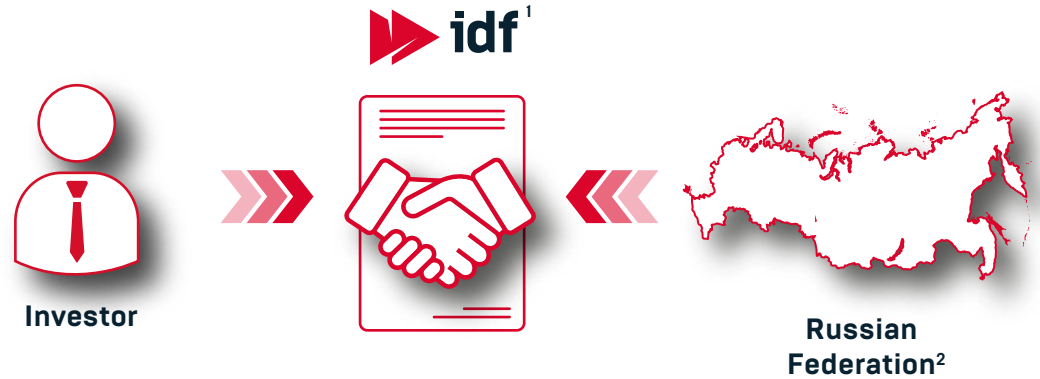


Special investment contract and localisation in the Russian Federation

BASIC INFORMATION

SPIC is an agreement between an investor and the state which sets forth:

- ▶ investor's obligations to implement an investment project to adopt or develop and adopt technology in order to master serial production of industrial products based on this technology
- ▶ obligations of the Russian Federation, a constituent entity of the Russian Federation, and a municipality to ensure the stability of the conditions for conducting business activities and to apply incentives in the industry provided for by the agreement



GOAL

Adoption of a modern technology in order to manufacture internationally competitive industrial products



PERIOD

Up to 50 years
(≤ 50 bln ₺ investment)

Up to 20 years
(> 50 bln ₺ investment)

No minimum amount of investment



PARTRICIPATION CONDITIONS

The investor takes part in the competition. The winner may be one or more participants by decision of the Commission on the basis of the following criteria:

- ▶ implementation date of the manufacture of industrial products
- ▶ volume of industrial products produced during the SPIC period
- ▶ localization level

¹ IDF is an expert organization providing information and analytical support to investors, as well as conducting input and comprehensive expert reviews of investment projects for concluding SPIC

² Ministry of Industry and Trade of the RF / Ministry of Energy of the RF / Ministry of Agriculture of the RF

OBLIGATIONS AND RESPONSIBILITIES OF THE PARTIES



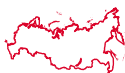
INVESTOR'S OBLIGATIONS

- ▶ Invest the investment volume provided for by the project
- ▶ Develop and introduce / or introduce a modern technology from the list approved by the Government of the Russian Federation
- ▶ Provide availability of exclusive rights or the right of use for R&D in respect of a technology from the list as of the date set forth in the SPIC



INVESTOR'S RESPONSIBILITY

- ▶ The Investor is responsible for non-fulfillment of obligations under the SPIC in the following forms:
 - compensation of real damages
 - payment of a penalty
- ▶ The investor's responsibility is limited to the total amount of incentives provided under the SPIC



STATE OBLIGATIONS

- ▶ Apply incentives in the industry during the period of the SPIC
- ▶ Ensure stability of doing business conditions



STATE RESPONSIBILITY

The state is responsible for non-provision incentives in the form of compensation for real damage

PROJECT TARGETED INDICATORS



- ▶ Achievement of a specific production and product sales volume
 - ▶ Payment of taxes in a specific amount
- ▶ Creation of a specific number of work places

SUPPORT MEASURES¹

TAX BENEFITS

- ▶ Non-deterioration of tax conditions
- ▶ Possible lowering of the profit tax rate to 0%
- ▶ Possibility to reduce rates of regional and municipal taxes

SUBSIDIARY MEASURES

Special conditions for access to subsidiary programs

ACCELERATED DEPRECIATION

Provision of certificates confirming the opportunity to apply accelerated depreciation⁴

"MADE IN RUSSIA" STATUS

Expedited and simplified procedure of obtaining the status of a product manufactured in Russia²

SIMPLIFIED ACCESS TO GOVERNMENT CONTRACTS

Possibility of obtaining the sole supplier status on public procurement³

OTHER MEASURES

- ▶ Special conditions of land plot lease
- ▶ Creation of infrastructure facilities

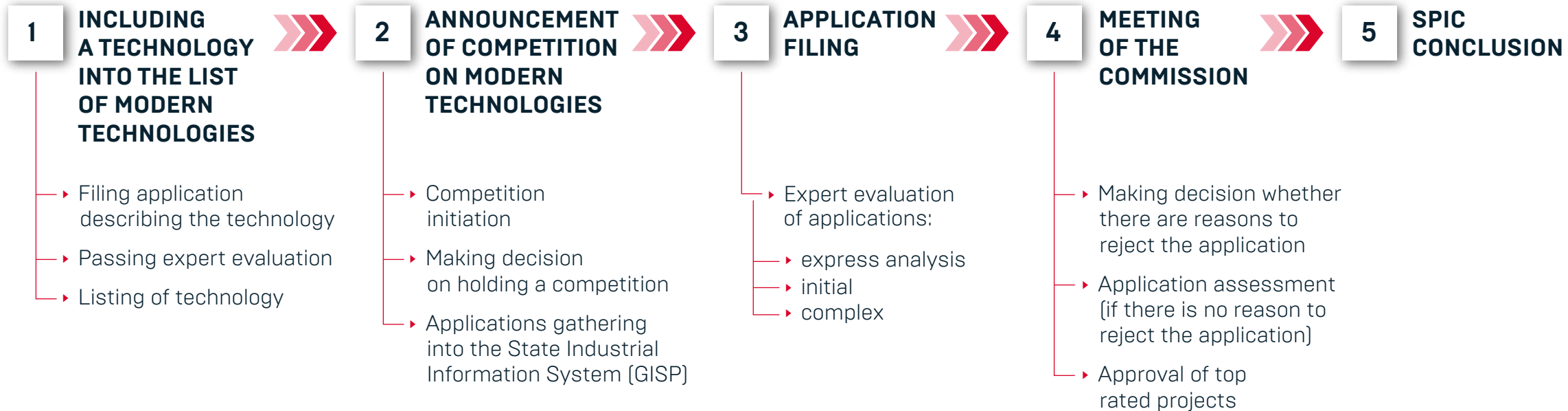
¹ Support measures are applied until the total amount of budget expenditures and revenues not received by the state amounts to 50% of the capital investments specified in the SPIC

² Resolution of the RF Government No. 719 dated July 17, 2015 "On acknowledgment of industrial product manufacture in the Russian Federation" / Agreement on the Rules for determining the country of origin of goods in the CIS dated October 30, 2015

³ Federal Law No. 44 dated April 5, 2013 "On the contract system of the federal and municipal procurement of goods, work and services"

⁴ Resolution of the RF Government No. 484 dated 22.04.2017 "On approval of rules for attribution of fixed assets being depreciated to those manufactured in accordance with conditions of a special investment contract"

CONCLUSION ALGORITHM



All processes related to SPIC 1.0 (including amendment, termination and control) will be fully implemented through the State Industrial Information System (GISP)

IDF is an expert organization that is implementing information and analytical support for investors, as well as conducting an initial and complex expert evaluation of investment projects for SPIC

INITIATION OF THE COMPETITION BY THE INVESTOR



THE AVAILABILITY OF INCENTIVE MEASURES FOR SPIC PARTICIPANTS IN REGIONAL LEGISLATION IS A PREREQUISITE FOR ENTERING INTO A SPIC

¹ The form and composition of the proposal were approved by order No. 627 of the Ministry of Industry and Trade of the Russian Federation dated 26.02.2020

² According to clause 18 of the Government Decree No. 719 dated 16.07.2020 "On approval of the rules for concluding, changing and terminating a SPIC"

IMPLEMENTATION OF THE MODERN TECHNOLOGY

DEVELOPING THE TECHNOLOGY

- ▶ independent R&D or technology development by third parties (for example, by entering into an R&D contract)
- ▶ providing legal protection of the technology (if it is subject to protection)

ACQUIRING RIGHTS FOR THE TECHNOLOGY

Exclusive right or right to use the IP:

- ▶ from third parties (when implementing the SPIC on their own initiative)
- ▶ from public legal entities (when implementing SPIC on the initiative of the Russian Federation)

By entering into an agreement on granting a license for a technology, an agreement on alienation of an exclusive right

IMPLEMENTING TECHNOLOGY

The technology is being implemented in order to master the mass production of industrial products

The **technology implementation period** is a period from the moment of conclusion of the SPIC till the moment of production of the first batch of products

SPIC MECHANISM 1.0

The updated mechanism of special investment contracts gives the investors more advantages, while the SPIC 1.0 model has established itself as a sought-after tool of state support. At the moment, **45** federal special investment contracts have been signed. Rules¹ for contracts concluded according to the SPIC 1.0 model are now valid only in terms of amending and terminating the SPIC.

KEY INDICATORS



807,8 bln₽

total volume of investment



1 112 bln ₽

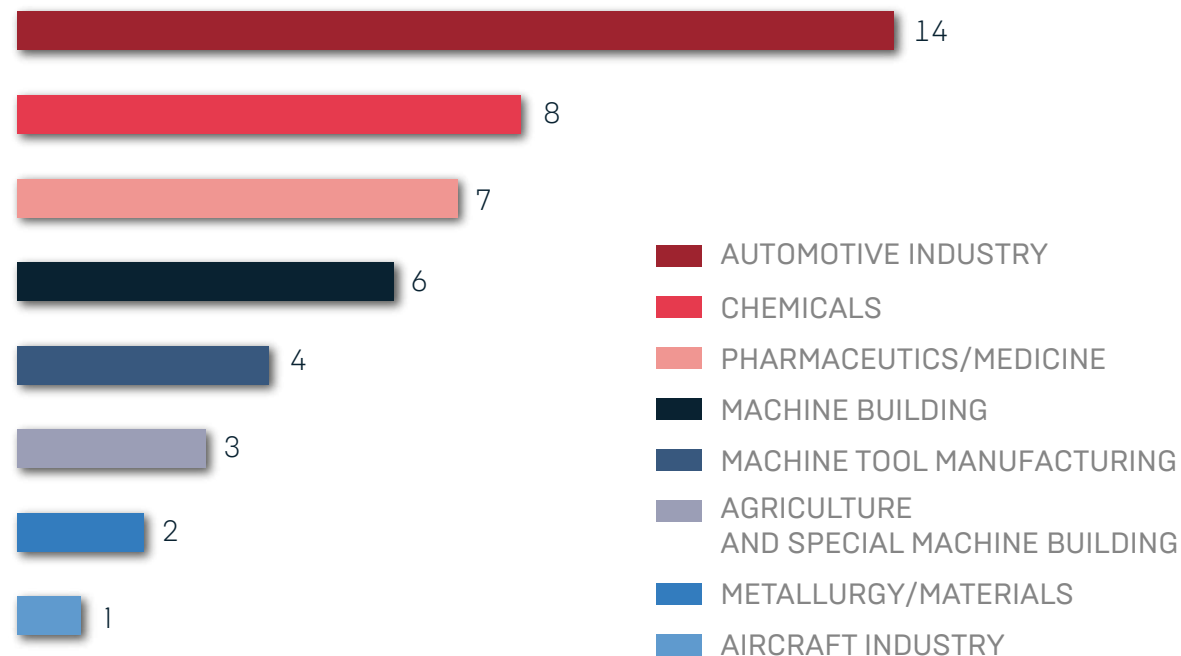
volume of tax payments



23 989 units

number of jobs

DISTRIBUTION BY ECONOMIC SECTORS, [PCS.]



¹ Resolution of the RF Government No. 708 dated July 16, 2015 "On special investment contracts for specific industries"

SIGNED CONTRACTS (JAPAN)

01

TOYOTA MOTORS CORPORATION



- Updating the model range of cars and modernizing the facilities for their production
- Project cost: 20 000 million rubles

02

MAZDA SOLLERS Manufacturing Rus



- Creation of a plant for the production of engines for motor vehicles
- Project cost: 2 800 million rubles

03

ISUZU SOLLERS



- Creation of a new production of light commercial vehicle
- Project cost: 4 960 million rubles

04

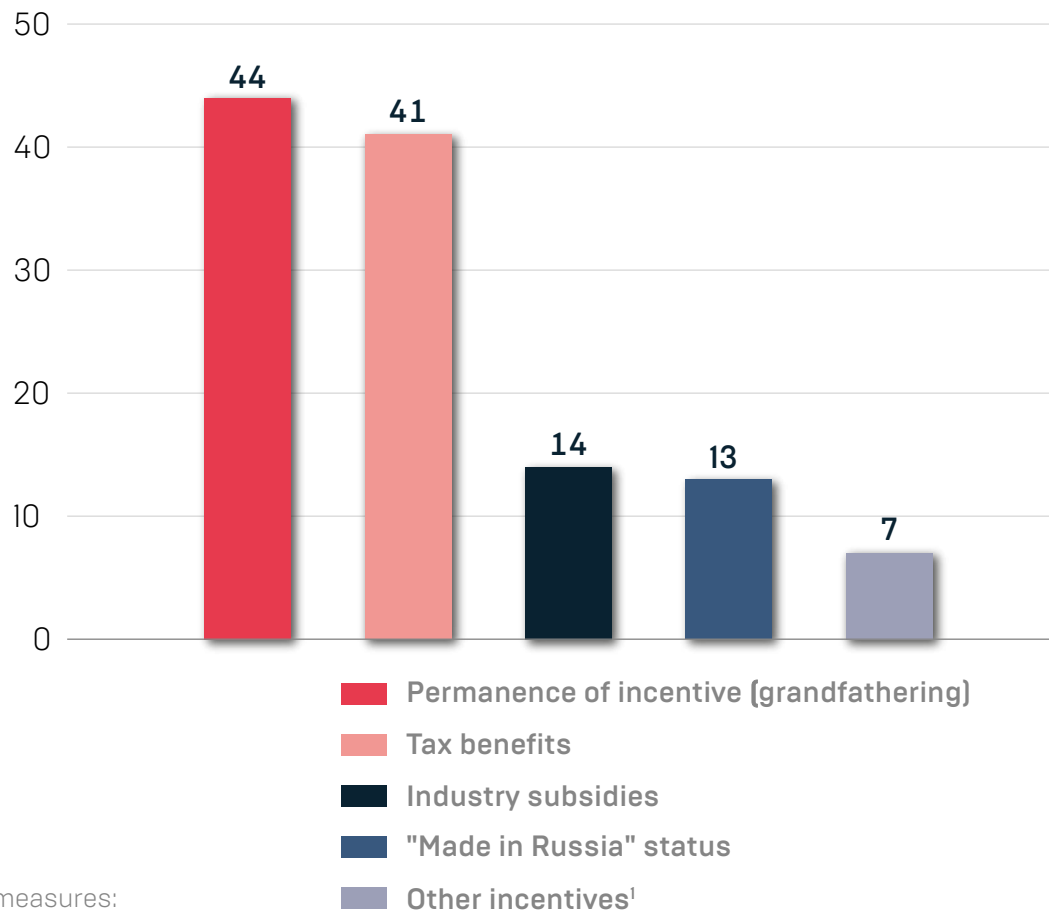
GILDEMEISTER Beteiligungen GmbH (DMG MORI)



- Modernization of industrial production of the Ulyanovsk machine-tool plant
- Project cost: 750 million rubles

OBTAINING THE "MADE IN RUSSIA" STATUS BY SPIC

DISTRIBUTION OF INCENTIVES



¹ Other measures:

- recognition of the investor as the sole supplier of goods whose production is to be set up in the Russian Federation
- creation of engineering infrastructure facilities

KEY INDICATORS



45 companies
signed federal SPIC 1.0

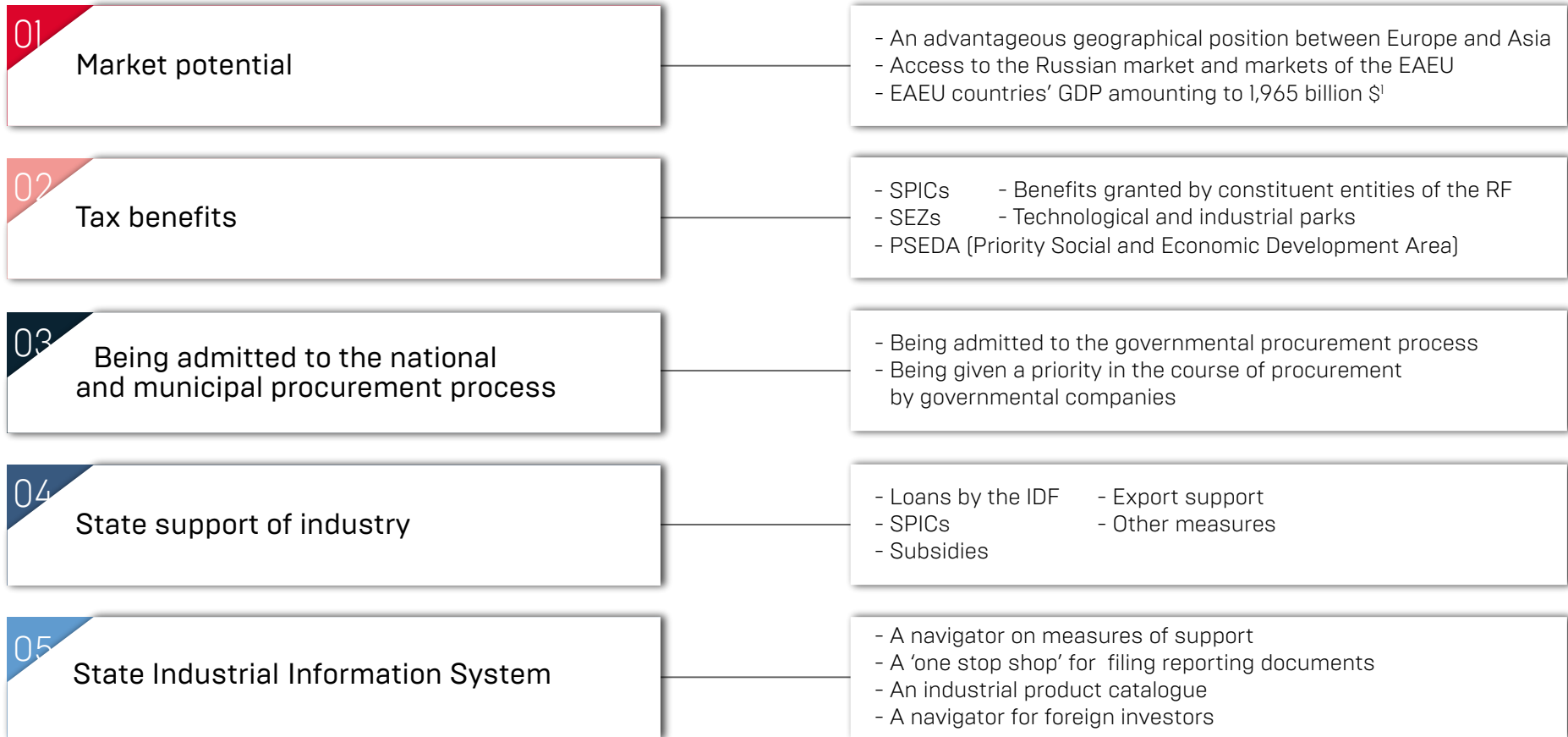


13 companies
got the status "Made in
Russia"



10 companies
that got the status
"Made in Russia" are
foreign investors

ADVANTAGES OF LOCALIZATION IN THE RUSSIAN FEDERATION



¹ According to the Eurasian Economic Commission's analytical summary dated 12 February 2020 for January to December 2019

MEASURES OF SUPPORT FOR LOCALIZATION IN THE RUSSIAN FEDERATION

Having obtained a confirmation that its products are manufactured in the Russian Federation, a manufacturer can be provided with a variety of benefits and measures of State support

01 BEING ADMITTED TO THE NATIONAL AND MUNICIPAL PROCUREMENT PROCESS

Being admitted to the governmental procurement process by virtue of Federal Law No. 44 dated 05 April 2013 "On the Contractual System in the Area of Procurement of Goods, Works and Services to Satisfy National and Municipal Needs"

Being given a priority in procurement by governmental companies by virtue of Federal Law No. 223 dated 18 July 2011 "On Goods, Works and Services Procurement by Certain Types of Entities"

02 INDUSTRY-SPECIFIC SUBSIDIES

Farming equipment and special-purpose machinery manufacturing [RF Government's Resolutions No. 145 and 146 dated 10 February 2018 and No. 1432 dated 27 December 2012]

03 CROSS-INDUSTRY SUBSIDIES

Export support [RF Government's Resolutions No. 719 dated 23 February 2019 and No. 496 dated 26 April 2017]

DETERMINATION OF THE "MADE IN RUSSIA" STATUS

01

**PRODUCTS
IN THE APPENDIX
TO THE RF GOVERNMENT
RESOLUTION NO. 719**

Application for the CCI¹ examination report submitted to the local CCI

Application for confirmation submitted to the Ministry of Industry and Trade of the Russian Federation

02

**COUNTRY
OF GOODS ORIGIN²**

If absent in the resolution No. 719

Application for the ST-1 certificate submitted to the local CCI

Application for confirmation submitted to the Ministry of Industry and Trade of the Russian Federation

03

**SPIC
CONCLUDED WITH THE
RUSSIAN FEDERATION**

Application for confirmation on the basis of the SPIC concluded submitted to the Ministry of Industry and Trade of the Russian Federation

! Applications are submitted and confirmations are issued through the GISP

! After receiving confirmation from the Ministry of Industry and Trade of Russia, the products are included in the Register of Russian industrial products

¹ Chamber of Commerce and Industry of the Russian Federation

² Agreement "On the Rules for determining the country of origin for products in the Commonwealth of Independent States" (as revised on 20/11/2009)

CRITERIA FOR DETERMINATION OF THE "MADE IN RUSSIA" STATUS

01 PRODUCTS IN THE APPENDIX TO THE RF GOVERNMENT RESOLUTION NO. 719

possession of rights for the design and technical documentation, sufficient for the production, modernization and development of the products for the period of not less than 7 years

availability of a **service center** in the territory of one of the EurAsEC countries

maintenance of percentage of foreign components for product manufacture

performance of a required number of **production operations in the RF**

02 COUNTRY OF GOODS ORIGIN

(country – party to the Agreement²)

change of the commodity item code according to the Foreign Economic Activity Commodity Nomenclature (any of the first four digits) due to the processing efforts

compliance with necessary conditions, performance of process and production operations in the territory of the country

ad valorem share rule when the cost of used materials of foreign origin reaches a fixed percent value in the price of the final product

cumulative approach (product's origin as a result of consecutive processing/recycling) is determined by the country of the final product manufacturing

03 SPIC CONCLUDED WITH THE RUSSIAN FEDERATION

the investor shall implement step-by-step¹ **technological and production operations** as required by the RF Government Resolution No. 719

In case of the product's absence in Resolution No. 719 of the RF Government, scheduled localization – in accordance with the requirements of the Agreement²

An on-site inspection of the availability of production capacities, equipment and workers, the implementation of technological operations will be conducted upon first appeal to the CCI

¹ but not more than during 7 years from the start date of product manufacturing

² Agreement "On the Rules for determining the country of origin for products in the Commonwealth of Independent States" [as revised on 20/11/2019]

PRODUCTION LOCALIZATION SUPPORT IN THE RUSSIAN FEDERATION (IDF LOANS)

"COMPONENTS"

PROGRAM

DESCRIPTION

Debt financing of projects on establishment and/or modernization **of production facilities for components** intended for the use as part of the **products listed in the appendix** to Resoution **No. 719** of the RF Government

PROGRAM CONDITIONS

Loan amount ¹ :	50 - 500 mln ₺
Loan rate:	1% - first three years 5% - remaining contract term
Project budget:	≥ 62,5 mln ₺
Loan term:	up to 5 years
Applicant's co-financing :	≥ 20% of the project budget
Target sales of new products:	≥ 30% of loan amount per year, from the second year of mass production
Loan target purpose (of the loan amount):	≤ 10% - general business expenses ≤ 50% - pilot preproduction

- ✓ Possibility to use **preferential loans along with other state support measures**: subsidies, SPIC, regulatory state support measures
- ✓ **The Applicant is a resident of the RF**; the key contractor/equipment supplier is a resident of the RF or a foreign legal entity that is not registered in a low-tax jurisdiction
- ✓ Loan security shall be: not less than the loan amount + interest amount for the whole period
- ✓ The loan may not be used for construction, real estate purchase or R&D

Project is implemented in the RF and is among the industries financed by the IDF

¹In case of co-financing together with the regional industrial development fund, the loan amount is 20-100 million rubles

PRODUCTION LOCALIZATION SUPPORT IN THE RUSSIAN FEDERATION

(EXAMPLES OF SUCCESSFUL IDF PROJECTS)

01

SCHATTDECOR, LLC

[Germany]

schattddecor

- Loan under the **“Development Projects”** program for 500 mln ₺
- **Production of surface decor film on a paper basis** for furniture and construction materials
- Around **10% of the production volume, the company plans to export to Germany, Poland and CIS countries**
- Installation of modern high-tech equipment which will allow to implement new innovative film products on the Russian market

02

ELME MESSER RUS, LLC

[Germany and Estonia]

ELME MESSER GMS
Gases for Life

- Loan under the **“Development Projects”** program for 499 mln ₺
- Construction of an air separation plant **for the production of liquefied technical and medical gases: oxygen, nitrogen and argon**
- Around **35% of the production volume, the company plans to export to Belarus, Latvia and Lithuania**
- The project implementation will allow to reduce the dependency of Russian companies in the North-Western Federal District on import from EU countries

03

COSKUNOZ ALABUGA, LLC

[Turkey]

COŞKUNÖZ
ALABUGA

- Loan under the **“Components”** program for 500 mln ₺
- Construction of a new production workshop for progressive and transfer presses
- **import-substituting production of stamped chassis parts of motor vehicles** for “AutoVAZ” and other car-manufacturers

INFORMATION SUPPORT

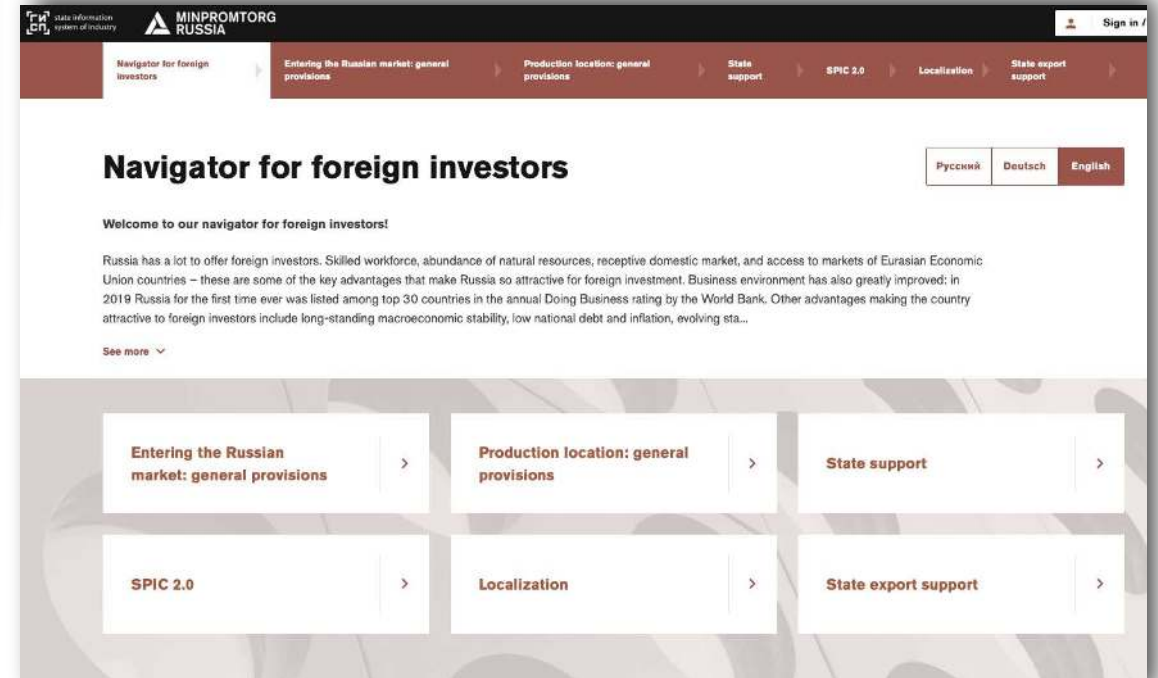
'ONE STOP SHOP'

In the IDF consulting centre, anyone can be provided for free with information on all forms of State support for manufacturing businesses

! On the basis of the State Information System of Industry we designed a **Foreign Investor's Navigator**¹ intended specifically for foreign companies

FROM NAVIGATOR YOU CAN LEARN

- about prerequisites to entering the Russian market
- how to incorporate a company and set up manufacturing facilities
- how to make arrangements for product sales
- about measures of State support (including SPIC 2.0)
- about manufacturing facilities localization nuances and many other things



¹ <https://gisp.gov.ru/invest/de/de-DE>