



# Investment Guide to the Republic of Bashkortostan



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This investment guide has been prepared jointly with the Ministry of Economic Development of the Republic of Bashkortostan.

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# Content

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Greetings from the President of the Republic of Bashkortostan Rustem Khamitov	4
A message from David Owen	5
Social and economic profile of the Republic of Bashkortostan	6
Competitive advantages of the Republic of Bashkortostan	10
State support measures to investors in the Republic of Bashkortostan	19
Development institutions in the Republic of Bashkortostan	23

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# Greetings from the President of the Republic of Bashkortostan Rustem Khamitov



On behalf of the people of Bashkortostan, I am pleased to introduce you to our Republic via the pages of this publication, and I warmly invite you to cooperate with our Republic.

Bashkortostan is a land with a unique natural landscape and historical monuments, a multiethnic population and a centuries-old cultural tradition. The Republic is located in the southern part of the Ural Mountains at the junction of two continents – Europe and Asia. This is an amazing part of our country which has a very long history. While we preserve our traditions, we look forward to the future with great optimism.

While Russia did not know or use gold coins before the 17th century, gold had long been known about and traded in the Bashkir lands. This is evidenced both by the findings from the archaeological excavations of kurgan burial mounds and by stories told by ore prospectors from years gone by on the infinite treasures comprising the gold and silver ores located beyond the mountains in the estuaries of the Ufa, Belaya and Yaik rivers. The Copper Road is known to have passed through the Bashkir land during the Bronze Age. Copper from the Urals was used by metallurgists across almost the entire Eurasian continent.

Today our region has significant potential to host new production facilities with increased effectiveness and implement investment projects of any scale in any area. Our strong economic, scientific and engineering base is helping Bashkortostan to successfully develop external economic connections with the CIS and other countries. More than 90 countries are among Bashkortostan's trading partners.

The Republic has a reputation for being a good borrower and business partner which is confirmed by the international rating agencies Moody's and Standard & Poor's. Expert RA, a national rating agency, has rated the Republic as a region with minimal economic risks for the third year in a row. Indeed, the environment in the Republic is optimally beneficial for all categories of investor. We strive to provide our business partners with detailed information, create the transparency they require and minimise investment process risks as much as possible.

The political and economic stability of Bashkortostan along with its dynamic and varied resource and production base, its historical traditions, its reputation, the business connections it has built in recent years and its high investment ratings, create a favourable foundation for developing mutually beneficial links between Bashkortostan and other regions and countries.

With best wishes and kindest regards,

**Rustem Khamitov**

President of the Republic of Bashkortostan

# A message from David Owen

The Republic of Bashkortostan has always been known for its economic maturity. However it has recently been attracting an increasing amount of attention from both Russian and international investors; largely a result of the investment policy drawn up by the regional government.

The government in Bashkortostan has amended regional legislation so that qualifying investors have the opportunity to obtain government support for their investment activities. In addition, a legal framework has been set up required to support the implementation of public-private partnership projects.

In recent years the Government of Bashkortostan has been working hard to introduce a new economic model by stimulating the development of its manufacturing and R&D sectors and gradually create an innovative infrastructure for this purpose.

The Republic has a well-developed network of scientific and educational institutions. The region also has significant potential in the fields of science and education, giving the Republic good prospects for further development.

In 2013, the capital of the Republic, Ufa, hosted international sporting events – the 37th World Junior Ice Hockey Championship and the 6th International Children's Winter Games. The BRICS and SCO summits, planned for 2015, are also expected to play an important role in both the development of the region and its history.

We hope that this Investment Guide to the Republic of Bashkortostan will be informative and interesting for those who are considering the region as a prospective area for investment.

Yours sincerely,

**David Owen**  
Managing Partner,  
Deloitte CIS



# Social and economic profile of the Republic of Bashkortostan

The Republic of Bashkortostan is among the most robust and politically stable Russian regions, having a highly developed market economy with a strong social focus. The Republic's economy stands out among Russia's constituent economies for its diversified industry structure characterised by high levels of development, a strong industrial base, developed agricultural and construction sectors, rich natural resources, and dynamically developing financial, credit, scientific and engineering sectors. According to estimates of the Bashkortostan Ministry of Economic Development, the Republic recorded gross regional product growth of 5.2% – a key indicator of economic development – in 2012.

Unemployment, estimated using International Labour Organisation methodology, decreased from 7.7% of the economically active population in 2011 to 7.2% in 2012, with the number of registered unemployed people falling from 29.8 thousand in 2011 to 26.5 thousand in 2012.

In accordance with its development strategy, priority industries for the Republic of Bashkortostan include the following:

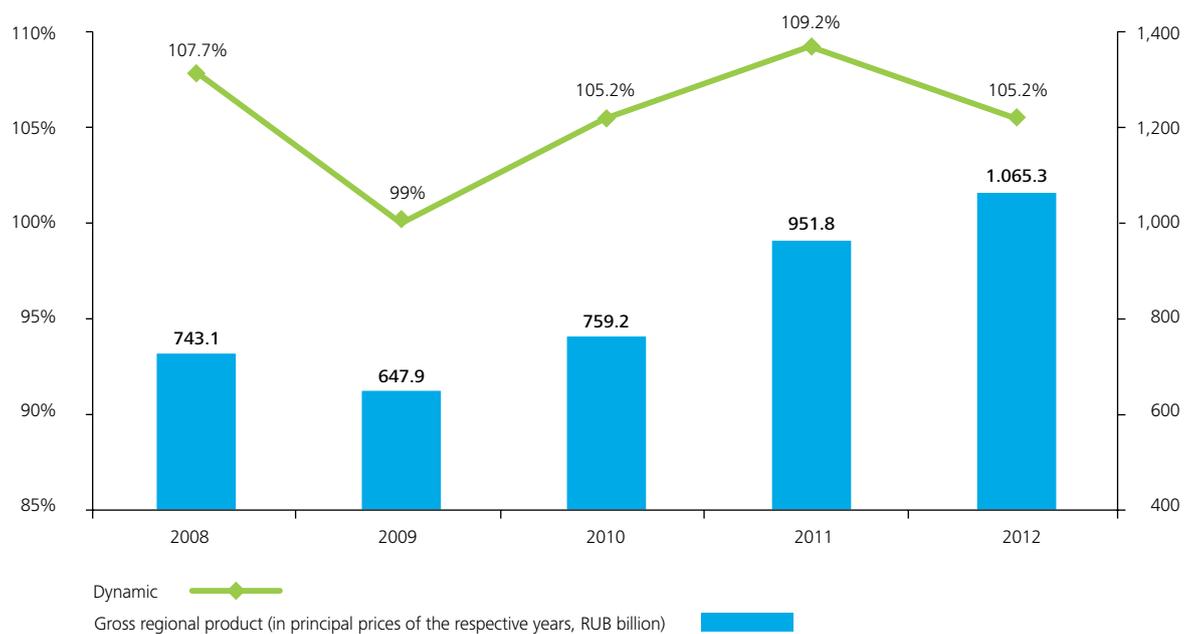
- Chemicals and petrochemicals
- Metallurgy
- Machine construction
- Agriculture
- Energy and energy-efficient technologies
- Information and communication technologies
- Bio-pharmaceuticals
- Nanomaterials
- Construction
- Transport infrastructure

The Republic is a leader according to key investment potential indicators in the Volga Federal District.

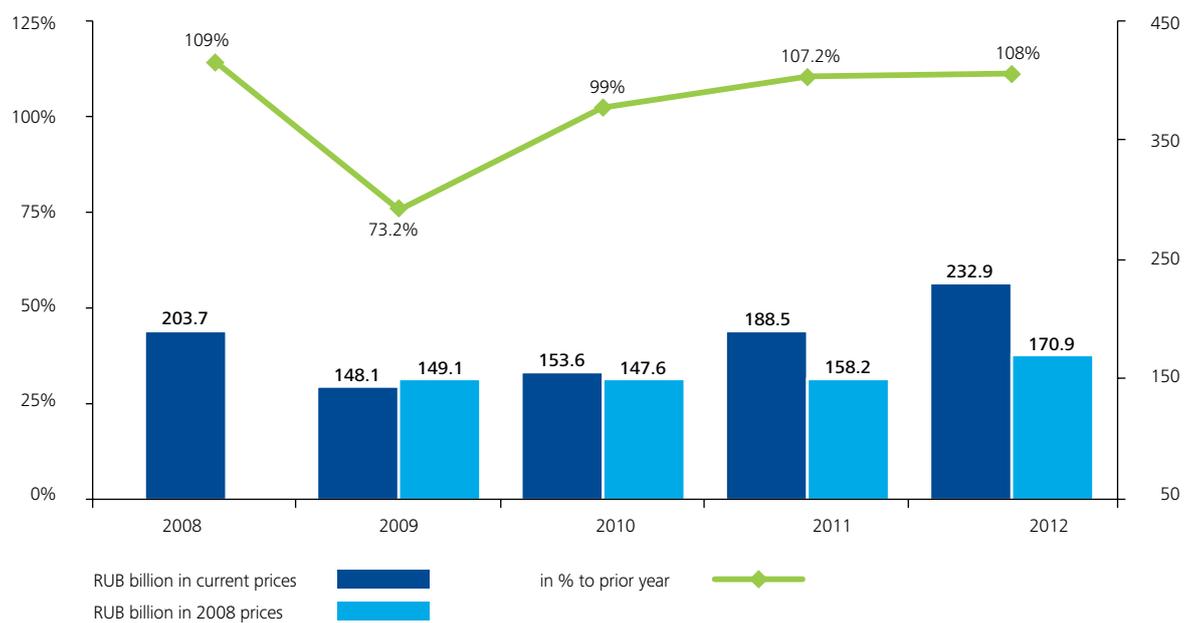
## Bashkortostan's social and economic development indicators

Indicator	2008	2009	2010	2011	2012
Gross regional product (in principal prices of the respective years), millions of RUB	743,133.4	647,911.7	759,203.3	951,770.0	1,065,294.9 (estimate)
Industrial production index, % YoY	107.6	98.3	114.0	109.6	105.7
Agricultural produce, millions of RUB	105,123.0	103,832.5	88,636.4	108,921.7	101,053.9
Investments in fixed assets, millions of RUB	203,656.6	148,142.1	153,625.0	188,506.5	232,872.9
Retail sales, millions of RUB	428,899.6	458,949.2	512,128.9	577,987.3	633,942.7
Paid services to population, millions of RUB	127,399.4	143,225.0	156,259.6	172,231.7	183,171.3
Nominal average wage, RUB per month	14,084.1	14,951.0	16,377.7	18,397.4	20,458.6
Consumer price index, December, % YoY	112.4	108.3	109.6	106.4	106.2
<b>Export of goods, millions of USD</b>	<b>8,176.4</b>	<b>5,013.9</b>	<b>9,890.8</b>	<b>12,656.8</b>	<b>12,414.6</b>
<b>Average income per capita, RUB per month</b>	<b>14,245.4</b>	<b>16,124.8</b>	<b>17,498.9</b>	<b>19,029.8</b>	<b>21,386.1</b>

## Index of gross regional product



## Investments in fixed assets



### Investment activity in the region

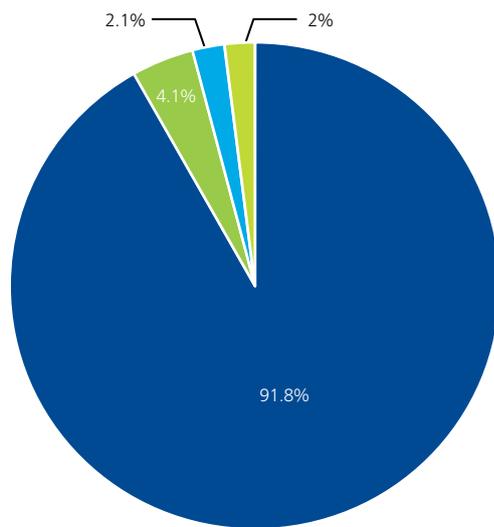
The majority of investments into fixed assets, similarly to previous years, went into the processing industry (which accounts for 28.4% of investments by large and medium entities), transportation and communications (19.1%), mining (16.0%), real estate operations, leasing and service sectors (9.7%).

### Foreign investment

Foreign investment into the economy of the Republic amounted to USD 596.5 million in 2012, originating from 23 countries.

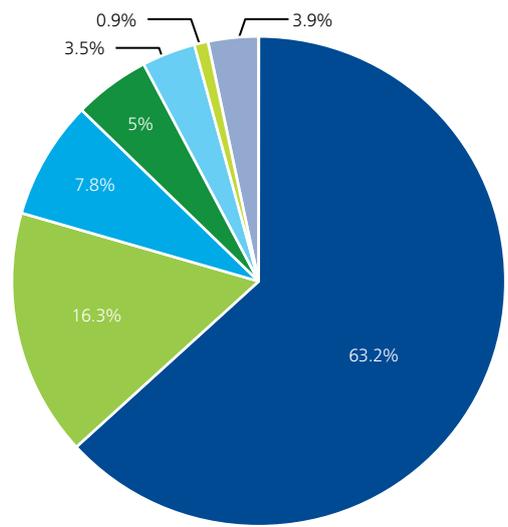
Investments made on a repayable basis (commercial and other loans) accounted for 88.3% of all foreign investments in 2012. Private equity investments accounted for 10.3%, and portfolio investments for 1.4%.

Foreign investment by industry



- Processing industry
- Agriculture, hunting and forestry
- Wholesale and retail sale; repairs of vehicles, motorcycles, household items
- Other

Foreign investment by country of origin



- Netherlands
- Germany
- Austria
- France
- Cyprus
- Kazakhstan
- Other

## External economic activity

According to the statistics of the Volga Customs Division, a preliminary estimate of the Republic's external trade volume, including trade with Belarus and Kazakhstan, amounted to USD 13.8 billion in 2012, which is 0.2% higher than in 2011, including USD 11.3 billion with countries other than the CIS, which represents an increase by 7.3%, and USD 2.5 billion with CIS countries, i.e. a decrease by 23.3%. External trade balance was positive and amounted to USD 11.0 billion.

In 2012, export of goods amounted to USD 12,407 million, decreasing by 2.0%, including USD 10,309.8 million to countries outside the CIS (an increase by 5.7%). Exports to CIS countries decreased by 27.7% amounting to USD 2,097.2 million.

Mineral products dominated the structure of exports, accounting for 84.6% of total exports, chemical products and rubber accounted for 7.1% and machine building products for 4.5%.

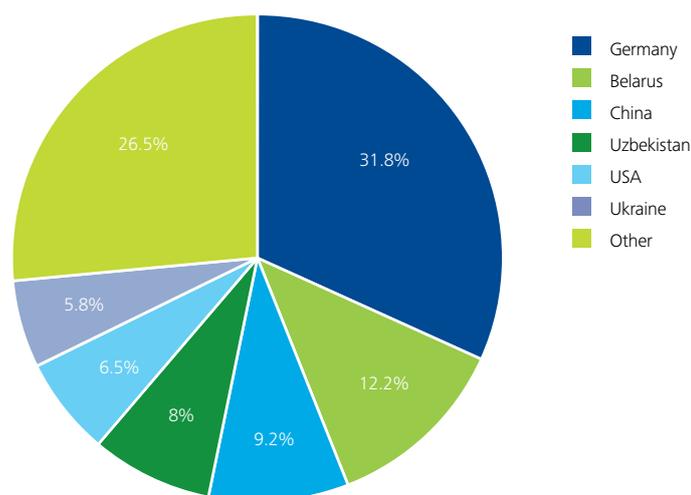
The Republic's largest exports are to Latvia (19.2% of total exports), Poland (13.9%), Netherlands (10.7%), Belarus (8.7%), Hungary (6.5%), China (3.9%) and Ukraine (3.8%).

Imports amounted to USD 1,373.6 million increasing by 24.6%, including imports from countries other than the CIS of USD 1,008.4 million (an increase by 27.8%) and imports from the CIS countries of USD 365.2 million (by 16.6%).

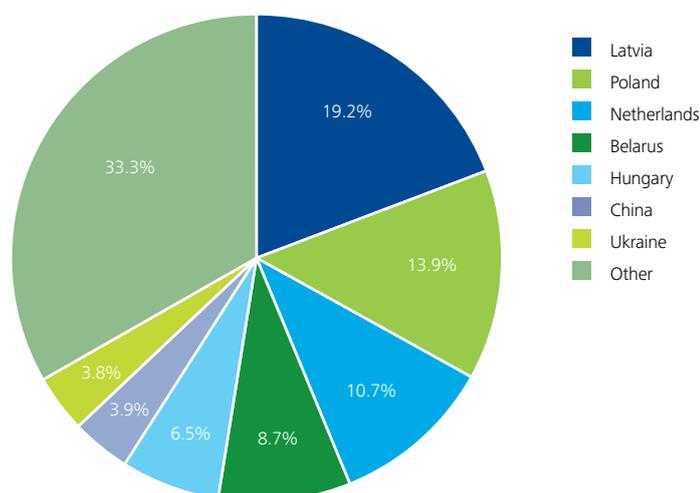
Machine building products accounted for 58.6% of imports; chemical products and rubber for 30.0%.

The largest countries of imports are Germany (31.8% of total imports), Belarus (12.2%), China (9.2%), Uzbekistan (8.0%), USA (6.5%) and Ukraine (5.8%).

Bashkortostan imports by country of supply, %



Bashkortostan exports by country of demand, %



# Competitive advantages of the Republic of Bashkortostan

## Stable financial position and attractiveness of the Republic of Bashkortostan to investors

Leading international and Russian rating agencies confirm that the Republic is seen as attractive and stable to investors. In the list of the "30 best regions to do business in" prepared by Forbes in 2012, Bashkortostan came in thirteenth place.

According to Expert RA Rating Agency, which gives Bashkortostan an overall grade of 2B (signifying average potential and moderate risk), the Republic ranks ninth in the national ratings according to investment potential and fourteenth according to investment risk.

Bashkortostan was ranked first in the Minimum Economic Risk category and in the top ten in terms of best investment potential in the Russian Regional Investment Attractiveness Rating 2011-2012.

International rating agencies Standard & Poor's and Moody's have assigned the Republic ratings of BBB- (with a stable outlook) and BA1 (with a positive outlook) respectively.

## Significant mineral and other natural reserves

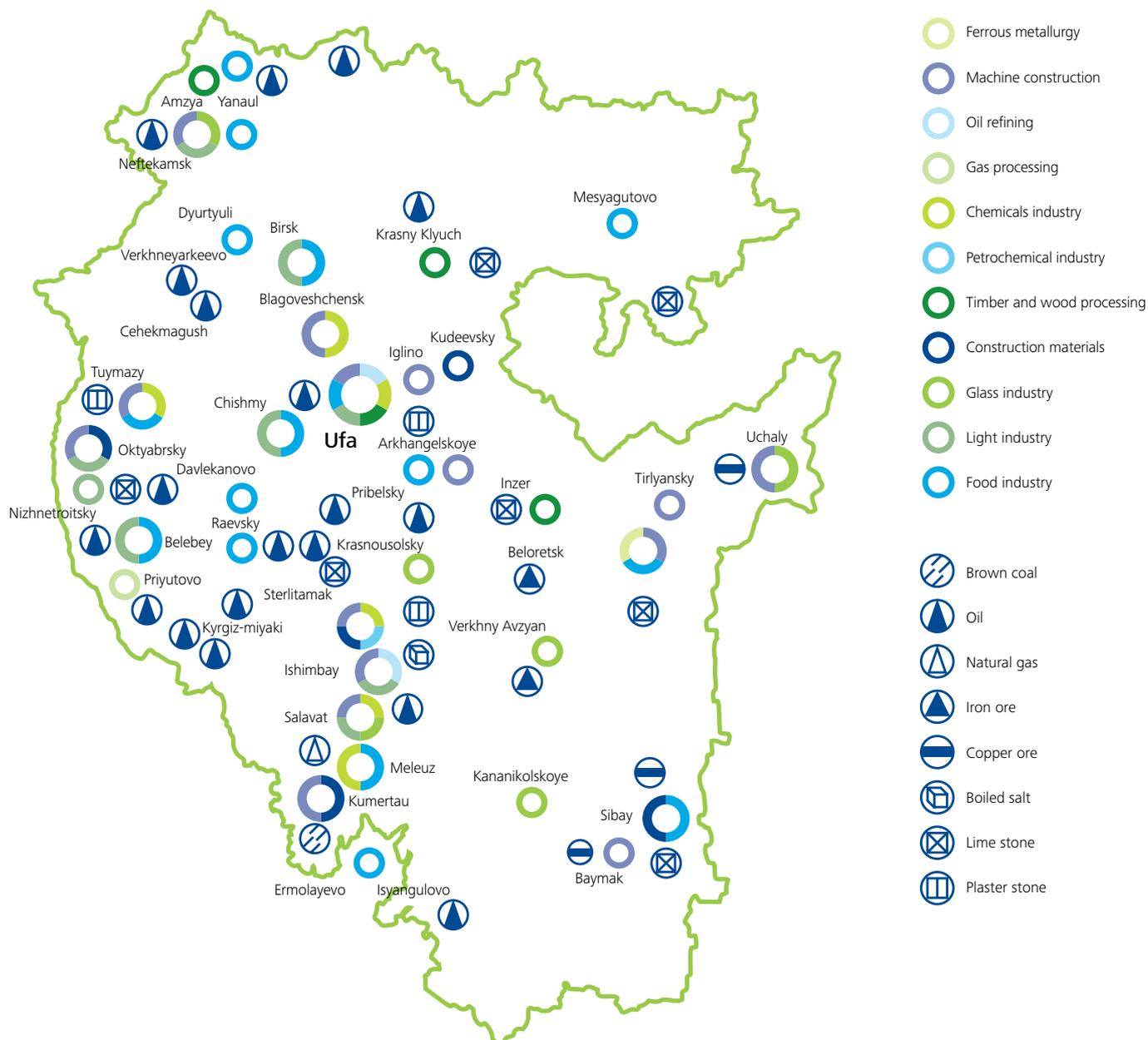
There are about 3,500 mineral deposits in the Republic, including 250 oil fields. Bashkortostan has considerable mineral resource reserves (of over 60 types of mineral), including:

- fossil fuels: oil, natural gas, bituminous and brown coal, peat;
- metals: copper, zinc, iron, manganese, aluminum, gold, by-product rare metals;
- feedstock for the chemicals industry: rock salt, fluorspar, limestone, barytes, sulphur;

- agronomic ores: phosphoric rocks, carbonates, zeolites, glauconites, peat, sapropel;
- construction materials: plaster stone, high duty stone, etc.;
- cladding stones, ornamental stones and optical materials.

The Republic is the oldest oil refining region of Russia and is the first by oil refining volumes among the Russian Federation's constituent parts for 2012.

## Geography of mineral and other natural reserves



### Beneficial geographical location



The Republic lies at the intersection between Europe and Asia, and at the crossing of the most important water, rail, pipe and road communications which connect European Russia with the Urals, Siberia and Central Asia.

Three of Russia's five latitudinal trunk railway lines linking the east and the west run through Bashkortostan. The Republic has access to five seas (Caspian, Azov, Black, Baltic and White) via the Belaya, Kama and Volga rivers.

Flight paths and motorways connect Ufa with many industrial centres in Russia and CIS. Therefore, the Republic has favourable conditions for importing and exporting raw materials, fuel and finished goods, and to develop economic ties with other countries.

### Human Capital

There is strong scientific potential in the region, with the Ufa Scientific Centre of the Russian Academy of Sciences; the Academy of Sciences of Bashkortostan; the scientific research labs of the Ufa Aviation Technical University, the Bashkir State University, the Ufa Oil Technical University, the Bashkir State Medical University; and other scientific schools. The Republic ranks third in the Volga Federal District according to overall number of organisations engaged in R&D (more than 70).

Bashkortostan is among the few Russian regions with which the Russian Patent Agency has signed a collaboration agreement.

Bashkortostan consistently ranks in the top ten Russian regions by number of applications for new inventions or discoveries.

Scientists of the Republic are particularly renowned for their achievements in the fields of nanomaterials and nanotechnology, pipeline transportation, the superplasticity of metals, aviation and oil machinery construction, molecular biology, fine organic synthesis and metal complex catalysis, eye surgery, occupational medicine, and human ecology.

## Developed infrastructure for foreign economic activity

The Bashkortostan Customs Department includes the Ufa Customs Office which unites offices in Salavat, Neftekamsk, Tuymazy, Oktyabrsky, Belebey, Meleuz, Kumertau, Sibay, Beloretsk, Uchaly; Sterlitamak customs post and the Bashkir Regional Customs Laboratory.

Expanding the practice of declaring goods online is part of the Customs Department's strategy. For the purposes of this strategy, the first electronic declaration post in the Volga Customs Department – the Bashkortostan Specialised Customs Post – has been set up in Ufa. The operations of this post cover the entire Volga Federal District.

## Transport infrastructure

The region has well developed rail, motor, river and aviation networks, providing good inter-regional transport connectivity. Sections of the Kuibyshevskaya, Gorkovskaya and Yuzhno-Uralskaya railways pass through the Republic.

The Republic of Bashkortostan has 930 km of internal navigable waterways, of which 459 km are part of the unified deep water transportation system in the European part of Russia.

Transport type	Length, km	Freight carried, million
Railways	1,457	27.2
Motorways	33,911	78.4
Internal navigable waterways	930	5.4
Trunk pipelines	9,370	90.8

## Transportation projects

The Republic is actively supporting transport infrastructure development programmes which attract investment into the following types of project:

### Motor transportation:

- Investment project involving the construction of a high-speed motorway section (270 km) that passes through Bashkortostan and will be part of the "Europe–Western China" international transportation route. The estimated cost of the project is RUB 256 million. The project is to run from 2012 to 2015.
- Construction of a motorway tunnel by the bridge crossing of the Ufa river. The estimated cost of the project is RUB 7,500 million. The project is to run from 2012 to 2015.

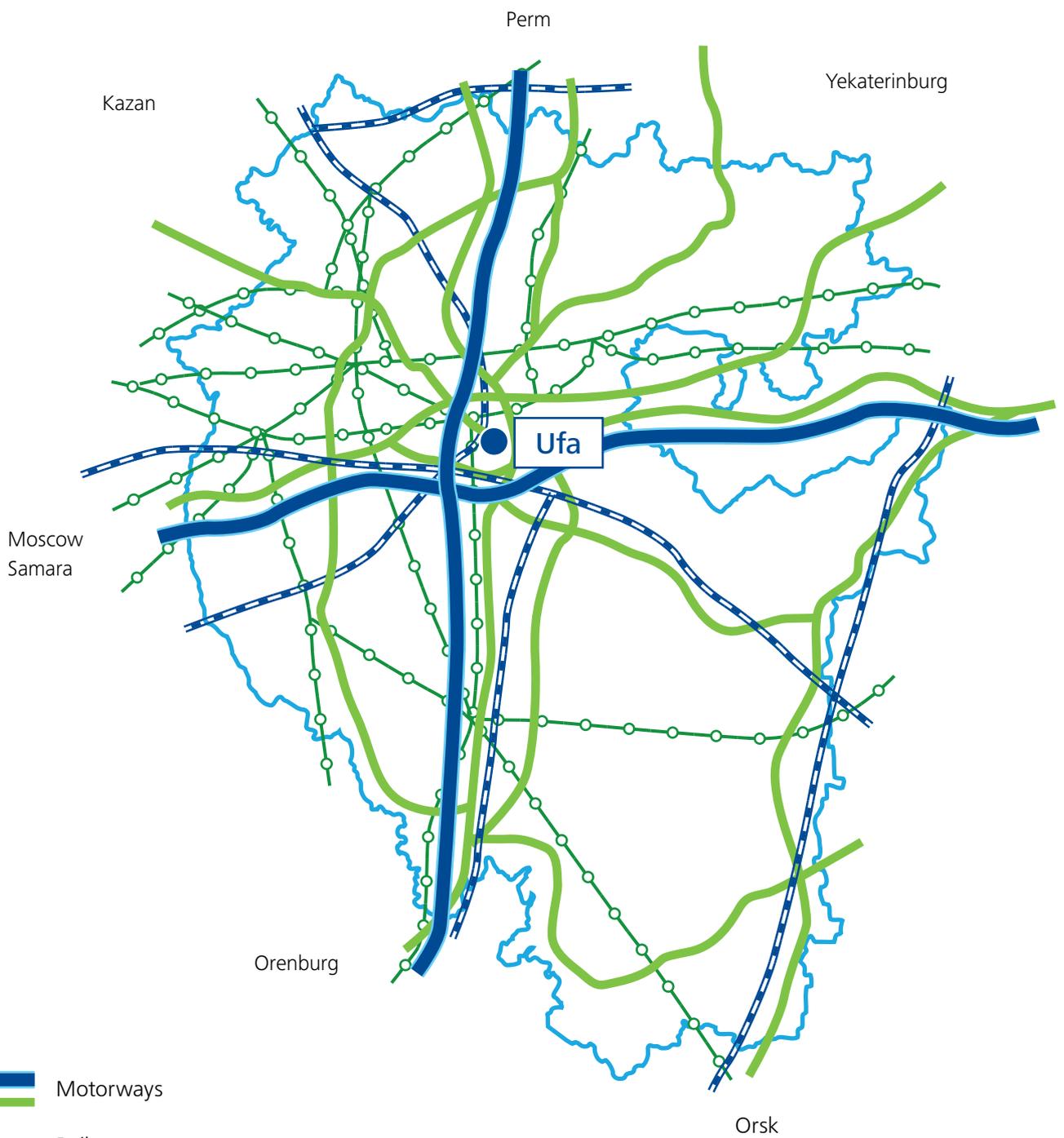
### Railway transportation:

- Improvement of the transport infrastructure between the Sverdlovsk region and the Republic of Bashkortostan, including the construction of a high-speed railway line between Moscow and Yekaterinburg;
- Construction of second tracks for all parts of the Ufa South Railway Bypass in order to reduce demand on the Ufa railway terminal and ensure that hazardous freight bypasses the city.

### Aviation transportation:

- Upgrade of Ufa's international airport infrastructure;
- Creation of a large freight forwarder or integrator with a capacity of up to 21 thousand tonnes per year;
- Construction of a new international terminal of 19 thousand square metres and refurbishment of the existing domestic flights terminal; development of freight transportation in tandem with passenger transportation. The investment into this project is estimated to be RUB 22,000 million. The project is to run from 2012 to 2030.

Transportation network of Bashkortostan



-  Motorways
-  Railways
-  Pipelines

## Investment potential of key industries in Bashkortostan

### Oil mining and refining

The investment policy for oil refining is aimed primarily at increasing the depth of processing, the quality of the fuel produced and ensuring environmental safety during the production processes. Planned investment projects will bring the depth of oil processing at Ufa's oil refineries from 87% to 94.7% and increase the output of light oil products from 62% to 73%.

The Republic of Bashkortostan hosts Europe's largest oil refining facility, which processes 11.2% of Russian oil and produces 15% of Russian gasoline and 14% of Russian diesel fuel. Largest oil refiners in the region: OJSC Bashneft, OJSC Gazprom neftekhim Salavat.

These enterprises produce the following products: gasoline for vehicles, diesel petrol, fuel oil, toluene, oil bitumen and sulphur.

The Republic's investment projects in oil refinery include:

- the construction of a hydro cracking facility at OJSC Bashneft to increase gasoline and diesel fuel production from vacuum gasoil;
- the construction of a delayed coking unit at OJSC Bashneft.

### Chemical industry

Chemical products account for 9% of the Republic of Bashkortostan's total exports.

Largest chemical companies in the region: OJSC Gazprom neftekhim Salavat, OJSC Soda, OJSC Caustic, OJSC Polief, OJSC Sintez-Caoutchouc.

Their products include ethylene, propylene, high pressure polyethylene, butyl and isobutyl alcohol, petroleum benzene, soda ash, caustic soda, terephthalic acid, synthetic rubber, synthetic resins and plastics, general purpose styrene, polystyrenes and shock proof polystyrene, and low pressure polyethylene.

To attract small businesses to produce high value added products, KhimTerra industrial park will be set up at the site of OJSC Polief, Russia's only producer of terephthalic acid. It will be focused on polymer processing and light duty chemistry products.

The project of setting up an All-Russian Gas Chemistry Centre on the basis of Russia's largest petrochemical plant – OJSC Gazprom neftekhim Salavat – is also considered to have high potential for attracting investment. It is planned for highly processed chemical products, such as pipes, insulation films and other products, a total of approximately 20, to be produced on the site.

### Mechanical industry

Largest machine building companies in the region: OJSC UMPO, OJSC Neftekamsk Automobile Plant, OJSC AK OZNA, OJSC Salavatneftemash, OJSC KumAPP, OJSC Bashkir Trolley-Bus Plant, OJSC Krasny Proletary, FGUP UAP Hydraulics.

Their main products of manufacture are:

- turbo-jet engines and assembly parts for helicopters;
- gas turbine units;
- passenger buses;
- trailers and agricultural vehicles;
- oil field, oil refining and oil production equipment;
- civil and military ship-borne helicopters;
- trolley-buses;
- other products.

In accordance with the Republic's special purpose innovation programme, the Republic has created an energy machine construction cluster with the principal purpose being the collaborative development and production of small modular power plants to decentralise energy production so that energy efficiency increases both in the industrial and social spheres.

Jointly with RusHydro and the French machine construction corporation Alstom, Russia's largest machine building enterprise is being created, and it will produce hydro-energy equipment, including turbines for small hydro power plants (HPPs) with a capacity of up to 25 MW, for medium HPPs of up to 100 MW, and for water storage power plants with a capacity of up to 150 MW. These modern hydro-turbines will be used both in Bashkortostan and in other Russian regions, such as for the construction of series of HPPs in Kuban and in the Volga-Kama basin.



### Metallurgy

Resolution of the Bashkortostan Government No. 319 of 15 September 2011 approved the "Development of non-ferrous metallurgy in the Republic of Bashkortostan from 2011 to 2015" programme. The main objective of the programme is to ensure the sustainable development of non-ferrous metallurgy and the efficient use of mineral resources. Bashkortostan is planning to build a new metallurgical complex (OJSC Belstal) which will operate on its own mineral base. The project involves the construction of three mines and a concentration plant near the Tukan settlement, and ironworks in the Zheleznodorozhny settlement.

Largest metallurgical companies in the region: OJSC Uchaly Mining and Processing Complex, OJSC Beloretsk Metallurgical Plant, LLC Bashkir Copper, OJSC Khaibullinskaya Mining Company, CJSC Buribaevsk Mining and Processing Complex. Their main products are rolled ferrous metal products; copper and zinc concentrates; metalware and others.

### Agriculture

According to the overall value of agricultural produce, the Republic ranks second in the Volga Federal District and fifth in the Russian Federation.

The Republic is a leading Russian region according to key indicators of agricultural production: first for number of live cattle and honey production, second for number of horses and milk production, and fifth for meat and poultry production (in live weight).

The government of Bashkortostan grants benefits to farmers to support them in becoming a strategically important element of the regional economy. 40% of Bashkortostan's population lives in rural areas.

Principal agricultural products are grain, sugar beet, crops, vegetables, dairy products, meat and other products.

OJSC Razgoulyay Group is carrying out two investment projects in the Republic:

- the construction of a modern pig farming facility with a capacity of 28 thousand tonnes of pork in live weight and a feed factory with a capacity of up to 230 thousand tonnes of feed, including a crop storage that can hold 90 thousand tonnes of crops per year. The project implementation timeline is from 2012 to 2014. The estimated investment being made into the project will be RUB 6,148 million, and 370 new jobs are expected to be created;
- the construction of a modern pig farming facility with a capacity of 42 thousand tonnes of pork in live weight per year. The project implementation timeline is from 2011 to 2013. The estimated investment being made into the project will be RUB 6,300 million. 410 new jobs will be created.

LLC M. Gafuri Bashkir Poultry Farming Complex is constructing a modern facility for rearing turkeys, with an attached abattoir and meat processing plant. The project is expected to be completed in 2014. Overall investment will amount to almost RUB 6 billion and 700 new jobs will be created.

LLC Ufa Breeding and Hybridisation Centre is constructing a modern breeding and hybridisation centre (pig farm) that will rear pedigree two-breed pigs, able to process 35,000 animals per year. The project implementation period is from 2011 to 2014,

investments will amount to RUB 1,099 million, and 50 new jobs will be created.

### **Energy and energy efficient technologies**

To increase energy efficiency in industrial production in the Republic, a comprehensive programme, "Energy saving and increasing energy efficiency from 2010 to 2014" was drawn up and adopted by the Bashkortostan Republic in 2010. The programme is aimed at saving electric, thermal, natural gas and hydro power by implementing energy efficient technologies and equipment, improving the efficiency of extracting resources and reducing resource losses.

In 2012, the Scientific Centre of Energy Saving and Energy Efficient Technologies of the Republic of Bashkortostan, a self-autonomous institution, was set up.

Heat supply facilities are being upgraded and reconstructed by LLC Birk Heating Networks using PPP mechanisms, in collaboration with the Czech company Enkomas.

Pursuant to the agreements signed on 11 February 2011 between the Government of the Republic of Bashkortostan and OJSC ESC RusHydro and a trilateral memorandum of cooperation and interaction between the Government of Bashkortostan, OJSC ESC RusHydro and SC Vnesheconombank dated 18 February 2011, an industrial technology park is planned to be set up in the territory of the Republic of Bashkortostan to implement and finance energy efficiency and energy saving investment projects.

### **Construction**

The Republic is currently carrying out one of its priority national projects: "Affordable and Comfortable Housing for Russian Citizens".

To ensure that the construction materials available to Bashkortostan construction contractors are quality and competitively priced, the Republic is implementing a number of investment projects.

### **Nanomaterial industry**

The Republic is paying special attention to nanotechnology research as a promising area for the development of the region's scientific potential.

In June 2011 an agreement of cooperation was signed between the Republic of Bashkortostan and OJSC Rusnano on the development of innovative industries and nanotechnologies up until 2015. The agreement provides for the creation of at least ten innovative infrastructure facilities by 2016, including a nanotechnology centre, a shared user centre, two technology parks, three business incubators, and three territorial innovation centres.

With Rusnano's support, a unique nanotechnology enterprise, LLC ECM started operating in December 2010 to produce new generation electrochemical machines on the site of OJSC Ufa's plant, Promsvyaz.

In addition, a nanocosmetics production investment project is being implemented with the support of the fund of OJSC Russian Venture Company. Output will include anti-aging products developed in Ufa by LLC Zhespar-Bios, in collaboration with the Institute of Biology of the Ufa Scientific Centre of the Russian Academy of Sciences and the Institute of Biochemistry and Genetics of the USC RAS, producing 120 tonnes of anti-aging cosmetics for skin cleansing and professional skin care per year.

An Interregional Scientific and Technological (Engineering) Centre for developing volumetric nanostructured materials to be used in biomedicine, car manufacturing, aviation, construction and other industries is being created as part of the Ufa State Aviation Technical University. For example, it will develop and implement technologies to produce nanostructured steel that have better characteristics than alloy steels, for the manufacture of high-duty wires and metal goods. Potential project investors include the state corporation Rosatom and AFK Sistema.

### **Wood processing industry**

The main wood logging, lumbering and manufacturing enterprises in the region belong to the Bashkir Timber Industry Company (LLC LZK Bashlesprom, LLC Ufa Plywood Plant, LLC Ufa Plywood and Chipboard Plant, LLC Bashlesexport, and OJSC Amzinsk Wood Plant).

The largest wood logging companies in the Republic are LLC LZK Bashlesprom and LLC Selena Forest Industry Company. Large furniture factories are located

in Ufa, Meleuz, Salavat and Sterlitamak. The "Creation of a full-cycle wood processing operation" project, proposed by LLC Selena Forest Industry Company, is the leading project among priority wood processing investment projects that have been approved. The project stipulates the manufacture of wooden houses as part of the "Affordable and Comfortable Housing for Russian Citizens" national programme.

#### Information and communication technology

To encourage the development of information and communication technologies and increase the effectiveness of governmental administration, the Republic has started to draft a special purpose programme, entitled "Development of an information technology society in the Republic of Bashkortostan up until 2016".

In June 2011 the Republican Government entered into an agreement of strategic cooperation with the federal navigation network operator NIS GLONASS.

#### Tourism infrastructure

Bashkortostan used to be referred to as "the Russian Switzerland" during Soviet Union times. Bashkortostan has unique natural resources, providing investors with extensive opportunities to develop the tourism industry and recreational activities in the region. The appropriate infrastructure, tourist resorts and recreational zones are being constructed in the Republic. The unique, natural riches of the Republic put it in a good position to develop its tourist sector, especially in relation to tourism pursued for the following reasons:

- therapeutic
- sport
- ethnographical
- educational

The Republic has three state natural reserves, one national natural park, and more than 3,000 sites of historical, cultural or artistic significance.

In 2012, tourism generated RUB 3,621 million, having grown by 15.6% from 2011 in comparable price terms. The tourism infrastructure for the region is undergoing active development. The federal special purpose tourism development programme has earmarked RUB 96 billion for such purposes. Preferential treatment in certain regards and benefits are available for large investors in the tourist industry.

A tourism cluster combining the Chelyabinsk Region and the Republic of Bashkortostan is being created and will be called the Ural cluster. The main purpose of this cluster is to attract investors and implement environmental programmes that have been worked out but put on hold for the moment. The Republic of Bashkortostan has also launched its Golden Ring tourism project, under which the region will be divided into seven areas. The Russian Association of Tour Operators has proposed the creation of the Urals Inter-Regional Tourism Cluster with its centre in Bashkortostan.

#### Republic of Bashkortostan Agency for Tourism

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[www.mbis.bashkortostan.ru](http://www.mbis.bashkortostan.ru)

#### Sports

A Paralympic training centre is currently under construction in Ufa. The design of the centre has been recognised for its uniqueness in Russia. In addition, there are currently plans to build a football stadium with a capacity of 50,000 and upgrade other sporting facilities.

#### Tourist services according to type of activity, RUB million

Type	2012	2011	2012 in % to 2011 prices
Tourist services	3,621.2	2,962.3	115.6
Hotel and similar accommodation services	3,642.2	3,063.6	106.1
Resort and wellness services	3,778.7	3,417.1	93.2

# State support measures to investors in the Republic of Bashkortostan

## Investment legislation of Bashkortostan

Continuous work is being done to update regional legislation so that the investment climate in the Republic is more attractive.

At the end of 2010, the Law "On investment activity in the Republic of Bashkortostan in the form of capital investments" was adopted. The law establishes support measures provided by the Government of Bashkortostan to investors making capital investments in the Republic, and the terms and procedure for obtaining such support. In 2011 and 2012, the tax legislation of the Republic of Bashkortostan was amended to introduce profit tax and property tax benefits for investors making capital investments in the Republic. The rate of profits tax payable to the Republic was reduced from 18% to 13.5% and a property tax exemption for a period of 1-10 years, based on the amount of capital investment made by the taxpayer, was introduced.

All the measures of state support provided by the Republic of Bashkortostan are available both to Russian and foreign investors.

Currently the following key laws of the Republic regulate relations in the sphere of investment:

- Law of the Republic of Bashkortostan No. 339-z dated 24.12.2010 "On investment activity in the Republic of Bashkortostan in the form of capital investments"
- Law of the Republic of Bashkortostan No. VS-6/35 dated 20.06.1991 "On foreign investment activity in the Republic of Bashkortostan"
- Law of the Republic of Bashkortostan No. 43-z dated 28.11.2003 "On corporate property tax"
- Law of the Republic of Bashkortostan No. 454-z dated 31.10.2011 "On the reduced profits tax rate for investors conducting capital investment activities in the Republic of Bashkortostan"
- Law of the Republic of Bashkortostan No. 385-z dated 28.04.2011 "On investment tax credit for regional taxes in the Republic of Bashkortostan"
- Law of the Republic of Bashkortostan No. 398-z dated 30.05.2011 "On the participation of the Republic of Bashkortostan in public-private partnerships"

## State support measures to investors in the Republic of Bashkortostan

The state support measures for investment activities are set out in Law of the Republic of Bashkortostan No. 339-z dated 24.12.2010 "On investment activity in the Republic of Bashkortostan in the form of capital investment" and Law of the Republic of Bashkortostan No. VS-6/35 dated 20.06.1991 "On foreign investment activity in the Republic of Bashkortostan".

The most important state support measures comprise the following:

- Tax benefits (rate of profit tax payable to the Republic reduced to 13.5%; exemption from property tax) granted for a period of 1-10 years, depending on the overall amount of capital investment.
- A subsidised interest rate on loans of half the RF Central Bank refinancing rate effective as of the date that the loan

was issued, applied throughout the payback period of the investment project, but not exceeding five years.

- Use of state-owned property of the Republic of Bashkortostan as a pledge.
- Reimbursement of part of the cost incurred when acquiring assets under a leasing arrangement – the compensation is given when the obligations with regard to the payments under the lease agreement are met in full and the ownership rights to the property have been acquired.
- Beneficial rental conditions with respect to land owned by the Republic of Bashkortostan are granted to investors for the payback period of the investment project but not exceeding five years.
- State guarantees of the Republic of Bashkortostan for investment projects.

### Eligibility of investors for state support in the Republic of Bashkortostan

State support measures are granted to investors that conduct capital investment activities in the Republic of Bashkortostan and meet the following criteria:

- Investments are made into priority investment areas of the Republic of Bashkortostan.
- The investment project complies with the requirements established by the Government of the Republic of Bashkortostan for priority investment projects.
- The priority investment project, following a selection process, is added to the List of Priority Investment Projects of the Republic of Bashkortostan (the "List").
- An investment agreement is signed with the Government of the Republic of Bashkortostan regarding the implementation terms for the priority investment project.

### Priority projects for the Republic of Bashkortostan – qualifying criteria:

- Capital investments of at least RUB 100 million (except for investment projects in the manufacture of medical instruments and pharmaceutical products, and high information technology projects, for which there is no minimum threshold).
- Alignment of the investment project with the main directions of social and economic development for Bashkortostan.
- Compliance of investment project documentation with the requirements of Resolution of the Bashkortostan Government No. 292 dated 19.08.2011 "On the procedure for considering and supporting priority investment projects of the Republic of Bashkortostan".
- Absence of a negative impact on the region's ecological environment.
- Availability of investment, labour, informational, organisational, production and financial resources to implement the investment project.
- Implementation of advanced technology in order to manufacture products with high added value and reduce exports of crude mineral resources out of Bashkortostan.
- The effect on the Budget of the Republic of Bashkortostan is expected to be positive considering the tax benefits that are expected to be granted (where the investor claims tax benefits as a state support measure).
- The aim of the investment project is to create new jobs or preserve existing jobs.

## Procedure for claiming state support for priority investment projects in the Republic of Bashkortostan

The procedure for claiming state support for priority investment projects is set out in Resolution of the Government of the Republic of Bashkortostan No. 292 dated 19.08.2011 "On the procedure for considering and supporting priority investment projects of the Republic of Bashkortostan".

An investor interested in carrying out an investment project in the Republic of Bashkortostan and having it added to the List should submit the relevant application and necessary documentation (including a business plan and a business case for the project) to the Ministry of Economic Development of the Republic of Bashkortostan.

State support may be claimed for an investment project included in the Register.

Investors that want to claim state support should submit the relevant application to the Ministry of Economic Development of the Republic of Bashkortostan together with the required documentation (including information on the composition and size of the state support measures being claimed for).

The respective state support measures are granted on the basis of an investment agreement on the terms of implementing the priority investment project in the Republic of Bashkortostan. Priority investment projects that have received state support from the Republic of Bashkortostan are included in the Register of Priority Investment Projects of the Republic of Bashkortostan.

The Commission for the Consideration and Support of Priority Investment Projects in the Republic of Bashkortostan has been set up to optimise the procedure for considering and providing state support measures to priority investment projects in the Republic of Bashkortostan.

Priority investment projects are coordinated by the Department of Investment Policies of the Ministry of Economic Development of the Republic of Bashkortostan.

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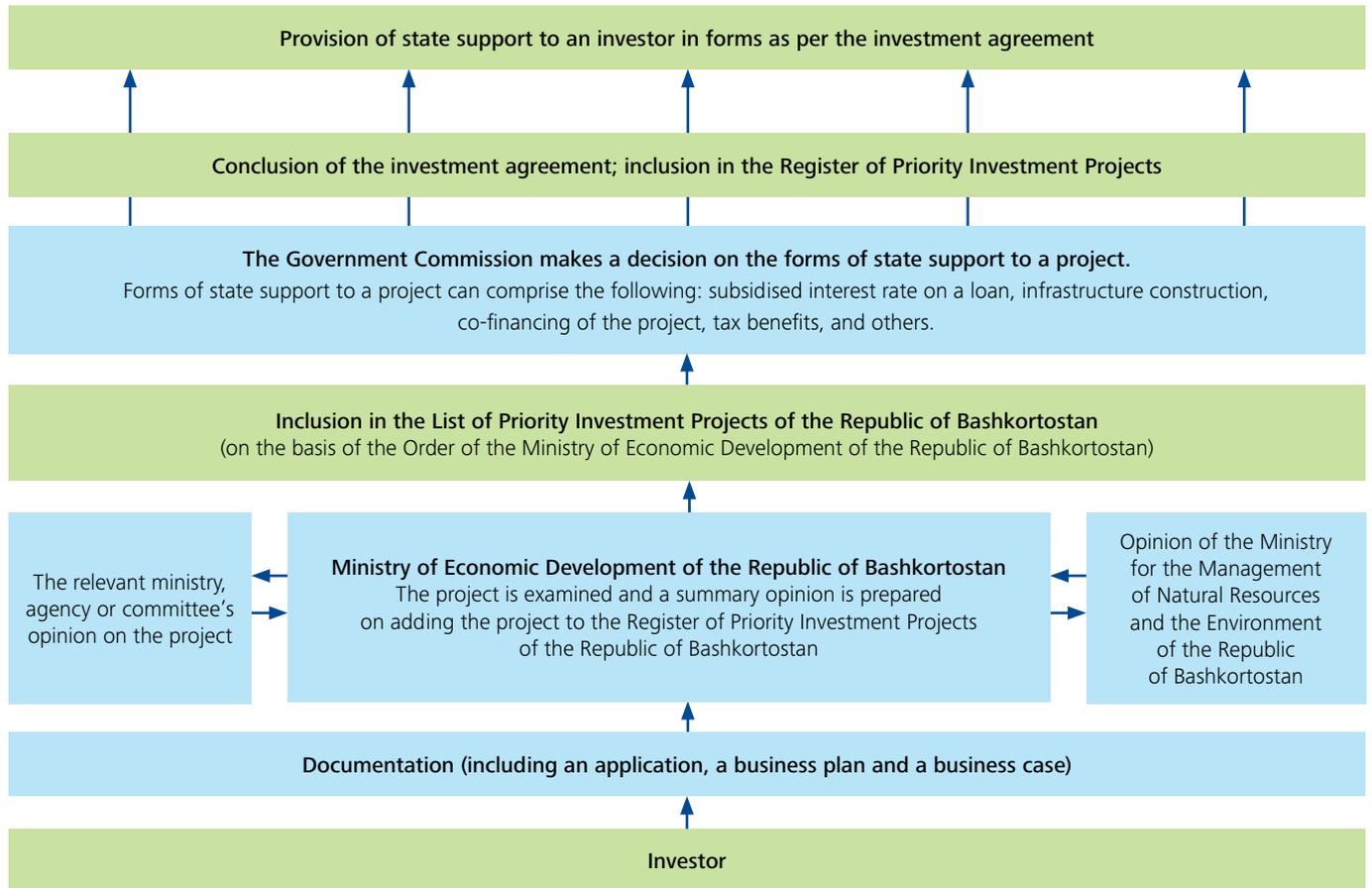
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**Procedure for claiming state support measures in the Republic of Bashkortostan**



# Development institutions in the Republic of Bashkortostan

## OJSC Regional Fund

Regional Fund is a key development institution in the Republic of Bashkortostan and owns 100% of its shares.

The purpose of the fund is to support priority investment projects.

### Objectives of the fund:

- Manage the state investment resources of the Republic of Bashkortostan
- Invest in companies that create new workplaces in the Republic and make products using new technology or provide innovative services
- Finance investment projects through issuing loans and leasing out equipment.

The total asset portfolio of the fund amounted to RUB 25 billion as at 1 January 2013. It included shares in OJSC Gazprom, the largest companies in the Republic, and also the financial instruments of banks, and bonds and investment projects in the Republic.

The fund invests in the following industries: construction and the manufacture of construction materials, air transportation, agriculture, and machine construction. The fund's investment portfolio includes gas, machine construction, non-ferrous metal and telecommunication companies. Special purpose energy and nanotechnology projects are also considered.

In 2012, investments in the economy of Bashkortostan financed by the fund amounted to RUB 2.5 billion, including loans of RUB 1.1 billion.

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## OJSC Development Corporation of the Republic of Bashkortostan

OJSC Development Corporation of the Republic of Bashkortostan is another of the Republic's development institutions. The charter capital of the corporation is RUB 65 million. The founders comprise OJSC Regional Fund (90%) and OJSC Bashkir Venture Company (10%).

The objective of the corporation is to search for and attract investors.

### The activities of the corporation include the following:

- Coordinate and support investment projects approved by the Government of Bashkortostan, acting as a "one-stop shop"
- Monitor investment projects aimed at creating and developing industrial and technology parks in the Republic
- Uphold the interests of the Republic as part of and under the terms of the projects approved by the Government of the Republic
- Provide informational support to the state and local governments during the implementation of priority investment projects
- Assist in raising financing to minimise the direct use of funds of Bashkortostan's State Budget
- Act as the applicant when interacting with state authorities and federal development institutions.

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