawing showing the location of a constructed/reconstructed capital facility, utility networks within the boundaries of a land plot, and site planning; the drawing must be signed by a party responsible for the construction, save in the event of construction/reconstruction of an infrastructure facility;
9. opinion of a state construction supervision authority (if state construction supervision is required) on the compliance of a constructed/reconstructed capital facility with the requirements of the technical regulations and design documents, including the energy effectiveness requirements and the requirements for equipping the facility with energy metering devices; opinion of a federal state environmental supervision authority where required by the Russian legislation;
10. document certifying the signing of an agreement on mandatory insurance of civil liability of a hazardous site owner in the event of potential harm resulting from an emergency on the site in accordance with the Russian legislation on mandatory insurance of civil liability of a hazardous site owner in the event of potential harm resulting from an emergency on the site.

The indicative term for issuing a commissioning permit is 10 business days.

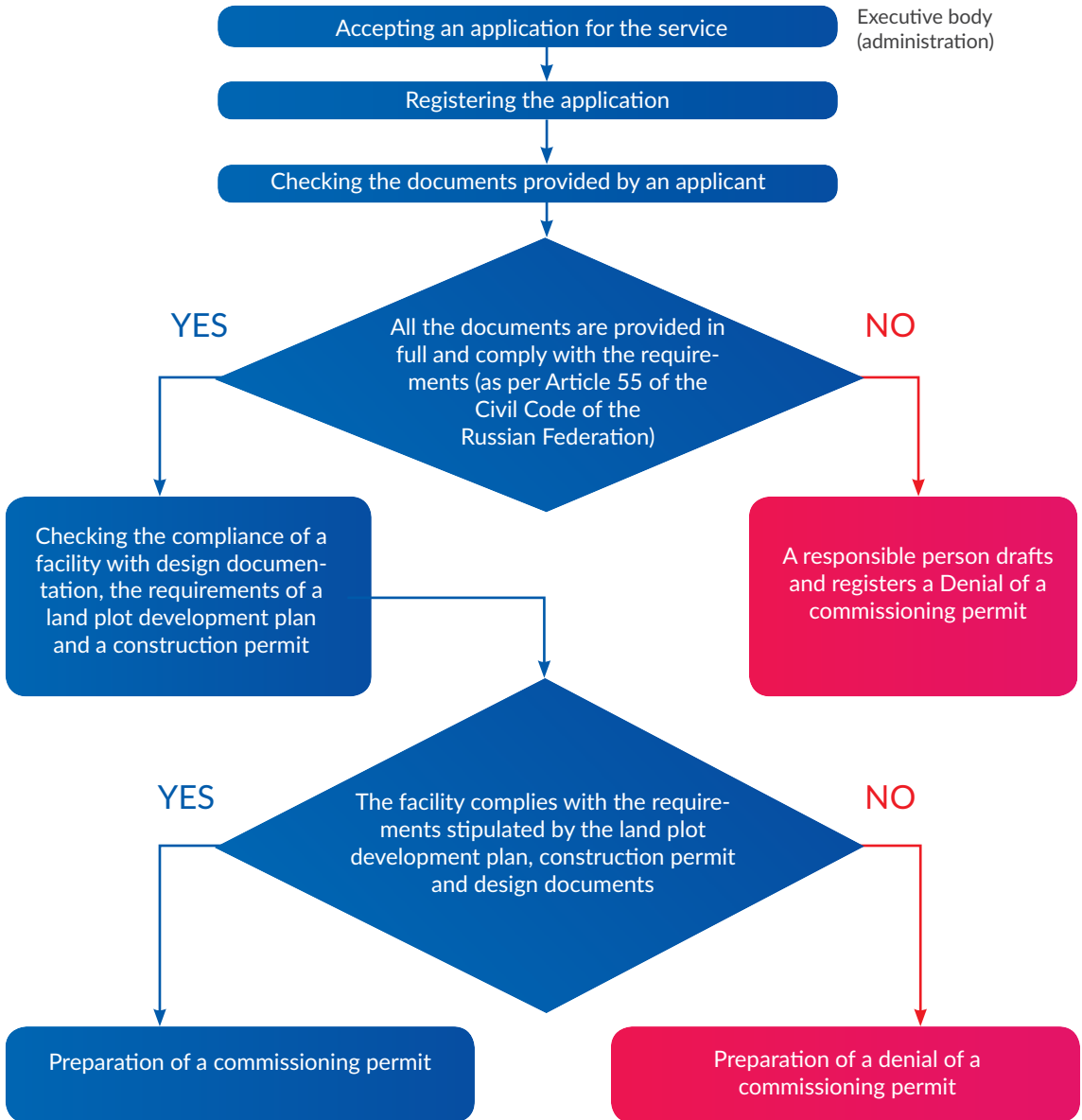
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<sup>5</sup>Article 55 of the Russian Civil Code.

<sup>6</sup>Clause 2, Article 55 of the Russian Civil Code.

The commissioning permit provides a basis for state registration of a constructed capital facility or for making changes to documents certifying the state registration of a reconstructed capital facility. The commissioning permit must contain details of a capital facility as required for the purposes of the state cadastral registration. Such details must comply with the requirements for details in the graphical and narrative parts of a technical plan stipulated by Federal Law No. 221-FZ dated 24 July 2007 On the State Real Estate Cadastre.

**Diagram 6. Flowchart of providing the service «Issuance of a commissioning permit»**



## 4. COMPARING CONSTRUCTION IN A FIELD AND IN AN INDUSTRIAL PARK

		Advantages and disadvantages for the Investor	
Nº	Key parameters impacting directly the term and the budget of a construction investment project of the Investor (Resident)	«Field»	Industrial park
1.	A facility is placed according to the site development specifications contained in an effective plot plan and the rules for land use and development of a population center	<p><b>Usually not.</b></p> <p><b>Disadvantages:</b> It requires changes to the plot plan and the rules for land use and development of a population center, as well as the conduct of public hearings, etc.</p> <p><b>Impact on a project:</b> Timeframe: the indicative term for making corrections and approval is 3 months or more.</p>	<p><b>Yes.</b></p> <p><b>Advantages:</b> The facility is placed in accordance with the plot plan and the rules for land use and development of a population center.</p>
2.	A site design and a boundary-setting plan have been developed and approved	<p><b>No.</b></p> <p><b>Disadvantages:</b> The site design and the boundary-setting plan need to be developed.</p> <p><b>Impact on a project:</b> <b>Timeframe:</b> the indicative term for the development and approval is from 3 to 9 months. <b>Fee:</b> based on an agreement with a contractor (varies depending on a region).</p>	<p>The site design is prepared, the boundaries are set.</p> <p><b>Advantages:</b> The site design and the boundary-setting plan are developed for the entire territory of an industrial park</p>
3.	Acquisition of a land plot	<p><b>Advantages:</b> The title to a land plot may be acquired from a legal entity or a private individual pursuant to a contract.</p> <p><b>Disadvantages:</b> A land plot owned by the state or a local government may be only leased out as a result of an auction.</p> <p>Without an auction, it may be leased out only if it is assigned the status of a large-scale investment project, which would require additional time for the Investor to collect all necessary documentation (Article 39.6 of the Russian Land Code).</p>	<p><b>Advantages:</b> The land plot is leased out, or the title to it is transferred under an agreement without any additional procedures (e.g. bids or auctions).</p>
4.	A respective land category is assigned to a land plot (population center land or industrial land) making it possible to place industrial facilities	<p><b>Usually not.</b></p> <p><b>Disadvantages:</b> A need to transfer land from one category to another (most commonly, agricultural land needs to be transferred to the category of industrial land).</p> <p><b>Impact on a project:</b> <b>Timeframe:</b> the indicative term is 3 months or more.</p>	<p><b>Yes.</b></p> <p><b>Advantages:</b> The land has been transferred to a respective category by representatives of an industrial park.</p>

		Advantages and disadvantages for the Investor	
Nº	Key parameters impacting directly the term and the budget of a construction investment project of the Investor (Resident)	«Field»	Industrial park
5.	The territory is divided into functional zones, and the facility is placed in accordance with the sanitary classification of industrial enterprises (SanPiN 2.2.1/2.1.1.1.200-03 Sanitary protection zones and sanitary classification of enterprises, buildings and other facilities)	<p><b>No.</b></p> <p><b>Disadvantages:</b> A preliminary check must be performed to establish whether the facility can be placed in accordance with sanitary regulations. Based on the check, the land plot may be recognized unsuitable for the Facility placement. If the sanitary regulations are complied with, a sanitary protection zone plan must be developed.</p> <p><b>Impact on a project:</b> Timeframe: : the indicative term for developing and agreeing a plan is at least 3 months. <b>Fee:</b> depends on the project complexity, to be determined based on an agreement with a contractor. It varies by regions with an average</p>	<p>The site design is prepared, the boundaries are set.</p> <p><b>Advantages:</b> The Investor does not need to spend its time to establish whether the facility can be placed in accordance with sanitary regulations. If the sanitary regulations are complied with, a sanitary protection zone plan must be developed.</p> <p><b>Impact on a project:</b> <b>Timeframe:</b> : the indicative term for developing and agreeing a plan is at least 3 months. <b>Fee:</b> depends on the project complexity, to be determined based on an agreement with a contractor. It varies by regions with an average price being at least RUB 200–300 thousand.</p>
6.	<p>Utilities:</p> <ul style="list-style-type: none"> <li>• There is a possibility to connect to utility networks</li> <li>• Connection points are available at the boundary (next to the boundary) of a land plot</li> </ul>	<p><b>No.</b></p> <p><b>Disadvantages:</b></p> <ul style="list-style-type: none"> <li>• There is a risk that it will be impossible to connect to utility networks, which may require additional investments from the Investor in the reconstruction of existing power stations, gas distribution plants, sewage pumping stations, etc. to ensure the Facility connection to the networks.</li> <li>• The connection points are usually available some distance away from the land plot boundary, which requires additional financing to design and construct external networks from those points to the site boundary.</li> <li>• The term for performing the technical specifications by resource companies may be different from that required by the Investor's project.</li> <li>• Impact on a project:</li> <li>• Timeframe: the term for setting up connection to utilities is at least 1 year.</li> </ul>	<p><b>Yes.</b></p> <p><b>Advantages:</b></p> <ul style="list-style-type: none"> <li>• There is a possibility to connect to utility networks.</li> <li>• The connection points are available at the boundary of a land plot or close to it.</li> </ul> <p>The term for performing the technical specifications is aligned with the term for implementing the Investor's project.</p>

		Advantages and disadvantages for the Investor	
Nº	Key parameters impacting directly the term and the budget of a construction investment project of the Investor (Resident)	«Field»	Industrial park
7.	Design and construction of external utility networks and infrastructure is ensured	<p><b>No.</b></p> <p><b>Disadvantages:</b></p> <ul style="list-style-type: none"> <li>The Investor has to ensure design and construction of external networks by himself.</li> <li>A need to agree the construction of utility networks with the owners of land plots.</li> </ul> <p><b>Impact on a project:</b> significant extension of the project term, higher implementation risks</p> <p><b>Timeframe:</b> at least 1 year.</p> <p><b>Fee:</b> an average of about RUB 15m per 1 MW of power capacity connected to the site.</p>	<p><b>Yes</b></p> <p><b>Advantages:</b> An industrial park arranges design and construction of external utility networks and infrastructure.</p>
8.	<p>Transport infrastructure:</p> <ul style="list-style-type: none"> <li>Availability of a ready hard-top road up to the boundary of a land plot</li> <li>Availability of connection of the road to regional and federal routes</li> </ul>	<p><b>Usually not.</b></p> <p><b>Disadvantages:</b></p> <ul style="list-style-type: none"> <li>A need to obtain approval to construct a link to a public local, regional or federal road.</li> <li>A need to design and construct an access road.</li> </ul> <p><b>Impact on a project:</b> <b>Timeframe:</b> at least 1 year. <b>Fee:</b> RUB 30–50m per 1 km of a road-bed.</p> <p>Construction of IV-category roads (planning, compaction, sand H=15, crushed stone H=15, asphalt B1, B2 H=10 cm) – from RUB 19,000/m to RUB 25,000/m</p> <p>Construction of III-category roads (planning, compaction, sand H=15, crushed stone H=15, asphalt B1, B2 H=10 cm) – RUB 25,000/m</p> <p>Construction of II-category roads (planning, compaction, sand H=25, crushed stone H=15, weak concrete H = 10 cm, asphalt H=12 cm) – RUB 38,000/m</p> <p>Construction of I-category roads (planning, compaction, sand H=30, crushed stone H=25, reinforced concrete H = 12–14 cm, asphalt B1, B2 H=12 cm) – RUB 42,000/m</p> <p>The key factors affecting the construction cost: geological environment, local topography, climate, traffic, the road category, etc.</p>	<p><b>Yes.</b></p> <p><b>Advantages:</b> An industrial park ensures:</p> <ul style="list-style-type: none"> <li>Availability of a ready hard-top road up to the boundary of a land plot</li> <li>Availability of connection of the road to regional and federal routes</li> </ul>

		Advantages and disadvantages for the Investor	
Nº	Key parameters impacting directly the term and the budget of a construction investment project of the Investor (Resident)	«Field»	Industrial park
9.	<p>Design and construction of the Investor's facility in a land plot:</p> <p>Standard scope of works</p> <ul style="list-style-type: none"> <li>• Engineering surveys (engineering and geodesic, geological, environmental surveys),</li> <li>• Development of design documentation and collection of all the source documents and permits required for expert assessment,</li> <li>• Expert assessment of design documentation,</li> <li>• Obtaining a construction permit,</li> <li>• Preparation of working documents,</li> <li>• Packaged supply of materials and equipment required for the construction,</li> <li>• Construction works,</li> <li>• Installation and commissioning works,</li> <li>• Putting the facility into service.</li> </ul>	<p><b>No.</b></p> <p><b>Disadvantages:</b> Considering the necessity to perform the stated procedures (points 1–8), the project may take much longer than expected.</p> <p><b>Fee:</b> for warehouses and industrial buildings – 600-700 \$/m2 (incl. VAT).</p>	<p>The site design is prepared, the boundaries are set.</p> <p><b>Advantages:</b></p> <ul style="list-style-type: none"> <li>• As a rule, the preliminary surveys and groundworks have been already performed,</li> <li>• The Investor does not have to spend time on obtaining a number of approvals mentioned in points 1–8,</li> <li>• After signing a land sale-and-purchase agreement / a land lease agreement, the Investor may launch engineering surveys and design of the facility.</li> </ul>
10.	<ul style="list-style-type: none"> <li>• Tax benefits and other state support measures</li> </ul>	<p><b>No.</b></p> <p><b>Disadvantages:</b> Tax benefits and other state support measures</p>	<p><b>Available, as a rule.</b></p> <p><b>Advantages:</b></p> <ul style="list-style-type: none"> <li>• Potential benefits on property tax, income, land and transport taxes</li> <li>• Loan products for park residents</li> </ul>

### Abbreviations:

LU & DR – land use and development rules

SPZ plan – a plan used to justify the size of a sanitary protection zone

PS – power station

GDP – gas distribution plant

The analysis based on key criteria demonstrates obvious advantages of selecting an industrial park as a place for constructing a future industrial (warehouse) facility. The facility placement in the territory of an industrial park would eliminate some of the Investor's risks speeding up the project implementation process.

# **CHAPTER 2.**

# **STATE INCENTIVES TO SUPPORT INVESTMENT PROJECTS**



# 1. SPECIAL INVESTMENT CONTRACT

RF Government Decree No.708 of 16 July 2015 approves the procedure for entering into special investment contracts (the "SIC") foreseen as a mechanism set forth in Federal Law No. 488-FZ of 31 December 2014 On Industrial Policy in the Russian Federation.

The SIC is an agreement concluded between an investor and the Russian Federation, and (or) one of its constituent entities, and (or) municipality, which sets forth:

- the investor's obligations to establish or to upgrade and (or) assimilate the production of industrial products in Russia, using his own resources or involving other parties, within the SIC term;
- obligations of the RF and (or) the RF constituent entity, and (or) municipality to guarantee a stable business environment, as well as to provide investment incentives and support envisaged by effective legislation.

The SIC term shall equal the time required for the project to turn profitable, plus 5 years, but in any event no longer than 10 years.

The minimum investment threshold to establish a federal SIC (i.e. concluded with the RF) per project within the contract term is RUB 750m.

1. The SIC rules provide for three types of contracts:
2. a SIC to establish or to upgrade the production of industrial products;
3. a SIC to implement the best available technologies;
4. a SIC to assimilate the production of industrial products classified as having no substitutes produced in Russia.

The basic set of documents for submission to the Ministry of Industry and Trade of Russia (Minpromtorg) includes:

- an application form approved by Order of Minpromtorg No.2288 of 7 August 2015 with an appendix according to the SIC type;
- a business plan of the investment project;
- evidence of investment in the investment project, at least RUB 750m.

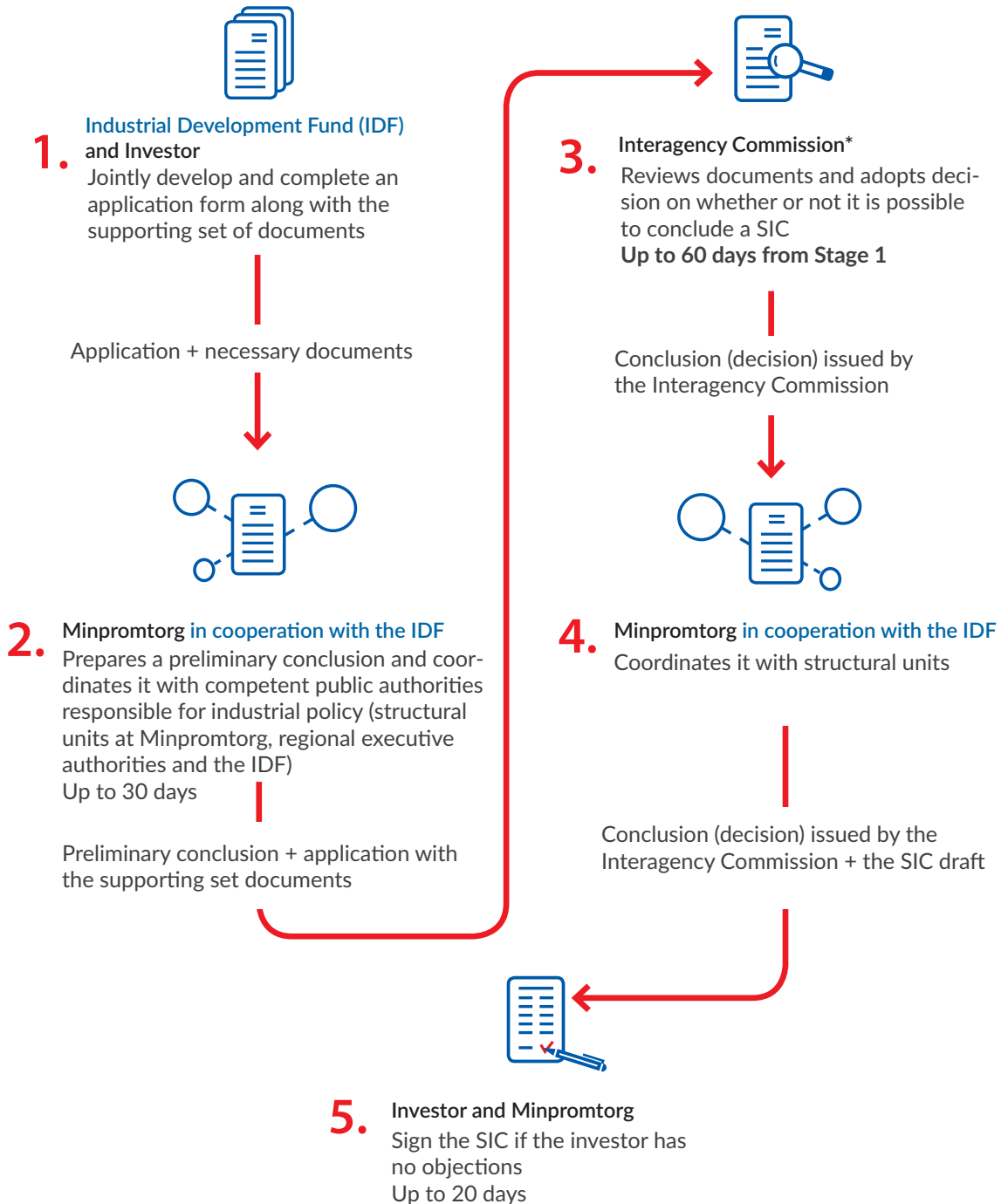
Other documents (according to the SIC type):

- a SIC intended to establish or to upgrade the production of industrial products; documents confirming the creation or modernization of industrial production and employment generation, the assimilation of production of industrial goods at established manufacturing facilities and, in all cases, a proof of investment expenses along with a production and processing schedule;
- a SIC intended to implement the best available technologies; documents confirming the implementation of such technologies as outlined in Federal Law On Environmental Protection:
  - an action plan for the environmental protection;
  - a program to improve environmental performance;
- a SIC intended to assimilate production of industrial goods classified as having no substitutes produced in Russia: documents confirming that the implementation of an investment project envisages the assimilation of production of industrial goods classified as having no substitutes produced in Russia, accompanied with a production and processing schedule.

## Incentives for inclusion in the SIC:

1. Tax benefits.
  - 1.1. Federal (as outlined by Federal Law No.144-FZ of 23 May 2016)
    - a stable tax environment for the SIC term;
    - a reduction in the federal corporate income tax rate to 0% (provided that statutory

Diagram 7. Stages of the SIC Application review



\*The composition of the Interagency Commission is approved by RF Government Directive No.2213-r of 31 October 2015

- conditions are observed);
  - an accelerated depreciation with a ratio of up to 2 for PPP items from depreciation groups 1-7, which are produced under the SIC;
- 1.2. Regional and municipal (region-specific benefits):
- options as to corporate income tax reduction provided at regional level;
  - concessions in respect to property tax, transportation tax and land tax.
2. Facilitated admission to state procurement (under Federal Law No.365 of 3 July 2016) The Russian government is entitled to determine the SIC investor or any other party involved as the sole supplier of goods, provided that the following conditions are simultaneously met:
- the SIC is concluded with the RF;
  - the overall investment amount exceeds RUB 3bn;
  - in Russia the goods will be produced by a Russian legal entity;
  - Russia is the country of origin of the goods;
  - The SIC stipulates for conditions precedent:
    - a) the producer's right to conclude contracts for the supply of goods, provided that the aggregate amount of goods supplied within a calendar year shall not exceed 30% of the amount of goods manufactured within this calendar year;
    - b) the producer's responsibility in case of exceeding the above threshold stipulated for aggregate supply, which is expressed as a penalty equaling 50% of the excess cost;
    - c) the producer's obligation to complete and publish the report on compliance with the requirements of paragraph 2(a) in the unified integrated information system.
3. Simplified procedure for the confirmation of production of industrial goods in Russia within the framework of Order of Minpromtorg No.3368 of 12 November 2015 in pursuance of RF Government Decree No.719 of 17 July 2015.
4. Sectoral incentives to ensure support in industrial sectors.
- The IDF is an operator in terms of the SIC conclusion, which provides a comprehensive analytical background to be used by the companies in the course of preparation of documents for their further submission to Minpromtorg. In addition to this, the IDF has developed guidelines for the SIC applicants, available on the IDF's official website.

## 2. INTEREST RATE SUBSIDIES TO SUPPORT NEW INVESTMENT PROJECTS

Minpromtorg has developed and currently implements RF Decree No.3 of 3 January 2014 On Approving Regulations for Granting Federal Budget Subsidies to Russian Companies for the Partial Compensation of Interest Payments on Loans taken from Russian Credit Institutions in 2014-2016 for Implementing New Comprehensive Investment Projects in Priority Areas of Civil Industry in the Framework of the Subprogram «Ensuring the Implementation of the State Program» of the State Program of the Russian Federation “Development of Industry and Increasing its Competitiveness”.

Priority areas of civil industry shall be understood as activities facilitating:

- creation of new economically viable and environmentally sound production facilities;
- development of industrial production to increase the output of high-technology products;
- higher labor productivity through advanced technology and modern equipment, and the creation of high-performance workplaces;
- creation of environment aimed at promoting Russian innovative products and technologies to the world markets;
- greater energy efficiency and resource conservation.

Subsidies are granted upon condition that the investment project has been included in the list of comprehensive investment projects in priority areas of civil industry. This list is maintained by Minpromtorg.

Requirements for investment projects:

- the project goal is to establish and (or) to upgrade a company as an integrated portfolio of assets, from the acquisition of equipment to its commissioning;
- the investment project should necessarily involve investment expenditures targeted at:
  - purchase or long-term lease of land plots to establish new production facilities;
  - development of design specifications and cost estimates;
  - construction or renovation of industrial buildings and structures;
  - purchase, construction, fabrication and delivery of fixed assets, comprising payment of necessary customs duties and customs fees, as well as construction, installation, start-up and commission activities, as well as the purchase of equipment;
- overall project cost – RUB 150m to RUB 5bn;
- production facilities under the project had to be launched on 1 January 2014 and later;
- all new jobs created during the investment project implementation shall fall into the high performance category;
- loan funds constitute up to 80% of the overall project cost.

Requirements for loans:

- loan funds should be used for the implementation of new comprehensive investment projects in priority areas of civil industry;
- period of loan issued for investment purposes – at least 3 years;
- loans were obtained from Russian credit institutions or the State Corporation “Bank for Development and Foreign Economic Affairs” (Vnesheconombank) in 2014-2016.

The subsidies amount to compensate interest expenses on loans in Russian rubles:

- if the interest rate is higher than the Central Bank’s key interest rate, than the compensation applies to 70% of the key interest rate;
- if the interest rate is lower than the Central Bank’s key interest rate, than the compensation applies to 70% of the interest rate.

The subsidies amount to compensate interest expenses on loans in foreign currency:

- if the interest rate is more than 4%, than the compensation applies to 90% of this 4%;
- if the interest rate is less than 4%, than the compensation applies to 90% of this interest rate.

Subsidy payments are made twice a year (Q2 and Q4).

### 3. LARGE-SCALE INVESTMENT PROJECT

Activities pertaining to a large-scale investment project are governed by RF Government Decree No.1603 of 29 December 2014 On Approval of the Criteria for Social and Cultural Amenities and Large-Scale Investment Projects, the Establishment (Implementation) of Which is Considered Acceptable on the Leased Land Plot Held as Federal Property Without Competitive Bidding, as well as by the provisions of the RF Land Code.

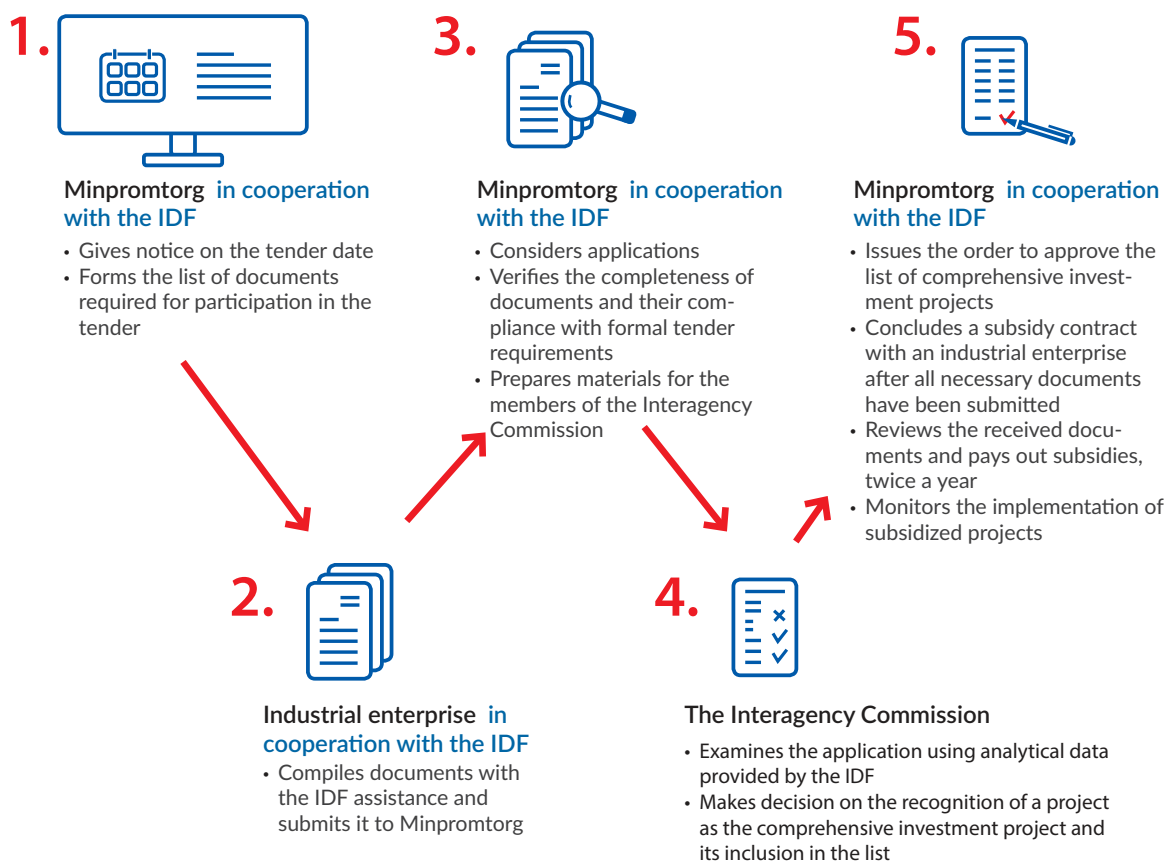
A large-scale investment project can be implemented at the federal and regional levels.

State- or municipal-owned land plots may be provided to entrepreneurs for their use under lease by decision of the RF Government or its constituent entity without competitive bidding.

In any case, the lease of land plots without competitive bidding is subject to specific criteria. Such criteria are set for the land plots, which are held as federal property, and for the land plots, which are held as the property of the Russian Federation.

Criteria for the provision of land plots, held as federal property, are outlined in RF Government Decree No.1603 of 29 December 2014.

**Diagram 8. Stages of review of Application for investment loan interest subsidy**



**Criteria for the provision of state- or municipal-owned land plots are outlined in laws of the constituent entities of the Russian Federation.**

Criteria for the provision of land plots held as federal property under lease, without competitive bidding:

- establishment of facilities generating employment gains in the municipality of their location, in any case, envisaging creation of at least 250 new jobs;
- establishment of facilities resulting in greater amounts of revenues from municipal taxes, in any case, by at least RUB 5m;
- establishment of separate residential houses or apartment buildings granted to the citizens dispossessed of housing accommodation as a result of emergencies under the contract of social rent or transfer of title.

Criteria for the provision state- or municipal-owned land plots under lease, without competitive bidding:

- land plot is provided to legal entities for the purposes of establishing socio-cultural and utility amenities, implementing large-scale investment projects.

## 4. GOVERNMENT PROGRAMS OF INDUSTRY SUPPORT

Sectoral incentives are outlined in the State Program «Development of Industry and Increasing its Competitiveness». The table below contains sectoral incentives concerning the implementation of investment projects in manufacturing sector targeted to support production companies.

**Table 3. Sectoral incentives to support manufacturing sector under the State Program «Development of Industry and Increasing its Competitiveness»**

Subprogram 1	Automotive industry
Key incentive 1.1.	Stimulate development of Russian automotive companies
Incentive 1.1.1.	Subsidize Russian automotive companies and their subsidiaries to compensate a portion of interest payments on loans taken for implementing investment and innovation projects, and (or) coupon payments on bonds issued for the purposes of investment expenditures, as well as to compensate a portion of interest payments on loans taken in 2009-2010 and secured by sovereign guarantees of the Russian Federation within the framework of the Subprogram "Automotive Industry" of the State Program of the Russian Federation "Development of Industry and Increasing its Competitiveness" (Other Budgetary Allocations).
Incentive 1.1.4.	Subsidize the automotive companies for the purposes of transportation of cars manufactured in the Far Eastern Federal District to other Russian regions.
Incentive 1.1.6.	Provide support within the automotive industry through the development in innovations (R&D, landmark innovation projects, grants).
Incentive 1.1.7.	Subsidize Russian legal entities manufacturing motor vehicles, their assembly units and components in Russia.
Incentive 1.1.9.	Subsidize Russian producers of wheeled vehicles in terms of compensation of a portion of labor costs.
Incentive 1.1.10.	Subsidize Russian producers of wheeled vehicles in terms of compensation of a portion of expenditures related to R&D and testing of wheeled vehicles within the framework of the Subprogram "Automotive Industry" of the State Program of the Russian Federation "Development of Industry and Increasing its Competitiveness" (Other Budgetary Allocations).
Incentive 1.1.11.	Subsidize Russian producers of wheeled vehicles in terms of compensation of a portion of expenditures related to the issuance and support of warranty obligations on wheeled vehicles meeting Euro-4 and Euro-5 standards.
Incentive 1.1.12.	Subsidize Russian producers of wheeled vehicles in terms of compensation of a portion of expenditures related to the use of energy sources by automotive companies with power-intensive production processes.
Key incentive 1.5.	Stimulate development of Russian manufacturers of bearings
Incentive 1.5.1.	Provide support to the manufactures of bearings through the development of innovations (R&D, landmark innovation projects, grants).
Subprogram 2	Agricultural engineering, machine-building for food and manufacturing industry
Key incentive 2.1.	Stimulate development of agricultural engineering, machine-building for food and manufacturing industry.
Incentive 2.1.1.	Provide support within the agricultural engineering, machine-building for food and manufacturing industry (R&D, landmark innovation projects, grants).

Subprogram 3	Machine-building for special purposes (road construction machines, municipal engineering, fire-fighting equipment, aerodrome engineering, forestry machinery)
Key incentive 3.1.	Support the development of machine-building for special purposes in 2013-2020.
Incentive 1.1.3.	Provide support to the companies engaged in machine-building for special purposes through the development of innovations (R&D, landmark innovation projects, grants).
Subprogram 4	Light industry and craft sector
Key incentive 4.1.	Stimulate development of light and textile industry
Incentive 4.1.1.	Subsidize the companies within light and textile industry to compensate a portion of interest payments on loans obtained from Russian credit institutions in 2011-2014 and seasonal spending on the purchase of raw and other materials for the production of consumer and non-consumer goods.
Incentive 4.1.2.	Subsidize the companies within light and textile industry to compensate a portion of interest payments on loans obtained from Russian credit institutions in 2006-2012 for retooling purposes.
Incentive 4.1.2.1.	Subsidize the companies within light and textile industry to compensate a portion of interest payments on loans obtained from Russian credit institutions in 2013-2015 for implementing new investment projects targeted at retooling.
Key incentive 4.2.	Implementation of investment projects in light and textile industry targeted at modernization and creation of new production facilities
Incentive 4.2.1.	Subsidize the companies within light and textile industry to compensate a portion of expenditures on implementation of investment projects targeted at modernization and creation of new production facilities in light and textile industry, including linen industry.
Incentive 4.2.2.	Provide support within the light and textile industry through the development in innovations (R&D, landmark innovation projects, grants).
Key incentive 4.4.	Support the production and sales of folk art and craft items
Incentive 4.4.1.	Subsidize the companies within craft sector to support the production and sales of folk art and craft items.
Subprogram 5	Accelerated development of military-industrial complex (public part)
Key incentive 5.1.	State support for organizations within military-industrial complex
Incentive 5.1.2.	Subsidize strategic organizations within military-industrial complex to prevent bankruptcy.
Incentive 5.1.3.	Subsidize strategic organizations within military-industrial complex to compensate a portion of interest payments on loans obtained from Russian credit institutions or the State Corporation "Bank for Development and Foreign Economic Affairs" (Vnesheconombank) in connection with changes in the military and technical cooperation between the Russian Federation and foreign states.
Incentive 5.1.5.	Subsidize strategic organizations within military-industrial complex to compensate a portion of interest payments on loans obtained from Russian credit institutions and the State Corporation "Bank for Development and Foreign Economic Affairs" (Vnesheconombank) for implementing innovation and investment projects involving production of high-technology goods.
Incentive 5.1.6.	Subsidize Russian exporters of military goods to compensate a portion of interest payments on loans obtained from Russian credit institutions and the State Corporation "Bank for Development and Foreign Economic Affairs" (Vnesheconombank).

Subprogram 6	Transportation engineering
Key incentive 6.1.	Stimulate development of transportation engineering sector
Incentive 6.1.1.	Subsidize Russian companies within transportation engineering sector to compensate a portion of interest payments on loans obtained from Russian credit institutions and the State Corporation "Bank for Development and Foreign Economic Affairs" (Vnesheconombank), and international financial institutions established pursuant to the international treaties involving the Russian Federation in 2008-2011, for retooling purposes.
Key incentive 6.2.	Provide support within the transportation engineering sector through the development in innovations
Incentive 6.2.1.	Provide support within the transportation engineering sector through the development in innovations.
Subprogram 7	Tool-and-die industry
Key incentive 7.1.	Develop the tool-and-die industry in Russia
Incentive 7.1.4.	Provide support within the tool-and-die industry through the development in innovations.
Key incentive 7.2.	Establish modern facilities for domestic mass production of tooling units in order to satisfy the domestic demand for tools and machines, which will enable Russia to resolve the issue of import substitution
Incentive 7.2.1.	Subsidize R&D expenditures within the framework of implementation of comprehensive projects on the establishment of modern facilities for mass production of tools and machines
Key incentive 7.3.	Development of innovations within the tool-and-die industry
Incentive 7.3.1.	Subsidize R&D expenditures within the framework of implementation of comprehensive projects.
Incentive 7.3.2.	Subsidize the implementation of comprehensive innovation projects in terms of their production and organization.
Subprogram 8	Heavy engineering
Key incentive 8.3.	Stimulate production growth and development
Incentive 8.3.1.	Subsidize the interest payment on loans obtained for retooling and production development purposes.
Subprogram 9	Power electronics and electrical engineering
Key incentive 9.3.	Stimulate production growth and development
Incentive 9.3.1.	Subsidize the interest payment on loans obtained for retooling and production development purposes.
Subprogram 10	Metallurgy
Key incentive 10.1.	Foster initiatives aimed at improving the quality and competitiveness of metal products
Key incentive 10.2.	Foster initiatives aimed at retooling and modernization of metallurgical companies
Key incentive 10.3.	Foster initiatives aimed at resource conservation and power saving initiatives within the industry
Subprogram 11	Forestry and wood-based industries
Key incentive 10.1.	Stimulate development of forestry and wood-based industries



Incentive 11.1.1.	Subsidize the companies within forestry and wood-based industries to compensate a portion of interest payments on loans obtained from Russian credit institutions in 2011-2014 for building up interseasonal stocks of timber, raw materials and fuel.
Incentive 11.1.2.	Subsidize the companies within forestry and wood-based industries to compensate a portion of interest payments on loans taken from Russian credit institutions for building up interseasonal stocks of timber, raw materials and fuel.
Incentive 11.1.3.	Subsidize the companies within forestry and wood-based industries to compensate a portion of interest payments on loans taken from Russian credit institutions and the State Corporation "Bank for Development and Foreign Economic Affairs" (Vnesheconombank) in 2012-2013 for implementing innovation projects aimed at creating new high-technology manufacturing activities.
<b>Subprogram 13</b>	<b>Chemical sector</b>
Key incentive 13.1.	Support product lines within the priorities set within the chemistry-producing industries
Incentive 13.1.1.	Subsidize Russian companies (organizations) within chemical sector to compensate a portion of interest payments on loans obtained from Russian credit institutions and the State Corporation "Bank for Development and Foreign Economic Affairs" (Vnesheconombank) in 2014-2016 for implementing new investment projects.
<b>Subprogram 14</b>	<b>Stimulate production development of composite materials (composites) and finished goods containing composite materials (composites)</b>
Key incentive 14.2.	Development of technologies to produce next generation of composite materials (composites), finished goods and structures containing composite materials (composites)
Incentive 14.2.1.	Federal budget subsidies to compensate R&D expenditures within the framework of implementation of comprehensive innovation projects aimed at creation of high-technology products containing composite materials (subsidies to support production development of composite materials (composites) and finished goods containing composite materials (composites) within the framework of implementation of comprehensive innovation projects aimed at creation of high-technology products).
Key incentive 14.3.	Development and implementation of a system of measures to ensure outstripping rates of production growth and products consumption within the composites industry
Incentive 14.3.1.	Subsidize Russian companies to compensate a portion of expenditures on implementation of investment projects targeted at modernization and creation of production facilities to manufacture composite materials (composites) and finished goods containing composite materials.
Incentive 14.3.2.	Promote new products in both domestic and foreign markets.
<b>Subprogram 18</b>	<b>Industrial biotechnology</b>
Key incentive 18.1.	Support creation of new production facilities through industrial biotechnology practices within the chemical sector
Incentive 18.1.1.	Grant federal budget subsidies to Russian companies within chemical sector to compensate a portion of expenditures incurred in 2014-2016 for the implementation of comprehensive investment projects intended to create new production facilities through industrial biotechnology practices.

Incentive 18.1.2.	Grant federal budget subsidies to Russian companies within chemical sector to compensate a portion of expenditures incurred in 2017-2020 for the implementation of comprehensive investment projects intended to create new production facilities through industrial biotechnology practices.
Key incentive 18.2.	Support creation of new production facilities through industrial biotechnology practices within forestry and wood-based industries
Incentive 18.1.2.	Grant federal budget subsidies to Russian companies within forestry and wood-based industries to compensate a portion of expenditures incurred for the implementation of comprehensive investment projects intended to create new production facilities through industrial biotechnology practices.
Incentive 18.2.2.	Grant federal budget subsidies to Russian companies within forestry and wood-based industries to compensate a portion of expenditures incurred for the implementation of comprehensive investment projects intended to create new production facilities through industrial biotechnology practices, as part of the Subprogram Stage II implementation.
Key incentive 18.4.	Implement comprehensive investment projects
Key incentive 18.5.	Support suppliers (i.e. producers or manufacturers) of innovative products
Incentive 18.5.1.	Develop export operations
Incentive 18.5.2.	Stimulate demand for bio-based industrial products.
Incentive 18.5.3.	Grant federal budget subsidies to Russian companies to create pilot centers using industrial biotechnology practices.
<b>Subprogram 21</b>	<b>Baby products</b>
Key incentive 21.1.	Stimulate implementation of priority investment projects
Incentive 21.1.1.	Grant federal budget subsidies to compensate a portion of interest payments on loans obtained from Russian credit institutions and the State Corporation “Bank for Development and Foreign Economic Affairs” (Vnesheconombank) in 2013-2016 for implementing priority investment projects involving baby products, as well as to compensate a portion of lease payments under finance lease (lease) agreements within the framework of implementation of priority investment projects targeted at baby products industry.
Key incentive 21.3.	Develop the innovation potential of baby products manufacturers
Incentive 21.3.1.	Grant federal budget subsidies to Russian organizations to compensate a portion of R&D expenditures within the framework of implementation of comprehensive innovation projects targeted at baby products industry

# 5. TERRITORIAL DEVELOPMENT ZONES

This issue is governed by Federal Law No.392-FZ of 3 December 2011 On Territorial Development Zones in the Russian Federation and Amendments to Certain Legislative Acts of the Russian Federation, and RF Decree No.326 of 10 April 2013

On the Approval of the List of Constituent Entities of the Russian Federation to Allow the Creation of Territorial Development Zones.

A territorial development zone (TDZ) is an area in one of Russia's constituent entities to implement measures of state support for TDZ residents aimed at boosting the socio-economic development of this constituent entity through favorable environment created to attract investments in its economy.

To be included in TDZ residents register, a legal entity/individual entrepreneur shall meet the following requirements:

- location of the state registration of a legal entity/individual entrepreneur is a municipality included in the TDZ list;
- investment project proposed by a legal entity/individual entrepreneur fully complies with regulatory requirements.

Provided the requirements set forth in Federal Law No.392-FZ of 3 December 2011 are met, TDZ residents may take advantage of state support measures (however, it should be noted that at this point the regional legislation governing TDZ issues is under development), as follows:

- provision of budgetary allocations of the Investment Fund of the Russian Federation for implementing investment projects in TDZ with the involvement of its residents;
- construction of capital facilities for the needs of energy and transportation infrastructure as assets in state ownership necessary for the implementation by residents of their business and other economic activity;
- provision of lease rights to residents to the state- or municipal-owned land plots, or the land plots constituting the non-delimited state ownership within TDZ;
- granting tax incentives and an investment tax credit to residents in accordance with the legislation on taxes, fees and charges;
- other measures of state support in accordance with federal laws and regulations of the Russian Federation, its constituent entities and municipalities.

The List of Constituent Entities of the Russian Federation to Allow the Creation of Territorial Development Zones is adopted by RF Decree No.326 of 10 April 2013. Constituent entities of the Russian Federation included in the List:

- |  |                               |
|--|-------------------------------|
| 1. Republic of Adygea;                   | 11. Republic of Tyva;         |
| 2. Republic of Altai;                    | 12. Chechen Republic;         |
| 3. Republic of Buryatia;                 | 13. Zabaykalsky Krai;         |
| 4. Republic of Dagestan;                 | 14. Kamchatka Krai;           |
| 5. Republic of Ingushetia;               | 15. Primorsky Krai;           |
| 6. Kabardino-Balkar Republic;            | 16. Amur Oblast;              |
| 7. Republic of Kalmykia;                 | 17. Ivanovo Oblast;           |
| 8. Karachay-Cherkess Republic;           | 18. Kurgan Oblast;            |
| 9. Republic of Karelia;                  | 19. Magadan Oblast;           |
| 10. Republic of Northern Ossetia-Alania; | 20. Jewish Autonomous Oblast. |

## 6. REGIONAL INVESTMENT PROJECTS

In Russia, the mechanism governing regional investment projects was introduced by Federal Law No.267-FZ of 30 September 2013, and since then it has undergone substantial revision, in particular, after adoption of Federal Law No.144-FZ of 23 May 2016.

A regional investment project (RIP) is an investment project targeted at the production of goods, which should meet a number of statutory conditions.

Currently, the legislation provides a number of privileges for projects implemented in Eastern Siberia and the Far East, as well as in other regions. In addition, the projects implemented in Eastern Siberia and the Far East fall under the application-based procedure for obtaining tax benefits (in respect of prior investment), while other territories along with expected investment projects to be implemented in Eastern Siberia and the Far East fall under the permissive procedure (i.e. to obtain tax benefits the investment project shall be included in the RIP register).

The list of regions with the application-based procedure is set forth in Article 25.8 of the RF Tax Code, as follows:

RIP participants implementing projects in the specified regions may use the right to obtain benefits for prior investment, provided that the corresponding application has been filed to tax authorities and all statutory conditions have been met. In particular, it is necessary to fulfill certain conditions such as the amount and time horizon of capital investment:

- |                                 |                                |
|---------------------------------|--------------------------------|
| 1. Republic of Buryatia;        | 9. Khabarovsk Krai;            |
| 2. Republic of Sakha (Yakutia); | 10. Amur Oblast;               |
| 3. Republic of Tyva;            | 11. Irkutsk Oblast;            |
| 4. Republic of Khakassia;       | 12. Magadan Oblast;            |
| 5. Zabaykalsky Krai;            | 13. Sakhalin Oblast;           |
| 6. Kamchatka Krai;              | 14. Jewish Autonomous Oblast;  |
| 7. Krasnoyarsk Krai;            | 15. Chukotka Autonomous Okrug. |
| 8. Primorsky Krai;              |                                |

- RUB 50m, provided that the time horizon for capital investment does not exceed 3 years from the initial investment date within the framework of implementation of the regional investment project, but in any case after 1 January 2013 and not earlier than 3 years preceding the date when the company filed an application to obtain a tax benefit to the tax authority
- RUB 500m, provided that the time horizon for capital investment does not exceed 5 years from the initial investment date within the framework of implementation of the regional investment project, but in any case after 1 January 2013 and not earlier than 5 years, preceding the date when the company filed an application to obtain a tax benefit to the tax authority.

As to expected investment projects, they fall under the permissive procedure stipulating, in particular, such action as the inclusion in the register as a precondition for obtaining tax benefits. To be included in the register, the organization shall file a free-form application with a request for inclusion into the register to the authorized state body of the respective RF constituent entity.

The procedure governing the maintenance of register and the information contained therein was approved by Order of the Federal Tax Service of Russia No.MMV-7-3/328@ of 23 June 2014 On Approving the Procedure Governing the Maintenance of Register of the Participants Involved in Regional Investment Projects and the Information Contained in the Register. Based on the data obtained, the Federal Tax Service compiles a federal resource – Register of Participants Involved in Regional Investment Projects.

At the same time, pursuant to the investment policy statement the amount of capital investment shall equal at least:

- RUB 50m, provided that the time horizon for capital investment does not exceed 3 years

from the date of inclusion of the organization in the register of participants involved in regional investment projects;

- RUB 500m, provided that the time horizon for capital investment does not exceed 5 years from the date of inclusion of the organization in the register of participants involved in regional investment projects.

For investment projects in Eastern Siberia and the Far East, which fall under the permissive procedure (i.e. expected investment projects), the incentives envisage an income tax reduction to 0% – to the federal budget for 10 years from the tax period, which recognizes first proceeds from the sales of goods produced as a result of the RIP implementation, up to 10% – to the regional budget for the first 5 years from the time of profit-generating activity and at least 10% over the next 5 years.

For investment projects in Eastern Siberia and the Far East, which fall under the application-based procedure, the incentives envisage similar benefits income tax benefits, however the first period when such benefits can be applied shall meet the following requirements simultaneously and for the first time:

- tax accounting records recognize first proceeds from the sales of goods produced as a result of the RIP implementation;
- taxpayer as the RIP participant meets the requirement to the minimum amount of capital investment;
- taxpayer as the RIP participant has filed an application to obtain a tax benefit to the tax authority.

For investment projects in other regions, the incentives concerning the reduction in tax rates, as well as duration of such benefits are determined by regional authorities.

Moreover, at the regional or local levels, the investors may obtain concessions on the property tax and other taxes (the details of these benefits are set forth in the legislation of a particular region).

The law contains certain restrictions on the period, during which tax benefits may be applied to regional investment projects (the details and special aspects depend on a specific investment project).

Taking into account that the revised procedure for granting tax incentives to regional investment projects is relatively new and its practical application has not yet been developed, this raises a number of challenges and disputable issues concerning the application of legislation. In particular, it is difficult to comply with the requirements imposed by the federal legislation on the share of income on the investment project (currently this share should constitute at least 90% of the taxpayer's total income); among other concerns there is the lack of advanced and sophisticated legislative framework at the regional level along with other issues.

## **7. ADVANCED SOCIO-ECONOMIC DEVELOPMENT ZONE**

An advanced socio-economic development zone (ASEDZ) is an area in the constituent entity of the Russian Federation, including closed administrative-territorial entity, with a special legal status and economic benefits overseen by the Russian Government aimed at ensuring favorable investment conditions, boosting its socio-economic development and creating comfortable environment to protect livelihoods.

In 2015, the RF Government signed decrees, which approved the first areas of advanced development in the Far East. In 2016, ASEDZs were created in Naberezhnye Chelny (Republic of Tatarstan), Yurginsky Municipal District (Kemerovo Oblast) and Gukovo (Rostov Oblast). It is expected that ASEDZs will be created in other regions (within statutory deadlines).

ASEDZ is created for the period of 70 years by decision of the RF Government Decision, with a possibility of extension (which is determined by the Russian Government as well).

Provided the statutory conditions are met (including those set forth in Federal Law No.473-FZ of 29 December 2014), ASEDZ residents can obtain the following preferences:

- preferential lease rates with regard to the use of immovable property;
- precedence in the issues related to the connection to infrastructure facilities;
- provision of public services in ASEDZ;
- simplified procedure for hiring foreign employees envisaging conditions that are not covered by the RF Labor Code;
- VAT refund on an application basis;
- procedure pursuant to the free customs zone regime (for individual ASEDZs);
- reduced rate of corporate income tax;
- concession on corporate property tax;
- reduced rates of insurance contributions, etc.

The minimum investment amount is set by appropriate RF Government Decree governing the ASEDZ creation. This amount is RUB 500,000 rubles for the majority of ASEDZ in the Far East, and RUB 50m for ASEDZ located in Naberezhnye Chelny.

ASEDZ residents fall under certain restrictions, in particular:

- ASEDZ resident is prohibited to have branches and representative offices outside ASEDZ;
- When ASEDZ is created in a single-industry town [called a 'monotown'], its resident is prohibited to execute contracts concluded with the town-forming organization [i.e. the company crucial to the city's economy] of the monotown or its subsidiaries, and (or) receive proceeds from the sale of goods, provision of services by the town-forming organization of the monotown or its subsidiaries in excess of 50% of total revenue received from the sale of goods (services) produced (rendered) as a result of the investment project implementation (e.g., any contracts concluded with KAMAZ PTC and its subsidiaries for ASEDZ Naberezhnye Chelny);
- When ASEDZ is created in a single-industry town, the acceptable share of foreign employees shall not exceed 25% of the total staff.

## 8. REGIONAL TAX INCENTIVES

In accordance with the RF Tax Code, regional authorities within their competence may establish various benefits with regard to regional and local taxes.

Business support in the form of regional tax benefits may be expressed in the income tax rate reduced to 15.5% (instead of 20%), the property tax rate reduced to 0% (instead of 2.2%) and concessions in respect to transportation tax and land tax.

Tax benefits may be granted on an application basis (i.e. they do not foresee the conclusion of an investment agreement with regional authorities), or through permissive procedure (in this case, it is necessary to conclude an investment agreement with regional authorities and (or) obtain preliminary approval to the project). In addition, the terms and duration of benefits may vary, which is governed by regional legislation.

To obtain tax incentives, the legislation of a particular region, where it is expected to implement the project, should be thoroughly reviewed. Requirements to obtain tax incentives may vary which depends on a particular constituent entity, and may include:

- requirement regarding the sector of the taxpayer's business activity;
- requirement for the minimum investment amount;
- requirement for the absence of outstanding taxes and fees;
- prohibition against any transfer/disposal of fixed assets within the period of tax incentives;
- restrictions on the acquisition of fixed assets, accounted for in the calculation of the

investment amount (in particular, fixed assets shall be new and can not be previously used in the region);

- requirement for the average headcount and the minimum wage;
- requirement for the absence of separate divisions outside the constituent entity of Russia;
- requirement for the share of proceeds gained in the course of the project implementation.

## 9. SPECIAL ECONOMIC ZONES

A special economic zone (SEZ) is an area in Russia with a special legal status and economic benefits designed to lure Russian and foreign investment into priority sectors of the Russian economy.

SEZ have been targeted to develop high-tech sectors, import substitution industries, tourism and recreation activities, as well as to support the development and production of new products, expansion of the transport and logistics system.

There are common tax incentives for all types of SEZs (the details and special aspects of these benefits are set forth in the legislation of the relevant SEZ):

- Reduced income tax rate;
- Concessions in respect to property tax, transportation tax and land tax;
- Reduced transportation tax rate;
- In addition, industrial and production SEZs along with technology and innovation SEZs fall within the customs regime of free customs zone. The customs regime of free customs zone with regard to the residents of port SEZs envisages the requirement for providing a security on customs payments (duties and fees) to the customs authority pursuant to the procedure established by regulatory documents.

Foreign goods imported to SEZ shall be placed and used with exemption from import customs duties and the VAT with no application of non-tariff measures.

Machines, components and equipment required for the production are not subject to customs duties, which has a positive impact on the financial performance of SEZ residents.

More information about SEZ in Chapter 4.

# 10. MAIN TAXATION MECHANISMS OF STATE SUPPORT

The table below contains information on the main taxation mechanisms provided within the framework of state support measures

	Special investment contracts	Special economic zones	Advanced socio-economic development zones	Regional investment projects	Regional tax exemptions
Procedure for obtaining tax benefits	Permissive (conclusion of a SIC on the federal/regional/municipal levels)	Permissive (enter into agreement with the SEZ authorities)	Permissive (enter into agreement with the ASEDZ management company)	Permissive (inclusion into the register of regional investment projects) Application-based (Eastern Siberia and the Far East)	Permissive (in most regions)/ Application-based (e.g., St. Petersburg)
Income tax benefits	Federal budget: 0% for 10 years Regional budget: determined by regional authorities Potential applicability of a multiplier to the depreciation rate	During the period of residence: reduced aggregate rate of income tax: 2%-15.5% (instead of 20%) SEZ in Kaliningrad: 0% for the first 6 years; up to 10% over the next 6 years	up to 5% for the first 5 years from the time of profit-generating activity;	Eastern Siberia and the Far East: 0% – to the federal budget for 10 years; up to 5% – to the regional budget for the first 5 years from the the time of profit-generating activity and at least 10% over the next 5 years. Other regions: the provisions concerning aggregate reduction and time frames are determined by regional authorities	Reduction of rate at the regional level (up to 13.5%). Various periods of application (depend on the payback period/investment amount, etc.)
Property tax benefits	Potential applicability of a reduced rate at the regional level	Exemption for 10 years. SEZ in Kaliningrad: Exemption for the first 6 years followed by a 50% reduction on the rate over the next 6 years	Exemption (is determined by regional authorities)	Exemption or rate reduction (if stipulated by regional legislation)	Exemption or rate reduction. Various periods of application (depend on the payback period/ investment amount, etc.)
Reduced rates of insurance contributions	Not applicable at the moment	YES (if the agreement involves activity related to technology and innovation)	YES	NO	NO
Other incentives	Guarantees to ensure that the aggregate tax burden remains unchanged	The free customs zone regime	The VAT refund on an application basis The free customs zone regime (for certain territories)		



# **CHAPTER 3.**

## **FINANCING INSTRUMENTS TO SUPPORT INVESTMENT PROJECTS**

# 1. INDUSTRIAL DEVELOPMENT FUND

The Industrial Development Fund (IDF) was established by the RF Government in late 2014 on the initiative of the Ministry of Industry and Trade of the Russian Federation with a focus on modernization of the Russian industry, creation of new production facilities and import substitution purposes.

The IDF provides special-purpose loans on a competitive basis at 5% per annum for up to 7 years in the amount of RUB 50m to RUB 500m for the implementation of projects intended to introduce advanced technology, create new products or organize import-substituting production, thus encouraging direct investment in the real sector of the economy. Loans are issued upon a detailed study of the project for compliance with the established criteria. There are sectoral restrictions for the IDF co-financed projects.

In July 2015, the Association of Industrial Parks and the IDS signed the Cooperation Agreement. Among common objectives, there are initiatives to make the IDF's financial products more accessible for management companies and residents of industrial parks.

The IDF issues loans through four financing programs:<sup>7</sup>

1. Development projects
2. Consortiums
3. Tool-and-die industry
4. Leasing

## Development projects

- Loan amount – RUB 50m to RUB 300m;
- Loan term – up to 5 years;
- Total budget of the project – RUB 100m and more;
- Target sales volume for new products – at least 50% of the loan amount per annum after the second year of mass production;
- Co-financing by applicant, private investors or banks – at least 50% of the project budget, including internal (own)/shareholders' funds – at least 15% of the project budget.

## Consortiums

- Loan amount – RUB 100m to RUB 500m;
- Loan term – up to 7 years;
- Total budget of the project – RUB 500m and more. (including implementation at the enterprises);
- Target sales volume for new products – at least 50% of the loan amount per annum after the second year of mass production;
- Co-financing by applicant, private investors or banks – at least 70% of the project budget, including internal (own)/shareholders' funds – at least 15% of the project budget.

## Tool-and-die industry

- Loan amount – RUB 50m to RUB 500m;
- Loan term – up to 7 years;
- Total budget for the project – RUB 71.5m and more;
- Target sales volume for new products – at least 30% of the loan amount per annum after the second year of mass production;
- Co-financing by applicant, private investors or banks – at least 30% of the project budget.

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<sup>7</sup>More details on Fund's web-site - [www.frprf.ru](http://www.frprf.ru).

## Leasing

The IDF provides financing to the leasing projects aimed at retooling and (or) modernization of property, plant and equipment of Russian industrial companies. The IDF's participation in a leasing project ensures financing of a portion of advance payment for the leased equipment classified, in accordance with Order of Minpromtorg No.3568 of 12 November 2015, as an industrial product manufactured in Russia or as an industrial product having no substitutes produced in Russia; other portion of advance payment should be funded at a lessee's expense. The program is implemented with the participation of the authorized leasing companies and banks, the list of which is available on the IDF and the Bank of Russia official websites.

- Loan amount – RUB 5m to RUB 250m;
- Loan term – up to 5 years but no more than the lease contract term;
- Total budget of the project – RUB 20m and more;
- Co-financing by applicant, private investors or banks – at least 75% of the project budget. The IDF provides financing for 10% to 50% of the obligatory payment of initial installment (advance), which forms 10% to 50% of the value of industrial equipment.
- The lessor is an IDF accredited leasing company;
- An accredited leasing company raises funds for the project from an IDF accredited bank.

## The borrowed funds under the Development Projects and Consortiums programs may be used for:

1. Development of new product or technology;
2. Engineering surveys and preparation of design documents;
3. Acquisition of intellectual property rights;
4. Purchase of production equipment;
5. Purchase and further use of special-purpose equipment for experimental development purposes;
6. Feasibility study, due diligence (net of fees paid for market analysis and research);
7. General expenses.

## The borrowed funds cannot be used for:

1. Construction of buildings and structures;
2. Research activity;
3. Acquisition of real estate;
4. Production of military-purpose items.

## Requirement for applicants

1. Legal entity (profit-making organization) or individual entrepreneur, the RF resident;
2. Disclosure of information on shareholders/participants and ultimate beneficiaries;
3. The applicant is not involved in the reorganization, liquidation or bankruptcy proceedings;
4. Absence of overdue debt on taxes and duties payable to the budget;
5. Absence of outstanding claims (court rulings in effect or court proceedings), directly affecting the project implementation, or claims on the amount exceeding 10% of the applicant's assets.

The IDF has promoted the introduction of a single-window system of state support for industrial enterprises. This work resulted in creation of the Consulting Center, which operates on a daily basis and provides information, advisory and reference support on the tender procedure issues to industrial companies. To date, the consultations are held on the following measures of state support:

- subsidy for the implementation of new comprehensive investment projects under RF Decree No.3 of 3 January 2014;
- subsidy for replenishment of the working capital and current activity under RF Decree No.214 of 12 March 2015;

- subsidy to support companies in light industry under RF Decree No.894 of 27 August 2015;
- special investment contract under RF Decree No.708 of 16 July 2015;
- support for timber industry under RF Decree No.419 of 30 June 2007;
- sovereign guarantees for investment projects under RF Decrees No.1016 and No.1017 of 14 December 2010;
- subsidy for a portion of R&D expenditures under RF Decrees No.1312 of 30 December 2013;
- sovereign guarantees for the projects aimed at promotion of sustainable economic development under RF Decree No.825 of 04 August 2012;
- support for Russian agricultural engineering enterprises under RF Decree No.1432 of 27 December 2012.

In the course of preparing documents to participate in the tender on the selected program, the interested companies as initiators of investment projects receive advice and necessary information by phone, e-mail or in person. Consulting Call Center: +7 (495) 120 24 16 and +7 (800) 500 71 29.

## 2. MONOTOWNS DEVELOPMENT FUND

In October 2014, a non-profit organization Monotowns Development Fund (MDF) was established to ensure the development of Russian single-industry towns. The founder of the Fund is Vnesheconombank.

The main goal of MDF is to create environment to promote job creation and investment in monotowns imposed by heavy social and economic burden.

Detailed information on the MDF activity is provided in the following documents:

1. Regulations on assistance in the preparation and (or) involvement in the implementation of new investment projects in single-industry municipalities of the Russian Federation (monotowns);
2. Regulations on co-financing by the non-profit organization Monotowns Development Fund of the expenditures of constituent entities of the Russian Federation and municipalities, associated with infrastructure construction and (or) reconstruction activities, within the framework of new investment projects implemented in single-industry towns.

MDF co-finances the expenditures of constituent entities of the Russian Federation and municipalities associated with infrastructure construction and (or) reconstruction activities required for the launch of new investment projects in single-industry towns.

### **The main areas of MDF's activity are:**

1. Co-financing of infrastructure construction and (or) reconstruction expenses within the framework of new investment projects:
  - MDF – up to 95% of the total cost;
  - Constituent entity of the Russian Federation – up to 5% of the total cost.
2. Assistance with the preparation of new investment projects.
3. Participation in the implementation of new investment projects.
  - Form: participation in charter capital/loan;
  - MDF's funds (threshold amounts): RUB 100m – RUB 1bn;
  - Annual interest rate: 5%;
  - Period (maximum): 8 years.
4. Building and training a team to manage projects aimed at monotowns development.

### Functions of the project office:

- methodical support of applications on the investment and infrastructure projects financing prepared by the constituent entities of the Russian Federation;
- creation of integrated products of investment projects support in cooperation with development institutions;
- creation of registers of potential investors, industrial sites, databases of model patterns of investment projects;
- communications support for initiators of investment projects;
- support and monitoring of the infrastructure projects implementation in the monotown.

### Basic principles of MDF's project financing activity:

1. Increase the competitiveness of the economy of monotowns. Diversify the economy and encourage investment in monotowns;
2. Application of all instruments and forms of development. Cooperation and informational exchange with development institutions;
3. Commitment to the most effective use of MDF's funds. Achieve target indicators in MDF's performance.

### Forms of financing for new investment projects:

1. **Participation in charter capital. Purchase of shares (equity interest in the charter capital) in existing legal entities; participation in the establishment of new companies.**

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• Share issue does not entail fixed expenses on servicing.</li><li>• Availability of financing options in the case of a limited access to debt capital sources.</li></ul>	<ul style="list-style-type: none"><li>• Administrative barriers related to the share issue (sale of equity interest).</li><li>• Loss of control over the company's activity.</li></ul>

### 2. Debt financing. Provision of loans:

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• Fixed value and dates</li><li>• Entails no intervention in management and administration</li></ul>	<ul style="list-style-type: none"><li>• Fixed costs on payments</li><li>• Restrictions affecting the company's business policy (i.e. covenants)</li><li>• Requirements for a security/security provider</li></ul>

### Key conditions to participate in an investment project

RUB 100m - RUB 1bn of the overall project budget	Threshold amount of MDF's participation is between RUB 100m and RUB 1bn of the overall project cost
15% of internal and (or) borrowed funds	The investor's internal funds should constitute at least 15% of the total cost of the investment project

Up to 40% of the overall project budget	MDF's participation does not exceed 40% of the total cost of the investment project
Up to 49% of the initiator's charter capital	MDF's participation in the company, implementing the investment projects, does not exceed 49%
Repayment period to MDF – up to 8 years	The maximum duration of the project's investment phase does not exceed 3 years; the repayment period for MDF's borrowings does not exceed 8 years from the date of agreement on implementation of joint project investment project

### 3. FEDERAL CENTER FOR PROJECT FINANCE

OAO Federal Center for Project Finance (FCPF) is a subsidiary of the State Corporation “Bank for Development and Foreign Economic Affairs” (Vnesheconombank).

FCPF activity is focused on the preparation of regional and urban development projects. The company provides financial, advisory and technical assistance to initiators in preparing investment projects through non-budgetary financing options. Assistance is provided at the pre-investment stage of the development project preparation (from the concept to commercial and financial close) in the form of financial and non-financial measures.

Financial assistance includes various mechanisms of FCPF's participation in financing of the project preparation.

Non-financial assistance involves: professional development and retraining of participants in the development projects market; involvement in educational activity; developing proposals for improving the federal and regional legislation; research activity.

One of the key sectoral areas of FCPF's investment activity is focused on the comprehensive territorial development (regional and interregional projects), which includes the construction of transportation, engineering and social infrastructure such as sites for the comprehensive development of residential housing (i.e. affordable housing) and industrial construction ('new industrialization'), as well as comprehensive development of areas within special economic zones and their residents, business incubators, industrial and technology parks.

In addition, FCPF provides assistance in preparing investment projects of the industrial parks residents.

The scope of services and financial assistance for the residents of industrial parks provides for:

1. investment advisory services;
2. provision of special-purpose loans;
3. contributions to capital of the project companies, founded by the initiators for the purposes of project preparation.

**Investment advisory services** in the framework of investment projects of the industrial parks residents include:

1. review of title documents to the land plots and real estate objects to be used in the course of the project;
2. assessment of financial efficiency of the Project and development of a financial model;
3. marketing research;
4. development of a business plan of the project;
5. finance close, including the organization of project financing. Investment advisory services may be provided on a commercial loan with a possibility to accept a portion of risks on the successful completion of the commercial and (or) financial close.

Key terms of FCPF's participation in the preparation of projects through the contribution to the project company's capital and provision of a special-purpose loan:

Duration of participation in the project:	Up to 2 years (can be changed by decision of the Supervisory Board)
Amount of participation in the project:	Up to RUB 200m (can be changed by decision of the Supervisory Board)
Mechanisms to ensure FCPF's withdrawal from the project. Repayment mechanism	Contribution to the capital – conclusion of an option agreement with the project initiator; Special-purpose loan – a security granted in the form acceptable for FCPF (pledge, guarantees, surety)

The FCPF's funds as a contribution to the capital of a special purpose entity, provided in the form of a loan, should be strictly used for special purposes only, and may be directed to:

- drafting of contractual documents;
- drafting of urban planning documents;
- drafting of design specifications and estimate documents;
- implementation of measures aimed at formation of land plots and asset portfolio for subsequent implementation of the project;
- other activities to complete the pre-design phase.

FCPF may participate in investment projects of the industrial parks residents through other means of financial assistance (contribution to capital, special-purpose loan). At the same time, FCPF's experience has proven the effective use of integrated approach to the preparation of projects, which includes the conclusion of a hybrid agreements envisaging several stages of interaction:

Stage No.	Name of stage	Deliverables
I	Marketing research	<ul style="list-style-type: none"> <li>• Confirmation of sales markets for the products</li> <li>• Identification of potential customers of the products</li> </ul>
II	Development of a financial model and business plan of the	<ul style="list-style-type: none"> <li>• Financial model of the project</li> <li>• Business plan of the project</li> </ul>
III	Provision of a special-purpose loan to develop design documents and work papers	<ul style="list-style-type: none"> <li>• Design documents and work papers for the project</li> <li>• Construction permit for the project (project phase)</li> </ul>
IV	Commercial and financial close of the project	<ul style="list-style-type: none"> <li>• List of potential investors (longlist, shortlist)</li> <li>• Indicative terms of project financing from potential investors and financial institutions</li> <li>• Support in negotiations and the procedure for signing agreements with an equity partner</li> <li>• Documents for the bank</li> <li>• Financial close of the project (signing documents to raise funds for financing the project's investment stage)</li> <li>• Compile documents to raise government-backed funds (if applicable).</li> </ul>

A hybrid agreement envisages gradual preparation of the project, which means that each subsequent stage is launched upon positive results delivered at the preceding stage:

- Stage II – Development of a Financial Model and Business Plan of the Project: it is launched only upon the confirmation of the potential volumes of demand for products and the identification of potential customers;
- Stage III – Provision of a Special-Purpose Loan to Develop Design Documents and Work Papers: it is launched only upon the confirmation of the investment attractiveness of the project after completing Stage II;
- Stage IV– Commercial and Financial Close: it is launched upon the verification of a financial model and business plan after completing the estimates at Stage III. Stage IV may be completed only after obtaining a construction permit on the basis of design documents and work papers (Stage III).

## **4. JOINT-STOCK COMPANY «RUSSIAN BANK FOR SMALL AND MEDIUM ENTERPRISES SUPPORT» (SME BANK)**

SME Bank (the “Bank” or “JSC SME Bank”) is one of the key components in development of small and medium-sized enterprises (SMEs) in Russia. The Bank is an agent for public resources, which target SMEs from all regions of the country, including areas with social and economic constraints and the single-industry towns.

The Bank is aimed at supporting the priority areas of the SME sector growth points, wherefore it provides a significant multiplier effect on the entire business sector in Russia, as well as contributes to the development of new finance markets for SMEs.

The Bank’s mission is to develop small and medium-sized enterprises in Russia through The provision of financing options to SMEs pursuant to the state priorities objectives of Vnesheconombank.

Lending products

- SME – Priority;
- SME – Investment (with refinancing option);
- SME – Region;
- SME – Duo;
- Leasing – Targeted;
- Leasing – Regional Potential of SME;
- Leasing – Start SME;
- Investment loan to SME (with determined maximum principal amount)

Residents of industrial parks may obtain support under the SME Financial Support Program, implemented by JSC SME Bank, choosing the product line in accordance with their objectives. At the same time, some products are focused on the residents of industrial parks:

- lending product SME – Duo (sold through banks) assumes a lower refinancing rate for investment loans issued to the industrial parks residents;
- lending product SME – Priority (sold through banks and leasing companies) puts the industrial parks residents in a priority segment of the bank’s support, therefore financing may be provided for a wide range of purposes.



Table 4. Brief data on products offered by SME Bank

Product	Objective	Maximum amount provided to the SME	Period	Rate	Security
SME – Priority	Providing financing to SMEs in priority target segments: residents of industrial (technology) parks, contractors of large enterprises, exporters – for a wide range of purposes	Up to RUB 150m*	1-5 yrs	SME rate: + 5% (MAX – 15.5%)	Pledge of rights (claims) to SME's loans issued with the Bank Agreement on assignment of rights to loans ****
SME – Investment (with refinancing option)	Long-term credit support to SMEs, which implement investment projects, for boosting investment in SME's capital assets	Up to RUB 150m*, ***	3-7 yrs	SME rate: + 5% (MAX – 15.25%)	Pledge of rights (claims) to SME's loans granted with the Bank Agreement on assignment of rights to loans ****
	Refinancing replaces old funding formed from other sources (except for those obtained from JSC SME Bank), which were previously directed by the Partner bank for financing the SME's investment project.	Up to RUB 150m*, ***	At least 3.5 yrs**	SME rate: + 5% (MAX – 15.25%)	Pledge of rights (claims) to SMEs, the loans of which have been refinanced with JSC SME Bank Agreement on assignment of rights to loans ****
<p>* Maximum amount that may be provided to SME under one contract, while the maximum amount of all loans (for different loan products) issued with JSC SME Bank to the SME may not exceed RUB 150m</p> <p>** The loan term is 3 years, while the contract term concluded between the SME and the Partner bank before the date of refinancing should be at least 6 months.</p> <p>*** The loan agreement is concluded for every SME project in the case of simultaneous use of guarantees issued by JSC SME Bank.</p> <p>**** Conclusion of this agreement is subject to the internal rating of the partner bank</p>					
SME – Region	Targeted credit support to SMEs, operating in the regions focused on state development, and SMEs registered in monotonous of categories 1 and 2 pursuant to RF Government Decree No.668-r – for a wide range of purposes	Up to RUB 60m *	1-7 yrs (for partners – 2-7 yrs)	SME rate: + 5% (MAX – 13.5%)	Pledge of rights (claims) to SMEs loans issued with JSC SME Bank Agreement on assignment of rights to loans **

SME – Duo	Providing financing to SMEs in the unfavorable external economic and political environment, posing an adverse effect on the investment attraction and working capital replenishment, aimed at improving lending conditions and (or) completing projects initiated by SMEs before 1 October 2014	Up to RUB 150m*	1-7 yrs (for partners – 2-7 yrs)	SME rate: + 4.9% (MAX – 14.4% (for park residents - 9.9%))	Pledge of rights (claims) to SMEs loans granted by JSC SME Bank Agreement on assignment of rights to loans **
* Maximum amount that may be provided to SME under one contract, while the maximum amount of all loans (for different loan products) issued with JSC SME Bank to the SME may not exceed RUB 150m ** Conclusion of this agreement is subject to the internal rating of the partner bank					
Leasing – Targeted	Property support to develop SMEs business in terms of acquisition of new and (or) preserved (out of long-term storage) new, and (or) refurbished equipment, and (or) special-purpose machinery through leasing schemes	RUB 150,000 - RUB 60m (150m)	Up to 5 years	SME rate: +5%/1.5% (MAX – 16.7%/13.2%)	Pledge of leased items (with compulsory insurance for the duration of pledge collateral) Pledge of receivables under lease agreements Pledge of receivables under supply contracts Collateral (by decision of the Bank's authorized body). Participation the leased asset acquisition – at least 20% of its cost
Leasing – Regional Potential of SME	Assistance in business development to provide support to SMEs registered and operating in the regions, focused on state development, and operating in the single-industry Russian municipalities through property support measures involving leasing schemes	RUB 150,000 – RUB 30m *	Up to 5 years	SME rate: + 5%/1.5% (MAX – 15%/11.5%)	Pledge of leased items (with compulsory insurance); Pledge of receivables under lease agreements Pledge of receivables under supply contracts Collateral (by decision of the Bank's authorized body). Participation the leased asset acquisition – at least 30% of its cost

Product	Objective	Maximum amount provided to the SME	Period	Rate	Security
Leasing – Start SME	Property support for start-ups to implement their business processes in the priority sectors of the economy through special purpose subsidies granted using budgetary funds of the constituent entities of the Russian Federation	RUB 150,000 - RUB 60m *	Up to 5 years	SME rate < 16%	Pledge of acquired leased assets (subject to mandatory insurance) Pledge of receivables under lease agreement Collateral (by decision of the Bank's authorized body) Participation the leased asset acquisition – at least 30% of its cost

\* Maximum amount that may be provided to SME under one or more contracts, while the maximum amount of loans issued to the leasing company depends on the estimated limit determined by JSC SME Bank.

Investment loan to SME (with determined maximum principal amount)	Issue loans to SMEs for investment purposes	RUB 1m – RUB 15m	3–5 yrs	Not more than interest value increased by 11.5%	Sovereign guarantee provided by the RF constituent entity Guarantee provided by the regional fund Bank guarantee Guarantees provided by the legal entity/individual (shareholder, participant); Pledging of securities, real estate Pledge of rights (claims) to loans
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## 5. SBERBANK OF RUSSIA

Sberbank of Russia (Sberbank) offers a range of lending products for investment companies. Provided below is the information regarding two credit lines – ‘Investment Lending and Project Finance’ and ‘Project Finance in the Agricultural Sector.’

### 1. Investment lending and project finance

#### Product description

Purpose of lending – investment expenditures:

- performance of construction and installation works;
- purchase of equipment and machinery;
- financing of expenses on the acquisition of real estate;
- financing of transactions involving the purchase and sale of companies (including through repurchase of shares/equity interests);
- financing of activities involving the development of mineral deposits;
- reimbursement of investment expenditures earlier incurred.

#### Target customer profile

A legal entity engaged in investment activity, the RF resident.

#### Brief data on the deal structure

The share of the borrower’s internal funds in the project financing structure:

- At least 30% of the total project cost – in project finance;
- At least 20% of the total project cost – in investment lending;
- At least 10% of the total project cost – in investment lending provided that the borrower meets specific criteria.

#### Loan term:

- Up to 10 years;
- Up to 15 years, provided that the borrower meets specific criteria.

#### Security and guarantees

- The borrowers meeting certain requirements may obtain a partially secured loan.

#### Advantages

- Long-term lending;
- Possible pledge of the acquired assets;
- Possible issuance of a partially secured loan.

### 2. Project Finance in the Agricultural Sector

#### Product description

Purpose of lending – financing of costs associated with the investment project:

- Acquisition of movable and immovable assets, including agricultural machinery, equipment and livestock;
- Financing of construction and assembly work, expenses to make up the working capital for the project;
- Acquisition of lease rights to the land plots and the land use rights.

#### **Target customer profile**

- A legal entity among agricultural enterprises that applies standard (non-simplified) system of accounting and reporting;
- Engaged in investment activity;
- Government-supported.

#### **BRIEF DATA ON THE DEAL STRUCTURE**

##### **Loan term:**

- up to 10 years, may be extended for the period enabling to preserve the state support;
- up to 15 years, where state support is available for such loans. Grace period to pay for the principal balance;
- up to 3 years.

##### **Repayment schedule:**

- On a quarterly basis; for crop farming projects – every 6 months. Structure of financing:
- Internal funds of the borrower – 20% of the project's investment budget, including before the date of loan issuance – at least 5%;
- Loan – 80% of the project's investment budget; Security;
- A fully secured loan Special transaction features;
- Debt coverage ratio – 1.2;
- Subsidized borrowings to be accounted for as part of internal (own) resources;
- Guarantees provided by ultimate beneficiaries.

##### **Benefits for the client:**

- Possible loan of up to 80% of the project's investment budget;
- Possible completion of the project's investment phase before the repayment of principal balance;
- Possible inclusion of initial working capital into the project's investment budget.

## **6. FUND «MODERNIZATION INNOVATION DEVELOPMENT»**

Corporation Modernization Innovation Development (Corporation "MID" or the Management Company) was established to finance small and medium-sized enterprises – Russian innovation and high-tech enterprises in the real sector, operating various fields of engineering (tool-making), environment, biotechnology, production of composite materials and areas for energy efficiency improvements.

The Fund is aimed to support Russian innovation (renovation) enterprises (SMEs) through direct investment in their charter capitals for subsequent project capitalization and production launch.

The Fund's primarily focuses on the projects supported by the Agency for Strategic Initiatives, development institutions and regional authorities.

The Fund offers multi-channel financing options:

- equity participation – acquisition of shares (equity interest) in SMEs;
- debt financing – lending options (issuance of investment loans) to SMEs.

To finance the project, the Fund engages partners: regional infrastructure of SME support, partner banks, funds and others.

Expected horizon of the Fund's investments is 3-5 years.

The Fund's investments are intended to increase the charter capital of a project company (to make up a charter capital at market value amounting to equity interest in the project, as specified by Russian Accounting Standards).

The main scenario of the Fund's withdrawal from the project company is the repurchase of the Fund's equity interest by management/other participants in the project company (the participants will sign option agreements).

### Project requirements

The Management Company selects innovation projects and production modernization projects of SMEs, which operate in the Russian Federation.

### Average budget of the project

- Equity participation of the Fund – up to RUB 150m for 3-5 years;
- Debt financing through a partner bank – up to RUB 150m for 3-5 years.

When considering applications from companies (project managers), the Fund is guided by the key selection criteria, as follows:

- The Fund provides financing to Russian companies recognized as SMEs pursuant to the procedure set forth in Federal Law No.209-FZ of 24 July 2007 On the Development of Small and Medium Enterprises in the Russian Federation;
- The project innovation shall be attested by a patent for invention (utility model) and (or) an opinion issued by sectoral institution;
- The project company shall be validly and legally existing, and have the project background in place (operate at a profit, gained from ongoing activities associated with the project implementation);
- The project should be at a stage of commercial growth and business expansion (phases related to the creation of product prototype and drafting of working documentation thereon shall be completed; all tests shall be performed and small-scale production launched);
- The project company shall make up a “real” (market) capital, recorded in the balance sheet. The assets of the project company are formed by means of property and cash contributions to the charter capital (aimed at its increase) made by the participants in the project company, and the cash contribution of the Fund. The property contribution shall be understood as fixed assets, real estate, intellectual property and other items in accordance with the RF Civil Code. The amount of the property contribution shall be attested by the market value opinion issued by an independent appraiser;
- The equity interest in the project company acquired by the Fund shall constitute 25%-50%, and the Fund's investment in a project shall be made through the cash-in system, i.e. all such investment shall be used for the project implementation (allocated to the capital of the project company);
- The Fund finances projects supported by the Agency for Strategic Initiatives (the projects which were approved by the Expert Council the Agency for Strategic Initiatives) and regional authorities, and those which raise debt financing from the partner banks of JSC SME Bank;
- Key project documents:
  - investment request (application);
  - business plan of the investment project;
  - financial model of the project;
  - marketing research;
  - financial statements.
- The Fund primarily focuses (provides financing) to research-intensive projects in the following industrial sectors:
  - chemical materials (composite materials, dyes, fertilizers, etc.);
  - industrial machinery and equipment (engineering, tool-making);
  - biotechnology and medicine (medical equipment and technology);
  - environment and energy efficiency (waste management, efficient use of resources, energy-efficient technologies).

# **CHAPTER 4.**

## **FORMS OF LOCALIZATION OF PRODUCTION FACILITIES**

# 1. INDUSTRIAL PARKS

An industrial park is a complex of real estate items managed by a specialized management company that consists of a land plot (plots) and manufacturing, administrative, storage and other buildings, constructions and structures with the utilities and mobility infrastructure required to create a new industrial production site and has the necessary legal regime to conduct manufacturing activities. There are 146 industrial parks on the territory of the Russian Federation. Among them, there are 92 operating industrial parks that are completely ready to support residents and 54 industrial parks being at the stage of design and construction. The details of all industrial parks, their status and key features are annually posted on the website of the Industrial Parks of Russia annual overview at [www.indparks.ru](http://www.indparks.ru) and are available in the online version of the Industrial Parks of Russia geographic information system.

## **Basic requirements to industrial parks:**

- land plots and buildings of an industrial park are suitable for hosting industrial production facilities;
- a management company legally capable of transferring the ownership title or lease rights to infrastructure items to residents, with at least 80% of such company's revenue generated by managing an industrial park and rendering services to its residents;
- the park's territory exceeds 6 ha, of which at least 50% are intended to locate production facilities; and
- the utilities infrastructure includes 0.15 MW per hectare, but not less than 2 MW.

## **Services rendered by an operating industrial park to investors:**

- provision of lease rights and/or ownership title to production facilities (a land plot or a finished building);
- connection to the utilities, including power supply, gas or heat supply, water supply sources, water disposal facilities and waste treatment units;
- design and construction of production facilities in accordance with investor's requirements;
- operation and maintenance of the utilities, communal and manufacturing infrastructure;
- additional services that may include patrolling and cleaning, as well as administrative, transportation, legal, advisory, HR and other services.

## **Advantages for investors:**

- a finished engineering infrastructure and points of connection;
- administrative support on the part of the management company and regional authorities;
- tax incentives (where provided for by regional/local laws); and
- a potential synergy with adjacent enterprises (production chains).

## **Selected laws and regulations:**

- Federal Law dated 31 December 2014 No. 488-FZ "On the industrial policy of the Russian Federation"
- Resolution of the Government of the Russian Federation dated 4 August 2015 No. 794 "On industrial parks and management companies of industrial parks"
- GOST R 56301-2014. National standard of the Russian Federation. Industrial parks. Requirements (approved and introduced by Order of Rosstandart dated 12 December 2014 No. 1982-st)



## 2. SPECIAL ECONOMIC ZONES

A special economic zone (SEZ) is an area in Russia with a special legal status and economic benefits designed to lure Russian and foreign investment into priority sectors of the Russian economy.

SEZ have been targeted to develop high-tech sectors, import substitution industries, tourism and recreation activities, as well as to support the development and production of new products, expansion of the transport and logistics system.

To create a SEZ, the supreme executive state authority of the RF constituent entity shall submit an application for SEZ establishment with a justification for the appropriateness and effectiveness of such establishment in terms of addressing federal, regional and local tasks to the executive authority of the RF Government (Article 6, Paragraph 2 of the Federal Law on SEZ).

### Conditions for SEZ creation

Pursuant to Article 4, Part 3 of Federal Law, a SEZ may be located in one or several municipalities within one or several constituent entities of the Russian Federation.

SEZ cannot be created in municipality with the established territorial development zone.

SEZ can be created on state- or municipal-owned land plots, including those granted for possession and (or) use to individuals or legal entities, as well as on the land plots title to which is held by individuals or legal entities. In addition, SEZ area may include land plots with state- or municipal-owned buildings and structures, including those granted for possession and (or) use to individuals or legal entities, as well as the land plots with buildings and structures owned by individuals or legal entities.

Article 4 of Federal Law on SEZ stipulates the following types of SEZs:

1. Industrial and production special economic zones;
2. Technology and innovation special economic zones;
3. Port special economic zones.

To date, SEZs are rapidly developing in Russia with more than 10 technical and innovation SEZs and port SEZs already in operation.

To become a SEZ resident, a candidate party should enter into agreement with SEZ authorities, as well as to obtain approval of the business plan from the Expert Council under the RF Ministry of Economic Development.

### Benefits, preferences and services

There are common tax incentives for all types of SEZs (the details and special aspects of these benefits are set forth in the legislation of the relevant SEZ):

- Reduced income tax rate;
- Concessions in respect to property tax, transportation tax and land tax;
- Reduced transportation tax rate.

In addition, industrial and production SEZs along with technology and innovation SEZs fall within the customs regime of free customs zone. The customs regime of free customs zone with regard to the residents of port SEZs envisages the requirement for providing a security on customs payments (duties and fees) to the customs authority pursuant to the procedure established by regulatory documents.

Foreign goods imported to SEZ shall be placed and used with exemption from import customs duties and the VAT with no application of non-tariff measures.

Machines, components and equipment required for the production are not subject to customs duties, which has a positive impact on the financial performance of SEZ residents.

When exporting goods/finished products from the organization which falls under the free customs zone to Russia, the customs authorities charge customs duties and the VAT. The customs duty is imposed on the component contained in the finished products, or on the finished goods. When exporting goods/finished products from the organization which falls under the free customs zone outside Russia, export customs duties are payable in accordance with the export customs regime (if this product category is subject to such duties). Foreign goods exported in the same unchanged condition are re-exported outside Russia with exemption of customs duties.

**Table 5. SEZs (in operation and under formation) to establish industrial enterprises**

Industrial and production SEZs (in operation)	Alabuga, Lipetsk, Togliatti, Titanium Valley, Moglino, Kaluga
Industrial and production SEZs (under formation)	Lotos, Vladivostok, Stupino
Technology and innovation SEZs (in operation)	Tomsk, Zelenograd, Dubna, St. Petersburg
Technology and innovation SEZs (under formation)	Innopolis
Port and logistics SEZs (in operation)	Ulyanovsk, Soviet Harbor, Murmansk

**According to the SEZ type, investors are provided with additional privileges:**

Investors of industrial and production SEZs may apply accelerated depreciation to the fixed assets using a multiplier applicable to the depreciation rate, with a ratio of up to 2;

Residents of technology and innovation SEZs have the right to apply reduced insurance rates (for insurance contributions to the Pension Fund, Social Insurance Fund and Federal Statutory Health Insurance Fund) for the transition period 2011-2019.

SEZ residents (owners of real estate assets they have created) have the right to repurchase the land plots on which such assets are located, and may apply preferential tariffs for the sale of real estate.

The lease payment for the land is calculated pursuant to Order of the Ministry of Economic Development and Trade of the Russian Federation No.190 of 14 July 2006.

On Approval of Methods for Calculating the Lease Payment under Lease Agreements Involving State and (or) Municipal Real Estate (Buildings (or Their Parts), Structures) Located on the Land within Technology and Innovation, Port, Tourism and Recreation Special Economic Zones, and Methods for Calculating the Lease Payment under Lease Agreements Involving Land Plots within Special Economic Zones.

**SEZs apply a single-window system. Key objectives of a single-window system:**

- to simplify procedures for obtaining services and shorten the deadlines for their provision;
- to provide more convenient environment for obtaining various services;
- to reduce the amount of documents to submitted by applicants;
- to avoid any personal contacts between the applicants and officials, who resolve on the provision of services;
- to unify and automate administrative procedures implemented for the provision of services in SEZ;
- to improve the level of service recipients' satisfaction with quality of service provision.