

FEDERAL ACT

ON FOREIGN INVESTMENT IN THE RUSSIAN FEDERATION

Passed by
the State Duma
on June 25, 1999

Approved by
the Council of
Federation
on July 02, 1999

This Federal Act shall determine the main guarantees of foreign investors' rights to investment and income and profit from investment, the terms and conditions of business carried out by foreign investors in the Russian Federation.

The purpose of this Federal Act is to attract and make an effective use of foreign material and financial funds, advanced technique and technology, managerial experience in the Russian Federation, to ensure stability for the business of foreign investors and make sure that the legal regime of foreign investment complies with the international law and international practice of investment co-operation.

Article 1. The Relations regulated by this Federal Act and its application.

1. This Federal Act shall regulate the relations connected with state guarantees of the rights of foreign investors when they make investment in the Russian Federation.

2. This Federal Act shall not apply to the relations connected with injections of foreign capital in banks and any other credit institutions or insurance companies and, consequently, regulated by the laws of the Russian Federation on banks and banking business and the laws of the Russian Federation on.

This Federal Act shall not apply to the relations connected with injections of foreign capital in non-business organisations in order to achieve a certain social goals including educational, charitable, scientific or religious activities that are regulated by the Insurance Laws of the Russian Federation on non-business organisations.

Article 2. Interpretation of the main terms used for the purpose of this Federal Act

For the purpose of this Federal Act, the following main terms are used:

foreign investor - a foreign legal entity with the civil legal capacity defined in accordance with the laws of the country where it has been incorporated and who is entitled in accordance with the laws of this country to make investment in the Russian Federation; a foreign organisation not being a legal entity with the civil legal capacity defined in accordance with the laws of the country where it has been established and which is entitled in accordance with the laws of this country to make investment in the Russian Federation in accordance with the laws of this country to make investment in

the Russian Federation; a foreign citizen whose civil legal capacity and ability is defined in accordance with the laws of the country of its nationality and who is entitled in accordance with the laws of this country to make investment in the Russian Federation; a person without nationality who permanently lives outside the Russian Federation, whose civil legal capacity and ability is defined in accordance with the laws of the country where he/she permanently lives and who is entitled civil legal capacity and ability is defined in accordance with the laws of the country; an international organisation which is entitled in accordance with the international agreement of the Russian Federation to make investment in the Russian Federation; foreign countries in accordance with the procedure prescribed by federal acts;

foreign investment - injection of foreign capital in a business project in the Russian Federation in the form of the objects of civil rights held by a foreign investor if such objects of civil rights are not removed from the turnover or not restricted in the turnover in the Russian Federation in accordance with federal acts including money, securities (in a foreign currency or in the currency of the Russian Federation), or any other property or property rights that can be evaluated in terms of money, exclusive rights to the results of intellectual activity (intellectual property), as well as services and information;

direct foreign investment - acquisition by a foreign investor of not less than 10 percent of the share, shares (contributions) in the authorised (share) capital) of a business organisation incorporated or newly incorporated in the Russian Federation in the form of a business partnership or company in accordance with the laws of the Russian Federation; investment of capital in the main assets of the branch of a foreign legal entity established in the Russian Federation; financial lease (leasing) of equipment specified in Sections XVI and XVII of the Commodity Classification of foreign economic activity of the Commonwealth of Independent States (CC FEA CIS) with the customs value of not less than 1 million roubles made in the Russian Federation by a foreign investor as a lessor;

investment project - justification of economic expediency, volume and period for making direct foreign investment including design and estimate documentation developed in compliance with the standards prescribed by the laws of the Russian Federation;

priority investment project - the investment project the aggregate amount of foreign investment in which is not less than 1 billion roubles (not less than an equivalent sum in a foreign currency at the exchange rate of the Central Bank of the Russian Federation on the effective date of this Federal Act), or any other investment project with a minimum share (injection) contributed by foreign investors in the authorised (share) capital of a business organisation with foreign capital is not less than 100 million roubles (not less than an equivalent sum in a foreign currency at the exchange rate of the Central Bank of the Russian Federation on the effective date of this Federal Act) put on the list to be approved by the Government of the Russian Federation;

payback period of investment project - the period commencing from the date when the investment project starts to be financed by using direct foreign investment till the date when the difference between the accumulated net profit with depreciation deductions and investment spending of a business organisation using foreign investment or the branch of a foreign legal entity, or a lessor under financial lease contract reaches a positive balance;

reinvestment - making capital investment in business projects in the Russian Federation by using the income or profit of a foreign investor or a business organisation with foreign capital that were obtained by them from foreign investment;

total tax - the calculated sum of money to be paid as import customs duties (except customs duties arising from the protection actions of the economic interests of the Russian Federation in the course of foreign trade of commodities in accordance with the laws of the Russian Federation), federal taxes (except excises, value added tax on the commodities imported to the Russian Federation) and contributions to state non-budget funds (except contributions to the superannuation Fund of the Russian Federation) by a foreign investor and business organisation with foreign capital that are involved in implementation of an investment project by using foreign investment as of the beginning of financing of the investment project.

Article 3. Legal regulation of foreign investment in the Russian Federation

1. Foreign investment in the Russian Federation shall be legally regulated by this Federal Act, other federal acts and any other normative legal statutes of the Russian Federation, as well as by international agreements of the Russian Federation.
2. Any subject of the Russian Federation shall be entitled to pass any acts and any normative legal statutes on regulation of foreign investment, on their management and also on joint management of foreign investment by the Russian Federation and subjects of the Russian Federation as this Federal Act and other federal acts prescribe.

Article 4. Legal regime for business carried out by foreign investors and business organisations with foreign capital

1. The legal regime for business of foreign investors and their use of the profit obtained from the investment may not be less favourable than the legal regime for the business and use of the profit obtained from the investment provided to Russian investors, except otherwise prescribed by federal acts.

2. Restrictions for foreign investors may be prescribed by federal acts to the extent that is required for the protection of the constitutional system, morals, health, rights and legal interests of other persons, and also to ensure defence of the country and national security.

Exemptions of incentive nature in terms of benefits or privileges for foreign investors may be introduced in the interest of the social and economic development of the Russian Federation.

3. The branch of any foreign legal entity opened in the Russian Federation shall partially or fully carry out the functions including the functions of a representative office in the name of the foreign legal entity which has opened it (hereinafter referred to as the "parent company") on the condition that the objects of the parent company are to do business, and the parent company bears direct property liability for its obligations connected with this business in the Russian Federation.

4. Legal protection, guarantees, exemptions prescribed by this Federal Act shall not apply to subsidiaries or affiliated companies of a business organisation with foreign

capital when such subsidiaries or affiliated companies do business in the Russian Federation.

5. Any foreign investor, or any business organisation with foreign capital established in the Russian Federation where the share of a foreign investor (foreign investors) is not less than 10 percent of the contributions in the authorised capital of the this organisation may fully use the legal protection, guarantees, exemptions provided by this Federal Act when they carry out reinvestment.

6. Any Russian business organisation shall be given the status of a business organisation with foreign capital when a foreign investor becomes a member of this organisation. From this date the legal protection, guarantees, exemptions prescribed by this Federal Act shall apply to such business organisations with foreign capital and the foreign investor.

Any business organisation shall be deprived of the status of a business organisation with foreign capital from the date the foreign investor ceases to be a member of the above organisation (or in the event of several foreign investors in the membership of an organisation when all foreign investors cease to be members). From this date the legal protection, guarantees, exemptions prescribed by this Federal Act shall not apply to this business organisations and the foreign investor.

Article 5. Legal guarantees for the business of foreign investors in the Russian Federation

The rights and interests of any foreign investor in the Russian Federation shall be given full and absolute protection that is provided by this Federal Act and any other federal acts and normative statutes of the Russian Federation, as well as by international agreements of the Russian Federation.

2. In pursuance of the Civil Legislation of the Russian Federation, any foreign investor shall be entitled to compensation for losses caused by illegal actions (failure to act) of public authorities, local authorities or officials of these authorities.

Article 6. The use of various investment forms by foreign Investors in the Russian Federation

Any foreign investor may make investment in the Russian Federation in any form that is not prohibited by the laws of the Russian Federation.

The capital contributions in the authorised capital of a business organisation with foreign capital shall be evaluated in accordance with the laws of the Russian Federation

The capital contributions shall be evaluated in the currency of the Russian Federation.

Article 7. The Guarantee of transfer of rights and obligations of a foreign investor to another person

1. Any foreign investor may in pursuance of an agreement transfer its rights (claims) and obligations (debts) and on the basis of an act or award of a court transfer its rights

(claims) and obligations (debts) to a third person in accordance with the Civil Legislation of the Russian Federation.

2. If any foreign country or a state body authorised by it makes payment in favour of a foreign investor under the guarantee (insurance contract) granted to the foreign investor in respect of the investment made in the Russian Federation and the foreign investor's rights (claims) to this investment are transferred to the above foreign country or the authorised state body, such transfer of the rights (claims) shall be deemed valid in the Russian Federation.

Article 8. Indemnity in the event of nationalisation or requisition of the property of a foreign investor or a business organisation with foreign capital

1. The property of a foreign investor or a business organisation shall not be subject to compulsory confiscation including nationalisation or requisition, except the cases and reasons prescribed by federal laws or international agreement of the Russian Federation.

2. In the event of requisition a foreign investor or a business organisation with foreign capital shall be paid the value of the confiscated property. Upon termination of the duration of the circumstances that caused such requisition the foreign investor or the business organisation with foreign capital may claim for return of the safe property in a legal form. In doing so, they shall return the compensation received, taking into account the losses from reduction of the property value.

In the event of nationalisation the value of the nationalised property and other losses shall be reimbursed to a foreign investor or business organisation with foreign capital. Any disputes related to reimbursement of losses shall be settled under the procedure prescribed by Article 10 of this Federal Act.

Article 9. Protection given to a foreign investor or a business organisation with foreign capital against unfavourable changes in the laws of the Russian Federation

1. If new federal acts or any other normative legal statutes of the Russian Federation that come into force change the rates of import customs duties (except customs duties resulted from the protection of the economic interests of the Russian Federation in the course of foreign trade of commodities in accordance with the laws of the Russian Federation), federal taxes (except excises, value added tax on the products manufactured in the Russian Federation) and payments to state non-budgetary funds (except contributions to the superannuation Fund of the Russian Federation), or if the amendments introduced to the existing federal acts or any other normative legal statutes of the Russian Federation increase the total tax on the business of a foreign investor or a business organisation with foreign capital in respect of implementation of priority investment projects, or impose prohibitions, or restrictions on foreign investments in the Russian Federation in comparison with the total tax and regime existed in accordance with the federal acts and any other normative legal statutes of the Russian Federation on the date of financing the priority investment project from foreign investment, such new federal acts or any other normative legal statutes of the Russian Federation and amendments introduced to the existing federal acts or normative legal

statutes of the Russian Federation shall not apply within the period indicated in paragraph 2 of this Article to the foreign investor and business organisation with foreign capital which carries out priority investment projects from foreign investment, provided that the goods imported to the Russian Federation by the foreign investor or business organisation with foreign capital are used for realisation of the priority investment projects.

The foregoing provisions of this paragraph shall apply to a business organisation with foreign capital if the share, shares (contribution) of foreign investors in the authorised capital of such organisation exceed 25 percent. The foregoing provisions shall also apply to a business organisation with foreign capital which is involved in realisation of a priority investment project irrespective of the share, shares (contribution) of foreign investors in the authorised capital of such organisation.

2. A foreign investor who is involved in realisation of an investment project shall be guaranteed stability of conditions and regime specified in paragraph 1 of this Article within the payback period of the investment project, but not more than seven years after the beginning of the project foreign financing. The differentiation of the payback periods of investment projects depending on their types shall be determined under the procedure prescribed by the Government of the Russian Federation.

3. In some specific cases, when a foreign investor or a business organisation with foreign capital is involved in implementation of a priority investment project in the area of production or formation of a transport or any other infrastructure and they totally invest not less than 1 billion roubles (not less than an equivalent sum in a foreign currency at the exchange rate of the Central Bank of the Russian Federation on the effective date of this Federal Act) with the payback period exceeding 7 years, the Government of the Russian Federation shall pass a resolution to prolong the period of the conditions and regime stated in paragraph 1 of this Article for this foreign investor or business organisation with foreign capital.

4. The provisions of paragraph 1 of this Articles shall not apply to the amendments made in the legislative acts of the Russian Federation or new federal acts or any other normative legal statutes of the Russian Federation passed in order to protect the principles of the constitutional system, morals, health, rights and legal interests of other persons, and also to ensure defence of the country and national security.

5. The Government of the Russian Federation shall:

- Prescribe the assessment criteria of any changes unfavorable for a foreign investor or a business organisation with foreign capital in the conditions of collection of import customs duties, federal taxes and payments to be made to state non-budgetary funds, in the regime of prohibition or restrictions for foreign investment in the Russian Federation;

- approve the registration procedure of priority investment projects by federal authorities of the executive power stated in Article 24 of this Federal Act;

- exercise control over fulfilment by a foreign investor or a business organisation with foreign capital of its obligations on implementation of priority investment projects within the period specified in paragraphs 2 and 3 of this Article.

In the event of non-fulfilment by a foreign investor or a business organisation with foreign capital of the obligations stated above in this paragraph it is deprived of the exemptions granted in accordance with this Article. The amount of money that has not been paid as a result of these exemptions shall be paid under the procedure prescribed by the laws of the Russian Federation.

Article 10. The guarantee of proper settlement of any dispute arising in the connection with investment and business carried out by a foreign investor in the Russian Federation

Any dispute arising in the connection with investment and business carried out by a foreign investor in the Russian Federation shall be settled in accordance with international agreements of the Russian Federation and federal acts in a Court or Court of Arbitration, or in the International Arbitration Court.

Article 11. The use of income, profit and other legal funds in the Russian Federation and their transfer outside the Russian Federation

After payment of all the taxes and levies prescribed by the laws of the Russian Federation any foreign investor may make a free use of its income and profit in the Russian Federation for the purpose of reinvestment subject to the provisions of paragraph 2, Article 4 of this Federal Act, or for any other purpose that is not in conflict with the laws of the Russian Federation and also to transfer outside the Russian Federation its income, profit and other legal funds in a foreign currency received related to its earlier investment including:

- income from investment received in the form of a profit, dividends, interests and any other earnings;
- any funds received in execution of the obligations of a business organisation with foreign capital or a foreign legal entity that opened its branch office in the Russian Federation, on contracts and any other transactions;
- any funds received by a foreign investor in connection with winding up of a business organisation with foreign capital or the branch of a foreign legal entity, or alienation of invested property, property rights and exclusive rights to the results of intellectual business (intellectual property);
- the compensations provided by Article 8 of this Federal Act.

Article 12. The right of a foreign investor to export from the Russian Federation of its property and information in the form of written documents or on electronic carriers which have been imported to the Russian Federation as foreign investment.

A foreign investor who has imported its property and information in the form of written documents or on electronic carriers as foreign investment to the Russian Federation may without any obstacles (without any quoting, licensing and other actions of non-tariff control of foreign trade) export the above mentioned property and information from the Russian Federation.

Article 13. A guaranteed right of a foreign investor to the purchase of securities

Any foreign investor may purchase shares or any other securities of any Russian business organisations and state securities in accordance with the Securities Laws of the Russian Federation.

Article 14. Participation of a foreign investor in privatisation

Any foreign investor may participate in privatisation of state- or municipal-owned objects by purchasing the title of ownership of state or municipal property or share, shares (contribution) in the authorised capital of the privatised organisation on the terms and under the procedure prescribed by the Russian State and Municipal Property Privatisation Acts.

Article 15. The right to land, other natural resources, buildings and any other real property granted to a foreign investor

Any foreign investor may purchase the right to land, other natural resources, buildings and any other real property in accordance with the laws of the Russian Federation and the laws of the subjects of the Russian Federation.

The right of land lease may be purchased by a business organisation with foreign capital at a tenders (auctions, bidding) unless otherwise provided by the laws of the Russian Federation.

Article 16. Customs privileges granted to a foreign investor or a business organisation with foreign capital

Customs privileges shall be granted to a foreign investor or a business organisation with foreign capital when it is involved in realisation of a priority investment project in accordance with the Customs Laws and Tax Law of the Russian Federation.

Article 17. Privileges and guarantees granted to a foreign investor by the subjects of the Russian Federation and local authorities

The subjects of the Russian Federation and local authorities may within their competence grant privileges and guarantees to a foreign investor, finance it and in any other way provide assistance to the investment project realised by the foreign investor by using the budgetary funds of the subjects of Russian Federation and local budgets, as well as non-budgetary funds.

Article 18. Antimonopoly Law of the Russian Federation and observance of honour competition by a foreign investor

Any foreign investor shall be obligated to observe the Antimonopoly Law of the Russian Federation and avoid dishonourable competition or restrictive business practice

including by establishing in the Russian Federation of a business organisation with foreign capital or a subsidiary of foreign legal entity for manufacture of a product that is in great demand, and then for further self-liquidation so as to promote a similar foreign product to the market, as well as by making an ill-intentioned contract on prices or distribution of sales markets for the product, or participation in a tender (auction, bidding).

Article 19. Property insurance made by a business organisation with foreign capital or a parent company of the branch of a foreign legal entity

Insurance of property against total or partial loss or damage, liability insurance, insurance against commercial risks shall be made by a business organisation with foreign capital at its own discretion, and by the branch of a foreign legal entity - at the discretion of its parent company unless otherwise provided by the laws of the Russian Federation.

Article 20. Incorporation and winding up of a business organisation with foreign capital

1. A business organisation with foreign capital shall be incorporated and wound up on terms and under the procedures prescribed by the Civil Code and other federal acts with exceptions that might be provided by federal acts subject to paragraph 2, Article 4 of this Federal Act.

2. A legal entity that has the status of a business organisation with foreign capital shall be registered in judicial authorities within one month after submission of the following documents to an appropriate office:

- Articles of Association of a business organisation with foreign capital (in the cases prescribed by the Civil Law of the Russian Federation);
- extracts from the Commercial Register of the country where the foreign investor was incorporated, or any other document that certifies the status of the foreign investor;
- document issued by the bank to prove the foreign investor's financial solvency;
- registration duty receipt.

The request of a business organisation with foreign capital for state registration may be rejected for the purpose of the protection of the constitutional system, morals, health, rights and legal interests of other persons, and also to ensure defence of the country and national security.

The refusal of state registration may be appealed by a foreign investor in a legal form.

Article 21. Opening and liquidation of the branch by a foreign legal entity

The branch of a foreign legal entity may be opened in order to carry out in the Russian Federation the business that is carried out by the parent company outside the Russian Federation and it may be wound up by resolution of the parent foreign legal entity.

The public control over opening, business and winding up of a branch of a foreign legal entity shall be exercised by means of its accreditation under the procedure determined by the Government of the Russian Federation.

The Federal Executive Body mentioned in Article 24 of this Federal Act shall accredit a branch of foreign legal entity.

A branch of foreign legal entity may get an accreditation refusal for the purpose of the protection of the constitutional system, morals, health, rights and legal interests of other persons, and also to ensure defence of the country and national security.

Article 22. Requirements to the Statute on the branch of a foreign legal entity

1. The parent company shall present to the federal body of the executive power stated in Article 24 of this Federal Act the Statute on the branch of a foreign legal entity and other documents. The list of these documents and requirements to their content in pursuance of paragraphs 2 and 3 of this Articles shall be approved by the Government of the Russian Federation.

2. The Statute on the branch of a foreign legal entity shall contain the name of the branch and its parent company, the organisational and legal status of the parent company, the address of the branch in the Russian Federation and registered address of its parent company, the objects and types of activities of the branch, the amount of the capital and time for making contribution in the main funds of the branch, the management of the branch. The Statute on the branch of a foreign legal entity may contain other information that shows the peculiarities of the business of the branch of a foreign legal entity in the Russian Federation and is not in conflict with the laws of the Russian Federation.

3. The capital contributions in the main funds of the branch of a foreign legal entity shall be appraised by its parent company on the basis of the internal prices or the world prices. The capital appraisal shall be made in the currency of the Russian Federation. The appraised value of the capital contributions in the main funds of the branch of a foreign legal entity shall be indicated in the Statute of the branch of a foreign legal entity.

4. The branch of a foreign legal entity may carry out business in the Russian Federation from the date of its accreditation.

The branch of a foreign legal entity shall stop its business in the in the Russian Federation the accreditation is cancelled.

Article 23. Development and realisation of the state policy in the are of foreign investment

In accordance with the Federal Constitutional Act "On the Government of the Russian Federation" the Government of the Russian Federation shall develop and realise the state policy in the area of international investment co-operation.

The Government of the Russian Federation shall:

- determine the expediency of introduction of prohibitions and restrictions on foreign investment in the Russian Federation, draw up bills on the lists of such prohibitions and restrictions;

- determine the actions to control the business of foreign investors in the Russian Federation;

- approve the list of priority investment projects stated in Article 2 of this Federal Act;

- develop and provide realisation of federal programs on attraction of foreign investment;

- attract investment credits of international financial organisations and foreign countries to finance the Budget of the Russian Federation and federal investment projects;

- interact with the subjects of the Russian Federation on the matters of international investment co-operation;

- exercise control over preparation and conclusion of investment agreements with foreign investors on realisation by them large-scale investment projects;

- exercise control over preparation and conclusion of investment contracts of the Russian Federation on promotion and mutual investment protection.

Article 24. Federal body of Executive Power responsible for co-ordination of direct foreign investment

The Government of the Russian Federation shall appoint the federal body of the Executive Power to be responsible for co-ordination of direct investment in the economy of the Russian Federation.

Article 25. Nullification of earlier legislative acts of the Russian Federation and some of their provisions as a result of passing this Federal Act

In pursuance of passing this Federal Act the following acts shall be recognised as null and void:

- The RSFSR Act "On Foreign Investment in the RSFSR" (Vedomosti (Register) of the Convention of People's Deputies of the RSFSR and the Supreme Soviet of the RSFSR, 1991, ? 29, article 1008);

- The Decree of the Supreme Soviet of the RSFSR "On Effectiveness of the RSFSR Act "On Foreign Investment in the RSFSR"(Vedomosti (Register) of the Convention of People's Deputies of the RSFSR and the Supreme Soviet of the RSFSR, 1991, ? 29, article 1009);

- Article 6 of the Federal Act "On Amendments to the Legislative Acts of the Russian Federation in pursuance of the Acts of the Russian Federation "On Standardisation", "On Common Measurement", "On Product and Service Certification" (Collection of Acts of the Russian Federation, 1995, ? 26, Article 2397);

- paragraph 4, Article 1 of the Federal Act "On Amendments to the Laws and any other Legal Acts of the Russian Federation in pursuance of the Federal Constitutional Act "On Arbitration Courts in the Russian Federation" and Arbitration Procedural Code of the Russian Federation" ((Collection of Acts of the Russian Federation, 1997, ? 47, Article 5341);

Article 26. Adjustment of the laws of the Russian Federation in accordance with this Federal Act

1. To propose to the President of the Russian Federation and the Government of the Russian Federation to adjust their normative legal acts in accordance with this Federal Act.

2. The Government of the Russian Federation shall under a prescribed procedure propose to the State Duma of the Federal Assembly of the Russian Federation to introduce amendments to the legislative acts of the Russian Federation arising from this Federal Act.

Article 27. Adjustment of the Statutes on the branches of foreign legal entities opened in the Russian Federation in accordance with this Federal Act

The parent companys the branches of which are opened in the Russian Federation before this Federal Act has come into force shall be obligated to:

- adjust the adjust the Statutes on the branches of foreign legal entities in accordance with this Federal Act within six months from its effective date;

- accredit the branches of foreign legal entities within one year from the effective date of this Federal Act.

Article 28. Enforcement of this Federal Act

This Federal Act shall enter into force from the date of its official publication.

B. Yel'tsin

President of the Russian Federation

Moscow, the Kremlin

July 09, 1999