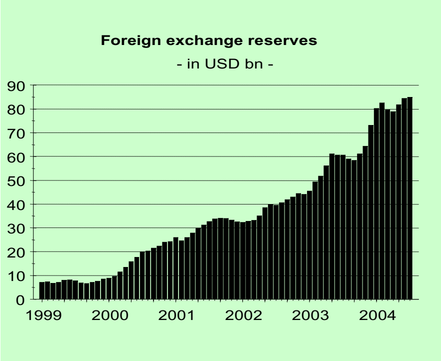
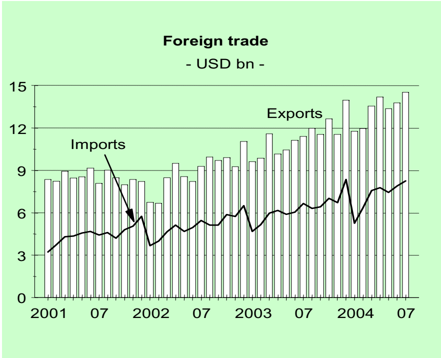
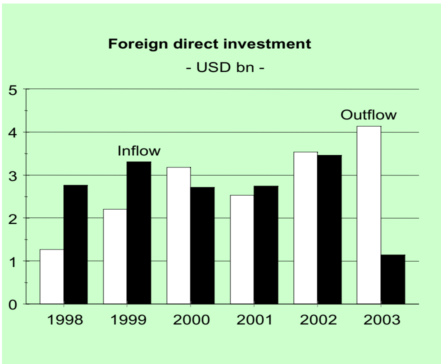
Russia







Political situation

- President Putin was able to reinforce his position in the parliamentary elections in December 2003 as well as in the presidential elections in March 2004.
- Pace of reform still sluggish.
- The Yukos affair is fueling anxiety about government intervention in the economy.

Domestic economy

- The Russian economy continues to boom, driven mainly by private consumption. However, investment is developing more and more into a driving force, currently recording the strongest growth for four years.
- Oil price developments played a key role in the buoyant growth seen in Russia in recent years. However, current trends in industrial output suggest that growth is gradually gaining breadth. But implementation of structural reforms is essential in order to push this diversification forward.
- The banking sector remains in desolate shape. Many banks are undercapitalized. The bulk of deposits is concentrated on the state-owned Sberbank (about 75 %). Reforms in the banking sector are not well advanced. The vulnerability of the financial system was also reflected in the banking crisis in summer 2004.

External sector

- Commodities make up the lion's share of exports, with almost 55 % accounted for by oil and gas exports. Trade balance therefore sensitive to world market prices. In 2004 the current account surplus will climb to over USD 38bn.
- The inflow of net foreign direct investment still very low in terms of the size of the country.
- Comfortable foreign debt and foreign currency liquidity situation. Import cover of well over seven months.

RUSSIA	2001	2002	2003	2004e	2005f
Population (m)	145.6	144.9	144.1	143.4	142.8
GDP (US$ bn)	306.6	345.6	432.9	541.6	615.1
GDP per capita (US$)	2,106	2,385	3,004	3,777	4,307
GDP change in % (real)	5.1	4.7	7.3	7.0	6.5
Inflation in % (annual average)	21.5	15.8	13.6	10.5	9.2
Budget balance in % of GDP	2.7	1.9	1.7	1.8	1.0
Merchandise exports (US$ bn)	101.9	107.3	135.9	162.0	164.0
Merchandise imports (US$ bn)	53.8	61.0	75.4	94.0	107.0
Current account balance (US$ bn)	33.8	29.1	35.9	38.4	25.3
Current account balance in % of GDP	11.0	8.4	8.3	7.1	4.1
Foreign direct investment (US$ bn)	0.2	-0.1	-3.0	0.5	1.0
Foreign direct investment in % of GDP	0.1	0.0	-0.7	0.1	0.2
Gross foreign debt (US$ bn)	151.1	153.2	184.2	190.0	193.0
Foreign debt in % of exports *	126	121	117	102	102
Foreign exchange reserves (US$ bn)	32.5	44.1	73.2	95.0	100.0
Import cover (months) *	4.6	5.5	7.2	7.7	7.3
Exchange rate year-end (Ruble per EUR)	26.56	33.33	37.11	36.88	37.25
Exchange rate annual average (Ruble per EUR)	26.10	29.50	34.68	35.67	37.13
* goods. services and income	e = estimate; f = forecast				

Russia

Basic conditions for foreign investors

General legal system:

Substantial improvement in basic conditions in the past few years. New laws came into effect, e.g. in the foreign exchange act, tax law, labor law and real estate law. The implementation of existing legal standards still remains difficult, i.e. practice and regional peculiarities may lead to significant divergences from legal framework.

Possible company structures/minimum capital requirement:

Joint stock company: a) private (so-called „closed“) joint stock company, b) public (so-called „open“) joint stock company. One-man joint stock company possible. Private limited company, private limited company with additional liability, general commercial partnership, producers' cooperative. For foreign investors subsidiary (branch office) and representative office.

Permissible holding:

Up to 100 %, except in military and strategic sectors as well as in banking and insurance. Foreign investors may participate in privatization through the Russian Privatization Agency for Management of State Property (internet address www.mgi.ru) by purchase of shares, public sale at auction or tender system.

Approval/establishment procedures:

Since January 1, 2004 facilitated, only registration with the respective tax authority necessary (so-called one-window-principle). After approximately five working days issue of a certificate with the national and fiscal registration. This is followed by registration with the Department of Statistics and with the health, pension and social security departments.

Capital contribution:

Foreign investors can bring in financial or real capital. Joint stock companies and private limited companies can contribute financial capital in foreign exchange.

Land/real estate acquisition:

According to the federal land act of 10/2001 foreign investors are allowed to acquire property in form of land and real estate (legally separate activities) for commercial purposes; but there are restrictions on agricultural plots. The legal position is still unclear. Lease is common (up to a maximum of 49 years), which foreign investors are also allowed to acquire through a Russian legal entity (e. g. by establishing a Russian subsidiary).

Qualification of labor force:

In general well-trained and motivated workforce; highly qualified staff in research and development. Official languages: Russian, German, English.

Labor costs (per hour worked, national average):

1.50 euro (industry and service sector, estimation, 2003). Compared with EU: 19.65 euro, Germany: 25.98 euro.

Wage level/personnel costs:

Statutory monthly minimum wage:	600 Russian ruble.
Average monthly gross wage:	6,980 Russian ruble.
Average monthly net wage:	6,075 Russian ruble.

Gross wages rising steeply. Considerable regional and sectoral fluctuations in salaries and wages, especially in big cities and hubs. Employees of foreign companies expect to earn more.

Average monthly gross wage (compared with Germany/EU, 2003):

201 euro (Germany: 2,460 euro, EU: 2,396 euro).

Social security contributions:

Employer's contribution: 35.6 – 2.0 % of total wages with increasing tax assessment basis

(regressive rates cover pension scheme, social and health insurance funds). From 2005 lowering of the maximum rate from 35.6 to 26 % envisaged.

Employee's contribution: - (all social security contributions are covered by the employer).

Legal forms to protect foreign investments:

Foreign investment act (1999).

Agreement with European Union:

Partner and Cooperation Agreement since December 1, 1997.

Profit and capital repatriation:

Free for foreign investors after taxes, however according to the new foreign exchange act certain requirements need to be met.

Taxation (without application of bilateral agreements):

As of January 1, 2004 a tax revision on the central level came into effect. Accordingly all types of taxes which are not mentioned in this tax law are abolished (e.g. on regional and municipal levels). Sales tax which used to be collected at different levels was abolished on January 1, 2004.

Income tax:	13 % (flat rate) for tax residents (minimum stay of 183 days in the country), 30 % for non-residents and on dividends, 35 % on bank interest.
Profit tax:	24 % (thereof 6 % central budget, 17 % regional budget and 2 % local budget).
VAT:	18 % (standard rate), 10 % reduced rate, e.g. on food.

Customs tariff:

From January 1, 2004 a new customs law came into force with substantial facilitation in customs handling. This law largely corresponds with the standards of the Harmonized System (HS) of the European Union. Further harmonization with view to a future WTO membership necessary. WTO negotiations in the final stage; accession 2005/2006 envisaged. Free trade agreement with the Community of Independent States (CIS).

Special economic zones:

Among others Oblast Kaliningrad, Nishnij Nowgorod, Magadan and St. Petersburg; area Krasnojarsk.

Tax concessions for foreign investors:

Maximum 4 % reduction of the regional portion of the profit tax in certain regions, i.e. a rebate of up to 20% of profit tax possible. The foreign investment acts of the special economic zones offer a vast number of possibilities, e.g. tax and custom concessions, allowances for property leasing.

Foreign exchange regulations:

Managed floating of the Russian currency against the US-dollar. The ruble is convertible for current account transactions. Plans to peg ruble to a currency basket, comprising of US-dollar and euro (starting with euro at 10 – 20% of the basket and later comprising euro and US-dollar at 50 % each). In the new „Law on Foreign Exchange Regulation and Exchange Control“ as of June 2004 gradual changes are foreseen to achieve a fully convertible ruble by 2007. At present the central bank is entitled to repatriate foreign exchange proceeds gained by sole proprietor and legal persons up to a maximum of 30 %.

Inflow of foreign direct investment (gross, 2003): 0.9bn euro

Main countries of origin:

Japan (23.5 %), Netherlands (20.3 %), Cyprus (18.2 %), United Kingdom (9.4 %), Germany (9.3 %).

Main sectors:

Exploration of oil, gas and coal (28.2 %), Trade and catering (22.3 %), food processing industry (5.2 %).

Forthcoming privatizations(partial privatization):

Svyazinvest (telecommunications), Aeroflot and two more airlines, four important harbors as well as in the sectors energy, insurance, metallurgical engineering and traffic. Visit internet address www.mgi.ru for current privatization offers.

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