

Guide to investment

Volume 5. Republic of Tatarstan



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This overview has been prepared in conjunction with and based on the materials provided by the Ministry of Economy of the Republic of Tatarstan.

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Welcome letter from the President of the Republic of Tatarstan

Dear readers and partners,

As a result of careful planning and a sustained focus on public and private sector cooperation around priority industries, Tatarstan is one of the most economically and socially developed regions in Russia. In this challenging economic environment, we continue to pursue a clear and long-term strategy of cooperation between the public and private sectors through the implementation of legislative and organisational initiatives designed to foster a favourable environment for attracting investment. The execution of this strategy and economic policy based on the identification of opportunities and investments in priority industries will ensure the Republic's competitive advantage and future economic growth.

Tatarstan already has proven leaders working in many of these priority industries such as the oil and gas, petrochemicals, energy, aviation, automotive, and agriculture industries. In addition, through our cluster approach to investment policy, we are creating an innovative investment infrastructure as part of a consistent overall strategy. The republic is proactively building and developing science and technology parks. The expansion of business incubators is currently the main driver for building an innovative investment infrastructure in the republic.

The social and economic development of the Republic of Tatarstan over the past few years has been greater than the Russian Federation as a whole. This economic growth would have been impossible without an adequate inflow of investments into the Tatarstan's economy. The investment component in the gross regional product has increased up to 28.4% (21.2% in Russia) for the last three years. During this period foreign investments have increased 3.5 times and reached USD 1.68 billion. According to the results of 2007, the Tatarstan ranked sixth among Russian regions for capital investments.

With federal support, the republic has developed a special economic zone in the Elabuga region for industrial and manufacturing companies. The zone is now home to new hi-tech production in the chemical, petrochemical, mechanical engineering and metal working industries. All necessary legal and regulatory provisions are in place to enable project participants to enjoy additional tax benefits.

The republic has implemented and is continuously improving a package of socially-focused legal and organisational initiatives to accommodate the needs of all businesses and to power innovative investment projects in order to develop a proper competitive, science-intensive and hi-tech production environment. I hope this publication will not only give you a better insight into the social, economic and investment potential of our republic, but also provide you with a glimpse of our unique business and national culture. Tatarstan is ready for fruitful and mutually beneficial cooperation.

Mintimer Shaimiev
President of the Republic of Tatarstan

A handwritten signature in blue ink, which appears to read 'Mintimer Shaimiev', written over a horizontal line.

Greeting from the Prime Minister of the Republic of Tatarstan

Dear Ladies and Gentlemen,

The Republic of Tatarstan is one of Russia's most rapidly developing regions, with an economy favourable both for Russian and foreign investors. According to assessments by international and Russian rating agencies, Tatarstan has been in the top ten Russian regions with the lowest overall investment risk for the past decade.

Today, the major factors encouraging investments in the republic are, first and foremost, the stability of the legal environment and the preferential treatment provided to investment companies. Others factors are Tatarstan's diversified economy and its strong knowledge and production base.

I am certain that Tatarstan's future is closely tied to its further integration into the global economy, through developing enduring, mutually beneficial business relationships and by attracting new strategic partners. We are particularly interested in high-quality investments – not just in financial form, but in new technology and innovation.

Finally, I would like to assure potential investors that Tatarstan's government will make every effort to help your business prosper in a favourable environment, and your relations with local enterprises develop on terms of mutual understanding and cooperation.

Rustam Minnikhanov
The Prime Minister
of the Republic of Tatarstan





Foreword

The Republic of Tatarstan is one of Russia's most favourable regions for investment. It is located at the heart of a large industrial region, at the crossroads of important routes connecting east and west, north and south. Tatarstan is rich in natural resources and has a strong, diversified production sector, high intellectual potential and a skilled labour force.

Stable economic growth is making the republic more attractive to many Russian and foreign investors and allowing them to operate successfully in oil refining and production, chemicals and petrochemicals, communications, mechanical engineering, the food industry and agriculture. Tatarstan's steady economic growth over the past few years has attracted a lot of Russian and foreign investors. However, the financial crisis that started in 2008 in the US has also affected the region: the economic boom of the first half of 2008 was replaced by a slowdown in growth. In response, the Administration of the Republic of Tatarstan is introducing several anti-crisis measures to normalise the region's economy.

Tatarstan's state policy for increasing foreign investment includes a number of actions aimed above all at improving the investment climate and supporting innovation in the chemical and petrochemical industry, mechanical engineering, the service industry, and small and medium businesses. To this end, the Alabuga special economic zone was established in the Elabuga region in December 2005. This industrial special economic zone was created to bolster the economy of both the republic and of Russia as a whole by providing favourable conditions for companies wishing to implement investment projects in industrial production.

Tatarstan is known for its strong history of academics and advanced field research. The republic has 64 higher education institutions (including 38 state institutions), most of which are in Kazan. We work with a number of universities on a regular basis and believe that the republic has huge educational and research potential.

This guide will help potential investors assess the most promising industries of Tatarstan's economy. It has been prepared in collaboration with Tatarstan's Ministry of Economy and is based on materials supplied by the ministry.

Peter Gerendasi
Managing Partner
PricewaterhouseCoopers Russia

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General information about the Republic of Tatarstan

Geography

Tatarstan is one of the most economically developed regions in Russia. It is located in the centre of a large industrial region, 800 kilometres east of Moscow, at the confluence of the Volga and Kama rivers.

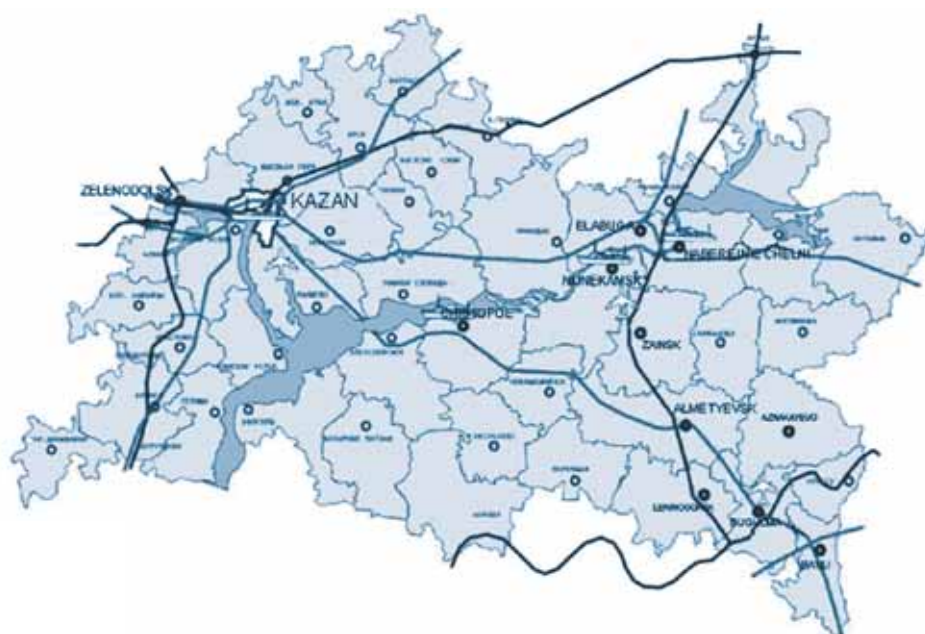
Tatarstan is located in the east of the East European Plain along the middle course of the Volga River. The Volga and Kama valleys divide the republic into three regions: the Volga right-bank area (Predvolzhye), which comprises the Privolzhskaya Upland, traversed by river valleys and steep gorges along the Volga; the Volga left-bank and Kama right-bank areas (Predkamye), an undulating plain; and the Kama left-bank area (Zakamye), with the northern slopes of the Bugulma-Bebeley Upland (maximum elevation 364 metres). To the north-west is the southern part of the Vyatsky Knap. Major rivers include the Volga, the Kama, the Belaya and the Vyatka.

The four rivers' volume is 234 billion cubic metres per year (97.5% of the total river volume). In addition to the four rivers, approximately 500 other small rivers at least 10 kilometres in length and numerous streams flow across Tatarstan. Significant water resources are concentrated in two of the biggest reservoirs:

the Kuibyshev and the Nizhnekamskoye. There are also over 8,000 small lakes and ponds in the republic.

Tatarstan is located in hardwood, mixed forest and forest-steppe zones. The main soil types are sod-podzol, grey forest and black earth. Mainly greenwood forests made up of oak, linden, and maple cover 16% of the territory. Local fauna is made up of 430 species of vertebrates and hundreds of species of invertebrates. The range of animals includes wolves, foxes, elks, squirrels, chipmunks, marmots, and hares; among birds there are wood grouse, hazel grouse, and bustards.

The republic has industrial quantities of limestone, dolomite, mason's sand, sand-gravel aggregate, and peat. There are geological reserves of natural bitumens, brown and black coal, slate coal, zeolite, copper, and bauxite. Tatarstan is rich in mineral resources, with crude oil (approximately 0.8 billion tonnes) representing its main source of wealth. Along with crude oil, gypsum (total reserves 72 million tonnes), natural bitumens (explored reserves 12.5 billion tonnes), peat (there are about 800 peat deposits having a total area of more than 35,000 hectares), construction stone (35.3 million cubic metres), loam (73.5 million cubic metres), limestone and dolomite (66 million tonnes) are also present.



The total area of the republic is 67,836 square kilometres, and its territory stretches 290 kilometres north to south and 460 kilometres east to west.

Tatarstan is a constituent region of the Privolzhsky Federal District and borders eight Russian regions: the Republic of Bashkortostan, the Udmurt Republic, the Mari El Republic, the Chuvash Republic, and the Kirov, Orenburg, Ulyanovsk, and Samara regions.

Administrative and territorial division

Tatarstan is a highly urbanised region, with 74,7% of the population living in urban areas. The Republic is divided into 43 districts, 21 cities (of which 14 are subordinate to the republic), 21 urban settlements, and 910 village councils. The major cities are Kazan, Naberezhnye Chelny, Almetyevsk, Nizhnekamsk, and Zelenodolsk.

The capital

Kazan, the capital of Tatarstan, is one of the largest industrial, scientific and cultural centre in Russia.

Kazan is located on the left bank of the Volga in the estuary of the Kazanka River and has the largest population and economic potential among the cities of the republic.

Kazan is 425.3 sq km in area, and has a population of 1.11 million. Young people below the age of thirty constitute 40.7% of the population. Administratively, Kazan is divided into 7 districts.

Kazan is a city with a rich history. Once a Boulgar frontier fortress, in the Golden Horde period it became the capital of an independent emirate, and of the Kazan Khanate in 1438. After Kazan fell to Ivan the Terrible in 1552, the city was nearly completely destroyed. In 1708, Kazan became the centre of the Kazan province. From 1920 Kazan was the capital of the Tatar Autonomous Soviet Socialist Republic and from 1992, of the Republic of Tatarstan.

On 30 August 2005, the capital of Tatarstan celebrated its 1000th anniversary.



Major cities



Naberezhnye Chelny is located in north-east Tatarstan on the banks of the River Kama. The city has one main industry, with nearly its entire population somehow associated with the local economic mainstay Kamsky Motor Works (OAO KamAZ), the largest automobile corporation in the Russian Federation and producer of a wide range of trucks, trailers, buses, tractors, engines and associated spare parts.



Almeteyevsk is the largest centre of crude oil production in Tatarstan; here begins the Druzhba Oil Pipeline, through which Tatarstan exports its crude oil. The largest company in the region is OAO Tatneft (a producer of crude oil and petroleum gas). The Almeteyevsk Petroleum Institute plays an important role in training personnel for the main industry of the republic.



Nizhnekamsk is one of the largest centres of the Russian petrochemical industry. Major manufacturers are OAO Nizhnekamsk Petrochemical Plant, OAO Nizhnekamskneftekhim, OAO Nizhnekamskshina, OAO Nizhnekamsktekhuglerod and Elastik Plant. The Nizhnekamsk Hydroelectric Power Station supplies electrical power to both the city and the whole economic region.



Zelenodolsk is an important transport junction in the west of the republic. Products made by the shipbuilding plant and Zergo production association plant located in the city are in demand far beyond Tatarstan.



Climate

Tatarstan has a moderately continental climate. Occasional droughts may occur. The average temperature in January (the coldest month) is -14°C , and in July (the hottest month) the average temperature is $+19^{\circ}\text{C}$. Annual precipitation ranges from 460 to 520 millimetres. The growing season lasts approximately 170 days.

Labour Force

A population of 3.8 million people (2.6% of the total Russian population) comprises 115 ethnic groups; these include Tatars (52.9%), Russians (39.5%), Chuvashes (3.4%) as well as Udmurts, Ukrainians, Mordovians, Mari, Bashkirs, and others. The labour force numbers 2.43 million people. 74.7% of Tatarstan residents live in urban areas.

According to 2002 census data, there are 754,000 people under working age (children) and 753,100 people over working age in Tatarstan. The economically active working population of the republic numbers 1.9 million people.

The educational level of the population is rather high: 435 people out of 1000 aged 15 and older have an intermediate or higher vocational education.

Religion

Over one thousand religious organisations are registered in the Republic of Tatarstan.

The most widespread religions are Islam and Orthodox Christianity.

There are small Jewish, Buddhist and Christian communities.

Official languages

Under the Republic of Tatarstan constitution, the Tatar and Russian languages have equal rights in the republic.

The Tatar language belongs to the Turkic group of the Altai family of languages, along with Kazakh, Uzbek, Turkish, etc. The Russian language (together with Ukrainian and Belorussian), is a member of the eastern Slavic subgroup of the Slavic group of Indo-European languages.



Culture

For historical and geographical reasons, Tatarstan is located on the junction of two large civilisations, the occidental and the oriental, and this to a large extent accounts for its diversity and cultural wealth.

A specific place in the life of the Boulgars and modern Tatars is reserved for literature. Traditions established by the poet Koul Gali in the 13th century were maintained by Mahmoud Gali, Saif Sarai and Mouhamedyar. Among the outstanding personalities of Tatar culture in the 19th and 20th centuries are G. Toukay, K. Nasyri, S. Marjani, G. Kamal, F. Amirkhan, R. Nouriev, B. Urmanche, G. Ibragimov, G. Iskhaki and M. Jalil.

There are seven historical complexes in the republic: in Bulgar and Bilyar, the city complexes of the Kazan Kremlin, Elabuga, Chistopol, Sviazhsk, the Monastery of Raifa, as well as six conservation areas.

The Kremlin – the current residence of the Tatarstan President – is the main sightseeing attraction in Kazan. It boasts a harmonious architectural arrangement consisting of the Annunciation Cathedral, the Syuyumbike Tower (the architectural emblem of the city) and the Kul-Sharif Mosque. Other places of interest in Kazan include the Kazan State University building (1825), the Azimov Mosque (mid 19th century), the St Peter and Paul Cathedral (1723-1726), and the Mardjani Mosque (1766).

There are seven unions representing creative professions in Tatarstan: the architects union, the journalists union, the composers union, the concert workers union, the writers union, the theatre workers union, and the artists union.

There are 115 children's music and art schools, a theatre school and a choreography school for children, five parks and a zoological/botanical garden.

There are three concert facilities: the Tatar State Philharmonic named after G. Tukai, the Large State Concert Hall named after S. Saidashev, the Tatarstan Republic State Ensemble of Song and Dance, and the Kazan State Circus.



Theatres

There are now twelve professional theatres in Tatarstan, including seven in Kazan. The Tatarstan State Theatre of Opera and Ballet named after M. Jalil (established in 1939) is the most popular theatre both in and outside the republic, and hosts annual international opera festivals in honour of F. I. Shalyapin and classical ballet festivals in honour of R. Nuriev, featuring internationally famous ballet dancers and opera artists. The theatre achieved global fame and popularity after touring European countries.

The Tatarstan State Academic Theatre named after G. Kamal is famous for its productions of plays by classic Tatar playwrights such as N. Isanbet, G. Kamal, F. Yarullin, and T. Minullin. It has already become a tradition for the theatre to give performances in Moscow and countries with large Tatar communities.

The Kazan Academic Large Russian Drama Theatre named after V. I. Kachalov regularly participates in international festivals and is very popular with people from both Kazan and other cities.

Museums

In Tatarstan, there are 88 state and over 300 industry-sponsored museums that provide information about the history and culture of the region.

The United State Museum of the Republic of Tatarstan was established in 1894. The museum's collection was formed on the basis of exhibits from the Exhibition of Science and Industry held in 1890, as well as the collection belonging to A. Likhachyov.

The museum is dedicated to the nature of the region and its history from the earliest times.

The Museum of Fine Arts, created in 1959 under the aegis of the art gallery of the State Museum, exhibits more than 21,000 paintings, graphics, sculptures and applied arts works. The collection includes works by Rembrandt, D. rer, K. Bryullov, I. Aivazovsky, V. Perov, I. Kramskoy, A. Savrasov, I. Shishkin, A. Kuindzhii, I. Levitan, I. Repin, V. Vereshchagin, V. Serov, N. Roerich, N. Feshin, B. Urmanche and others.

The Geology Museum of the Kazan State University has an extensive collection of meteorites, minerals and crystalline rocks from the Urals and Siberia.

The Ethnography Museum of Kazan State University provides information about the life of peoples from various parts of the globe. It also exhibits materials collected by I. Simonov during the Antarctic expedition of Bellinsgausen and Lazarev.

The following museums may also be of interest for those visiting Tatarstan: the M. Dzhailil and N. Zhiganov apartment museums; the E. Boratynsky, A. Gorky, B. Urmanche, and S. Saidashev museums in Kazan; the Y. Gashek museum in Bogulma, and the I. Shishkin, M. Tsvetayeva and N. Durova museums in Elabuga.

In August 2005, a unique museum and exhibition complex named Khazine was opened in the Kazan Kremlin, including the Hermitage-Kazan Exhibition Centre – the first of its kind in Russia.



Education and science

Tatarstan is a region with huge educational and scientific potential; nearly 170,000 people work in educational institutions here.

There are 2,555 schools in the republic with nearly 586,800 school children. After completing their compulsory period of education, more than 90% of young people continue their school studies for two more years or enter specialised secondary educational establishments.

Tatarstan is famous for its well-developed academic and industrial sciences as well as its higher education system. Its capital, Kazan, has been one of the leading western European scientific centres for two hundred years. Kazan is proud of its internationally famous scientific schools of mathematicians, chemists, astronomers, physicists, orientalists, linguists, and physiologists. Such names as N.I. Lobachevsky, N.N. Zinin, A.M. Butlerov, A.E. Arbuzov, E.K. Zavoisky, V.V. Radlov, K. Fuchs, S. Marjani, and K. Nasyri made historical contributions to the world of science.

Kazan is one of the oldest educational centres in Russia. There are 64 institutions of higher education in Tatarstan (including 38 public institutions); most of which are situated in Kazan.

Four Kazan-based higher education institutions rank among the top 50 Russian universities: Kazan State University named after V.I. Lenin, the Kazan State University of Technology named after S.M. Kirov, the Kazan State Technical University named after A.N. Tupolev, and the Kazan State Institute of Finance and Economics.

Science in the region is advanced by the Tatarstan Academy of Sciences, the Kazan Centre of the Russian Academy of Sciences, the National Library of Tatarstan (which has 2.8 million books), and the Kazan University research library (4.8 million books).



Administration

The president of the Republic of Tatarstan is the head of state and highest official.

Mintimer Sharipovich Shaimiev – President of the Republic of Tatarstan

The president heads the republican executive system. He defines the structure of the executive bodies of state power of the Republic of Tatarstan, forms the Cabinet of Ministers and directs its activities, proposes the Prime Minister's candidature for approval by the State Council, appoints (coordinating with the State Council) deputy prime ministers, appoints ministers and other members of the Cabinet and, when necessary, dismisses the prime minister and members of the Cabinet.

The structure of Tatarstan's Cabinet of Ministers:

- **Rustam Nurgalievich Minnikhanov – Prime Minister**
- **Ravil Fatykhovich Muratov – First Deputy Prime Minister**
- **Boris Petrovich Pavlov – First Deputy Prime Minister**
- **Marat Gotovich Akhmetov – Deputy Prime Minister, Minister of Agriculture and Foodstuffs**
- **Zilya Rakhimyanovna Valeeva – Deputy Prime Minister, Minister of Culture**
- **Head of the Office of the Cabinet of Ministries of the Republic of Tatarstan**
- **and heads of Ministries and Committees.**

The Cabinet of Ministers is an executive and administrative body of state power.



Ministries and Committees of the Republic of Tatarstan:

- Ministry of Agriculture and Foodstuffs
- Ministry of Civil Defence and Emergency Situations
- Ministry of Construction, Architecture and Housing
- Ministry of Culture
- Ministry of Ecology and Natural Resources
- Ministry of Economy
- Ministry of Education and Science
- Ministry of Finance
- Ministry of Forestry
- Ministry of Health Care
- Ministry of Informatisation and Communications
- Ministry of Internal Affairs
- Ministry of Justice
- Ministry of Labour, Employment and Social Protection
- Ministry of Land and Property Relations
- Ministry of Transport and Roads
- Ministry of Youth, Sports and Tourism
- Committee on the Development of Small- and Medium-sized Businesses
- Committee on Social-Economic Monitoring
- Committee on Tariffs

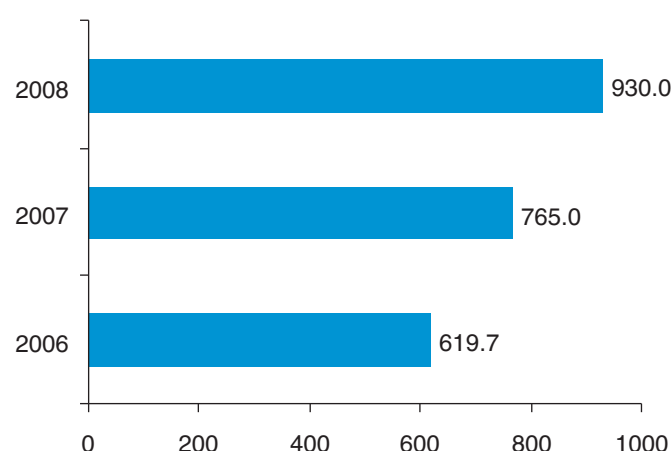
Economic potential

Gross regional product (GRP)

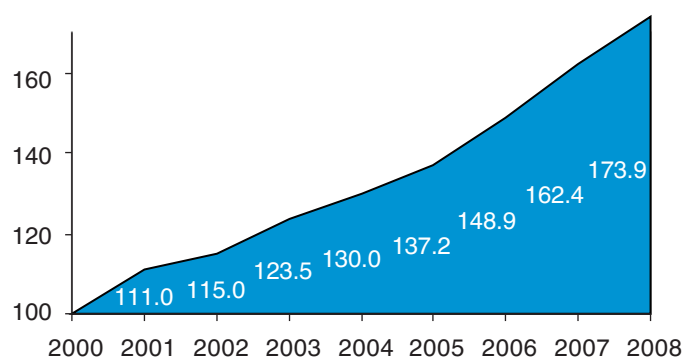
The Republic of Tatarstan ranks first among the republics in Privolzhsky Federal District and fifth in Russia in terms of gross regional product, industrial production and capital investments.

In 2008 Tatarstan's GRP reached an estimated RUB 930 billion, which is 7.1% growth on 2007 in adjusted prices.

GRP movements, RUB bln

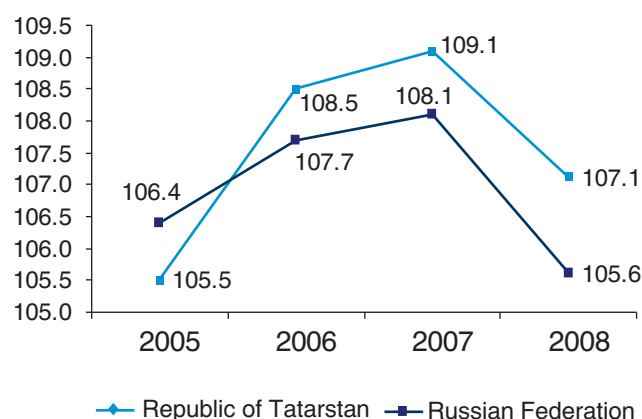


GRP in relative prices as % to 2000 level



Tatarstan's gross regional product experienced 174% growth in adjusted prices on the 2000 level, whereas Russia's GDP during the same period saw 166% growth.

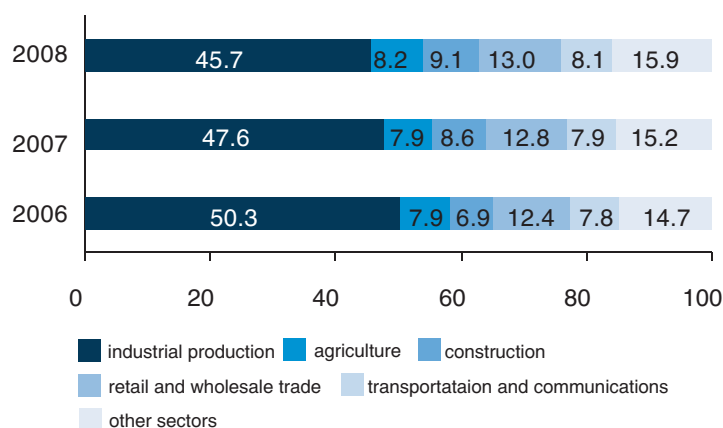
GDP and GRP in adjusted prices, year-on-year %



GRP experienced 107.1% growth in 2008 compared to 109.1% in the previous year – higher than the Russian gross domestic product (105.6% compared to 108.1%).

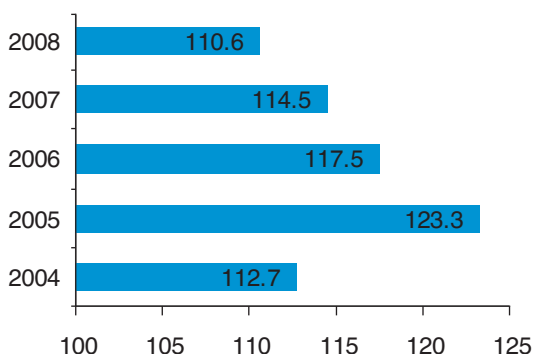
The GRP's composition in 2008 in comparison to 2007 saw an increase in the share of agriculture (0.3%), construction (0.5%), trade (0.2%) and transportation and telecommunications (0.2%), and a decrease in industrial manufacturing (1.9%).

Structure of GRP broken down by sector %



Personal income

Real personal income, % growth year-on-year



Personal income per capita in 2008 grew 24.9% on the year to reach RUB 652.7 billion. Real personal income in 2008 was up 110.6% from the previous year.

Consolidated budget

(RUB million)

	2006	2007	2008
All incomes	88,327	106,133	139,269
fiscal	62,908	79,910	101,269
non-fiscal	10,128	12,530	13,674
non-repayable revenues from the federal budget	15,291	13,693	24,326
Expenditures – total	86,262	108,518	146,268

Major banks

Bank name	Contact information
ОАО АК БАРС Bank	CEO: Management Board Chairman Robert Khamitovich Minnegaliev Address: 1 Dekabristov Ul., Kazan, 420066; Phone: +7(843)519-39-99 / 519-39-74; Fax: +7(843)239-73-75 / 519-39-75; E-mail: pozd@akbars.ru Internet: http://www.akbars.ru
ОАО АИКБ Татфондбанк	CEO: President Ildus Anvarovich Mingazetdinov; Address: 43/2 Chernyshevskogo Ul., Kazan, 420111; Phone: +7(843)291-61-05 / 291-61-06 / 291-61-01 / 291-99-99 / 291-98-00 / 291-98-10; Fax: +7(843)291-98-95 / 291-98-04; E-mail: tfb@tfb.ru Internet: http://www.tfb.ru
ОАО АКБ Спурт	CEO: Management Board Chairman Evgeniya Valentinovna Dautova Address: 2 Spartakovskaya Ul., Kazan, 420107; Phone: +7(843)291-50-00 / 291-50-21 / 291-51-05; Fax: +7(843)291-50-15; E-mail: info@spurtbank.ru Internet: http://www.spurtbank.ru
ОАО Joint-Stock Commercial Mortgage Bank АКИБАНК	CEO: Management Board Chairman Ildar Khaydarovich Galyautdinov; Address: 88a, Prospect Mira, Naberezhnye Chelny, 423818; Phone: +7(8552)77-33-33 / 77-33-80 / 77-33-88 Fax: +7(8552)72-23-77; E-mail: office@akibank.ru Internet: http://www.akibank.ru
ОАО АБ Девон-Кредит	CEO: President, Board Chairman Nafis Navykovich Gumarov Address: 77 Lenina Ul., Almet'yevsk, 423450; Phone: +7(8553)325777 / 25-88-35 / 25-88-46; Fax: +7(8553)317513; E-mail: devon@devoncredit.ru Internet: http://www.devoncredit.ru

Federal and regional economic and social development programmes

In 2008 the Republic of Tatarstan participated in special-purpose programmes at both the federal and the local level.

Federal special-purpose programmes:

Modernisation of Russia's Transportation System 2002-2010; Housing; Social Development in Rural Areas to 2012; Russian Culture 2006-2010; Development of Physical Education and Sport in the Russian Federation 2006-2015; and others.

Local special-purpose programmes:

Children of Tatarstan 2008-2010; Health and Safety in the Workplace 2007-2009; Preservation, Study

and Development of the Languages of the Republic of Tatarstan 2004-2013; Drug Abuse Prevention 2007-2009; Traffic Safety 2008-2009; Capital Investment Programme 2008; Transport Infrastructure Development 2006-2010; Reform and Modernisation of the Housing and Utilities Sectors (2004-2010); Energy Sector Development 2006-2010; Miras-Heritage, a special-purpose integrated programme for cultural heritage preservation (2007-2009); Environmental Conservation 2008; Introducing Stem Cell Research to Tatarstan 2008; Road Works on Public-Access Roads 2008; Housing Aid on Favourable Terms from the Government of the Republic for Citizens of the Republic; Publicising Labour and Engineering Professions to Attract and Retain Specialists in the Republic 2008-2010; and others.



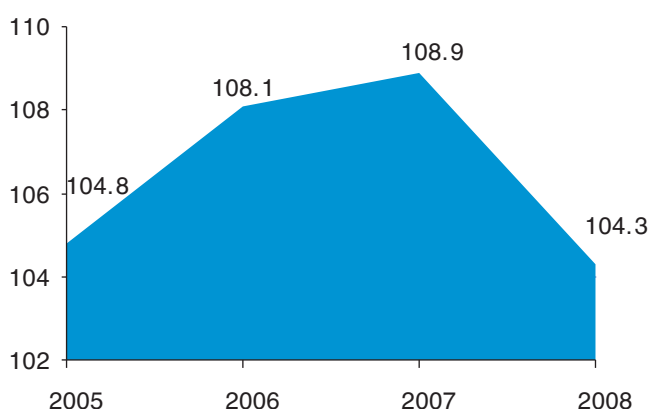
Main industrial products

The republic's key industrial products include the following (2008 data):

- Fuel and energy sector: electric power – 24.6 b kWh; oil, including gas condensate, – 32.2 million tonnes;
- Chemical and petrochemical industries: polyethylene – 550,700 tonnes; synthetic rubber – 435,500 tonnes; tyres for light vehicles, trucks and agricultural machinery – 11.9 million units;
- Auto industry: trucks and passenger cars – 97,600 units;
- Forest, pulp and paper industries: plywood – 103,700 cubic metres; paper – 53,700 tonnes; cardboard – 161,100 tonnes.

Industrial production by key sectors

Industrial production index (IPI)
(% on previous year)



The industrial production index (IPI) in 2008 was up 104.3% on 2007.

In 2008, production of oil grew by 0.9 %, sulphur by 2.2%, petrol by 25.3%, diesel fuel by 12.5%, synthetic resin and plastics by 6.5%, synthetic rubber by 11.3%, polyethylene by 4.9%, synthetic detergents by 8.6%, concrete by 9.4%, tyres for farming equipment by 1.6%, compressor units by 31.3%, cars by 31.7%, windows by 18.9%, doors by 9.5%, meat by 1.6%, semi-processed meat products by 27.1%, margarine by 4.6%, mayonnaise by 5.5%, pasta by 18.4%, granulated sugar by 18.7%, flour by 2.6%, animal feed by 14.4%, knitwear by 18.5% and leather shoes by 4.1%.

However, during the same period, the production of certain goods declined, in particular, sausage products by 20.7%, whole-milk products by 2.4%, cereals by 3.0%, hosiery by 10.1%, truck tyres by 8.7%, tyres for light vehicles by 1.9%, technical carbons by 3.0%, heating oil by 7.7%, refrigerators by 0.9% and gas stoves by 33.6%.

The Republic of Tatarstan is Russia's leading producer of a number of key industrial products. The republic produces about 6.6% of Russian oil, 38% of styrene, over 26.4% of gas turbines, approximately 40% of ethylene and polyethylene, 24% of trucks and approximately 30% of tyres.

Key industries include oil production and refining, chemical and petrochemical industry, aircraft, machine and metalwork production, and agriculture.

Oil production and refining

The main products produced in this sector are oil, associated gas, heating oil, diesel and petrol. Tatarstan's key natural resource is oil, with estimated undiscovered resources of one billion tonnes. 34 oil companies operate in the republic, the largest of which is OAO Tatneft. In 2008, the Republic of Tatarstan produced 32.2 million tonnes of oil (100.9% of the figure for 2007), 2,040,400 tonnes of diesel and 1,899,400 tonnes of heating oil were also produced.

Machine industry and metalwork production

The main segments of the Republic of Tatarstan's machine industry comprise the aircraft and auto industries, compressor unit and medical equipment manufacturing, the production of equipment for the fuel and petrochemical industries, shipbuilding and ship repair, lifting and transporting equipment, and others. Among the republic's major companies are OAO KAMAZ, OAO Zavod mikrolitrazhnykh avtomobiley (Small Car Plant), OAO Kazan Helicopter Plant, OAO Kazancompressormash, OAO Alnas, OAO A.M. Gorky Plant, OAO KMPO, and the Federal State Unitary Enterprises KAPO (named after S.P. Gorbunov) and the Sergo Plant.

Chemical and petrochemical industry

Tatarstan's petrochemical industry accounts for 28% of all petrochemical goods produced in the Volga region and for about 13% of the entire Russian petrochemical output.

Major Russian chemical and petrochemical companies based in the republic, including OAO Nizhnekamskneftechim, which accounts for 38% of Russia's synthetic rubber production, and OAO Kazanorgsynthet, Russia's largest manufacturer of high and low density polyethylene (about 40% of Russia's output). OAO Nizhnekamsk, major Russian passenger car and truck tyre producing company (which accounts for 30% of Russia's car and truck tyre output) as well as the largest household cleaning products manufacturer, OAO Nefis Cosmetics, are also located in Tatarstan.



Agricultural sector



The agricultural sector of the republic is one of the most stable sectors of the Tatarstan economy, and though the republic's territory is located in what is considered to be an area of difficult farming, grain production in Tatarstan has nevertheless over the last few years yielded one of the largest crops in Russia, with only the native grain growing regions of the southern federal districts of Russia producing more.

In 2008, the volume of agricultural output of all agricultural producers generated revenue of RUB 124 billion, representing 109.3% of 2007. Crop production for this period increased by 11.7%, while livestock production increased by 6.5%.

Crop production

The Republic's agriculture is focused on producing grain, potatoes, vegetables and sugar beet.

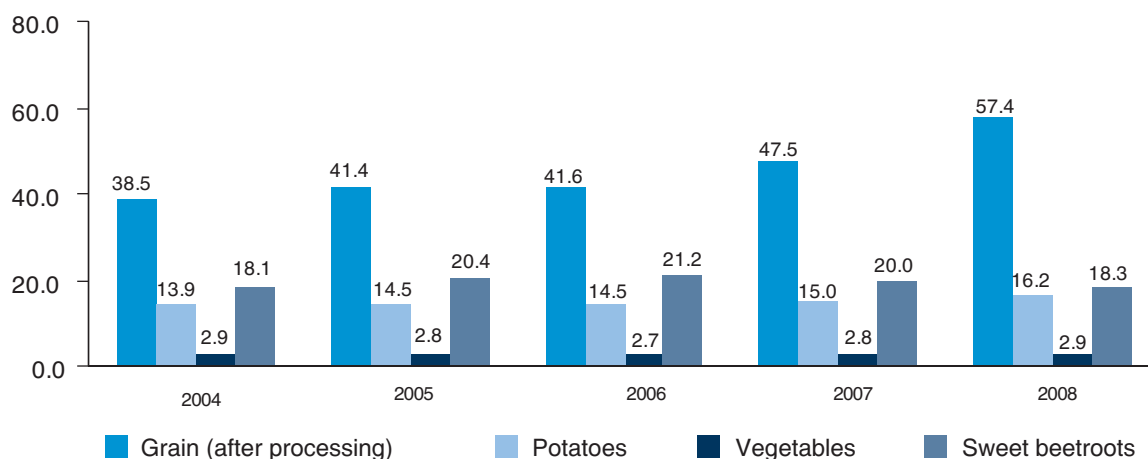
In 2008, the gross grain harvest of the republic was 6,321,400 tonnes of grain (or 5,743,300 tonnes after processing), which is 22.5% up on 2007. The average yield of grain crop after processing was 33.8 hundredweight per hectare.

In 2008 gross sugar beet output across the Republic dropped by 8.8% to 1,826,800 tonnes. The lower crop yield was due to an 11.8% decrease in harvested areas, but there was a 3.4% increase in harvest.

The potato crop totalled 1,620,000 tonnes (up by 7.8%), with harvested areas declining by 1.0% and crop yield up by 9.2%.

Across all types of farms, the gross yield of field vegetable crops grew by 7.2% as a result of an increase in harvested area (by 1.8%), with crop yield up by 4.7%. However, if the greenhouse industry is also included, the republic harvested 287,600 tonnes of vegetables in 2008, or 4.5% more than the figure for 2007.

Gross yield of agricultural crops (in million centner)



Livestock production

The republic is Russia's leading producer of meat and dairy products.

At the end of 2008, overall livestock numbers were 418,800 cows, 680,700 pigs, 392,500 sheep and goats and 11,924,300 poultry.

The main areas of livestock farming are the production of milk, beef, pork and poultry meat. In 2008 all facilities increased beef and poultry production by 9.9% over 2007, and milk by 4.7%.

Private farms account for a significant share of overall agricultural output. In 2008 the republic's farms increased production of cattle and poultry (in terms of live weight) by 37.0%, milk by 36.4% and eggs by 29.7% (compared to 40.6%, 36.6% and 28.0% in 2007, respectively).

In 2008, the private farm production of meat and milk increased by 67 kg and 483 kg respectively per capita over 2007 levels; while egg production per capita fell by 271 units (production per capita for 2007 was 61 kg, 462 kg and 286 units, respectively).

In 2008, the agricultural sector witnessed a 16.7% growth in meat (cattle and poultry) production (for comparison, in 2007 growth was up 13.8%

on 2006), while dairy production grew by 4.9% (compared to 8.6%). Egg production fell by 7.3% (compared to a growth of 5.4%).

In terms of meat production (cattle and poultry) by agricultural businesses, poultry accounted for 38.1%, beef 33.4% and pork 27.8%.

Timber

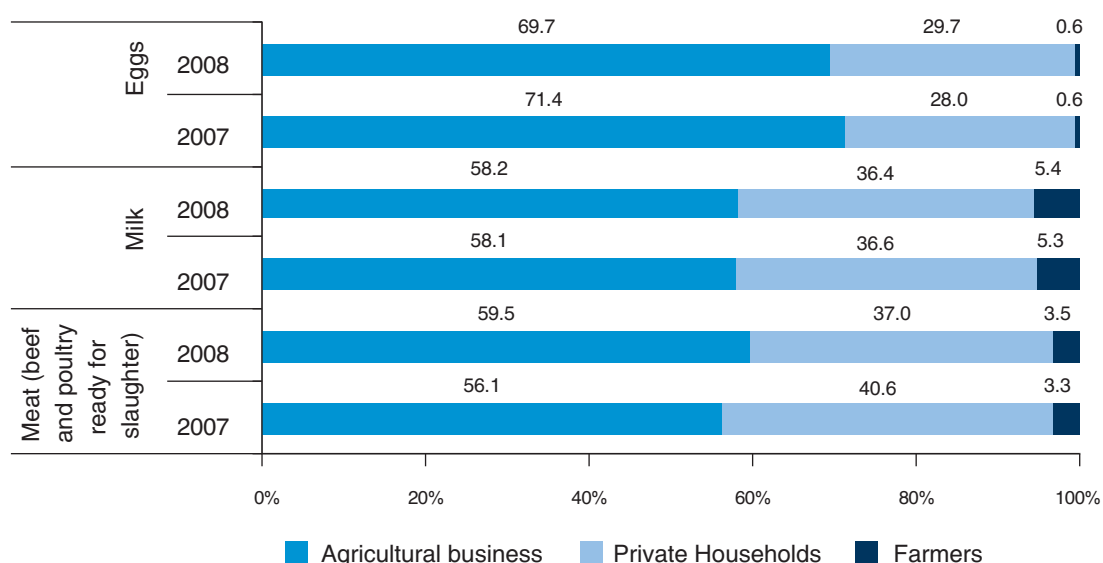
In December 2008, the timber production index was 89.4% compared to the same period in 2007, while in 2008 the figure was 90.1% compared to 2007.

In 2008, timber enterprises manufactured goods and provided services totalling RUB 31.4 million: 81.3% up on 2007 (in adjusted prices).

Fishing industry

The December 2008 index for the fishing industry was 2.6 times the figure for December 2007, while overall growth for 2008 was 100.1%.

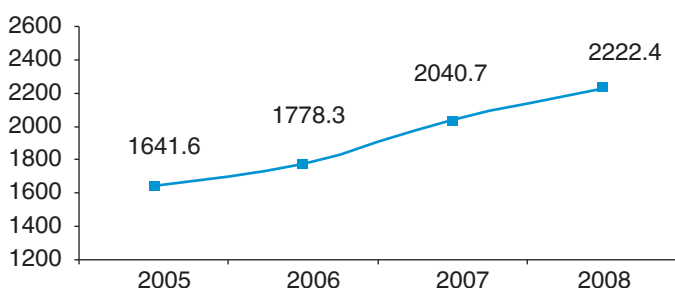
Production of main types of livestock by farm type, (%)



Construction

In 2008 the construction market was worth almost RUB 143.4 billion – up 11.3% from 2007.

Total housing built in the republic by all types of legal entities and individuals (thousand sq. m)



In 2008, legal entities and individuals residing in Tatarstan built 2.22 million sq. m of housing, representing an increase of 8.9% on 2007.

In 2008, the republic's local residents built 7,661 individual houses (986,900 sq. m), both by using their own capital and by taking out loans. This accounts for 49.6% of all new housing in the republic in 2008. During the same period, legal entities in the republic commissioned 18,849 apartments (1.24 million sq. m).

In 2008, the following facilities were commissioned in the republic

	Commissioned in 2008	% compared to 2007
Hospital bed capacity	504	84.6
Out-patient facilities, shift capacity	1,515	96.8
(including in rural areas)	15	3.8
Places in educational facilities	3,228	189.4
(including in rural areas)	1,254	156.8
Places in pre-school facilities	940	165.0
(including in rural areas)	180	66.7
Higher education, sq. m	4,263	-
Rest homes (for senior and disabled people), rooms	205	126.5
Sports facilities with artificial ice, sq. m	16,476	180.4
Gyms, sq. m	3,912	560.0
Stadiums	7,561	151.2
Theatres, rooms	195	-
Hotels, rooms	315	64.0
Swimming pools, sq. m	1,283	101.9
Clubs, rooms	180	10.3
(including in rural areas)	180	10.3

Fuel and energy sector

Tatarstan's energy sector fully meets the region's demand for electric and heating power.

Fuel and energy sector dynamics 2004-2008

	2004	2005	2006	2007	2008
Electric power output, billion kWh	23.7	23.8	24.9	25.1	24.6
Oil production (including gas condensate) in million tonnes	29.9	30.7	31.3	31.9	32.2
Gas, in million cubic metres	748.0	748.0	750.0	749.0	771.4

Mineral resources production

	2008	% compared to 2007
Fuel and energy production and related services:		
Oil, including gas condensate (in thousand tonnes)	32,194.5	100.9
Natural gas (in million cubic metres)	771.4	103.0
Hydrocarbon liquid gas (in thousand tonnes)	1,213.1	110.4
Mineral resource production not including energy:		
Non-ore rock products (in thousand cubic metres)	4,612.3	93.0
Sulphur (in tonnes)	30,333	102.2

Transport infrastructure

The republic is situated on the intersection of major transport routes (railway, river, and road) running from east to west and from north to south, e.g., the Transsibir and North-South railways; the Volga and Kama rivers flowing to the Caspian Sea, the Urals and the Moscow Region; and the Centre – Far East federal motorway.

Roads. Hard-surface public roads cover 18,500km, including such federal motorways as:

- Moscow-Nizhny Novgorod-Kazan-Ufa-Chelyabinsk;
- Moscow-Nizhny Novgorod-Kazan-Perm-Yekaterinburg;
- Moscow-Nizhny Novgorod-Kazan-Orenburg;
- St Petersburg-Yaroslavl-Nizhny Novgorod-Kazan;
- Kazan-Ulyanovsk-Samara-Volgograd-Astrakhan.

Tatarstan has three cargo ports with 5 cargo territories, 4 passenger ports (Kazan, Naberezhnye Chelny, Chistopol, and Nizhnekamsk), 6 inland water terminals and the following three railway transport companies:

- OAO Kazan Cross-Industry Enterprise Promzheldortrans,
- OOO Zheleznodorozhnik,
- OOO Promtrans.

The first metro in Kazan was opened on 27 August 2005.

Railways. The following railway lines run through the republic: Moscow – Kazan – Yekaterinburg, Kazan – Volgograd, and Naberezhnye Chelny – Bugulma.

Airports. Tatarstan's international airports operate scheduled flights to Germany, Greece, the Czech Republic, Cyprus, Turkey, Azerbaijan, Uzbekistan and Tajikistan.

Of the six airports located in the Republic of Tatarstan, two (Kazan and Begishevo) are federal airports.

River transport. The Volga, Kama and Vyatka rivers are navigable waterways, with passenger ports located in the cities of Kazan and Chistopol (on the Volga), Nizhnekamsk (on the Kama) and the towns Tetyushi and Bolgari.

The Volga and Kama rivers account for the bulk of river traffic.

Oil and gas pipelines. Apart from the large Druzhba pipeline that begins in Tatarstan, trunk gas pipelines carrying natural gas from the Urengoy and Yamburg fields to western Europe also run through the republic. The overall length of oil pipelines exceeds 5,897 km. In 2008, 28.6 million tonnes of oil were transported by pipeline, 99.5% of the amount for 2007.

Cargo transportation. In 2008, automotive commercial cargo shipments by all types of motor transport totalled 24,500,000 tonnes, or 170.0% compared to 2007, with cargo turnover amounting to 2.408 billion freight tonne-kilometres (139.7%).

Telecommunications. The Republic of Tatarstan has an extensive telecommunications system meeting international standards. Revenues from telecommunication services in 2008 amounted to RUB 22.0 billion, including services to individuals of RUB 13.5 billion.

Foreign economic activity of the Republic of Tatarstan

International trade

In the first nine months 2008, Tatarstan's foreign trade turnover continued to grow, a trend seen since 2002. According to official statistics, turnover from foreign trade in Tatarstan for the period was USD 17,966 million, or a 61.6% increase on 2007.

The volume of exports reached USD 15,868 million and imports reached USD 2,098 million.

The balance of trade in Tatarstan has always been positive and has a strong potential for growth. In the first nine months of 2008, the balance grew 60% to USD 13,771 million, an increase of USD 5,165 million.

The cover ratio of imports to exports was 7.6 (compared to 7.9 in the first nine months of 2007).

In the first nine months of 2008, exports made up 88.3% and imports 11.7% of the total foreign trade turnover (as compared to 88.7% and 11.3%, respectively, year on year).

Tatarstan's growth in foreign trade turnover can be attributed to several important factors, such as an increase in exports by 60.9% as well as an increase in imports by 67.2%.

Growth in exports of rubber, plastics, engineering goods and other products also contributed to the increase in the value of exports in the first nine months 2008 against the same period in 2007.

In the first nine months of 2008, Tatarstan's foreign trade turnover grew from 16.2% a year earlier to 61.6%, with exports increasing from 11.7% to 60.9%. In the same period, imports increased by 67.2% (compared to 70.3% a year earlier).

The rise in imports in the first nine months of 2008 was mainly driven by growth in imported machinery, equipment and transport equipment from non-CIS countries (a 86.1% increase) and by an increase in the value of nearly all major imports (except ferrous pipes).

Key indicators the Republic of Tatarstan's foreign economic activity

Indicators	January-September 2007	January-September 2008	2008 in % of 2007
Foreign Trade Turnover, USD m			
Total, including:	11,115.1	17,966.0	161.6
exports	9,860.3	15,868.4	160.9
imports	1,254.8	2,097.6	167.2
balance	8,605.5	13,770.8	160.0
With non-CIS countries including:	7,809.8	15,724.1	by 2 times
exports	6,831.7	13,942.8	by 2 times
imports	978.1	1,781.3	182.1
With CIS countries including:	3,305.3	2,241.9	67.8
exports	3,028.6	1,925.6	63.6
imports	276.7	316.3	114.3
Volume of services in foreign economic activities, USD m			
Total, including:	77.9	115.2	147.9
exports	9.4	43.8	by 4.7 times
imports	68.5	71.4	104.3
Foreign Investments in the Republic of Tatarstan, USD m			
Investments made, including:	675.9	1,322.4	by 1.96 times
Direct	402.5	445.4	110.6
Portfolio	25.6	0.7	2.8
Other	247.8	876.4	by 3.5 times

Exports

The value of Tatarstan's exports in 2007 stood at USD 14.4 billion, an increase of 24.1% over the previous year.

Exports to non-CIS countries doubled to reach USD 13,943 million (compared to USD 6,832 million in the first nine months of 2007). Exports to CIS-countries decreased by 36.4% and stood at USD 1,926 million (compared to USD 3,029 million in the first nine months of 2007).

The significant drop in exports to CIS countries was mainly due to a reduction in exports of crude oil, by 3.3 times in physical terms. Other reduced exports include tires (by 19.9% in physical terms and by 6.8% in money terms), cyclic hydrocarbons (by 12.2% in physical terms and by 3% in money terms), non-ferrous metals (by 15.3% in money terms), spare parts and car equipment (by 7.7% in money terms).

Exports to non-CIS countries increased across the board, except for cyclic hydrocarbons and lumber. As a result, the proportion of non-CIS countries receiving Tatarstan's exports increased and that of CIS countries declined. CIS countries accounted for 12.1% of exports in the first nine months of 2008 (30.7% in the same period a year earlier) and non-CIS countries accounted for 87.9% (69.3% a year earlier).

According to official statistics, the total value of Tatarstan's exports in the first nine months of 2008 increased for virtually all main product groups: oil by 62.2% (with export volume decreased by 3.9% year on year), petroleum products by 1.8 times (export volume increased by 8.3%), engineering products by 30.1%,

synthetic rubber by two times (export volume increased by 30.7%), plastics by 22.2% (export volume increased by 12.5%), tires by 2.5% (export volume decreased by 4.8%), non-ferrous metals by 2.5% (export volume increased by 5.1%), lumber and wood products by 2.2% (export volume decreased by 28.4%).

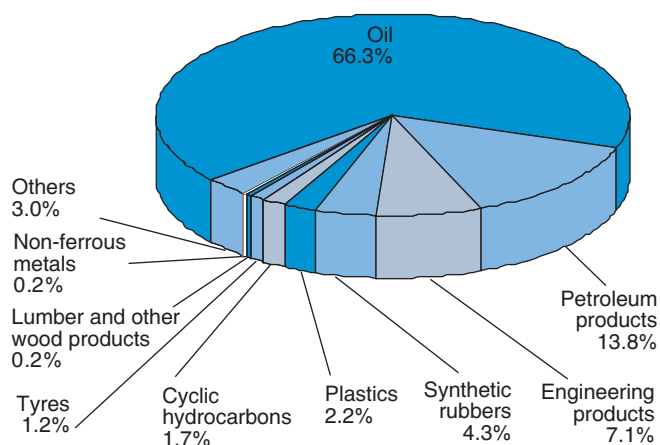
Exports of cyclic hydrocarbons decreased, with supplies declining by 12.1% in value terms as compared to the first nine months of 2007 (export volume decreased by 21.6%).

The significant increase in money terms in exports of fuel and energy products was caused by the rise in contractual prices for oil and petroleum products over the first nine months of 2008 (export volume declined by 4%). This entailed an increase in the proportion of this product group in the export pattern and a corresponding reduction in the proportion of nearly all other product groups (except for synthetic rubber).

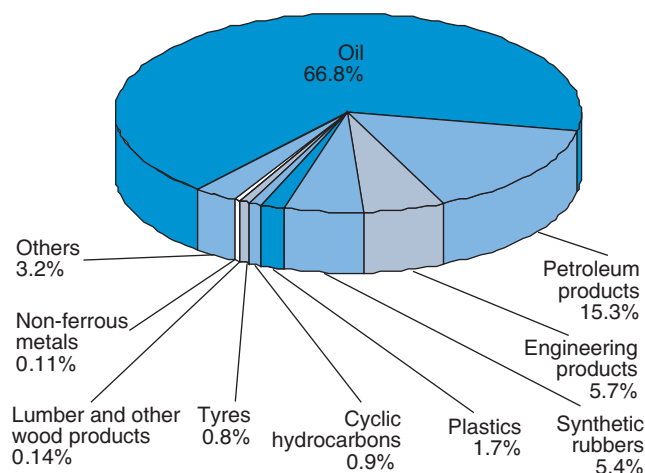
The diagrams below show that in the first nine months of 2008, the proportion in money terms of crude oil in Tatarstan's exports increased to 66.8% (66.3% the same period a year earlier); petroleum products increased to 15.3% (13.8% a year earlier); and synthetic rubber increased to 5.4% (4.3% a year earlier).

The following product groups' share in exports declined: engineering products down to 5.7% (from 7.1% a year earlier), plastics down to 1.7% (from 2.2%), cyclic hydrocarbons down to 0.9% (from 1.7%), tires down to 0.8% (from 1.2%), non-ferrous metals down to 0.1% (from 0.2%), lumber and wood products down to 0.1% (from 0.2%).

Composition of Tatarstan's exports
(January – September, 2007)



Composition of Tatarstan's exports
(January – September, 2008)



Imports

The value of imported goods in the first nine months of 2008 increased by USD 842.8 million (67.2%) year on year, for an annual total of USD 2,097.6 million.

The value of imports from non-CIS countries increased by 82.1% to USD 1,781.3 million, while imports from CIS countries increased by 14.3% to USD 316.3 million.

The proportion of imports from CIS countries fell to 15.1% in the first nine months of 2008 (from 22.1% a year earlier), while the proportion of imports from non-CIS countries increased to 84.9% (up from 77.9%).

The increase in the value of imported goods on the year was the result of changes in the international commodities markets. Other influences were a growth in domestic demand (conditioned by income growth), an expansion of production and the replacement of fixed assets by companies in Tatarstan.

In the first nine months of 2008, there was a year-on-year increase in the value of almost all categories of imported goods: engineering products by 74.4% (imports of trucks increased 87.6 times, passenger cars 4.9 times, spare parts

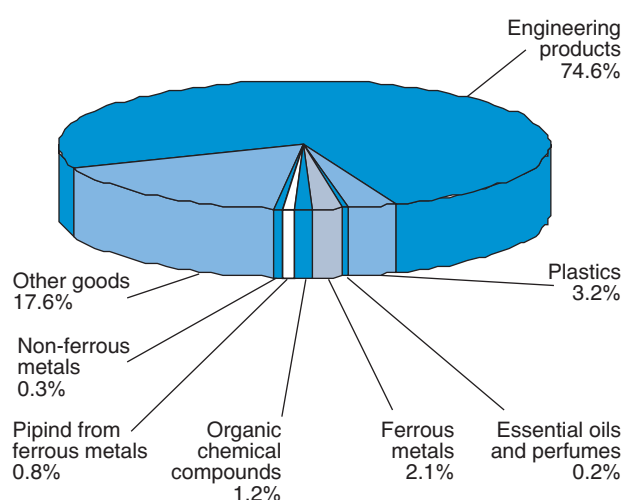
and car equipment two-fold, mechanical equipment 61%, electrical equipment 51.2%), plastics increased by 94.5% (a 70.5% increase in volume), ferrous metals increased by 34.8% (a 4.6% fall in volume), organic chemical compounds increased 2.4 times (an increase in volume of 24.3%), nonferrous metals by 12.5% (with a twofold increase in volume) and essential oils and perfumes increased by 28% (on level with the 2007 volumes).

The only exception was pipes made from ferrous metals, which fell by 66.7% (a drop in volume of 83.9%).

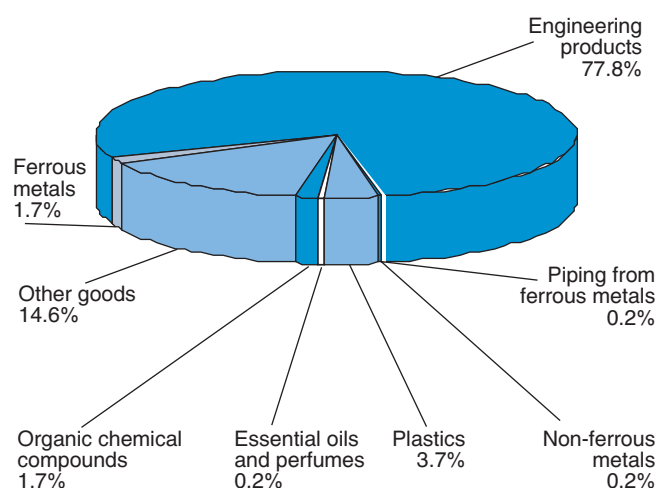
An increase in the first nine months of 2008 in imports from several main groups contributed to a proportional increase in the following imports: proportion of engineering products equipment increased by 3.2% year on year (from 74.6% to 77.8%), proportion of plastics increased by 0.5%, organic chemical compounds increased by 0.5%.

The proportion of essential oils and perfumes remained unchanged (0.2%). There was a decrease in the proportion of imports in the following groups: pipes made from ferrous metals (by 0.6%), ferrous metals (by 0.4%) and non-ferrous metals (by 0.1%).

Composition of Tatarstan's imports
(January – September, 2007)



Composition of Tatarstan's imports
(January – September, 2008)



Geographic distribution of turnover from foreign trade

The geographic structure of Tatarstan's foreign trade for the first nine months of 2008 shows a strengthening of the positions of non-CIS countries. Trade with non-CIS countries accounted for 87.5% of total trade, compared to 70.3% in the first nine months of 2007. The portion of exports to non-CIS countries increased from 69.3% to 87.9% of the total, while imports from these countries increased from 77.9% to 84.9% of total imports.

Exports to CIS countries fell by 36.4%, and their portion of Tatarstan's total exports declined from 30.7% to 12.1%.

Also, rapid growth in imports from non-CIS countries (82.1%) accompanied by insignificant growth in imports from CIS-countries (14.3%) resulted in an increase in the proportion of imports from non-CIS countries, from 77.9% to 84.9% (with a respective decrease in the proportion of CIS-countries, from 22.1% to 15.1%).

The geographic distribution of foreign trade in the first nine months of 2007 and 2008 from CIS and non-CIS countries is represented in the diagrams below.

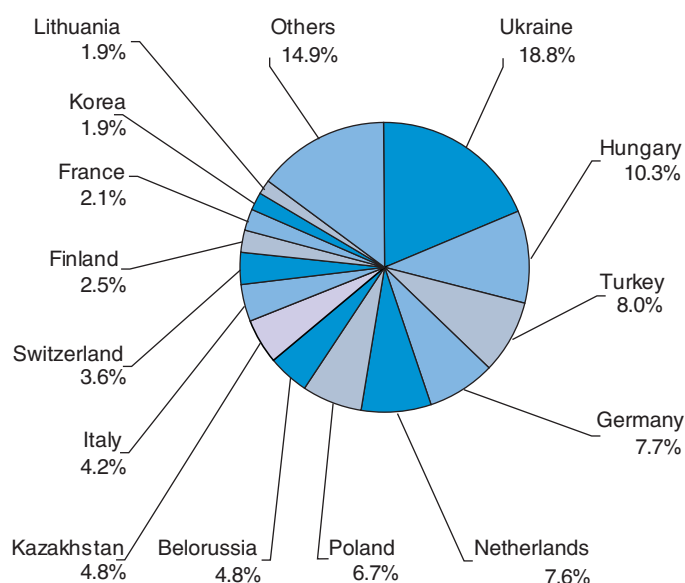
The below diagrams show a significant change in the distribution of Tatarstan's foreign trade in the first nine months of 2008.

Turkey was Tatarstan's leading trading partner for the first nine months of 2008 (in the first nine months of 2007, it occupied third place). Trading with Turkey increased 2.8 times year on year and accounted for 13.9% of Tatarstan's foreign trade turnover (compared with 8% in the first nine months of 2007).

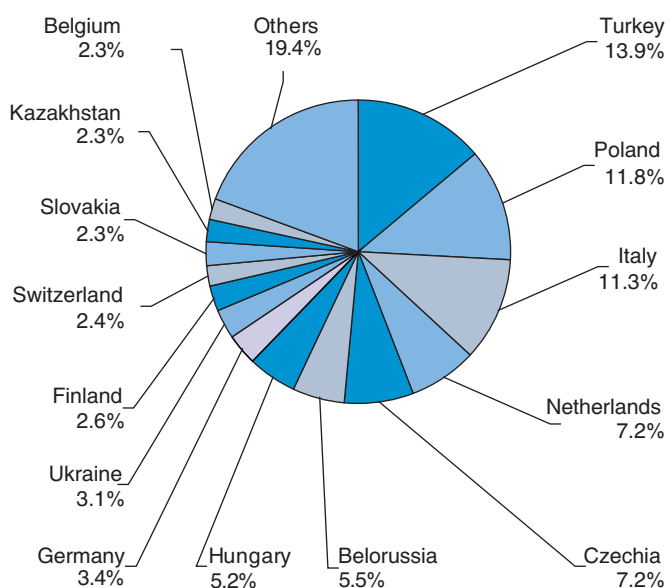
Trade with Poland (11.8% of foreign trade turnover), now ranked second, has increased 2.8 times from the first nine months of 2007, when it was sixth. Italy occupied ninth place in the first nine months of 2007 but is now ranked third and accounts for 11.3% of foreign trade turnover (a 4.3 times increase in foreign trade). Fourth place is occupied by the Netherlands (compared to the fifth place a year earlier), which accounts for 7.2% in foreign trade. Foreign trade with the Netherlands increased 1.5 times from the first nine months of 2007. The Czech Republic moved from twentieth place in the first nine months of 2007 to fifth and now accounts for 7.2%, with foreign trade increasing 15.1 times.

Tatarstan's primary importers for the first nine months of 2008 were: Turkey with USD 2,311.4 million (14.6%), Poland with USD 2,011.5 million (12.7% of total export turnover), Italy with USD 1,837.7 million (11.6%), Czech Republic with USD 1,282.0 million (8.1%), the Netherlands with 1,269.3 million (8.1%), Hungary

Tatarstan's primary trading partners in the first nine months of 2007



Tatarstan's primary trading partners in the first nine months of 2008



with USD 922.0 million (5.8%), Belarus with USD 799.9 million (5.0%), Ukraine with USD 484.9 million (3.1%), Finland with USD 457.1 million (2.9%), Switzerland with USD 428.2 million (2.7%), Slovakia with USD 410.1 million (2.6%), Belgium with USD 402.4 million (2.5%), the UK with USD 381.0 million (2.4%), Kazakhstan with USD 372.3 million (2.3%), France with USD 328.6 million (2.1%) and Germany with USD 296.9 million (1.9%).

Tatarstan's major importers for the first nine months of 2008 were: Germany with USD 321.3 million (15.3 % of total import turnover), South Korea with USD 262.6 million (12.5%), Italy with USD 197.2 million (9.4%), Turkey with USD 185.1 million (8.8%), Belarus with USD 183.0 million (8.7%), Japan with USD 153.4 million (7.3%), China with USD 123.7 million (5.9%), Poland with USD 111.0 million (5.3%), Ukraine with USD 69.9 million (3.3%), Canada with USD 68.3 million (3.3%), the US with USD 53.3 million (2.5%), France with USD 49.1 million (2.3%), Kazakhstan with USD 43.2 million (2.1%), the Netherlands with USD 27.6 million (1.3%), and the UK with USD 25.6 million (1.2%).

Proportion of services in foreign trade

The aggregate volume of Tatarstan's services in foreign economic trade in the first nine months of 2008 increased by 47.9% on the year to total USD

115.2 million, reflecting the fact that the value of export services increased 4.7 times and the value of import services increased by 4.3%.

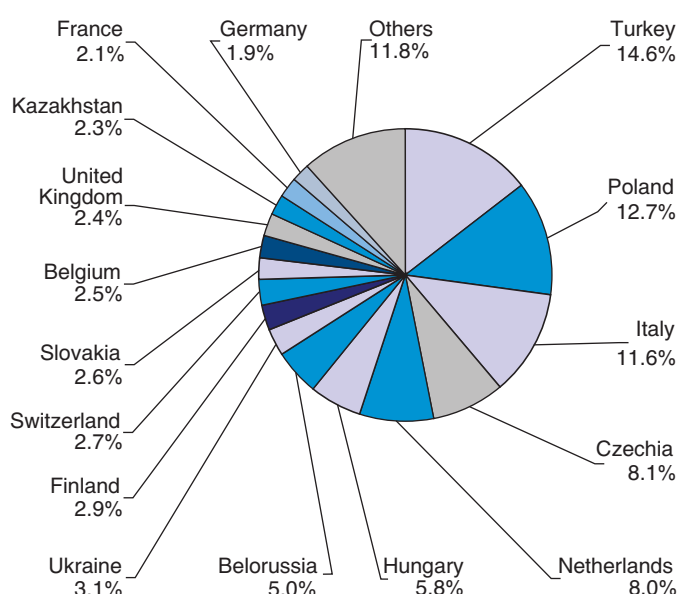
The proportion of services in Tatarstan's foreign trade amounted to USD 43.8 million (38% of services turnover). Import of services reached USD 71.4 million (62% of the total turnover). Export of services showed a deficit of USD 27.6 million (in the first nine months of 2007: USD 59 million).

Non-CIS countries traditionally have the largest proportion both in exports and imports of services: in the first nine months of 2008 their proportion in services export was 97.7% and their proportion in services import was 95.2%. The proportion of CIS countries in services export and import amounted to 2.3% and 4.8%, respectively.

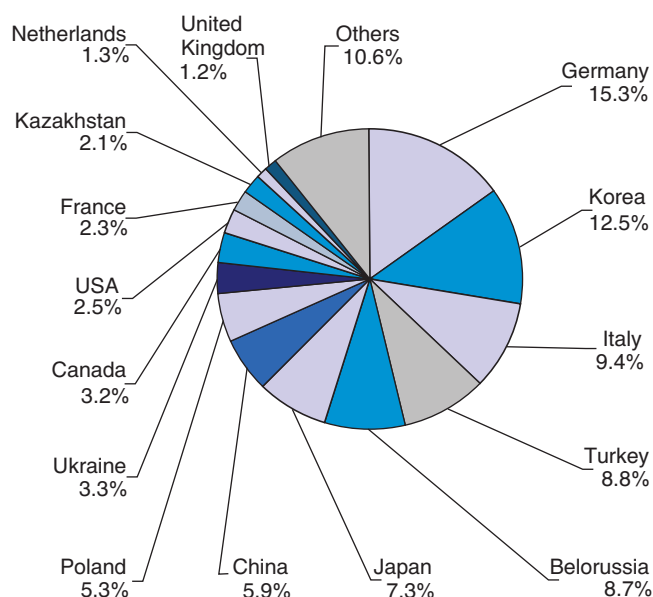
Tatarstan's major service providers for the first nine months of 2008 were: Libya (15.8%), Italy (13.2%), Czech Republic (10%), UAE (8.6%), Germany (8.3%), Japan (7.1%), the US (5.6%), the UK (3.5%), the Netherlands (2.9%) and Cyprus (2.8%).

The largest recipients of Tatarstan's services in the first nine months of 2008 were Germany (61.8%), Venezuela (18.9%), Turkey (2.4%), Italy (2.0%), New Zealand (1.9%), Belgium (1.4%), Columbia (1.2%), India (1.21%), Uzbekistan (0.8%), Egypt (0.7%) and Kazakhstan (0.6%).

Primary export partners
in the first nine months of 2007



Primary export partners
in the first nine months of 2008



Regional organisations conducting import-export operations

Organisation	Address	Contact information
Ministry of Industry and Trade of the Republic of Tatarstan	420111 Kazan, 4 Ostrovsky Ul.	Phone: +7(843) 299 1007/299 1109 Fax: +7(843) 292 1645 E-mail: mtorg@kabmin.tatarstan.ru http://www.tatarmintorg.ru
Department of External Communication, Office of the President of Tatarstan	420014 Kazan, 9 Kreml Ul.	Phone: +7(843) 291 7746/291 7926 Fax: +7(843) 292 7088/292 0810 E-mail: dfa@kremlin.kazan.ru
Kazan Committee for External Communication and Tourism	420014 Kazan, 2a Kreml Ul.	Phone: +7(843) 292 8196/292 6121 Fax: +7(843) 292 9672 E-mail: kvs@bancorp.ru
The Cabinet of Minister's Agency for the Development of International Cooperation of the Republic of Tatarstan	420503 Kazan, 35/2 Pravo-Bulachnaya Ul.	Phone: +7(843) 292 7902 Fax: +7(843) 292 8776 E-mail: arms-kazan@mail.ru
Chamber of Commerce and Industry of the Republic of Tatarstan	420503 Kazan, 18 Pushkin Ul.	Phone: +7(843) 264 6207 Fax: +7(843) 236 0966 E-mail: tpp@i-set.ru http://www.tpprt.ru



Alabuga Special Economic Zone for Industry and Manufacturing

At the end of 2005, Tatarstan participated in a competition to select sites for special economic zones (SEZ) for industry and manufacturing throughout Russia, and submitted its Alabuga region as a possible location. Facing strong competition from 72 other Russian regions also participating, Tatarstan was ultimately selected as one of the six winners.

Tatarstan was also selected to be one of the first two SEZs to be created. Alabuga's selection was a result of several factors: the Republic's success in stimulating investment activities, advantageous geography, a well developed manufacturing sector and transport infrastructure. Within 20km of the Alabuga SEZ is the Begishevo international passenger and cargo airport. The zone has an outlet to the Moscow-Ufa-Kazan-Chelyabinsk federal highway. It also has access to the nearby river ports of Chelny and Nizhnekamsk, which are part of the unified deep-water transport system for the European-part of Russia.

The special economic zone covers a territory of 20 sq km in Tatarstan's Alabuga region. Territory within the SEZ has been divided up into land plots or modules. The plots are 5, 10, and 20 hectares in size.

All necessary infrastructure is in place for each module: roads, utilities, electricity, heating, gas, water, sewage systems and a high-speed Internet connection; residents are connected to all these facilities.

Participation in the SEZ requires the establishment of high-technology manufacturers that are export-oriented and reduce dependence on imports. Resident companies will thus need to sign an agreement with the Russian Agency for Special Economic Zones on manufacturing activities and investing in their production assets. According to the agreement, companies should invest EUR 10 million in their land plot, with no less than EUR one million being invested during the first year of development.

The SEZ provides foreign and domestic investors several clear competitive advantages.

By registering in the SEZ, a legal entity will be granted a number of tax preferences. In particular, they will be exempt from paying property tax for 10 years (from the

moment their property is constructed is placed in service), land tax (from the moment they receive the rights to the land plot) as well as transport tax payable to the Tatarstan budget. Companies will in addition have other special tax privileges, including a rate of profit tax of 13.5%.

The SEZ will also be a free customs zone, with any foreign equipment installed and used within it being exempt from customs duty and VAT. Additionally, manufactured goods being transported from the zone will be exempt from export duties. Russian goods will be kept and used under the terms and conditions according to the customs regulations for exports. These terms are in compliance with the export tariff regime, which stipulates the payment of excise duties while waiving export customs duties.

Tax benefits are the following :

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

The "one window" principle will be used for registering documents on SEZ activities at the Territorial Administration of the Federal Agency for Managing Special Economic Zones.

As a result, depending on the business, all of these privileges can lower costs for investors by almost 30%.

The gross value of investments in Alabuga SEZ projects now exceeds EUR 1.6 billion.

The construction of infrastructure in the SEZ is due to be completed in 2010. Already more than RUB 5.5 billion has been invested in infrastructure development and another RUB 18.5 billion in budget funds is planned for investment.

The construction of infrastructure is to be completed around 2011 according to the long-term development strategy. This includes engineering, customs and business facilities. A 500 MW power generation plant, Kama-500, is planned to be built outside the Alabuga Special Economic Zone to meet the residents' power needs.

Forty companies are planned to be commissioned as residents of the Alabuga Special Economic Zone. These will include manufacturers of cars, buses, auto components,

heat pumps, construction equipment, hi-tech electronic equipment, aviation components, refined oil products, polymers, construction materials, household chemicals, pharmaceuticals, etc.

Once located in the Alabuga Special Economic Zone, these manufacturers will create around 30,000 new jobs and attract at least USD 2 billion worth of investment to the country's economy.

Comparative taxation in the Republic of Tatarstan and Alabuga Special Economic Zone for Industry and Manufacturing

Type of tax	Rates	Budgetary allocation		
		Federal	Regional	Local
1. Income tax	20.0%	2%	18%	-
For SEZ residents	15.5%	2%	13.5%	-
2. Value-added tax	18.0%	18.0%	-	-
For SEZ residents	18.0%	18.0%	-	-
3. Property tax	2.2%	-	1.1%	1.1%
For SEZ residents	0%	-	0%	0%
4. Land tax	1.5%	-	-	1.5%
For SEZ residents	0%	-	-	0%
5. Transportation tax		-	-	-
For SEZ residents	0%	-	0%	-

List of companies registered as residents in the Alabuga SEZ

No	Companies	Products to be manufactured	Investment planned (USD million)	Jobs planned (pcs)
1.	OOO Severstal-Auto Elabuga	FIAT Ducato mini-lorries	250	2,500
2.	ZAO Severstal-Auto Isuzu	Cargo vehicles	83.3	1,500
3.	ZAO Polimatiz	Nonwoven fibers, i.e. spunbond and spunmelt fabrics	50	70
4.	OOO Rokvul-Volga	Mineral cotton plant	210	150
5.	ZAO Technical Equipment Factory	Heat pumps and components for climate systems	20	200
6.	OOO Septal	Equipment for local and small sewage systems	38	200
7.	OOO P-D Tatneft Alabuga Glass Fibre	Glass fibre products	86	300
8.	OOO Air Liquid Alabuga	Technical gases, i.e. liquid oxygen, liquid nitrogen, gas oxygen	48	450

Impact of the global economic crisis on Tatarstan's economy

In 2008 fundamental economic and financial transformations occurred, which not only triggered the development of a new model for international labour or a new system of reference points, but also the emergence of new development principles.

The global crisis is merely an instrument of change based on the laws of economics.

As a result, the republic faces two challenges: ensuring sustained economic development, while developing new economic growth models to fill new market niches and strengthen market positions.

Most affected by the global crisis is the production sector (receding below 16% in December) where the heaviest blow was dealt to manufacturing (which fell by 30%) and construction (falling below 36%). The petrochemical industry (fell more than 20%) and the automotive industry (dipping below 50%) have proved the most vulnerable groups, which in many cases are local economic mainstays and important taxpayers.

No fundamental changes have yet occurred in the republics consumption patterns. To maintain the current position, every effort has to be made to support demand, on which depend the greater portion of local small business. Today, this sector provides jobs to more than 27% people working for small businesses and 60% those who are self-employed. Together they produce RUB 221 billion in turnover.

Internal and external changes have driven projections for negative outcomes for Tatarstan's economic development, whereby growth might fall by 18% as a result of a potential 23% drop in manufacturing, construction – 20%, transport and trade – 15% and agriculture – 10%.

Changes in oil production will occur only if oil prices fall by more than three times. The volume of production in this sector is projected to decline from RUB 276 billion to RUB 147 billion.

Gross agricultural output may fall to RUB 122 billion, according to 2009 forecasts.

The volume of construction was RUB 143 billion in 2008, showing 11.3% growth over the previous year. Projections for 2009 show the sector potentially declining to RUB 118 billion.

Investment activity analysis shows a mixed picture for towns. Sometimes they show a 20-fold gap ranging between RUB 214,000 to 11,000 in per capital investment. Such regions as Elabuga, Kazan, Naberezhnye Chelny and Nizhnekamsk show the best performance. The lowest performing regions are Chistopol, Aksubai and Kaibitsy.

The investment growth even in the successful regions does not necessarily correspond to the innovative changes activity. This is only evidence of a “reactive”, rather than “proactive”, model of economic development. Therefore, while on the surface things may seem fine; some of these regions will face serious challenges supporting reproduction processes for now on.

The federal budget has proved to be a powerful source of investment during the financial crisis.

According to current information, construction projects in Tatarstan received RUB 8.5 billion in 2008, which is 26% more than in 2007 and 46% more than the target amount. In light of additional orders placed by the Russian government, including RUB 3.5 billion under federal targeted investment programmes and nearly RUB 5 billion subsidies.

Major contributors who increased funding in the republic from 2007 were the Ministry of Transport and Roads (RUB 1.2 billion above target), the Ministry of Informatisation and Communications (RUB 400 million above target) and the Ministry of Agriculture (RUB 130 million above target).

In 2008, retail turnover growth and the contribution to GRP amounted to around 20%. The turnover reached RUB 369 billion. The projection for 2009 is based on a 15% decrease of the turnover.

In 2008, there was a significant increase in cargo turnover of 40% against the previous year. However, in December 2008 it rolled back to last year's level. The setback was the result of a decrease in manufacturing and in overall business activity in other industries. Preliminary projections suggest a drop in overall cargo turnover in 2009.

A similar situation can be observed in another infrastructural sector – energy. A slowdown in economic turnover may cause demand for energy to decrease by 20%.

In 2009, GRP may decrease from the current RUB 930 billion to RUB 721 billion. As a result, and given the tax liberalisation measures taken by the federal authorities and changes in tax administration, budget revenues may decrease by one third from RUB 115 billion to RUB 83 billion.

The republic's anti-crisis policy is currently based on the following five key components:

1. A new system for monitoring the operation of key processes and a system for prompt decision-making at the government level to follow the changing situation.

A system for monitoring the evolution of key processes in the national economy has been in operation since October 2008.

It embraces all the key sectors and largest enterprises in the industrial, trade, financial and banking spheres, construction, agriculture, transport and communications. Changes in prices on key foodstuffs and pharmaceuticals are being reviewed. Special attention is being given to the labour market situation. Information is being captured and reviewed on a weekly basis to promptly identify concerning trends and develop preventive measures in a timely fashion at the government level.

The Commission for Assuring Economic Growth during the Financial Crisis has been formed by a Decree issued by the president of Tatarstan.

The Economic Council has been established under the Council of Ministers and operates on an on-going basis.

An anti-crisis action plan has been approved for implementation by authorities at all levels, together with the Association of Enterprises and Entrepreneurs, the Trade Union Federation, Chamber of Commerce and Industry, and the Public Chamber.

Tatarstan's leaders actively collaborate with the federal authorities to develop joint measures as part of government assistance to businesses.

Currently 12 businesses in Tatarstan have been included in the federal list of organisations to be supported by the government. Proposals are in place to extend the list to include 52 entities. The preparation of regulatory documents to develop a similar list for

Tatarstan and a plan to ensure government preference for these entities, are nearing completion.

Tatarstan's labour market is one of the greatest potential challenges. Based on pessimistic estimates, global market changes may impact nearly 290 thousand people out of the 1.38 million workers employed. To have a requisite social cushion in place in a timely fashion, the government has developed a regional programme of proactive measures, approved by the president, communicated to federal authorities and designed to overcome the negative impact of the global financial crisis. The programme will primarily relieve pressure in the labour market, sustain existing jobs and create new ones, including public sector jobs, and sustain the current quality of life.

2. Boosting investment processes.

Both the republic and municipal authorities will target this objective. Even though total investments increased by 11% to reach RUB 247 billion based on 2008 results, investment activities practically came to a halt in the fourth quarter. Investments are projected to go down by approximately 20% in 2009, which would mean down to RUB 188 billion.

3. Long-term infrastructure development policy.

Based on proposals from municipal entities a conceptual territorial policy has been developed to focus on creating a mechanism for the balanced development of municipal areas based on the principle of synergy and cooperation.

The plan is to implement the activities in three stages. Stage one, to be completed by 2012, will implement measures to consolidate positions of areas where economic growth is slowing, which currently include the Kazanskaya and Naberezhnochelninskaya agglomerations, and the south-east economic zone. These are regions that make up the core of Tatarstan's economy.

Deliverables of stage two, to be completed in 2012-2015, will include the development of new economic growth centres as represented by industrial and agricultural areas with a clear and consistent diversification strategy, innovation-based growth potential, a high level of human capital development and generating capacity available

for use. The centres are planned to be organised in Chistopolsky, Nurlatsky, Leninogorsky, Aznakayevsky, Bugulminsky, and Cheremshansky municipal districts.

In stage three, starting in 2015, a full-scale agro-industrial cluster will be developed on the basis of agricultural areas will be completed and thus not only ensure the sustainability of Tatarstan's food supply, but also turn the agro-industrial complex into an export-oriented sector of the economy.

4. Better public management and lower government spending.

The performance of the executive government branches in Tatarstan is measured using a system of indicators defined for each separate ministry or public agency according to a resolution by the Cabinet of Ministers. The results for 2008 show that almost every executive branch managed to achieve its set targets. The only remaining problem area concerns these agencies' compliance with procedures for rendering services to the citizens and business entities. The 2009 letter from Tatarstan's president set the task of measuring performance in terms of speed and the quality of services provided. This year performance monitoring will focus on these issues.

It is also crucial to assess the budget management of Tatarstan's ministries and agencies. For state finance management to be effective and the transition to results-based management system to be successful, Tatarstan is currently introducing the principle of management by objective into the budgeting process, which provides for a direct connection between the allocation of budget funds and the actual results of their use. The analysis of the aggregate indicator makes it possible to estimate the balance between the level of finance and the performance of ministries and other public agencies. Unfortunately, their level of performance is not always proportional to the amounts spent.

The current economic environment in Tatarstan adds to the challenges faced by all public agencies. Therefore, the 2009 government order on management includes additional indicators to measure the performance of ministries' anti-crisis activities. These indicators are used to assess wages payable, arrangements for employment, re-education of unemployed, promotion

of local products, support of small- and medium-sized businesses, and a transition to automated public procurement transactions.

The Order also specifies indicators for local governments to review anti-crisis performance, including indicators to assess unemployment, the effectiveness of measures to reduce it, changes in the volume of gross regional product, retirement benefits and wages due.

5. Development of a government order system and local production cooperation.

Enterprises should maximise the sales and purchases carried out in cooperation with Tatarstan manufacturers.

The current government order system also requires improvement.

Investment potential

According to international rating agencies, Tatarstan is considered one of the most investor friendly regions in Russia. International rating agencies Moody's, Standard & Poor's and Fitch have been assigning credit ratings to Tatarstan since 1998.

'BBB-': Stable outlook – Fitch

'BB': Positive outlook – Standard & Poor's

'Ba1': Stable outlook – Moody's

In 2008, Standard & Poor's and Fitch increased their long-term credit ratings for Tatarstan. The ratings were improved due to ongoing economic and income growth, sustained high-level fiscal indicators, strong liquidity, and a low level of debt.

According to a survey undertaken by Russian rating agency Expert RA, Tatarstan has over the last ten years ranked in the top ten Russian regions having a minimum overall investment risk.

In 2007-2008 the republic ranked 4th for overall investment risk and 8th in the overall investment potential rating. In terms of its investment component rating, Tatarstan ranks in the top ten Russian regions for production, consumer, labour, innovation, financial, institutional and tourist potential.

Changes in the make up of Tatarstan's investment ratings

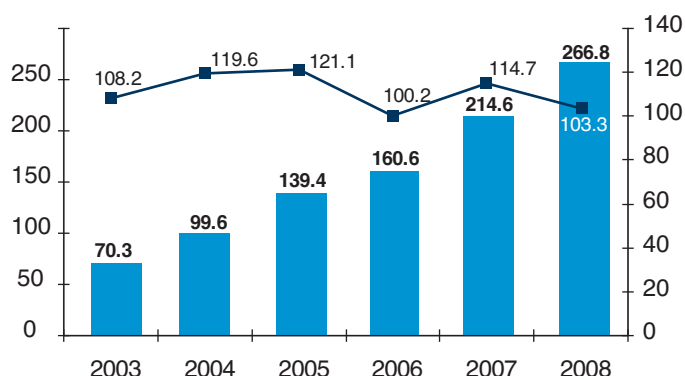
	Rankings (in Russian regions)	
	2006/2007	2007/2008
Investment potential	10	8
Investment risk	7	4

Investment in fixed capital

Key indicators reflecting the progress made in improving the investment climate are an increase in capital investments and attraction of foreign investment.

In 2008, RUB 266.8 billion in fixed investment was allocated for economic and social development – up 3.3% on the previous year.

Movements in fixed capital (RUB billion; year-on-year %)



In 2008 fixed investments were mainly made in manufacturing enterprises (25.8%), construction (18.4%), resources and mining (15.5%), and operations with real estate and rentals (10.7%).

In 2008, raised funds covered an estimated 49.3% of capital investments in large and mid-sized business.

The other 50.7% of investments were financed using own resources, most of which came from profits (47.5%) and depreciation (43.0%).

Investment related laws of the Republic of Tatarstan

The Republic of Tatarstan has created a regional legal framework governing investment activity:

- Law No. 1872 of November 25, 1998 of the Republic of Tatarstan "On Investment Activity in the Republic of Tatarstan" (as amended on June 24, 2003 and July 18, 2005);
- Law No. 2180-XII of July 19, 1994 of the Republic of Tatarstan "On Foreign Investments in the Republic of Tatarstan" (as amended on June 27, 2001, September 23, 2003 and January 22, 2008);
- Resolution No. 363 of 3 June 2008 of the Cabinet of Ministers of the Republic of Tatarstan "On Approving the Investment Memorandum of the Republic of Tatarstan for 2008" (as amended 25 August 2008);
- Resolution No. 284 of May 7, 1999 of the Cabinet of Ministers of the Republic of Tatarstan "On Approval of the Regulation on the Procedure for Provision of Government Support to Enterprises and Organisations Implementing Investment Projects in the Republic of

Tatarstan” (as amended on July 3, 2000; March 6, 2001; September 5, 2002; January 21, 2005; August 25, 2005; October 2, 2006; October 12, 2007; August 25, 2008; and September 26, 2008);

- Resolution No. 377 of 24 July 2006 of the Cabinet of Ministers of the Republic of Tatarstan “On Approving the Regulation on the Procedure for Executing an Investment Project Agreement between an Investing Party and the Ministry of Economy of the Republic of Tatarstan and the Investment Project Agreement Form (as amended 22 November 2007, 25 June 2008, 26 September 2008).

Current laws on benefits and privileges for investors

The Government of the Republic of Tatarstan currently offers direct loans compensation for a portion of loan interest, ensures government guarantees for high priority investment projects, tax preferences and offers government participation in project implementation through co-financing, and grants.

Investment activity in the Republic of Tatarstan is governed by the Laws of the Republic of Tatarstan “On Investment Activity in the Republic of Tatarstan”; “On Foreign Investments in the Republic of Tatarstan” laws on the budget of the Republic of Tatarstan for the next fiscal year; and certain regulations of the cabinet of Ministers of the Republic of Tatarstan.

Under the law for investors, implementing investment projects for Tatarstan enterprises triggers certain tax benefits: for example, in the form of an income tax rate reduction to 13.5% (a reduction of 4%) in relation to tax payable to the budget of the Republic of Tatarstan and a tax rate reduction to 0.1% for property newly created or acquired by a company for investment project implementation in accordance with agreements on investment activity.

The republic has in place a mechanism that has been functioning for a number of years, which provides for compensation for both a portion of an interest rate on

bank loans made available for the purpose of investment project implementation and a portion of coupon income payments with respect to bonds issued for specific investment projects.

There are two state-run not-for-profit organisations in the republic: the Investment and Venture Fund of the Republic of Tatarstan, and the Stabilization Pledge and Insurance Fund of the Republic of Tatarstan. Their aim is to make investment resources affordable to the parties to investment projects by offering co-financing with banks and private and non-government investors, thus facilitating investment activity in the republic.

Foreign investment

The inflow of foreign investment into the Republic of Tatarstan in 2008 was approximately USD 2,093.8 million (including rouble-denominated investments translated into US dollars), or 1.2 times more than in 2007. The cumulative foreign investments in the republic as at 1 January 2009 were USD 4,168.1 million.

Foreign investments in the republic of Tatarstan between 2004 and 2008 (USD millions)

	2004	2005	2006	2007	2008
Foreign investment	596.1	683.6	483.7	1,679.4	2,093.8
<i>including:</i>					
Direct investment	79.2	54.5	133.9	417.9	722.9

As compared to 2007, direct investments increased 1.7 times in 2008. Direct investments were primarily made in real estate; indirect investments were primarily made in production of transportation equipment; and other investments were primarily made in construction.

In 2008 foreign investment came from 27 countries. The most active investors were France, whose share in the total volume of foreign investment was 43.4%, Cyprus-27.4%, Germany-6.6%.

Major foreign companies investing in the Republic of Tatarstan economy:

Petrochemical

Tecnimont (Italy): polypropylene plant construction at OAO Nizhnekamskneftekhim with a capacity of 180 thousand tonnes and total investment of USD 200 million. The plant was commissioned in 2006. Polyethylene production launch at OAO Nizhnekamskneftekhim with a capacity of 230 thousand tonnes a year. The total project cost is USD 190 million.

Investore Internazionale Srl (Italy): Biaxial Oriented Polystyrene and Polypropylene (BOPS and BOPP) production: amount of investment USD 65 million.

Euroboy and Tecnimont (Italy): in cooperation with OOO HiTech Consulting and OAO Nizhnekamskneftekhim, the production of polymer composite materials, in particular, a span bond polymer nonwoven fabric: total project cost USD 42 million.

Engineering industry

Zahnrad Fabrik (Germany): a joint venture between OAO KamAZ and OOO ZF-Kama, with a contribution from a foreign partner to a share capital worth USD 900.000.

Industrial production

OMYA (Austria): launch of fine carbonate calcium production at the Alabuga production site with an investment of USD 70 million.

Wienerberger AG (Austria): Construction of a brick-making plant in the Republic of Tatarstan with a capacity to produce approximately 140 million bricks per year. The target investment of OOO Wienerberger Kirpich is EUR 40 million.

ZASS Alabuga (Turkey): production of licensed DeLonghi (Italy) heaters, a joint Tatarstan-Turkish venture with a further contribution from a foreign partner to a share capital in 2005 constituting USD 18 million.

ARC International: launch of glassware production in the republic with a capacity of 10 million units per year as part of a joint venture with the OOO Vasilyevsky glass plant. The target project investment is expected to exceed EUR 60 million.

Schneider Electric (France): in cooperation with TATEK, the launch of the licensed production of power substations and high-voltage equipment.

Retail

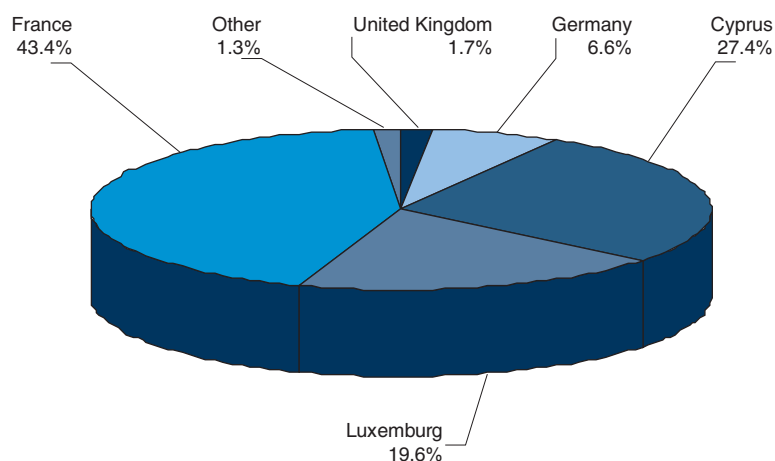
IKEA (Sweden): Mega-Kazan hypermarket construction - total investment USD 124 million.

Metro Cash&Carry (Germany): retail properties, total investment USD 20 million.

Food & Beverages

Efes Pilsner (Turkey): the acquisition of shares in OAO PO Krasny Vostok and OAO Solodov Pivo for an amount totalling USD 390 million.

Structure of foreign investments to Tatarstan in 2008, %



Major companies (including those with foreign investment)

Major Tatarstan enterprises – OAO Tatneft, OAO Kazanorgsintez, OAO KamAZ, OAO Zavod Mikrolitrazhnykh Avtomobiley (small car plant), OAO Nizhnekamskneftekhim, OAO Nizhnekamskshina, OAO Tatenergo and others.

Name	Industry, Sector	Contact information
OAO Tatneft	Oil producing sector	Republic of Tatarstan, 423450, 75 Ul. Lenina, 75, Almet'yevsk Phone: +7 (8553) 25-58-56 Fax: +7 (8553) 25-68-65 tnr@tatneft.ru http://www.tatneft.ru
OAO TANECO	Chemical and petrochemical sectors	Republic of Tatarstan 423581 Nizhnekamsk, POB 97 Phone: +7 (8555) 49-02-02 Fax: +7 (8555) 49-02-00 referent@office.nnpz.ru http://www.taneco-npz.ru
OAO Tatenergo	Energy	Republic of Tatarstan, 420021, 1 Ul. Salimzhanova, Kazan Phone: +7 (843) 291-86-59 / 292-77-03 Fax: +7 (843) 291-83-33 / 291-86-75 office@hq.tatenergo.ru http://www.tatenergo.ru
OAO Nizhnekamskneftekhim	Chemical and petrochemical sectors	Republic of Tatarstan 423574 Nizhnekamsk Phone: +7 (8555) 37-71-81 / 37-78-38 Fax: +7 (8555) 37-93-09 nknh@nknh.ru http://www.nknh.ru
OAO Nizhnekamskshina	Chemical and petrochemical sectors	Republic of Tatarstan 423550 Nizhnekamsk Phone: +7 (8555) 37-23-33 / 34-94-31 / 49-71-17 Fax: +7 (8555) 34-08-22 / 49-73-38 info@shina-kama.ru http://www.shina-kama.ru , http://www.tyre-kama.com
OAO Kazanorgsintez	Chemical and petrochemical sectors	Republic of Tatarstan, 420051, 101 Ul. Belomorskaya, Kazan Phone: +7 (843) 533-99-89 / 533-98-10 / 533-98-09 Fax: +7 (843) 533-99-00 ; kos@kos.ru http://www.kazanorgsintez.ru
OAO Nefis-Cosmetics	Chemical and petrochemical sectors	Republic of Tatarstan 152 Ul. Tukaya, Kazan, 420021 Phone: +7 (843) 277-37-40 / 270-42-06 / 278-94-00 Fax: +7 (843) 570-42-77; gensec@nesco.ru http://www.nefco.ru
OAO KAMAZ	Mechanical engineering and metal working	Republic of Tatarstan 423808 Naberezhnye Chelny 29 Pr. M. Dzhaliya; Phone: +7 (8552) 37-40-86 / 45-20-86 / 38-00-80 Fax: +7 (8552) 37-41-25 / 53-11-38 director@kamaz.net http://www.kamaz.net
OAO Zavod mikrolitrazhnykh avtomobiley (Small Car Plant)	Mechanical engineering and metal working	Republic of Tatarstan 423815 Naberezhnye Chelny 20 Pr. Vakhitova, POB 68; Phone: +7 (8552) 38 9011 Fax: +7 (8552) 38 9008 / 38 9007 / 38 9083; sekretar@severstauto.com http://www.zma.ru
ALNAS	Mechanical engineering and metal working	Republic of Tatarstan 423461 Almet'yevsk; Phone: +7 (8553) 25-44-62 / 25-94-98 / 25-66-77 / 39-36-40 / 25-45-21 Fax: +7 (8553) 25-92-89 / 25-94-98 / 39-34-90; alnas@alnas.ru http://www.alnas.ru
OAO Kazancompressormash	Mechanical engineering and metal working	Republic of Tatarstan 420029 Kazan 1 Ul. Khalitova Phone: +7 (843) 272-22-21 Fax: +7 (843) 272 3161 / 273 0251 kompr@online.kzn.ru http://www.compr.kzn.ru
OAO Melita	Light industry	Republic of Tatarstan 420029 Kazan 46 Ul. Gafuri Phone: +7 (843) 278 3086 / 278 2782 Fax: +7 (843) 278 3088 mer@melita.ru, info@melita.ru http://www.melita.ru
OAO Tatspirom	Food & beverages	Republic of Tatarstan, 420029 Kazan 81 Ul. Dekabristov Phone: +7 (843) 543 9633 / 518 6961 Fax: +7 (843) 541 9500 director@tsp.mi.ru http://www.tatspirom.ru
ZAO Narodnoye Predpriyatie Naberezhno-Chelninsky Kartonno-Bumazhny Kombinat (Cardboard & Paper Plant)	Wood-processing	Republic of Tatarstan 423808 Naberezhnye Chelny Phone: +7 (8552) 79-19-55 / 79-19-10 / 46-05-97 Fax: +7 (8552) 77-82-37 / 46-05-97 postmaster@kbk.chelny.ru http://www.kbk.chelny.ru

Industries most attractive for investors

Industries that are most attractive from an investor's point of view are the oil producing and oil refining sectors, the chemical and petrochemical industries, information and communications, mechanical engineering, food and beverages and agriculture.

The Republic of Tatarstan's policy regarding attracting foreign investment consists of a series of measures that focus on improving the investment climate and encouraging investment in innovation in the chemical and petrochemical sectors, mechanical engineering, the service sector, and the creation of small and medium sized businesses.

Tax privileges granted to foreign investors and commercial entities with foreign investments in the Republic of Tatarstan

Tax rates related to amounts payable to the Russian budget, including their reduction, are amended based on the appropriate laws of the Republic of Tatarstan adopted by its State Council.

For the purpose of providing government support to the implementation of commercial high-performance investment projects selected by tender, Russian law provides for the allocation of federal budgetary funds to be extended on a repayable basis, or on the condition that the state will hold a stake in newly established joint-stock companies, or by granting state guarantees to compensate part of an investor's financial resources if an investment project has failed through no fault of the investor. The Russian government guarantees are granted within the limits set for this purpose in the regular federal annual budget.

Under the Russian Budgetary Code, the Republic of Tatarstan, as a Russian federal constituent, may grant government guarantees for priority investments projects.

1. Investment entities that have entered into a contract with an authorised agency of the Tatarstan Cabinet of ministers are exempt from federal taxes as related to the amount payable to the budget of the Republic of Tatarstan and from republican taxes, in accordance with the Russian laws on taxes and duties.

2. Tax privileges are granted to entities engaging in investment activity for the pay-back period of the investment project, but not longer than seven years from the moment when the investment project began.

Entities engaging in investment activity in the machine-building/engineering industry can be granted tax privileges for a period of up to thirteen years from the moment when the investment project began.

3. Tatarstan's State Council can grant to some categories of taxpayers a privilege in the form of a reduced amount of tax payable to the budget of the Republic of Tatarstan. In doing so, it may not set said tax rate at lower than 13.5 per cent.

Investment projects

Construction of a polypropylene plant with a planned output of over 180,000 tonnes per year and the incremental modernisation of the ethylene complex (Stage I)

The project, expected to be completed in 2008, will provide a means of production that is altogether new to manufacturing in Tatarstan, and which will further the development of small and medium sized businesses working with polymers. In particular, it will contribute to the development of the Nizhnekamsk industrial district by providing access to high quality materials at lower prices. The modernisation of ethylene production accompanied by the development of additional facilities will provide raw materials for OAO NKNKh's own production as well as other ethylene consumers in Tatarstan.

Project cost: RUB 7.56 billion

Financing for the project comes in part from company funds (RUB 5.3 billion) and loans (RUB 2.26 billion).

The repayment period for the project is 6.9 years.

There is an agreement between the Tatarstan Ministry of Economic Affairs and OAO Nizhnekamsknefttekhim for RUB 693 million in tax relief to be granted to the project.

The realisation of this project will increase budget return on all levels, amounting to RUB 1.11 billion and creating an additional 290 jobs.

Construction of a polystyrene plant with an output of 50,000 tonnes per year (Stage 3)

The project will construct a polystyrene plant in available space at OAO Nizhnekamsknefttekhim's manufacturing centre in close proximity to two similar installations.

Total investments in the project are valued at RUB 1.48 billion.

Financing for the project comes in part from company funds (RUB 996 million) and loans (RUB 482 million).

The project will be completed in 2007-2008.

Work on the project is currently underway – equipment is being purchased and construction and installation work has begun.

It is anticipated that the project will receive support from the government in the form of tax benefits amounting to RUB 161 million.

The repayment period for the project is 6.95 years.

The project's budget effect is RUB 369 million.

The project will enable the creation of 43 new jobs.

Construction of a polyethylene plant with an output of 230,000 tonnes per year

The project, which is expected to be completed in 2008, will construct a plant for the production of advanced grade polyethylene, which is not produced anywhere else in Russia.

Financing for the project totals RUB 8.42 billion and consists of company funds (RUB 5.4 billion) and loans (RUB 3.02 billion).

The project's planned repayment period is 6.97 years.

It is anticipated that the project will receive tax benefits from the government amounting to RUB 421 million.

The project will enable the creation of 324 new jobs and has a budget of RUB 2.16 billion.

Investment projects

Construction of an ABS plastics plant with an output of 60,000 tonnes per year

The project will create new facilities for the production of petrochemicals.

Total investments in the project are valued at RUB 3.04 billion, which consist of company funds (RUB 610 million) and loans (RUB 2.43 million).

The project will take place from 2008 to 2010. Technical specifications are currently being worked out for the project.

It is anticipated that the project will receive tax benefits from the government amounting to RUB 152 million.

The repayment period for the project is 5.9 years.

The project will enable the creation of 90 new jobs.

The project's budget effect is RUB 758 million.

Currently, documentation for the project is being prepared, which is necessary for the completion of project planning.

Construction of a Fiat auto plant (OAO ZMA)

The project will construct a Fiat automotive plant to meet market demand for off-road vehicles in Russia, as well as B and C class light passenger cars and low-weight multi-purpose vans.

Government directive KM RT No. 223-r was passed on 15 February 2007, aimed at providing tax benefits for the project. These tax benefits are valued at RUB 213 million.

Total investments in the project are valued at RUB 7.56 billion.

Financing for the project comes in part from company funds (RUB 1.25 billion) and loans (RUB 2.5 billion).

The project will take place from 2004 to 2008.

The factory has already begun the commercial production of automobiles.

The repayment period for the project is 4.5 years.

The project will enable the creation of 1,700 new jobs.

The project's budget effect is RUB 6.66 billion.

Construction of production facilities for polystyrene foam with an output of 40,000 tonnes per year

The project will construct new production facilities for polystyrene foam, which is produced by suspending the polymerisation of sterol and mixing this with foaming agents (pentane or isopentane).

Total investments in the project are valued at RUB 1.27 billion.

Financing for the project comes in part from company funds (RUB 300 million) and loans (RUB 974 million).

The project will take place from 2008 to 2009. Technical specifications are currently being worked out for the project.

It is anticipated that the project will receive tax benefits from the government amounting to RUB 63.8 million.

The repayment period for the project is 6 years.

The project will enable the creation of 40 new jobs.

The project's budget effect is RUB 320 million.

The project is currently focusing on construction work and procuring equipment.

Investment projects

Construction of a new plant for producing gearboxes under license from ZF Friedrichshafen AG with a high level of localisation in Naberezhnye Chelny

The project, which is planned to be completed in 2012, will improve the quality of gearboxes for Kamaz trucks. This will increase their ability to compete with other trucks and lower costs compared to importing assembled gearboxes at the expense of localisation in Naberezhnye Chelny.

Financing for the project totals RUB 8.27 billion and consists of company funds (RUB 6.46 billion) and loans (RUB 1.81 billion).

The project's planned repayment period is 8 years.

It is anticipated that the project will receive tax benefits from the government amounting to RUB 727 million.

Additionally, the project will enable the creation of 756 new jobs.

The project's budget effect is RUB 1.05 billion.

The project is currently in the construction stage.

Reconstruction of a facility for producing technical carbons (OAO Nizhnekamsktechuglerod)

The project will enable the production of 127,000 tonnes of technical carbons per year.

Total investments in the project are valued at RUB 857 million and consist of company funds (RUB 526 million) and loans (RUB 332 million).

The project is due to be completed 2011 and is currently constructing new production facilities.

The repayment period for the project is 6.4 years.

The project's budget effect is RUB 294 million.

It is anticipated that the project will receive tax benefits from the government amounting to RUB 29.1 million.

Construction of an oil refinery complex with petrochemical facilities

The project will construct a modern, high-tech complex for oil refining and producing petrochemicals, including an oil refinery capable of producing seven million tonnes per year; an advanced oil processing complex with hydrogen cracking installations, facilities for refining heavy residue and an annual output of 3.5 million tonnes; and petrochemical facilities for producing aromatic hydrocarbons with an annual output of 0.9 million tonnes. The project will also create a modern infrastructure, further developing the Nizhnekamsk industrial centre, and create 3,000 new jobs.

Project cost: RUB 133 billion.

Financing for the project consists of company funds (RUB 28.5 billion), loans (RUB 87.8 billion) as well as financing from the Russian Investment Fund (RUB 16.5 billion).

The repayment period for the project is 9.3 years.

The project's budget effect is RUB 25.4 billion.

There is an agreement between the Tatarstan Ministry of Economic Affairs and OAO Taneco to provide tax benefits for the project. Tax benefits over a seven year period are in the region of RUB 7.6 billion.

Investment projects

Construction of a new oil refinery in Nizhnekamsk (OAO TAIF-NK)

The primary goals of the project include:

- Constructing a gas condensate separation plant that will produce valuable high-quality materials for the development of petrochemicals in Tatarstan;
- Construction of a refinery for commercial gasoline that will increase the volume of production of automobile gas;
- Construction of bitumen facilities for producing oxidised oil bitumen, which is widely used in oil refining throughout the world, foremost in the Biturox technology of the company Perner, based in Austria;
- Construction of a centre for desulphurising propane-polypropylene and butane-butylene particles from hydrogen sulphide and sour sulphur to be subsequently used as raw materials essential to petrochemical production.

Project cost: RUB 6.99 billion.

Financing for the project consists of company funds (RUB 5.75 billion) and loans (RUB 1.24 billion).

The repayment period for the project is 6.4 years.

The project will enable the creation of create 860 new jobs.

The project's budget effect is RUB 6 billion. Installing new equipment and applying new technology will improve the overall environmental situation in the region.

Construction of a tyre factory (TsMK)

The project, which is planned to be completed in 2010, will satisfy demand for wire-treaded tyres on the local market, primarily with major companies such as OAO Kamaz and OAO Nefaz.

Financing for the project totals RUB 16.8 billion and consists of company funds (RUB 5.04 billion) and loans (RUB 11.8 billion).

The project's planned repayment period is 7 years.

It is anticipated that the project will receive tax benefits from the government amounting to RUB 1.18 billion.

The project will enable the creation of 500 new jobs.

The project's budget effect is RUB 4.19 billion.

The necessary documents are currently being finalised for the project.

Appendix. Doing business and investing in the Russian Federation

Business entities

Legal framework

Companies setting up operations in Russia commonly find themselves in circumstances where a formal legal opinion is required for basic issues that in Western countries would be resolved very easily and usually free of charge, but which in Russia can dramatically change the feasibility of a deal.

Foreign investors sometimes underestimate the need to follow important guidelines. This may have serious consequences when doing business in Russia. A summary of the general legal framework for investors so that their investments in Russia can be as effective as possible. Familiarisation with these basic principles may save considerable time and expense later if a projected business structure (commonly accepted elsewhere) is not advisable or even possible in Russia. The current legislative framework for investment and business in Russia is described below.

Civil Code

Chapter 1 of the Civil Code governs certain types of business organizations and their conception. It covers requirements for foundation documents, name, location, governance and state registration of legal entities. It defines branches and representative offices and governs reorganization and liquidation.

Joint-stock and limited liability companies are governed separately by the Federal Laws «On Limited Liability Companies» No 14-FZ of 8 February 1998 and «On Joint-Stock Companies» No 208-FZ of 26 December 1995.

Registration

The introduction on 1 January 2004 of a «one-window» registration procedure for Russian legal entities has not streamlined the business registration process. In Moscow, the situation deteriorated with a new requirement stating that only the CEO or director of a founding company may file a state registration application and retrieve the registration certificates, in person—no representation by proxy is allowed. This has drawn out the registration timeframe considerably.

If the CEO or director cannot come to Russia to file the application in person, it should be sent by registered mail (not by courier) to the Russian registration

authorities, who process the application and return it either to the address of the founding company or of the entity being incorporated.

The registration process may take several weeks, or even months, to complete.

«Shelf» companies are generally not available, and the incorporation process can take from two to three months.

Preliminary approval of the Federal Anti-monopoly Service or a subsequent notification is required in certain cases. As of 1 January 2006, the state duty to register a Russian legal entity is 2,000 roubles (approx. USD 80). There is no processing fee for registration.

Choice of entity

Foreign investors can choose from a number of different forms of business representation in Russia, from Russian legal entities to representative offices and branches of foreign legal entities. Russian legal entities may be established in various forms, including joint-stock companies, limited liability companies and partnerships.

Representative offices of foreign entities are strictly limited to conducting only liaison and support functions. Branch offices are nowadays only allowed to be involved in commercial activities, though they were allowed a much broader range of activities in the past. Many investors opt for branch offices at the outset because these entities are able to engage in almost any kind of commercial activity, are easier to establish and are subject to less onerous reporting requirements. At the same time, for many investments, including joint ventures, production plants, licensing, customs or privatisation issues, a Russian legal entity may be better suited to an investor's needs.

Forms of business entities

Currently, the following forms of commercial legal entities (for-profit) may be incorporated in Russia:

- Full partnerships;
- Limited partnerships («kommandit» partnerships);
- Limited liability companies;
- Additional liability companies;
- Production co-operatives;

- Joint-stock companies (open and closed);
- Unitary enterprises (state-owned legal entities not available to foreign investors).

Of the above, only the joint-stock company resembles a corporation, but the limited partnership and the limited and additional liability companies also limit the liabilities of investors to the extent described below.

Joint-stock company

In accordance with the Russian Civil Code, the joint-stock company's capital is divided into a definite number of shares. The participants of the joint-stock company (the shareholders) are not liable for the company's obligations and accept the risks of losses in connection with its activity within the limit of their respective stakes.

Russian law provides that only joint-stock companies may issue stock, which is deemed as securities and is subject to registration. Russian legislation describes «open» and «closed» joint-stock companies, which are broadly equivalent to public and private companies. Public companies must disclose certain financial and other information annually.

A company may be created as a new company or by reorganising an existing legal entity (consolidation, division, spin-off or a change in legal form, etc.). A company is considered created from the date of its state registration.

The share capital of a joint-stock company is composed of the nominal amount of shares acquired by the shareholders. The minimum «charter» (share) capital for open and closed joint-stock companies is 1,000 and 100 times the minimum monthly wage* respectively.

General provisions concerning the management structure of the joint-stock company are contained in the Federal Law on Joint-Stock Companies and the Civil Code. The higher management body of a joint-stock company is the General Meeting of Shareholders, which must assemble at least once a year. According to the Russian Civil Code, a company with over 50 shareholders must have a board of directors. The company's executive body may be collegiate (board, directorate) and/or «one-man» (director, general director). The executive body of a joint-stock company shall carry out the day-by-day management of the company's activity and shall report to the board of directors and to the general meeting of shareholders.

In accordance with the Federal Law on Joint-Stock Companies (article 21), a joint-stock company may be liquidated voluntarily or by court order in the procedure or on the grounds established by the Civil Code.

The liquidation of a company shall result in its termination, with no transfer of rights and obligations by succession to other persons.

Limited liability company

Under the Civil Code, a limited liability company is established by one or several persons whose charter capital is divided into shares according to the constituent documents.

In this type of company, the liability of each participant is limited to the value of its contribution. Each equity holder in a limited liability company has the right at any time to withdraw from the company and to receive an amount equal to its pro rata share of the net assets of the company (provided the company is solvent). For foreign investors contributing significant amounts of time and money to a joint venture at the start-up phase, this aspect can be a problem.

The charter capital of the limited liability company shall determine the minimum size of the company's property guaranteeing the interests of its creditors. The minimum charter capital of a limited liability company is 100 times the minimum monthly wage.

The management structure of the limited liability company is similar to that of a joint-stock company.

Full and limited partnership

A full partnership is similar to the American general partnership, in which partners bear (full) joint and several liability for the partnership's obligations. A participant in a full partnership may not be a full partner in any other partnership.

A limited partnership, which is closer to the European kommandit partnership, has both full partners and partners whose liability is limited to amounts equal to their contributions. A full partner in a limited partnership may not be a full partner in another partnership and its liability is the same as for full partners described above.

Partnerships under Russian law are generally regarded as legal entities and are taxed accordingly. Contractual

* The term "minimum monthly wage" is used by the government as a ratio to calculate different payments, fines, penalties etc, and does not reflect the real minimum wage. As of 1 January 2007, the minimum monthly wage (for calculating different payments, fines, penalties, etc.) is 100 roubles (approximately USD 4.0).

agreements for joint activity do not create a legal entity, although they share some of the characteristics of a general partnership, and there are special rules governing their tax treatment.

Branches

A branch or representative office of a foreign legal entity needs to register with the authorities. However, in contrast to Russian legal entities, the process of registering a branch or representative office of a foreign company involves several federal and local authorities. To register, branches and rep offices need to go through the following steps:

- Accreditation with federal and local bodies.
Accreditation is in effect mandatory, since the local banks and administrative authorities may not recognise the branch/representative office without it;
- Tax registration;
- Registration with state statistic authorities, obtaining statistics codes;
- Registration with non-budgetary (Pension and Social Security) funds;
- Opening bank accounts.

Many investors confuse the concept of a branch and an accredited representative office, which is a mistake as they have certain important differences. An accredited representative office is not a Russian legal entity but an officially recognized extension of a foreign legal entity. Russian law restricts the scope of an accredited representative office's activities to certain types of representational functions.

A branch's legal status differs substantially from that of a representative office. For example, under Russian law, a registered branch of a foreign legal entity (but not a representative office or unregistered branch) is treated as «an enterprise with foreign investment». Therefore, while a registered branch can hold a licence to conduct regulated activities (such as oil field development), a representative office or unregistered branch may not.

The state duty for branch accreditation as of 1 January 2007 is RUB 60,000 (approximately USD 2,400). In addition, accreditation bodies also charge a processing fee from between USD 500 and USD 2,000, depending on the period of accreditation (from one year to five years, respectively).

Representative office

An accredited representative office is not a Russian legal entity but an officially recognized extension of a foreign legal entity. Although Russian law seems to suggest that the scope of an accredited representative office's commercial activities would be limited to certain types of representational functions, in practice many foreign firms conduct additional commercial activities that, according to a strict interpretation of the law, should only be conducted through a registered branch or Russian company.

For the accreditation of a representative office, accreditation bodies charge a processing fee ranging from USD 1,000 to USD 2,500, depending on the period of accreditation (from one year up to three years, respectively).

Labour relations and social security

Labour relations

Employer/employee relations

In accordance with the Labour Code, an employer can be an individual or a legal entity. In instances established by federal law, the employer may be an entity which has been vested with the right to conclude employment contracts. Representative offices and branches are not considered employers.

Unions

Union activity is regulated in accordance with the Federal Law on Professional Unions, their Rights and Guarantees of Activities.

After the collapse of the Soviet Union in 1991 and the formation of a market economy during the 1990s, the role of trade unions decreased significantly.

Today, unions in Russia are becoming more active and wielding more power on employers. Under the Labour Code, the employer should take the opinion of the trade union into account when adopting certain internal regulations (i.e., internal policies) or dismissing trade union members.

Labour code

Employer-employee relations are governed by the Labour Code of the Russian Federation (which came into force on 1 February 2002) and other special laws.

In 2006, the Labour Code was significantly amended, primarily to correct wording ambiguities.

The Labour Code establishes that employment relations of all employees working in Russia shall be governed by Russian legislation (regardless of their citizenship or status, or that of their employers, unless otherwise stipulated by an international agreement of the Russian Federation).

The law provides employees with minimum guarantees which cannot be worsened or limited by any employment contract. Any provision in an employment contract which deteriorates the position of the employee will not be enforceable.

The Labour Code heavily regulates employer/employee relations. There are safeguards to protect employees against dismissal or termination of their employment contract by the employer (prior notice, severance allowances), a harmful working environment and excessive working hours. Employment legislation makes it very difficult for the employer to dismiss an employee on disciplinary grounds.

Working conditions

Wages and salaries

Salary must be paid in Russian roubles twice a month as specified by the work regulations of an organization, a collective bargaining agreement or an employment contract.

Salaries may not be lower than the minimum monthly salary established by Russian legislation. The minimum monthly salary is regularly adjusted.

Currently, the statutory minimum monthly salary (including for foreign nationals) is RUB 2,300 per month (approximately USD 90) as of 1 September 2007.

Employment contracts

A written employment contract setting out the terms of employment must be concluded with each employee and shall be drawn up in two copies, each of which shall be signed by the parties.

The employer shall be obliged to draw up a written employment contract with the employee no later than three business days from the day on which he is actually admitted for work.

The Labour Code (Article 57) establishes mandatory requirements for the content of the employment contract.

As a general rule, employment contracts are concluded for an indefinite period. A fixed-term employment contract may also be concluded, but it cannot be concluded for more than five years, and only in those circumstances specifically provided for by the Labour Code. Moreover, recent court practice shows that the employer must prove and substantiate the reasons for a fixed-term employment contract in the event of any dispute. Otherwise, the employment contract shall be deemed to have been concluded for an indefinite term.

Under Russian employment law, job duties and obligations should be defined in the employment contract. This is very important, since an employee cannot subsequently be required to perform tasks outside the scope of duties described in the employment contract.

In accordance with Russian employment law, employers are required to issue an internal order each time an employee is hired, transferred to a new job, granted a vacation, disciplined or dismissed, among other situations. Moreover, employers should adopt a certain set of internal regulations compliant with Russian law.

Working hours

- Employers are required to keep a record of all time worked by each employee, including overtime.
- The standard working week in Russia is 40 hours over a five- or six-day week. For certain categories of employees, the number of working hours should be reduced.
- Law strictly defines limits and rates for overtime and holiday/ weekend work.
- On the eve of public holidays, the working day should be one hour shorter.

Paid holidays

All employees are entitled to a minimum of 28 calendar days of annual paid leave. Normally, vacation entitlement is granted to employees after they have worked at a company for six months continuously.

The Labour Code requires that employees plan their annual vacation by December of the preceding year. The Labour Code further requires that employees notify their employers in writing at least two weeks before any vacation commences. An employee's vacation allowance should be paid to the employee at least three days before vacation is due to start.

Equal opportunities

It is prohibited to impose, directly or indirectly, any restrictions or privileges on the basis of gender, race, skin colour, nationality, language, origin, material, social and employment status, place of residence (including whether or not a person is registered at his place of residence or place of stay) or other circumstances not related to the business qualities of employees, except in instances provided for by federal law. Any discrimination in the establishment and adjustment of salary rates and other conditions of payment for labour are prohibited.

Termination of employment

An employer may terminate employment only on the specific grounds provided in the Labour Code and other federal laws. Employers must strictly comply with specific procedures and documentary requirements provided by the Labour Code when terminating employment for any reason. The Labour Code gives additional protection to specific categories of employees, including minors, female employees, employees with children, trade union members, and various other categories. An employee must give two weeks' notice of resignation.

Because of the detailed and varied termination requirements, legal advice should be sought before dismissing an employee.

Social security

Coverage

Social and health security covers pensions, unemployment, maternity and child benefits, illness and other social services.

Employees' contributions

Employees currently do not pay Russian social taxes—employers make all contributions.

Employers' contributions

Russian social taxes were substantially reduced from 1 January 2001. Currently, companies pay the following on employee compensation:

- Unified Social Tax (UST) is comprised of numerous elements, including the Social Fund, the federal budget, and various medical funds (federal and territorial). UST is generally levied on employees' and contractors' total remuneration at regressive rates starting at 26% for

low income employees, down to 2% for high income employees. UST is allocated across these elements in varying proportions in accordance with the status/income level of the individual.

- Obligatory Pension Insurance (OPI) contributions also accrue on employees' and contractors' total remuneration at regressive rates, depending on the cumulative remuneration; the amount of this contribution is effectively credited against the federal budget portion of UST.
- Mandatory Accident Insurance (AI) against work-related accidents. Rates vary from 0.2% to 8.5%, depending on the level of professional risk associated with the employer's activity.

Here are some key points to consider:

- Special conditions for foreign nationals were abolished in 2003. All components of the Unified Social Tax must now be paid on expatriates' remuneration.
- OPI contributions only apply for Russian citizens or foreign nationals permanently residing in Russia (for example, with a residence permit). The total amount of social taxes payable on compensation of a foreign national who is temporarily staying in Russia is, however, not reduced by this exemption from OPI contributions; rather, the amount due to OPI is redistributed across the various components of UST.
- Income paid to contractors is exempt from the Social Fund portion of the Unified Social Tax and so effectively reduces the amount of UST payable. Accident Insurance (AI) is not payable if the civil contract does not stipulate accident insurance coverage.

Foreign personnel

Accommodation

It is possible to find accommodation in Moscow that conforms to Western standards. There are many apartments or houses which can be rented or bought by expatriates to suit their needs.

Foreign employees can bring their families to live in Russia. Accompanying family members can obtain Russian visas on the basis of their spouse's

employment. There are also schools which cater to children of expatriate employees.

Restrictions on employment

There are no restrictions on the number of foreign employees in a company or on how long they can be employed in Russia, except in the case of representative offices and branches of foreign companies, which are subject to quotas established by the immigration bodies.

There are some limits to the types of activities foreign employees can carry out in Russia (e.g., a foreign individual cannot work in public service, as pilots in command in civil aviation, etc.).

Fiscal registration number

There is no requirement to obtain a fiscal registration number for a foreign employee.

Residence permit

There is no requirement to obtain residence permits for foreign personnel to work in Russia. Foreign employees are authorized to stay and work in the Russian Federation for as long as their work visa is valid.

Work permit

According to the current Russian legislation, all expatriate employees have the right to work in Russia if they hold individual work permits. An employer is entitled to employ foreign employees only if it holds an employment permit (i.e., permission to employ foreign personnel). Employers must obtain an employment permit prior to applying for individual work permits for their foreign employees.

Employment and work permits are generally issued for one year and for a particular region.

Please note that this procedure does not apply to foreign nationals permanently residing in Russia on a residence permit or several categories of foreign employees engaged, for instance, in assembling technical equipment delivered to Russia.

The Russian immigration authorities (Federal Migration Service) refuse to issue employment and work permits on the basis of secondment agreements. Only a direct employment contract governed by Russian labour law between an employer and an employee can be the basis for obtaining both employment and work permits.

Once a foreign employee obtains his/her individual work permit, he/she will be entitled to stay and work in Russia only on the basis of a work visa. The FMS have become more stringent in checking that foreigners' visas comply with the purpose of stay in Russia. A business visa is issued specifically for the purpose of conducting negotiations, concluding or extending business contracts, or participating in auctions, exhibitions and other business events.

Failure to comply with immigration rules could bring fines of up to RUB 800,000 (approximately USD 31,000) per foreign employee.

Accounting and audit requirements

Accounting

Introduction of International Financial Reporting Standards

Russian Accounting Rules (RAR) are not yet in line with International Financial Reporting Standards (IFRS), although Russian accounting reforms based on IFRS have been introduced.

In 1998, the Russian government adopted a programme to reform Russian accounting in accordance with IFRS. In line with this programme, new Russian Accounting Standards (RAS) are being introduced. These standards regulate major aspects of accounting, as well as the presentation and disclosure of information (such as accounting policies, fixed assets, intangible assets, inventories, income and expenses, related parties, segment information, government grants and others). The new RAS have introduced fundamental accounting assumptions and requirements, such as going concern, consistency of accounting policies, accrual basis, prudence, substance over form, cost-effectiveness and others, thus bringing Russian practice closer to international practice. Practical interpretation of the requirements and assumptions under RAR may be different from IFRS (e.g., RAR are often form-driven).

In 2004, the new Accounting Development Concept was adopted, outlining fundamental changes to be introduced in accounting regulations and their schedule. The concept envisages mandatory preparation of consolidated financial statements by public and other public interest companies in accordance with IFRS.

Stand-alone accounts will be prepared by companies in accordance with Russian accounting rules, to be developed on the basis of IFRS. The concept also includes certain measures to develop the accounting profession, in particular, delegating the development of accounting standards to professional organizations, while state authorities still decide whether to adopt them or not.

It is expected that the procedure for preparing consolidated financial statements will be established by a Federal Law «On Consolidated Financial Statements», a draft of which is being discussed by the State Duma. Under the new Law, consolidated financial statements of public companies will be prepared solely under IFRS, whose recognition and translation into Russian will be approved by the government. Consolidated financial statements shall be subject to audit and publication.

Accounting principles in Russia

Russian accounting practice has already moved a long way from the central-planning model towards a market-economy model and, consequently, towards international accounting practice. Although accounting principles and procedures are gradually becoming more harmonized with IFRS, there is still a long way to go. Some significant differences continue to exist, and in some cases there are no specific rules under RAR for certain areas.

The main differences between national accounting rules and IFRS are presented below.

- The concept of inflation accounting does not exist.
- Consolidated financial statements are treated as secondary to the stand-alone statutory financial statements of a company and are often not prepared.
- There are no rules for accounting for the impairment of some assets.
- Nor is there a specific rule for business combinations. Overall, the accounting profession is still in the formation stage.

Overall, the accounting profession is still in the formation stage.

Audit requirements

Investor considerations

- An annual statutory audit is mandatory for all companies meeting certain criteria set by Russian legislation.
- New Russian Standards on Auditing (RSA) are currently being developed.
- Russian Standards on Auditing are close to international practice.
- Licensing is mandatory for audit firms and auditors working independently.
- In order to conduct audit activities, auditors should hold an audit certificate.

Companies subject to statutory audit

Under Russian auditing legislation, some companies must have their annual statutory financial statements audited. Commercial non-governmental companies whose annual statutory financial statements are subject to statutory audit include:

- All open joint-stock companies;
- Banks and other credit institutions, insurance companies, commodity and stock exchanges, investment funds, charitable and other (non-investment) funds, etc.;
- Other companies with annual sales exceeding 500,000 times the average official minimum monthly wage for the reporting year and companies with total balance sheet assets exceeding 200,000 times the average official minimum monthly wage for the reporting year (currently RUB 50 million and RUB 20 million, respectively).

In addition, annual statutory financial statements subject to publication must be audited by independent auditors prior to their publication.

Consolidated financial statements are not subject to mandatory statutory audit.

Standards for audits required by law

The Federal Law «On Audit», enacted in 2001, defines audit services, establishes the rights, obligations and liability of auditors and audit firms, discusses confidentiality and independence, and sets forth substantial compliance regulations.

In May 2005, the State Duma adopted in the first reading amendments to the Law on Audit which introduce significant changes to the audit profession. They propose to replace audit licensing with audit firms' mandatory membership in self-regulated professional associations, to introduce mandatory quality control and to toughen the requirements on auditors' independence. Auditing standards in Russia are expected to be in line with international standards.

Tax system and administration

Tax system

The Russian tax system is relatively new, and many tax concepts and issues that are standard in most market economies with longer taxation histories are just beginning to emerge in Russia. For that reason many concepts familiar to Western business people and tax specialists have yet to find their way into Russian tax legislation and practice. As new concepts are embraced by Russian authorities, they are in many cases applied differently than in the West, or in other countries with developing tax systems.

The overhaul of a patchy tax system brought into existence by the rapid transition to the market economy in the early 1990s began in 1999 with the adoption of the first part of the Tax Code. Today, tax reform has largely been completed in terms of codification and elimination of multiple tiers of regulations. A new 13% flat rate for personal income tax, reduced corporate tax (from 35% to a 24%) and reduced VAT (from 20% to 18%) were introduced.

The government plans to introduce certain anti-avoidance provisions (including controlled company legislation). In the meantime, guidance from the high courts lays out several anti-avoidance approaches, including the concept of unjustified tax benefits. The fiscal authorities are beginning to adopt these approaches and crack down on aggressive tax evasion. In doing so, they are beginning to use the substance over form approach. Overall, this is a rapidly developing area.

Certain other concepts are planned to be introduced, including profits tax consolidation and a significant upgrade of transfer pricing rules to bring them more in line with OECD guidelines.

Administration of the tax system

Taxes, duty and fees are enacted by law and may be changed only by new legislation.

The Federal Tax Service, which is responsible for collecting taxes, is subordinate to the Ministry of Finance, which has overall responsibility for collection of state budget revenues and for setting tax policy.

Other tax law enforcement bodies include, in particular, the Federal Agency for Economic and Tax Crimes under the Ministry of Internal Affairs, which is responsible for investigating tax crimes.

Registration requirements

Every legal entity must register with the tax authorities in its place of location, as well as in each location in which it has a branch, a representative office, other separate subdivisions, immovable property or transport vehicles.

A foreign legal entity is required to register with the Russian tax authorities in each location in which it carries out activity through a subdivision (regardless of whether the activity is taxable or not) for a period exceeding 30 days continuously or cumulatively during a calendar year. Special registration requirements apply for foreign legal entities which (a) own immovable property in Russia, (b) own transport vehicles in Russia, (c) have movable property subject to taxation in Russia, (d) have opened bank accounts with Russian banks.

Principal taxes

The Russian tax system provides revenues on three budgetary tiers: federal, regional and local. All taxes are legislated at the federal level, although regional and local authorities have the power to set (or reduce) rates and establish procedures for regional or local taxes. Lower-tier authorities cannot grant concessions with respect to taxes governed by a higher authority (i.e., regional authorities cannot grant concessions on federal taxes).

Major taxes currently payable by businesses and individuals in Russia:

Federal Taxes

- Profit tax
- Value-added tax (VAT)
- Excise taxes
- Personal income tax
- Unified social tax
- Mineral resources extraction tax
- Payments for the use of natural resources
- Water tax

Regional Taxes

- Property tax
- Transport tax
- Tax on the gambling industry

Local Taxes

- Land tax
- Individual property tax

Apart from the taxes listed above, a company may be subject to certain obligatory pension and social insurance payments and pollution charges. Customs duty is governed separately by the Customs Code.

Legislative framework

Taxes, duty and fees are enacted by law and may be changed only by new legislation. Bills are developed by the Federal Assembly's lower chamber (State Duma), then approved by the upper chamber (Federation Council) and signed into law by the President.

The Russian legal system does not include case law, and each court ruling technically binds only the parties involved. Nevertheless, the Supreme Arbitration Court and Constitutional Court issue rulings and guidance for the consistent application of laws and compliance with the main constitutional principles, and this guidance plays an important role in defining the approaches of taxpayers and the fiscal authorities.

Tax treaties

As of July 2007, Russia has signed and ratified 67 double tax treaties. These tax treaties are usually based on the OECD Model Treaty (although the UN Model Convention is also still applied by developing countries). Local Russian tax authorities generally do not have much experience in interpreting and applying double tax treaties.

Withholding taxes on interest, dividends and royalties are typically reduced by tax treaties. Starting 1 January 2002, treaty benefits can be claimed by any entity or person provided that the tax residence certificate of the foreign company is available (no advance clearance is required to apply a treaty's provisions).

Definitions of a permanent establishment in domestic law in most tax treaties are largely similar. However, the domestic definition does not require a place of business to be «fixed», unlike most treaties. Some tax treaties

provide more favourable rules with respect to certain types of tax deductions when determining the amount of business profits taxable by the Russian Federation (e.g., the German treaty allows for unlimited deduction of advertising expenses).

Tax returns and payments

Companies are required to file tax returns with the tax authorities on a monthly, quarterly or annual basis, depending on the particular tax and the company's line of business. Some taxes (i.e., profits tax, property tax, unified social tax, etc.) are paid in monthly, quarterly or annual installments, with a final adjustment made when annual tax returns are submitted.

Companies may choose to calculate profits tax either monthly (with payment of monthly advance payments calculated based on the actual profits received) or quarterly (with payment of equal monthly advance payments calculated based on profits received during the previous quarter). The final payment for the year is due by 28 March of the following year. The quarterly and annual returns should be filed within the same deadline as the payment due dates.

Assessments

The tax authorities do not issue tax assessments to enterprises. Instead, the company must pay the amount of tax indicated in the tax return.

Appeals

At present, taxpayers can challenge decisions and other actions (or failure to act) of tax authorities either with a superior tax office, or in court. From 2009, an appeal to a superior tax office will become mandatory before the matter may be brought to court.

Withholding taxes

In accordance with the general provisions of the Tax Code, income received by a foreign legal entity and not attributed to a permanent establishment (PE) in Russia is subject to withholding income tax in Russia (to be withheld at source). Withholding income tax rates are as follows:

- 15% on dividends and income from participation in Russian enterprises with foreign investments;
- 10% on freight income;

- 20% on some other income from Russian sources, including royalty and interest;
- 20% of revenue or 24% of margin in relation to capital gain (from the sale of immovable property located in Russia or shares in Russian subsidiaries where the immovable property located in Russia represents more than 50% of assets). Taxation of the margin (rather than the gross amount of income received from the above sales) can be applied only if proper documentary support of expenses is available.

Tax should be withheld by the tax agent and paid to the budget within three days of the date when the income was paid out.

Income tax withholding rates may be reduced under a relevant double taxation treaty, whose provisions may be applied based on confirmation of tax residence, to be provided by a foreign company to the Russian tax agent prior to the date of payment (no advance permission from the Russian tax authorities is required).

Tax audits

Tax returns are desk-audited by the tax authorities upon their submission. In addition, the tax authorities have the right to perform regular field audits of companies. Field audits should not last for more than two months (in some cases it may be extended to four months—for example in audits of «major» taxpayers or taxpayers that have several separate subdivisions—or extended to six months in exceptional cases), and may cover only three calendar years prior to the year of the audit. Once the tax period is audited, the tax authorities may not audit the same period again, except when a taxpayer is reorganized or liquidated, or the respective tax audit is performed as part of a superior tax office's review, or if a taxpayer has filed an amended tax return with a reduced amount of tax due.

Penalties

The law covers a variety of tax violations and establishes penalties for each particular type.

Underpayment of taxes may result in a fine equal to 20% of the underpaid taxes (can be increased to 40% if intent can be proved). The late filing of a tax declaration carries a penalty of 5% to 10% of unpaid tax per each month of delay in submitting the tax declaration. A number of fixed fines are imposed on a taxpayer for failure to register with the tax authorities or a failure to supply them with the required information, etc. Failure to withhold tax may result in a fine of 20% for the tax agent.

Interest for late payment is charged at a rate calculated as 1/300 of the Central Bank of Russia's re-financing rate (10% per annum from 19 June 2007) per day. The amount of underpaid tax and late payment interest may generally be collected by the tax authorities without the consent of a taxpayer or a court. However, collection of penalties requires the ultimate consent of the taxpayer or a court ruling.

Advance tax clarifications and advance pricing agreements

Taxpayers have a right to apply to the Ministry of Finance or the tax authorities for clarification of Tax Code provisions. If a taxpayer follows such clarifications (issued individually or placed in the public domain with respect to similar facts and circumstances), it will be relieved of fines or late tax payment interest. However, it is difficult and time consuming to obtain these clarifications.

According to draft amendments to the Chapter I of the Tax Code, taxpayers will be able to conclude advance pricing agreements (APAs) with tax authorities on the pricing methodology that they can use. No APAs are available at present.

Contact information

President of the Republic of Tatarstan

Mintimer Sharipovich Shaimiev
Kremlin, Kazan, 420014
Phone : +7 (843) 567-89-01
Fax: +7 (843) 292-70-88
E-mail: aprt@kremlin.kazan.ru
<http://president.tatar.ru>

First Deputy Prime Minister of the Republic of Tatarstan

Ravil Fatykhovich Muratov
1 Svobody Ul., Kazan, 420060
Phone : +7 (843) 264-77-41
Fax: +7 (843) 264-40-00
e-mail: Ravil.Muratov@tatar.ru

Deputy Prime Minister of the Republic of Tatarstan – Minister of Agriculture and Food of the Republic of Tatarstan

Marat Gotovich Akhmetov
Entrance 1, Kremlin, Kazan, 420014
Phone : +7 (843) 292-03-82 / 292-05-09 / 292-05-09
Fax: +7 (843) 292-05-38 / 291-90-08
E-mail: k46@mail.ru, mshp@kabmin.tatarstan.ru,
info@mintransrt.ru <http://agro.tatar.ru>

State Advisor on Foreign Affairs to the President of the Republic of Tatarstan

Timur Yurievich Akoulov
Kremlin, Kazan, 420014
Phone : +7 (843) 567-87-46
Fax: +7 (843) 292-00-92
e-mail: dfa@kremlin.kazan.ru

PricewaterhouseCoopers Moscow

Kosmodamianskaya nab. 52, bld. 5
Moscow, Russia, 115054
Phone: +7 (495) 967 6000
Fax: +7 (495) 967 6001
www.pwc.ru

Stanley Root

Partner
Phone: +7 (495) 967 6328
E-mail: stanley.root@ru.pwc.com

Polina Nemirovchenko

Senior Manager
External Affairs
Phone: +7 (495) 232 5763
E-mail: polina.nemirovchenko@ru.pwc.com

Prime Minister of the Republic of Tatarstan

Rustam Nurgalieвич Minnikhanov
1 Svobody Ul., Kazan, 420060
Phone : +7 (843) 264-77-46 / 292-35-80
Fax: +7 (843) 264-32-64
e-mail: priemnaya-1@kabmin.tatarstan.ru
<http://prav.tatar.ru>

First Deputy Prime Minister of the Republic of Tatarstan

Boris Petrovich Pavlov
1 Svobody Ul., Kazan, 420060
Phone : +7 (843) 264-75-94
Fax: +7 (843) 264-63-08
e-mail: Pavlov@tatar.ru

Deputy Prime Minister of the Republic of Tatarstan – Minister of Culture of the Republic of Tatarstan

Zilya Rakhimianovna Valeyeva
66/33 Pushkina Ul., Kazan, 420060
Phone : +7 (843) 264-74-01
Fax: +7 (843) 292-07-53
E-mail: minkult@inbox.ru <http://mincult.tatar.ru>

Minister of Economy of the Republic of Tatarstan

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

PricewaterhouseCoopers Kazan

Pravo-Bulachnaya Street, 35/2
Kazan, Russia, 420111
Phone: +7 (843) 233 0707
Fax: +7 (843) 233 0717

Jason Wardell

Director
Phone: +7 (843) 233 0711
E-mail: jason.wardell@ru.pwc.com

Anna Nazyrova

Office Manager
Phone: +7 (843) 233 0713
E-mail: anna.nazyrova@ru.pwc.com

