Khabarovsk Krai
Guide to Investment

Governor’s Greeting
1
Khabarovsk Krai at a Glance
2
Economic Potential of Khabarovsk Krai
3
Investment Climate and Opportunities
7
Doing Business in Khabarovsk Krai
12
Governor’s Greeting

Khabarovsk Krai is the geographic, administrative, research and industrial center of the Russian Far East. As such, it offers excellent, competitive opportunities for potential investors. It also hosts a wide range of amenities making it an attractive investment destination. The region is industrially developed, offers some of the shortest transport routes connecting West and East, is rich in mineral resources, and has first-rate energy and transport infrastructure.

Khabarovsk Krai is a large industrial region with highly developed industries, including heavy machinery manufacturing, oil processing, timber processing, power generation, mining and fisheries. The introduction of new technologies and modern equipment is the way to build up its industrial capacity, utilizing its many existing strengths.

We understand that it is not easy to attract investors. Therefore, we are eager to demonstrate the region’s amenable, established and transparent environments for doing business. Our projects offer new opportunities for trade and investment cooperation. We are ready to streamline favorable conditions for implementing joint projects with overseas partners and to continue to improve the investment climate.

We invite you to this beautiful region of Russia to get new experiences and earn a profit in Khabarovsk Krai.

Your success is our priority!

Vyacheslav Shport
Governor of Khabarovsk Krai
Khabarovsk Krai at a Glance

Khabarovsk Krai
Located in the Russian Far East, this region is one of the largest of the Russian Federation.

Area
Khabarovsk Krai occupies 787 square km, constituting 4.5% of Russia’s territory. It’s area stretches 1780 km from south to north and between 125 to 750 km from west to east. It is within the 9th time zone, placing it 7 hours ahead of Moscow. The distance from Khabarovsk to Moscow by rail is 8533 km and by air, 6075 km. It shares a 250 km border with the People’s Republic of China and neighbors numerous Russian districts: Primorsky Krai, Amurskaya and Magadan Oblasts, the Jewish Autonomous Region, and the Republic of Sakha (Yakutiya). From the East, Krai is washed by the Sea of Okhotsk and the Sea of Japan and is separated from Sakhalin Island by the Nevelskoy Strait and the Strait of Tartary. Its coastline stretches for 2.5 thousand km and abounds with many bays. In addition to its mainland territory, it comprises several islands, most of which are located in the Shantar Islands chain.

Climate
The climate of the region is monsoonal, characterized by cold winters and humid, hot summers. The average temperature in July is +24°C and in January, −20°C.

Population
As of January 1, 2012, the population of the region was 1,342.5 thousand. Of this, the urban population comprises 82%, most of which reside in two major cities: Khabarovsk and Komsomol’sk-on-Amur. The population density is 1.7 people per square meter and the majority of residents are of Russian ethnicity.

Regional center
Khabarovsk Krai comprises 17 municipal areas and 2 cities (Khabarovsk and Komsomol’sk-on-Amur). The capital of the Far Eastern Federal District and the regional government of Khabarovsk Krai is located in Khabarovsk City, a metropolitan area of 584.7 thousands of people.
Economic Potential of Khabarovskyk Krai

Khabarovsky Krai possesses vast and diverse natural resources—land, water, forests terrestrial and aquatic biological resources, and great mineral wealth. In fact, the Krai’s resource wealth plays an important role beyond the Far East. Across Russia, the state is famous for its forests, fish species, furs, non-ferrous and precious metal ores, abundant clean water resources, and deposits of coal and lignite. According to preliminary assessments, oil and gas reserves alone are estimated to be 500 million tons.

### Natural Resources

#### Minerals

With regards to Khabarovsky Krai’s mineral wealth, deposits can be leased by conducting tenders and international bids. The prospects are extensive. Currently, the state is a major supplier of raw tin. Ore deposits are diverse, containing commercial concentrations of tin, copper, silver, tungsten, bismuth and indium. In addition to discoveries of beryllium, zirconium and phosphorites, explorations have also identified prospective titanium ore complexes. Alunite ore, the raw material for the aluminum industry, has been found in the Lower Priamurye region.

As for precious metals, gold ore is also mined within Khabarovsky Krai, with forecast resources of hard-rock gold exceeding the sum of already explored reserved by five to six times. Complex gold-silver, polymetallic and other ores contain silver as well.

In addition to the above minerals, Khabarovsky Krai possesses significant deposits of zeolites, kaolinitic raw materials, cement raw materials, basalts, minerals used in the construction industry, semi-precious stones, agates, jasper, white agates and a number of ornamental and facade stones. Marshes and lakes contain major deposits of peat and sapropel and fields of thermal and potable mineral waters have been explored and are operational as well.

The priority areas for development of Khabarovsky Krai’s mineral resource base are the exploration of hard-rock deposits of noble metals, tin, copper, coal, rare and rare-earth metals, and oil and gas resources found on the mainland within the continental shelf.
Biological Resources

Almost the entire territory of Khabarovsk Krai is composed of land providing biological products. Of this area, agricultural land use predominates, employing 665.5 thousand hectares. Timber resources in Khabarovsk Krai constitute a quarter of Russia’s Far Eastern stock and more than 6% of timber resources in all of Russia. The entire forest reserves, regionally occupying 51 million hectares, are under state proprietorship. Total periodic yield across the region constitutes 24.1 million cubic meters per year and the economic yield at the modern technological level is 15.6 million cubic meters of timber per year.

Ninety-eight percent of Krai’s territory is considered hunting grounds. Coniferous forest areas are a habitat for hoofed animals and those exploited for fur while reindeer, ermine and wolverine reside in the Far North.

In the Khabarovsk region there are estimated to be about 210,000 rivers with a total combined length of approximately 584 thousand km in length. Most of these rivers belong to the Amur River system; one of the biggest rivers in Russia with a total length of 4440 km, 1500 km of which lies across the region’s territory.

Regional rivers and lakes hold more than 100 fish species, including sturgeon. Additional, significant, biological resources are concentrated in the coastal waters of Japan, in particular the Sea of Okhotsk.

Major Industries

Khabarovsk Krai is one of the most developed territories in the Russian Far East. In terms of per capita gross regional product (GRP), it holds the 16th place nationally. Among its developed and diversified production sectors, defense production facilities are the core of Khabarovsk Krai’s economy. The Krai is also the only major producer of petroleum products, steel and rolled stock in the Russian Far East.

Regionally, the leading economic sectors are services (above 30%), transport and communications (above 16%), production (circa 18%), trade and construction (14%, respectively). More than half of all industrial production is provided by manufacturing sectors. Other major industries include the fuel-and-power sector (42% of industrial production), ferrous and nonferrous metallurgy (28%), and food production (circa 12%).

A number of major projects have been implemented to modernize the regional economy. Of chief importance among them is high-tech aircraft engineering on the base of Komsomolsk-on-Amur Aircraft Production Association. The production of modern SU-35S fighters has been successfully realized, the testing of fifth-generation fighters is currently in progress, and the production of SSJ-100 passenger aircrafts was recently initiated. The participation of more than thirty leading world manufacturers of systems and components in the project has paved the way for international cooperation while promising the high export potential of subsequent products.

Major forestry investments in timber processing projects have allowed the volume of processed timber to reach 35% a figure expected to exceed 40% by 2013.

The major electric and thermal power generators in the regions are managed by Khabarovskaya Generatsiya, a branch of Far-Eastern Generating Company (DGK ), whose electric power constitutes 2289.6 MW, thermal power — 6521.4 Gcal/hour.

A program of fundamental modernization of the region’s refineries is aimed to improve product quality, to increase the processing depth of oil by more than 90%, and to broaden the product range. From 2013—2015, the production of petroleum products will be upgraded in compliance with Euro-5 standards.

A network of trunk gas pipelines, totaling 1.5 thousand km, is operational in the region, currently providing gas to fifteen localities. A project for the construction of the Sakhalin-Khabarovsk-Vladivostok trunk gas pipeline is in development, with a length of 1.7 thousand km, 1.0 thousand km of which is located in Khabarovsk Krai. The Eastern Siberia-Pacific Ocean trunk oil pipeline with branches to Khabarovsk and Komsomolsk refineries is under construction while the construction of a high-capacity gas pipeline from fields in Yakutiya to the coast of the Pacific Ocean is in the planning stages. The construction of oil and gas pipelines across the region also provides opportunities for the development of future petrochemical facilities.

Modernization processes in the mining industry are also taking place. New mining and processing facilities have been commissioned on the Albazino gold fields while the construction of hydrometallurgical facilities in Amursk Town is proceeding to completion. These facilities will utilize cutting-edge technologies for gold alloy production to increase capacity to upwards of 5.5 tons per year.
Khabarovsk Krai is a crucial transport hub not only in eastern Russia but also within North-East Asia. Its convenient location has made the Krai a natural focal point for all types of international networks, including those reliant on railway, air, water, highway, and telecommunications linkages.

The role of the region in servicing transit cargo flows has significantly increased in recent years, concurrent with substantial developments in transport infrastructure.

There are two independent railways crossing in Khabarovsk Krai: the Trans-Siberian and the Baikalo-Amurskaya (BAM). Both provide the Russian railway network with access to the ports of the Khabarovsk and Primorsky Regions, thus creating a high-capacity international West-East transport corridor that connects Europe and Central Russia with the countries of the Pacific Rim. It is estimated that by 2020, the BAM’s eastern transport capacity will reach not less than 100 million tons.

From 2012-2015, planned construction on a new motor vehicle passenger-and-freight checkpoint on the Bolshoi Ussuriisky Island at the Russian-Chinese border will take place.

Khabarovsk Krai inland water bodies provide access to freight and passenger flows via a network of waterways southwards to the northeastern provinces of the People’s Republic of China and northwards to the Strait of Tatary and Pacific Rim Countries. Major river ports are located in Khabarovsk and Komsomolsk-on-Amur.

The region also hosts the three major seaports of Vanino, Sovetskaya Gavan and De-Kastri, seventeen airports of various classes, and 5768 km of roadway.

Moreover, Khabarovsk Krai is the center of information communication in the Russian Far East. It maintains an international channel-switching center (EWSD) in the region, providing access to international communication networks for customers of the Russian Far East and Eastern Siberia. Five operators provide services for local, inter-city and international communications, four operators provide cellular communication services, and thirty-six enterprises provide Internet, VoIP services.
There are seven industrial research institutes, twelve institutes of the State Academy of Sciences, thirty-one higher education establishments releasing up to 17000 specialists annually, and twenty-seven colleges producing approximately 6000 graduates annually.

The current workforce exceeds 784,000 people. Among them 27% have higher professional education, more than 42% have intermediate vocational education, 12% have secondary education, and 8% have basic, vocational education.

The average monthly salary in Khabarovsky Krai is just more than 28,000 rubles and ranges from approximately 15,000 rubles for those in the fisheries industry to more than 38,000 rubles for those in manufacturing, and more than 45,000 rubles for those employed in the financial sector.

Among Russian territories, Khabarovsky Krai is one of the most integrated with the Pacific Rim region, as evidenced by trade flows. In 2011, the external trade turnover constituted $2.8 billion USD, 28% more than the previous year. Among the Krai’s exports, timber and related products (35% of export value) and metals and related products (18%) prevailed.

The major imports of Khabarovsky Krai are machines, equipment, and transport vehicles, with a combined total of 56% of import value.

The major counterparty-countries in external trade turnover in 2011 were China (44%), the Republic of Korea (14%), and Japan (9%).
Khabarovsk Krai continues to increase its competitiveness as a premier investment location in Russia. In the 2010, Forbes ranked Khabarovsk City second among the best Russian cities in which to conduct business. According to the rating agency, Expert-RA, from 2010 to 2011 Khabarovsk Krai was rated the best region of the Russian Federation in terms of the dynamics of investment risk decline, climbing 24 points and jumping from 68th to 44th place in just a year. Further, the capital investment growth rate in Khabarovsk Krai traditionally increases the all Russia index and the rate of investments in GRP remains a more 44%.

From 1989, foreign investment in the region has totaled $2.07 billion USD.

As of January 1, 2012, there were 626 enterprises with foreign investment operating in Khabarovsk Krai. Of these, 321 operate with 100% foreign capital, 290 are joint ventures, and 15 are foreign company subsidiaries. The region additionally hosts 31 branches and two representative offices of foreign companies operating regionally. Currently, the principal activities of companies with foreign capital are construction, trade and services, logistics, and ore mining.
Khabarovsk Krai provides an extensive support network for investors, offering a full range of services to stimulate investment activities according to international best practices.

**Administrative support** services include advisory assistance, foreign project monitoring, liaison with relevant governmental authorities and branches, reduction of administrative barriers, and services that facilitate investors in identifying and securing projects in suitable federal target programs.

**Financial support** services include various tax credits including investment tax credit, land rent relief, legal and property state guarantees, and the subsidization of various investment activity-related expenses.

A program of state guarantees functions in the region. The Investment and Foreign Economic Councils of the Krai Government as well as the Advisory Council for Foreign Investment in the Krai Governor’s office have been operating for more than 10 years. Further, the Krai Government established the Foreign Investment Promotion Agency which remains active in promoting the region abroad, improving the regional investment climate, and providing foreign investors with a range of administrative support services.

A new focus has been the cultivation of Public-Private Partnerships (PPPs). PPPs represent mutually beneficial collaborations between the state and private sector in the implementation of infrastructural projects and other socially-significant endeavors. These partnerships are often accompanied by conditions for cost compensation along with the sharing of risks, responsibilities, and competencies. This PPP model is currently being employed in the integrated regional projects proposal, which brings together the Vanino-Sovetskaya-Gavan transportation and industrial hub with the Bolshoi Ussuriisky Island, air transportation hub.

The main focus of the Krai Government lies in four zones of development where the greatest number of priority investment projects are being implemented:

**Khabarovsk Agglomeration.** Creation of a unified transportation and logistics hub, industrial and business center with developed production infrastructure.

**Verkhnebureinsky Industrial Hub** Establishment of the biggest regional power hub in the Russian Far East on the base of the Urgalsk bituminous coal field.

**Komsomolsk-Amursk-Sonechny Production Zone** Concentration of air-craft and shipbuilding, petroleum processing, metallurgy production, nonferrous metal mining, forest harvesting and processing. The territory possesses excellent infrastructure and logistics features.

**Vanino-Sovetskaya-Gavan transportation and industrial hub.** Operation of interests of major financial and production groups, including Mechel, Siberian Coal Energy Company, Basic Element Company, Petropavlovsk Managing Company, Sakha Trans Company. They have been implementing large-scale investment projects gravitated to the BAM zone and terminals in the ports of Vanino and Sovetskaya Gavan.

**Investment Legislation**
The creation of a Port Special Economic Zone (PSEZ), based on the existent Sovetskaya Gavan Port, is anticipated to result in the establishment of a multi-industry port, ship repair center, container terminal manufacturing base and processing center for aquatic, biological resources. The PSEZ will be established on the eastern shore of the Sovetskaya Gavan Bay and will be operational as an economic zone for 49 years.

The Sovetskaya Gavan Port is located on the shore of the Sovetskaya Gavan bay and contains 17 jetties and berths. The fairway depth is 30 meters, the total length of jetties is 2,598 m (including 475 m with depths of more than 9.5 m each), the maximum length of the wharf is 650 m and the maximum depth at the jetties reaches 10.5 m. Under existing infrastructure, this allows vessels with dead weights of up to 50,000 tons to enter the waters of the bay. However, after substantial, planned infrastructural improvements, vessels with dead weights of up to 300,000 tons, will be allowed to enter.

Permissible activities in the PSEZ:
1. port and logistics services (storage, stacking, packing, segregation, etc.);
2. procurement of vessel equipment and supplies;
3. manufacture, repair, maintenance and modernization of vessels;
4. processing of aquatic biological resources;
5. simple assembly and other operations;
6. exchange and wholesale trade of commodities;
7. maintenance of proper operation of the infrastructure facilities of the port special economic zone;
8. industrial activities.

PSEZ residency is open to any legal entity registered within the Sovetskaya-Gavan Municipality that has concluded a relevant agreement with the appropriate governing bodies. An investor planning to conduct business within the special economic zone can utilize preferential status provided by the state in order to secure residency. The share of foreign capital in a company’s charter capital is not limited. However, a resident of the special economic zone is not permitted to have branch or representative offices outside the special economic zone.

Application Procedures for PSEZ Residency Status

An applicant submits an application to the PSEZ regulatory body to conclude an agreement for operations within the PSEZ in accordance with Chapter 13 of the Federal Law on Special Economic Zones in the Russian Federation, dated 22.07.2005.

The PSEZ regulatory body shall, within 10 days of receipt of the application, remit the decision to either forward the application to the Expert Council or deny further review.

If accepted, the business plan is presented to the Supervisory Board of the Sovetskaya Gavan Port Special Economic Zone to prepare recommendations for the Expert Council on concluding the agreement. The Council also reserves the right to request amendments to the business plan at this time.

The Expert Council reviews the applicant’s business plan on the basis of the Order of the Ministry of Economic Development and Trade of the Russian Federation, On the Evaluation Criteria of Business Plans by the PSEZ Expert Council, #208 dated 26.05.2010. After no longer than 30 days, a decision is rendered and submitted to the PSEZ regulatory body either accepting or denying support for the business plan.

The PSEZ executive body shall, within 5 days after receipt of the above judgment, send the applicant a written notification stating either acceptance or refusal to conclude the agreement.

The PSEZ executive body shall, within 10 days from the decision date, prepare and conclude the agreement on operations within the PSEZ with the applicant.
### Tax Reliefs for PSEZ Residents:

<table>
<thead>
<tr>
<th>Tax/Exaction</th>
<th>Tax advantages</th>
<th>Tax rate without tax advantages</th>
<th>Tax advantages period</th>
<th>Information Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Tax</td>
<td>– 15.5%: – 2% shall be paid to the federal budget; – 13.5% to the regional budget of Khabarovsk Krai.</td>
<td>– 20%: – 2% shall be paid to the federal budget; – 18% to the regional budget of Khabarovsk Krai</td>
<td>10 years from the first day of a quarter, following the day when the financing of the PSEZ object started</td>
<td>Tax relief: Article 284 of RF Tax Code; Article 11 of Khabarovsk Krai Law # 308 dated 10.11.2005</td>
</tr>
<tr>
<td>Costs for R&amp;D (including unsuccessful investments) are referred to the tax period when they occurred in the amount of their actual costs</td>
<td>For the life period of the PSEZ (49 years)</td>
<td>Article 262 of RF Tax Code</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Property Tax</td>
<td>0%</td>
<td>2.2%</td>
<td>10 years from the day of property registration</td>
<td>Article 381 of RF Tax Code</td>
</tr>
<tr>
<td>Transport Tax</td>
<td>0% for transport vehicles used in carrying out business activity within the PSEZ territory (excluding motorcars, water vehicles, and air transport)</td>
<td>Tax rates are determined in rubles per unit of the tax base (engine power or draft power, gross tonnage or vehicle units)</td>
<td>5 years from the first day of the quarter, following the quarter when the company was included into the PSEZ residents' register, but not longer then PSEZ life period</td>
<td>Article 356 of RF Tax Code, Article 7 of Khabarovsk Krai Law # 308 dated 10.11.2005</td>
</tr>
<tr>
<td>Land tax</td>
<td>0%</td>
<td>1.5%</td>
<td>5 years from the day of emergence of title</td>
<td>Article 395 of RF Tax Code</td>
</tr>
<tr>
<td>Value Added Tax</td>
<td>0% for work done by residents of PSEZ in the territory of PSEZ.</td>
<td>10%, 18%</td>
<td>For the life period of the PSEZ (49 years)</td>
<td>Article 149 of RF Tax Code</td>
</tr>
<tr>
<td>Excise Taxes</td>
<td>0% rate for disposal of export goods and the importation of goods to PSEZ from the other territories of Russia.</td>
<td>For the life period of the PSEZ (49 years)</td>
<td>Article 183 of RF Tax Code</td>
<td></td>
</tr>
</tbody>
</table>

Land parcels within the PSEZ can be provided for temporary possession and use only on the basis of a lease. Lessees can buy out land parcels located under them.

A lease rate for every land parcel is determined individually and depends on the volume of capital investments.

A customs free zone functions within the PSEZ. Goods are considered to be under the customs regime of the free customs zone once they have entered the PSEZ. Once goods are shipped outside the special economic zone, this customs regime is no longer applicable.

A resident of the PSEZ can be any legal entity except a unitary enterprise.
**Selected FDI Success Stories**

**Oil Export Terminal in De-Kastri Village (Exxon Neftegas Limited, USA).**

Exxon Neftegas Limited, a branch of an American company and the operator of the international consortium “Sakhalin-1,” is the largest foreign investor in Khabarovsk Krai by FDI volume. Their terminal consists of oil storage tanks with a capacity of 1,300 thousand barrels and the world-largest remotely-operated single point mooring with a weight of 3,200 tons and a height of 61 meters. The average annual cargo turnover is 9.5 to 12 million tons of oil. Upon the project’s completion, a system of year-round oil transportation was implemented. From 2006, more than 430 tankers have been safely shipped from the terminal, with no registered oil spills. The total project costs for the construction of the terminal and development of its infrastructure are estimated at more than $400 million USD. As part of the project, 350 work places have been created and local specialists have received required training at the expense of the investor.

**Construction of Facilities for Production of Medium and High Density Fiber Boards (RimbunanHijau Group, Malaysia).**

For more than 13 years, the Malaysian RimbunanHijau Group has been engaged in timber harvesting and processing in Khabarovsk Krai. The holding’s annual lumbering volume is more than 1 million cubic meters, constituting 14% of the harvested lumber volume in Khabarovsk Krai. In 2011, MDF facilities were commissioned in Khor Village with production volumes of 150–200 thousand cubic meters annually. In 2007, the project was assigned a priority status and in 2008, the project was placed on the list of priority investment projects in Russian forest development. The company was subsequently granted preferences including a 50% credit for forest division lease payments. The machinery, equipment and technology for woodworking has been developed and supplied by the German Dieffenbacher Company, a leading supplier of woodworking lines. The introduction of the high-tech equipment enabled the company to import these technologies without customs duties and VAT tax. Since the project’s implementation, more than $100 million USD has been invested and more than 350 work places have been created.

**Richeville Luxury Residential Compound (Kyeryong Construction, Republic of Korea).**

Kyeryong-Khabarovsk, has been working in Khabarovsk Krai for more than 10 years. In February of 2010, the South-Korean company commissioned the Richeville Luxury Residential Compound. The complex consists of two, 23-story residential buildings with 214 apartments ranging from 56 to 213 square meters, with three-meter ceilings, at the price of $ 1,650 USD per square meter. In addition to the indispensable water treatment purifier, water meters, and power meters, the complex is equipped with a custom-made ventilation system. The buildings are also equipped with LG cargo and passenger elevators, secure doors, residential security systems, and an underground parking lot. The architectural design of the compound has been developed by the Far Eastern planning and surveying institute of Dalgiprotrans, Grazhdanproekt. This project is the largest in the region employing South Korean capital, with total investments reaching $14 million USD. At the moment, the company started preparation for construction of a second project in Khabarovsk City, the Sozvezdiye (Constellation) Residential Compound with public facilities and an underground parking lot.
Doing Business in Khabarovsk Krai

Legal Entities

A foreign company is permitted to conduct business in the Russian Federation under the following conditions:

- by establishing a Russian legal entity with 100% foreign investment or by establishing a joint venture;
- by registering a representative or branch office of a foreign company;
- by concluding a joint activity agreement with a Russian legal entity;
- by a combination of the above arrangements.

Russian Legal Entity

A foreign investor can participate in establishing various types of legal entities in the Russian Federation. The majority of legal entities fall into two categories:

- Joint-Stock Companies (АО);
- Limited Liability Companies (ООО);

Joint-stock companies are divided into two types: Closed (ЗАО) and Open (ОАО).

Representative Offices and Branch Offices

Foreign companies can operate in Russia without establishing a new legal entity by launching a Representative or Branch Office. As a rule, it is assumed that a Branch Office is a division of a foreign legal entity and thus represents the interests of the company in another country.

All legal entities operating in the Russian Federation shall be subject to state registration. A legal entity is deemed established once company data have been registered in the Uniform State Register of Legal Entities (ЕГРЮЛ).

The executive body authorized for state registration and administration of the EGRUL is the Federal Tax Service of the Russian Federation.

State registration of a legal entity shall take place at the location of the legal entity’s permanent executive body within 5 business days after submission of the required documents.

Taxation

A legal entity operating in Khabarovsk Krai shall pay taxes, exactions and payments in accordance with the legislation of the Russian Federation, that of Khabarovsk Krai and regulatory legal acts of representative local government bodies. The following types of taxes are currently levied: federal, regional, local and special taxes.
<table>
<thead>
<tr>
<th>Tax/Exaction</th>
<th>Contents</th>
<th>Information Source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Federal Taxes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value Added Tax</td>
<td>The tax base is defined as the sale of goods and services minus total deductions. Tax rates — 10%,18% Customs Legislation governs the procedures and terms of payment for taxes on goods shipped to the customs area of the Russian Federation. There is a 0% rate for disposal of export and import goods.</td>
<td>Chapter 21 of RF Tax Code</td>
</tr>
<tr>
<td>Excise Taxes</td>
<td>Excise Taxes shall be paid upon disposal of goods deemed excisable (alcohol, tobacco, cars, motorcycles, petrochemicals) in the Russian Federation.</td>
<td>Chapter 22 of RF Tax Code</td>
</tr>
<tr>
<td>Corporate Tax</td>
<td>The tax base is calculated as revenues minus expenses. Income and capital gains are taxed at a flat rate of 20%. 2% of the tax (of 20%) shall be paid to the federal budget and 18% of the tax (of 20%) — to the regional budget of Khabarovsk Krai.</td>
<td>Chapter 25 of RF Tax Code</td>
</tr>
<tr>
<td>Extraction Taxes</td>
<td>Levies for the Use of Fauna, Aquatic Biological Resources (Chapter 25.1 of RF Tax Code); Water Tax (Chapter 25.2 of RF Tax Code); and, Mineral Extraction Tax (Chapter 26 of RF Tax Code). Taxes shall be paid to the budget according to the RF Tax Code.</td>
<td>Chapter 25.1, 25.2. of RF Tax Code, Chapter 26 of RF Tax Code</td>
</tr>
<tr>
<td>Payments for standard and excessive emissions and disposal of pollutants, wastes and other types of environmental impacts.</td>
<td>Calculation and payment of fees for standard and excessive emissions, discharges of pollutants, waste disposal, and other adverse environmental impacts are calculated based on the volume of pollution associated with a corporation’s activities and in accordance with regulations regarding what is in excess of standards. Payment for environmental impacts shall be transferred to federal and regional (here, Khabarovsk Krai) budgets.</td>
<td>RF Government Decree # 632 dated 28.08.92, RF Law on Environmental Protection # 2060-1 dated 19.12.91,</td>
</tr>
<tr>
<td>Tax/Exaction</td>
<td>Contents</td>
<td>Information Source</td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Regional Taxes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Income Tax</td>
<td>A 13% income tax is levied on residents and individuals spending at least 183 days a year in the Russian Federation. Other foreigners and non-residents shall pay the tax at the rate of 30%.</td>
<td>Chapter 23 of RF Tax Code</td>
</tr>
<tr>
<td>Transport Tax</td>
<td>Tax rates are determined in rubles per unit of the tax base (engine power or draft power, gross tonnage or vehicle units).</td>
<td>Chapter 28 of RF Tax Code, Khabarovsk Krai Law # 308 dated 10.11.2005</td>
</tr>
<tr>
<td>Corporate Property Tax</td>
<td>The tax base for foreign companies is defined as an assessed value of a property. The maximum tax rate constitutes 2.2%.</td>
<td>Chapter 30 of RF Tax Code, Khabarovsk Krai Law # 308 dated 10.11.2005</td>
</tr>
<tr>
<td>Extraction Taxes</td>
<td>Levies for the Use of Fauna, Aquatic Biological Resources (Chapter 25.1 of RF Tax Code); Water Tax (Chapter 25.2 of RF Tax Code); and, Mineral Extraction Tax (Chapter 26 of RF Tax Code). Taxes shall be paid to the budget according to the RF Tax Code.</td>
<td>Chapter 25.1, 25.2, of RF Tax Code, Chapter 26 of RF Tax Code</td>
</tr>
<tr>
<td><strong>Local Taxes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land tax</td>
<td>A land tax is paid by land owners and land users except for tenants.</td>
<td>Chapter 31 of RF Tax Code, legal acts of municipalities</td>
</tr>
<tr>
<td></td>
<td>The tax base is determined by the cadastral value of land parcels and varies according to land category and use.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The maximum tax rate for agricultural land or housing is 0.3% and 1.5% for other land use categories. Tax rates are established by regulatory legal acts of municipalities. Rental payments for land parcels provided by owners for lease shall be paid in accordance with a contract of lease.</td>
<td></td>
</tr>
<tr>
<td>Individual Property Tax</td>
<td>The tax base is estimated on the assessed property value. The maximum tax rate constitutes 2%, minimum — 0.1%.</td>
<td>RF Law # 2003-1 dated 09.12.91, legal acts of municipalities</td>
</tr>
<tr>
<td></td>
<td>Tax rates are established by regulatory legal acts of municipalities.</td>
<td></td>
</tr>
<tr>
<td>Payments to State Social Security Funds</td>
<td>An employer shall pay social security contributions for employees. Payments are calculated separately for each employee. Remittances are as follows: 22% — to the RF Pension Fund; 2.9% — to the Social Security Fund of the RF; 5.1% — to the Federal Compulsory Medical Insurance Fund</td>
<td>Federal Law on the Principles of Compulsory Medial Insurance # 165-FZ dated 16.07.1999, Federal Law on Certain Types of Compulsory Medial Insurance</td>
</tr>
</tbody>
</table>
Accounting

Accounting procedures are regulated by the Russian Federation Ministry of Finance. All companies operating in the Russian Federation shall comply with:

• charts of accounts and guidelines for their application;
• accounting regulations governing the accounting of business transactions and reporting;
• accounting forms and guidelines;
• other accounting regulations and instructions.

Official accounting procedures must be continuously maintained from the initiation of a company’s registration until liquidation or reorganization by means of double-entry accounting.

Transactions of all kinds must be documented according to official accounting procedures and subsequent accrual statements and reports should reflect this requirement. Further, accounting documents must be retained for at least five years.

Accounts must be kept in rubles. Foreign currency accounts and transactions in foreign currency are calculated and recorded in rubles based on the exchange rates of the Russian Federation Central Bank as of the transaction date.

The accounting policies and procedures adopted by a company must be approved by an order or ordinance of the executive responsible for accounting.

The reporting period is one calendar year. Interim reporting shall be fulfilled throughout the year, cumulatively from the beginning of the year. Accounting statements consist of an accounting balance sheet, income statement, relevant and stipulated appendices, an audit report confirming (if required) the accuracy of the reports and any explanatory notes.

All companies must provide accounting reports to shareholders, company participants or owners of its property as well as regional statistical and tax authorities who are assigned to the company according to its place of registration. Further, open joint-stock companies are required to publish annual reports in newspapers and magazines.

Representative offices and branch offices of foreign companies must maintain their accounts as separate, independent business entities.

The main difference between Russian and international accounting standards is that the former establish methods for primary accounting, governing how to account for individual transactions. For accounting purposes, there is no mechanism for estimating impaired assets or a corporation’s fair value.

Customs

Goods shall be declared by a customs applicant, or customs broker acting on behalf of the customs applicant, in accordance with the provisions of the Customs Code of the Customs Union (hereafter referred to as CCCU) and the Federal Law on Customs Regulation in the Russian Federation, # 311-FZ dated 27.11.2010.

Customs clearance of goods begins after submission of a customs declaration and other required documents, in written and/or electronic form, to the customs body and ends with the release of goods in accordance with the declared customs procedure.

Goods that are subject to veterinarian, phytosanitary and other types of state control can be placed under customs procedures only after the required measures have been performed.

Technological equipment (including components and related spare parts) whose analogs are not produced in the Russian Federation can be shipped to Russia without VAT.

The rates of import customs duties for technological equipment are set by the Common Customs Tariff of the Customs Union of the Republic of Belarus, Republic of Kazakhstan and Russian Federation.

A single list of products subject to mandatory certification and a single list of products requiring a declaration of conformity are applicable in the Russian Federation.

Complex multi-component equipment can be imported in the Russian Federation in accordance with the unified code of the Customs Union Commodity Classification of Foreign Economic Activity within 1 year and can be prolonged to 3 years by submitting one final declaration.
Foreign Exchange Control

The following foreign exchange transactions are regulated in the Russian Federation: acquisition, use as a means of payment, import and export of foreign currency, the currency of the Russian Federation and securities, etc. Transactions of residents and non-residents are regulated differently.

Non-residents have the right to make transfers between other non-residents in foreign or Russian currencies.

There are no limits for buying foreign currency by residents and non-residents.

For cash settlements in the currency of the Russian Federation, non-residents must comply with settlement procedures set for residents.

Both residents and non-residents can import foreign currency and securities in the Russian Federation without limitations.

Should an individual import or export cash of foreign exchange and/or the currency of the Russian Federation in excess of the equivalent of $10,000 USD it shall be declared.

Non-residents are permitted to open accounts in foreign currencies and in the currency of the Russian Federation in authorized banks.

As long as clients employ appropriate banking regulations, foreign currency transactions between residents and non-residents can be performed without limitation.

Foreign exchange control is carried out by authorized banks through the issuance and maintenance of transaction certificates for external trade transactions within the framework of the following contracts or agreements:

- for goods exported from the customs territory of the Russian Federation or imported to the customs territory of the Russian Federation;
- for works in progress, provided services, provided information and the results of intellectual activities;
- for loans in which residents loan foreign currency or the currency of the Russian Federation to non-residents;
- for loans of foreign currency or the currency of the Russian Federation from non-residents to residents.

Land

Land use in the Russian Federation requires fees in the form of Land Tax and Land Rent.


The procedures for the provision of land parcels for construction in the Krai are regulated by a decree of the Khabarovsk Krai government, “On Organization of Procedures for Management of Land Parcels for Which State Proprietorship is not Distinguished and Which are Assigned for Construction Purposes within the Khabarovsk Urban District,” # 85-pr dated 28.04.2007.

Acceptance and review of an application for an assignment of a land parcel

<table>
<thead>
<tr>
<th>Acceptance and review of an application for an assignment of a land parcel</th>
<th>Selection of a land parcel and provision of a land parcel layout</th>
</tr>
</thead>
<tbody>
<tr>
<td>— with prior consent to locate facilities</td>
<td>— without prior consent to locate facilities</td>
</tr>
<tr>
<td>Issuance of a certificate for land parcel selection</td>
<td>Execution of cadastral works by municipal authorities</td>
</tr>
<tr>
<td>Execution of cadastral works by an applicant</td>
<td>Completion of a tender or auction</td>
</tr>
<tr>
<td>Preparation of an ordinance for the assignment (sale) of the land parcel</td>
<td>Concluding of an agreement for the assignment (sale) of the land parcel</td>
</tr>
</tbody>
</table>

These stages are to be completed from 1.5 to 6 months.
Municipalities and urban districts have their own legislative documents concerning the assignment of land parcels for construction.

Regulations in municipalities and urban districts define deadlines and specify the order of procedures required in the approval of land parcel layouts for sale of those land parcels owned by municipalities and for land parcels for which state proprietorship is not demarcated.

### Mineral Wealth

The following section details procedures for the assignment of subsurface or subsoil sites for use within the scope of authority of the Khabarovsk Krai Government.

A license agreement is a principal document stating conditions for subsurface site use. It is concluded between a subsurface user and the Ministry of Natural Resources of the Krai. The rights and duties of subsurface users arise from the moment of state registration of the license.

Agreements on subsurface use attached to licenses and contracts are signed by the subsurface user and the Deputy Chairman of the Khabarovsk Krai Government, Minister of Natural Resources.

After its signing, the license is subject to state registration, in the following manner.

The Ministry of Natural Resources of the Krai:
- assigns a state registration number to the license;
- enters license data into the subsurface use license register;
- confirms the registration by imprinting the license with a special stamp and appending the signature of a Department Head of the Ministry of Natural Resources responsible for registration.

The rights to use subsurface sites are terminated in accordance with federal legislation and the Krai Government holds the right to early termination of use of any subsurface site.

### Labor Legislation

Relations between an employer and employee are regulated according to the Russian Federation Labor Code which, inter alia, establishes the rights and duties of employers and employees while governing issues of safety, proficiency training, professional development and advanced training. Further, the Code administers rules for salaries, the implementation of work quotas, as well as grievance procedures. Separate chapters of the Code are devoted to the particularities of legal regulations for the employment of certain groups of individuals (minors, teachers, trainers and athletes, home workers, shift workers, etc.)

An employer can employ foreign labor.

In order to prepare proposals for foreign labor force intake and identify quotas for foreign labor force in the Russian Federation, an employer must use the Migration Quotas Automated Information Complex.

### Anti-Trust Legislation

There are regulations and oversight procedures for corporate mergers, sales and purchases of companies’ major shares in the Russian Federation. Additionally, it is prohibited for business entities to negotiate market pricing, market sharing, or other similar practices.

The Federal Anti-monopoly Service is responsible for effectuation of foreign investments in the Russian Federation.
List of Main Investment Projects
1. Creation of a port special economic zone, Town of Sovetskaya Gavan
2. Integrated development of Russia’s part of the Bolshoy Ussuriisky Island, City of Khabarovsk
3. Reconstruction of the Oune-Visokogornay railway section between Komsomolsk-on-Amur and Sovetskaya Gavan including construction of the Kuznetsovsky tunnel
4. Reconstruction of the «Novyi» airport complex, City of Khabarovsk
5. Construction of the Khabarovsk — Lidoga – Vanino highway, with a side route to Komsomolsk-on-Amur
6. Construction of a thermal power plant (MW 120), Town of Sovetskaya Gavan
7. Construction of a 35 km branch pipeline from the Eastern Siberia-Pacific Ocean pipeline system to Khabarovsk Oil Refinery, City of Khabarovsk
8. Construction of Sakhalin-Khabarovsk-Vladivostok gas pipeline, Khabarovsk Krai
9. Construction of the 220 kV Komsomolskaya — Vanino high voltage line with stopovers via a 220 kV substation in Selikhino and installations of the second transformer in the 220 kV substation in Vanino
10. Coal mining and construction of coal enrichment facilities by Urgalugol, Settlement of Chegdomyn, Verkhebureinsky Municipality
11. Construction of a hydrogenation process complex in JSC «Khabarovsk Oil Refinery,» City of Khabarovsk
12. Construction of integrated refining facilities at RN-Komsomolsk Refinery, Town of Komsomolsk-on-Amur
13. Oil Export Terminal, Exxon-Neftegaz Ltd., De-Kastri Village, Ulchsky Municipality
14. Modernization of Amurmetall metallurgical works with projected annual capacity of 2 million tons, City of Komsomolsk-on-Amur
15. Production of spare parts for SSJ-100 Sukhoi Superjet civil aircraft on the base of KNAAPO, City of Komsomolsk-on-Amur
16. Construction of the Far Eastern glass-container plant, City of Khabarovsk
17. Construction of a gold mining and processing complex, Polina Osipenko Municipality
18. Construction of a hydrometallurgical plant, Town of Amursk
19. Construction of a mining and processing complex at the White Mountain gold field, Settlement of Mnogovershinny, Nikolaevsky Municipality
21. Construction of facilities for the production of medium and high density fiberboard (MDF / TCDF), Settlement of Khor, Lazo Municipality
22. Creation of the Far Eastern Center of deep wood processing, Town of Amursk, Amursky Municipality and Settlement of Vanino, Vaninsky Municipality
23. Construction of water-catchment facilities at the Tungus water deposits, City of Khabarovsk
24. Construction of a coal terminal in the Muchka Bay, Settlement of Vanino, Vanino Municipality
25. Construction of an indoor bandy ice arena with seating for 10,000 spectators, City of Khabarovsk
Contact Information

Governor, Chairman of the Government of Khabarovsk Krai
56, K. Marx St., Khabarovsk,
tel: +7 (4212) 32-51-21,
fax: +7 (4212) 32-87-56
E-mail: econ@adm.khv.ru,
Web: www.adm.khv.ru

Legislative Duma of Khabarovsk Krai
19, Muravyova-Amurskogo St.,
Khabarovsk, tel: +7 (4212) 32-75-69
E-mail: admin@duma.khv.ru
Web: www.duma.khv.ru

Ministry of Economic Development and Foreign Relations of Khabarovsk Krai
19, Muravyova-Amurskogo St.,
Khabarovsk, tel: +7 (4212) 32-97-39,
fax: +7 (4212) 32-41-53
E-mail: econ@adm.khv.ru

Foreign Investment Promotion Agency of Khabarovsk Krai
70, Frunze St., Khabarovsk,
tel: +7 (4212) 32-76-45, 32-60-63,
fax: +7 (4212) 32-62-05
E-mail: vnesh@adm.khv.ru,
ininfo@adm.khv.ru, intorg@adm.khv.ru,
Web: www.fipa.khv.ru

Ministry of Natural Recourses of Khabarovsk Krai
56, K. Marx St., Khabarovsk,
tel/fax: +7 (4212) 32-50-80,
E-mail: priroda@adm.khv.ru

Committee on Fishery of the Ministry of Natural Recourses of Khabarovsk Krai
76, Zaparina St., Khabarovsk,
tel/fax: +7 (4212) 32-99-61, 32-66-95

Ministry of Property Relations of Khabarovsk Krai
76, Zaparina St., Khabarovsk,
tel: +7 (4212) 32-40-85,
E-mail: kanc@adm.khv.ru

Ministry of Construction of Khabarovsk Krai
32, Muravyova-Amurskogo St.,
Khabarovsk, tel/fax: +7 (4212) 32-83-69
E-mail: mail@mstr.khv.ru

Representative Office of the Khabarovsk Krai Government in Moscow
19, Noviy Arbat St., office 2029,
tel: +7 (495) 697-82-07, 697-41-28,
fax: +7 (495) 697-73-63,
E-mail: info@khakrai-moscow.ru

Representative Office of the Ministry of Foreign Affairs of the Russian Federation in Khabarovsk Krai
20, Shevchenko St., Khabarovsk,
tel: +7 (4212) 32-66-66, 32-66-19,
fax: +7 (4212) 32-63-19,
E-mail: olga@mid.khv.ru

Main Department of the Central Bank of the Russian Federation in Khabarovsk Krai
42, Muravyova-Amurskogo St.,
Khabarovsk, tel: +7 (4212) 32-46-23,
32-64-04, fax: +7 (4212) 78-31-71

Department of the Federal Tax Service in Khabarovsk Krai
41, Dzerzhinskogo St., Khabarovsk,
tel: +7 (4212) 29-23-01,
fax: +7 (4212) 29-23-05,
E-mail: u27@r27.nalog.ru

Far East Department of Russian Federal Services for Ecological, Technical and Atomic Supervision (Rostechnadzor)
76, Zaparina St., Khabarovsk,
tel/fax: +7 (4212) 32-45-26,
E-mail: postmaster@ggtn.khv.ru

Department of the Federal Veterinary and Phytosanitary Inspection Service in Khabarovsk Krai, Jewish Autonomy Oblast and Sakhalin Oblast
18-a, Lenina St., Khabarovsk,
tel: +7 (4212) 75-05-40,
fax: +7 (4212) 75-05-41
E-mail: rankhab@vth.ru

Regional Agency of Federal State Statistics Services in Khabarovsk Krai
69, Frunze St., Khabarovsk,
tel: +7 (4212) 32-50-86, 32-92-54, 32-72-44
E-mail: khabstat@mail.kht.ru,
khabstat@rambler.ru

Department of the Federal Migration Service of Russia in Khabarovsk Krai
64, Souznaya Str., Khabarovsk,
tel: +7 (4212) 32-63-31,
fax: +7 (4212) 52-09-03
E-mail: migraciya@mail.kht.ru

Khabarovsk Customs
94a, K. Marx St., Khabarovsk,
tel: +7 (4212) 41-14-00, 41-14-10,
fax: +7 (4212) 41-14-06,
E-mail: www.khv.ru/customs