

FEDERAL LAW
NO. 32-FZ OF FEBRUARY 10, 1999
ON THE INTRODUCTION TO LEGAL ACTS OF THE RUSSIAN FEDERATION
OF AMENDMENTS AND ADDENDA ARISING FROM THE FEDERAL LAW
ON PRODUCTION SHARING AGREEMENTS

Approved by the State Duma on December 23, 1998

Approved by the Federation Council on January 27, 1999

Article 1. The following amendments and addenda shall be introduced into the Law of the Russian Federation on the Subsoil (Gazette of the Congress of the People's Deputies of the Russian Federation and the Supreme Soviet of the Russian Federation No. 16, Item 834, 1992; Collected Acts of the Russian Federation No. 10 Item 823, 1995):

1. Supplement Article 1 with Part eight as follows,

"Peculiarities of relations in the subsoil usage shall be laid down by the Federal Law on Production Sharing Agreements".

2. In Article 3:

supplement Subitem 6 of Part one with the following words, "drawing up of lists of subsoil plots the right of use of which can be granted under the terms of production sharing agreements";
exclude the following words from Subitem 11 of Part one, "as well as approval of agreements based on production sharing";

supplement Part one with Subitem 17 as follows,

"17) conclusion of production sharing agreements which involve the use of subsoil plots."

3. In Article 4:

supplement Subitem 7 with the following words, "drawing up jointly with the Russian Federation lists of subsoil plots the right of use of which can be granted under the terms of production sharing agreements";

Subitem 12 shall have the following wording,

"12) participation of the subjects of the Russian Federation within the competence established by the Constitution of the Russian Federation and federal laws in production sharing agreements which involve the use of subsoil plots;"

4. In Article 7:

Part one shall have the following wording,

"In accordance with the licence to use the subsoil in the course of mineral resources extraction, construction and operation of subsoil structures not associated with the extraction of mineral resources; of setting up special protection geological objects, as well in case of mineral resources being prospected and extracted under a production sharing agreement, a subsoil plot shall be allocated to its user in the form of a geometrically delineate section of the subsoil.";

supplement with Part six as follows,

"When a subsoil section is allocated for the use under a production sharing agreement for prospecting, search for and extraction of mineral resources a mining or geological section shall be assigned within the boundaries specified by the above agreement".

5. In Article 9:

supplement with new Part two as follows,

"Under the terms of production sharing agreements users of subsoil can be citizens of the

Russian Federation, foreign citizens, legal entities as well as associations of legal entities (partnerships) which are set up on the basis of joint operations agreements, such associations having no status of a legal entity, provided that participants of such an association held joint and several liability on obligations arising from production sharing agreements.";

Part two shall be regarded as Part three and supplemented with the following words, ", and from the time the production sharing agreement enters into force, if the right to use the subsoil is granted under the terms of a production sharing agreement";

Part three shall be regarded as Part four.

6. Supplement Article 10 with Part five as follows,

"The procedure for extending the term of use of the subsoil under the terms of production sharing agreements shall be determined by such agreement."

7. Part one of Article 10.1 shall be supplemented with Subitem 7 as follows,

"7) on the basis of a production sharing agreement concluded in accordance with the Federal Law "on Production Sharing Agreements"."

8. In Article 11:

supplement with new Part two as follows,

"Allocation of a plot (of plots) of subsoil to use under the terms of production sharing agreements shall be documented by drawing up a license to use the subsoil. The license shall confirm the right to use the aforementioned plot (plots) of subsoil under the terms of production sharing agreements where the latter sets out all necessary conditions for the use of subsoil in accordance with the Federal Law "on Production Sharing Agreements" and the legislation of the Russian Federation on the subsoil.";

Parts two, three, four and five shall be regarded as Parts three, four, five and six, respectively.

9. In Article 12:

exclude the following words from Part two, "an agreement under the terms of production sharing,"

supplement with the new Part three as follows,

"The license to use the subsoil under the terms of production sharing agreements shall contain relevant data and conditions provided for by the aforesaid agreement.";

Part three shall be regarded as Part four.

10. In Article 13:

supplement with the new Part two as follows"

"The procedure for holding and the terms of a tender or auction for concluding a production sharing agreement shall be determined in accordance with the legislation of the Russian Federation.";

Parts two, three and four shall be regarded as Parts three, four and five, respectively.

11. In Subitem 4 of Article 14 the word "licenses" shall be replaced with the words "rights to use the subsoil".

12. In Part one of Article 17:

supplement Paragraph three with the following words,

"as well as from granting of licenses to use the subsoil under the terms of production sharing agreements which are provided for by Article 11 of the present Law";

supplement Paragraph four with the following words,

"apart from cases covered by the present Law and federal laws".

13. Supplement Article 17.1 with Part eight as follows,

"The transfer of rights to use the subsoil granted to a subject of entrepreneurial activity on the basis of a production sharing agreement, the reissue of existing licenses shall be performed in accordance with the Federal Law "on Production Sharing Agreements".

14. Supplement Article 20 with Part four as follows,

"In the course of use of the subsoil pursuant to a production sharing agreement the right to use the subsoil may be terminated, suspended or restricted under the terms and by the procedure stipulated by the said agreement."

15. Supplement Article 21 with Part eight as follows,

"In the course of use of the subsoil pursuant to a production sharing agreement the terms and procedure of early termination of the right to use the subsoil shall be stipulated by the said agreement."

16. In Article 22:

in Part one:

supplement Subitems 1 and 4 with the following words, "or in the production sharing agreement";

supplement Subitems 3 and 6 with the following words, "or by the production sharing agreement", after the words, "pursuant to the license";

supplement Subitem 10 of Part two with the following words, "or by the production sharing agreement", after the words, "established by the license".

17. Supplement Article 26 with Part seven as follows,

"Pursuant to a production sharing agreement conservation and liquidation of mining holes and other structures associated with the use of subsoil shall be performed to the charge of a liquidation fund created by the investor, such an agreement pursuant to the legislation of the Russian Federation is to specify size of the fund, procedure of its formation and usage."

18. Part five of Article 39 shall have the following wording,

"Upon conclusion of production sharing agreements a provision shall be made for dividing the extracted mineral raw materials between the Russian Federation and the subsoil user in accordance with the Federal Law "on Production Sharing Agreements". The subsoil user being a Party to the production sharing agreement shall be exempted from payment of taxes and other obligatory payments in the part and in the manner laid down by the Federal Law "on Production Sharing Agreements" and the legislation of the Russian Federation. The said taxes and payments shall be replaced with the division of products in accordance with the terms of an agreement concluded under the Federal Law "on Production Sharing Agreements". The products received by the State through the division of produced products in accordance with the terms of the agreement or their cost equivalent shall be apportioned between the Russian Federation and the subject of the Russian Federation on which territory is situated the plot of land made available for the use, on the basis of agreements concluded between corresponding bodies of executive power of the Russian Federation and bodies of executive power of the subject of the Russian Federation."

19. Supplement Article 41 with Part eight as follows,

"The procedure, amounts of payments for the use of subsoil and the collection terms of such payments in the course of execution of production sharing agreements shall be laid down by such agreements in accordance with the legislation of the Russian Federation."

20. In Article 43:

supplement with the new Part three as follows,

"Forms of collection of payments for the use of subsoil shall be laid down pursuant to such

agreements.";

Parts three and four shall be regarded as Parts four and five, respectively.

21. Supplement Article 44 with Part twelve as follows,

"Users of subsoil who pursuant to the terms of production sharing agreements extract mineral resources which were prospected at the expense of the State shall be exempted from deductions for the reproduction of mineral and raw materials base. Production sharing agreements shall contain provisions for compensating the State for its expenditures to search for and prospect a corresponding amount of mineral resources deposits."

22. Supplement Article 50 with Part three as follows,

"Disputes involving issues of the use of subsoil under the terms of production sharing shall be settled pursuant to terms of the said agreements."

Article 2. Introduce the following amendments and addenda to the Federal Law on the Continental Shelf of the Russian Federation (Collected Acts of the Russian Federation No. 49, Item 4694 , 1995.):

1. Supplement Part one of Article 7 with the following words,

"as well as associations of the said legal entities (partnerships) which are set up on the basis of joint operations agreements, such associations having no status of a legal entity, which act as a Party to a production sharing agreement, provided that participants of such an association held joint and several liability on obligations arising from the production sharing agreement."

after the following words, "foreign states".

2. In Article 8:

exclude from the Part one the following words, "including licenses based on production sharing agreements".

supplement with Part fourteen as follows,

"Peculiarities of relations arising in the course of use of plots of the continental shelf in accordance with the terms of production sharing agreements, including those associated with the granting of, transfer to third persons of the right to use subsoil and with the issuance of licenses shall be laid down by the Federal Law "on Production Sharing Agreements"."

3. In Part one of Article 16:

supplement Paragraph two with the words, "as well as other persons being investors in accordance with the Federal Law "on Production Sharing Agreements" after the following words, "persons of the Russian Federation"."

supplement Paragraph three with the words "other persons being investors in accordance with the Federal Law "on Production Sharing Agreements" after the words "and legal entities";

supplement with Paragraph four as follows:

"other persons being investors in accordance with the Federal Law "on Production Sharing Agreements"."

4. In Article 40:

supplement Part four with the following words,

"as well as associations of the said legal entities (partnerships) which are set up on the basis of joint operations agreements, such associations having no status of a legal entity that are a Party to a production sharing agreement";

Part twelve shall have the following wording,

"The products received by the State through the division of produced products in accordance with the terms of the agreement or their cost equivalent shall be apportioned between

the Russian Federation and the subject of the Russian Federation which territory is used to perform works under the agreement in question, when using plots of the continental shelf, on the basis of agreements concluded between corresponding bodies of executive power of the Russian Federation and bodies of executive power of the subject of the Russian Federation, normally, as regards each separate agreement.";

supplement with Part thirteen as follows,

"The system of payments for the use of plots on the continental shelf shall be applied to production sharing agreements in keeping with the provisions of the Federal Law "on Production Sharing Agreements".

5. Supplement Article 47 with Part three as follows,

"Disputes between the State and an investor as regards the issues of use of the continental shelf under the terms of production sharing shall be settled in keeping with the terms of the said agreements."

Article 3. Introduce the following amendments and addenda to the Federal Law on the State Regulation of Foreign Trade Activities" (Collected Acts of the Russian Federation No. 42, Item 3923, 1995.)

In Article 15:

supplement this Article with the new Part three as follows,

"Quantitative restrictions of export shall be introduced with due regard to how the Russian Federation meets its obligations under agreements concluded in accordance with the Federal Law "on Production Sharing Agreements" as regards deliveries under export of mineral raw materials which pursuant to terms of the above agreements are owned by the investor.";

Parts three, four and five shall be regarded as Parts four, five and six, respectively.

Article 4. Introduce the following addenda into the Law of the RSFSR on Foreign Investments in the RSFSR (Gazette of the Congress of the People's Deputies of the Russian Soviet Federative Socialist Republic and the Supreme Soviet of the Russian Soviet Federative Socialist Republic No. 29, Item 1008, 1991; Collected Acts of the Russian Federation No. 26, Item 2397, 1995; No. 47, Item 5341, 1997):

1. Supplement Article 24 with Parts three and four as follows,

"Foreign investors operating on the territory of the Russian Federation pursuant to the terms of production sharing agreements shall be exempted from payment of customs duties, of value-added tax and excise duties when bringing to the customs territory of the Russian Federation goods, works and services intended for the performance of works under the aforesaid agreements, as well as when exporting from the customs territory of the Russian Federation goods, owned by the investor pursuant to the above agreements. Customs duties, value-added tax and excise duties shall be replaced with the division of products in accordance with the terms of production sharing agreements concluded under the Federal Law "on Production Sharing Agreements".

The procedure for classifying goods, works and services as those intended for the performance of works under production sharing agreements shall be established by the Government of the Russian Federation."

2. Supplement Article 25 with Part three as follows,

"Foreign investors who are investors of production sharing agreements and who operate on the territory of the Russian Federation pursuant to the terms of the above agreements shall be

entitled in accordance with the Federal Law "on Production Sharing Agreements" to export from the customs territory of the Russian Federation the part of products they have produced and which they own in accordance with the terms of the said agreements."

3. Supplement with Article 40.1 as follows,

"Article 40.1. Production Sharing Agreements

Foreign investors shall be granted the rights to use the subsoil under the terms of production sharing on the basis of production sharing agreements concluded by the Russian Federation which is represented by the Government of the Russian Federation and a body of executive power of the subject of the Russian Federation with a foreign investor in the manner laid down by the Federal Law "on Production Sharing Agreements".

Pursuant to agreements indicated in Part one of the present Article the Russian Federation shall grant a foreign investor on a repayment basis and for a certain period of time exclusive rights to search for, prospect, extract mineral resources on a plot of subsoil specified in the production sharing agreement, as well as to perform such works at his own expense and risk. The agreement shall stipulate all necessary conditions related to the use of subsoil, including the conditions and terms for dividing the produced products between Parties to the above agreement in accordance with the Federal Law "on Production Sharing Agreements".

Article 5. Introduce the following addenda into the Law of the Russian Federation on the Customs Tariff" (Gazette of the Congress of the People's Deputies of the Russian Federation and the Supreme Soviet of the Russian Federation No. 23, Item 821, 1993; Collected Acts of the Russian Federation No. 32 Item 3204, 1995; No. 48, Item 4567; No. 1, Item 4, 1996; No. 6, Item 709, 1997):

1. Supplement Article 3 with Item 4 as follows,

"4. Rules for calculating and paying customs duties established by production sharing agreements shall be applied to production sharing agreements concluded between the Russian Federation and foreign investors before the Federal Law "on Production Sharing Agreements" came into effect."

2. Supplement Article 35 with Item "n" as follows,

"n) goods imported to the customs territory of the Russian Federation, including those imported on leasing in order to perform works under a production sharing agreement in accordance with a program of such works and with the investor's budget approved in the manner set out in the agreement or those exported from the territory in question in keeping with the terms of such agreement. In such case import and export customs duties shall be replaced with the division of the products pursuant to terms of a production sharing agreement concluded in accordance with the Federal Law "on Production Sharing Agreements".

Article 6. Introduce the following addenda into the Law of the Russian Federation on Road Funds in the Russian Federation" (Gazette of the Congress of the People's Deputies of the Russian Soviet Federative Socialist Republic and the Supreme Soviet of the Russian Soviet Federative Socialist Republic No. 44, Item 1426, 1991; Gazette of the Congress of the People's Deputies of the Russian Federation and the Supreme Soviet of the Russian Federation No. 3, Item 102, 1993; Collected Acts of the Russian Federation No. 29, Item 3010, 1994; No. 26, Item 2402, 1995; No. 35, Item 3503; No. 1, Item 4, 1996; No. 22, Item 2545, 1997; No. 26, Item 3013, 1998):

1. Supplement Item 3 of Article 5 with Paragraph eight as follows:

"Russian legal entities and foreign legal entities both being investors that perform works under production sharing agreements they have concluded in accordance with the Federal Law "on Production Sharing Agreements" shall be exempted from payment of the tax in the course of sale of mineral resources and products of their processing envisaged by the above agreement, such resources and products being their property. Rules for calculating and paying the tax established by production sharing agreements shall be applied in the course of performance of production sharing agreements concluded before the Federal Law "on Production Sharing Agreements" came into effect."

2. Supplement Item 4 of Article 6 with the following Paragraphs:

"Russian legal entities and foreign legal entities both being investors that perform works under production sharing agreements they have concluded in accordance with the Federal Law "on Production Sharing Agreements" shall be exempted from the tax if means of conveyance owned by such legal entities are used only for the purposes of the above agreements.

Rules for calculating and paying the tax established by production sharing agreements shall be applied to production sharing agreements concluded by the Parties before the Federal Law "on Production Sharing Agreements" came into effect."

Article 7. Introduce the following addenda into the Law of the Russian Federation on the Basic Principles of the Tax System in the Russian Federation (Gazette of the Congress of the People's Deputies of the Russian Federation and the Supreme Soviet of the Russian Federation No. 11, Item 527, 1992; No. 34, Item 1976; No. 4, Item 118, 1993; Collected Acts of the Russian Federation No. 10, Item 1108, 1994; No. 30, Item 3593, 1997; No. 31, Items 3816, 3825, 3827, 3828, 1998; No. 43, Item 5213):

1. Supplement Article 19 with Item 6 as follows,

"6. In the course of performance of production sharing agreements concluded by the Parties in accordance with the Federal Law "on Production Sharing Agreements" federal taxes and duties shall be replaced with the division of the produced products between the State and an investor. Federal taxes and duties which are not replaceable with the division of produced products between the State and an investor shall be collected in accordance with the legislation of the Russian Federation on taxes and duties with due regard to provisions of the Federal Law "on Production Sharing Agreements".

2. Supplement Article 20 with Item 4 as follows,

"4. In the course of performance of production sharing agreements concluded by the Parties in accordance with the Federal Law "on Production Sharing Agreements" taxes and duties of the subjects of the Russian Federation shall be replaced with the division of produced products between the State and an investor or they shall be collected in accordance with the legislation of the Russian Federation and the legislation of the subjects of the Russian Federation on taxes and duties with due regard to provisions of the Federal Law "on Production Sharing Agreements".

3. Supplement Article 21 with Item 6 as follows,

"6. In the course of performance of production sharing agreements concluded by the Parties in accordance with the Federal Law "on Production Sharing Agreements" local taxes and duties shall be replaced with the division of produced products between the State and an investor or they shall be collected in accordance with the legislation of the Russian Federation and the legislation of the subjects of the Russian Federation on taxes and duties and appropriate normative legal acts of bodies of local self-government with due regard to provisions of the Federal Law "on Production Sharing Agreements".

Article 8. Introduce the following addenda into the Law of the Russian Federation on the Tax Levied on Property of Enterprises (Gazette of the Congress of the People's Deputies of the Russian Federation and the Supreme Soviet of the Russian Federation No. 12, Item 599, 1992; No. 34, Item 1976; No. 4, Item 118, 1993; No. 14, Item 486; No. 25, Item 905; Collected Acts of the Russian Federation No. 29, Item 3010, 1994; No. 18, Item 1590, 1995; No. 26, Item 2402; No. 35, Item 3503; No. 2, Item 217, 1998):

1. Supplement with Article 3.1 as follows,

"Article 3.1. Rules for calculating and paying the tax established by production sharing agreements shall be applied to production sharing agreements concluded between the Russian Federation and investors before the Federal Law "on Production Sharing Agreements" came into effect."

2. Supplement Article 4 with Item "r" as follows,

"r) which is used only to perform activities envisaged by production sharing agreements, if such property is owned by investors in accordance with the above agreements, as well as if under the aforesaid agreements such property was handed over by the investors to the State property while retaining their exclusive right to use the above property."

Article 9. Introduce the following addenda into the Law of the Russian Federation on Value Added Tax (Gazette of the Congress of the People's Deputies of the Russian Soviet Federative Socialist Republic and the Supreme Soviet of the Russian Soviet Federative Socialist Republic No. 52, Item 1871, 1991; Gazette of the Congress of the People's Deputies of the Russian Federation and the Supreme Soviet of the Russian Federation No. 23, Item 1229, 1992; No. 34, Item 1976; No. 4, Item 118, 1993; No. 11, Item 387; No. 14, Item 486; Collected Acts of the Russian Federation No. 29, Item 3010, 1994; No. 33, Item 3407; No. 18, Item 1591, 1995; No. 26, Item 2402; No. 32, Item 3204; No. 35, Item 3503, No. 49, Item 4695; No. 1, Item 4, 1996; No. 14, Item 1399; No. 22, Item 2582; No. 12, Item 1377, 1997; No. 18, Item 2102; Rossiyskaya Gazeta of November 18, 1998):

1. In Article 5:

supplement Item 1 with subitems Zz2 and Zz3 as follows,

"z.5) turnovers between an investor and an operator of a production sharing agreement under free hand-over of commodity-andtangibles required for the execution of the above agreement, as well as transactions in the transfer of monetary resources required to fund such works in accordance with the budget approved in the manner laid down by the said agreement;

z.6) goods, works and services intended for the performance of works under a production sharing agreement, including the goods brought to the customs territory of the Russian Federation by an investor, an operator of the production sharing agreement in question, their supplier, contractor and carrier which participate in the execution of works under the said agreement on the basis of agreements (contracts) with the investor and also services rendered on the territory of the Russian Federation by foreign legal entities to investors or operators of production sharing agreements in connection with the execution of works under such agreements. The procedure for referring goods, works and services to those intended for the performance of works under a production sharing agreement shall be established by the Government of the Russian Federation.";

supplement with Item 4 as follows,

"4. Rules for calculating and paying the value-added tax established by production sharing

agreements shall be applied for the production sharing agreements concluded between the Russian Federation and foreign investors before the Federal Law "on Production Sharing Agreements" came into effect."

2. In Article 7:

supplement Item 2 with the following Paragraph,

"When computing the value-added tax, an investor being a Party to the production sharing agreement shall subtract from an amount of the said tax payable to the budget for a corresponding period all amounts of the value-added tax paid by the investor during the said period in connection with the execution of works under the aforesaid agreement.";

supplement Item 3 with the following Paragraph,

"If an investor being a Party to a production sharing agreement has a difference owing to an extra amount of the value-added tax he had during a corresponding period in connection with the execution of works under the aforesaid agreement, as compared to amounts of the said tax computed on the sale of products, goods (works, services) over the said period, including if there has been no such sales, the investor shall be entitled to a reimbursement for such difference from the budget at the end of such period in the manner and on conditions laid down by the legislation of the Russian Federation. If the State fails to meet the term laid down by the legislation of the Russian Federation, the already paid tax shall be reimbursed from the budget and increased on the basis of the refinancing rate of the Bank of Russia in effect during a corresponding period."

Article 10. Introduce the following addenda into the Law of the Russian Federation on the Tax Levied on Profits of Enterprises and Organizations (Gazette of the Congress of the People's Deputies of the Russian Federation and the Supreme Soviet of the Russian Federation No. 11, Item 525, 1992; No. 34, Item 1976; No. 4, Item 118, 1993; Rossiyskaya Gazeta of November 3, 1993; Collected Acts of the Russian Federation No. 27, Item 2823, 1994; No. 29, Item 3010; No. 32, Item 3304; No. 18, Item 1592, 1995; No. 26, Item 2402, 2403; No. 49, Item 4695; No. 1, Item 4, 20, 1996; No. 51, Item 5682; No. 3, Item 357, 1997; No. 26, Item 2953; No. 31, Item 3819, 3821, 3825, 1998; Rossiyskaya Gazeta of November 18, 1998):

1. In Article 2:

supplement Paragraph one of Item 6 with the following words, "profits received by an investor when performing the production sharing agreement" after the words, "which are owned by the enterprise".

supplement Item 8 with the following Paragraph,

"profits received by an investor when performing a production sharing agreement. Tax on the above profit shall be computed in accordance with Article 10.1 of the present Law."

2. Supplement Paragraph one of Item 2, Article 9 with the following sentence,

"The tax shall not be levied on incomes in the form of dividends and incomes from share-type participation which are paid by the investor under the production sharing agreement to the charge of profits it had received when performing the above agreement."

3. Supplement Item 1 of Article 10 with the following Paragraph,

"The tax shall not be levied on incomes of foreign legal entities in the form of dividends and incomes from share-type participation which are paid by the investor under the production sharing agreement to the charge of profits it received when performing the above agreement, as well as when the above profit is transferred abroad by a branch office of the investor which was set up on the territory of the Russian Federation to act as an operator of the aforesaid agreement."

4. Supplement with Article 10.1 as follows,

"Article 10.1 Peculiarities of Taxation of Profits and Incomes In the Course of Performance of Production Sharing Agreements

1. When performing production sharing agreements, legal entities being investors of production sharing agreements concluded in accordance with the Federal Law "on Production Sharing Agreements" or participants which have no legal entity status of associations acting as investors of the above agreements shall calculate and pay the profit tax under the above agreements separately from the calculation and payment of profit tax under other kinds of activities which are not provided for by the aforesaid agreements. In doing so over the entire effective period of production sharing agreements the profit tax shall be collected at the tax rate effective at the signing date of the above agreements.

2. Taxable profit under production sharing agreements shall be computed as the cost of share of profitable products owned by the investor under the terms of such agreements, at market price. In so doing such cost shall be marked down by the amount of payments made by the investor for the use of borrowed funds, of non-recurrent payments for the use of subsoil and other outlays not reimbursable to investors under the terms of the production sharing agreement, the composition and accounting procedure of such outlays for the purposes of calculation of taxable profit under production sharing agreements being laid down by the legislation of the Russian Federation. Taxable profit shall be marked-up by the amount of estimated interest which have been accrued under the terms of production sharing agreements and which are included into the outlays reimbursable to the investor. If the amount of such outlays borne by the investor less the estimated interest exceeds the cost of the share of profitable products owned by the investor the taxable profit shall be marked down by an amount of corresponding difference arising over the subsequent periods until the former is completely reimbursed.

When calculating taxable profit no account shall be made of a share of profitable products owned by an investor which was marked-up owing to a corresponding reduction of a share of profitable products of the State (in the part subject to transfer to the subject of the Russian Federation), such mark-up being performed in accordance with the Federal Law "on Production Sharing Agreements" if the legislation of the subjects of the Russian Federation and/or legal acts of bodies of the local self-government contain no provisions for exempting an investor from corresponding taxes, duties and other mandatory payments.

3. Benefits on profit tax existing under Article 6 of the present Law shall not be applied when collecting profit tax pursuant to production sharing agreements.

4. Profit tax levied at the rate of charging such tax to the budgets of the subjects of the Russian Federation pursuant to a production sharing agreement shall be entered into the budget of the subject of the Russian Federation on which territory is located the plot of subsoil allocated for the use and/or works are performed under a production sharing agreement irrespective of the registration place of the payer. If works under a production sharing agreement are performed on territories of several subjects of the Russian Federation, such profit tax shall be entered into budgets of each subject of the Russian Federation in the manner established by Article 1 of the present Law.

5. With consent of Parties to a production sharing agreement the profit tax is paid either in kind or in cash.

If under the terms of a production sharing agreement a foreign currency is used in the bookkeeping and accounting of works under the above agreement the tax shall be calculated in

such currency and paid in the foreign currency or in roubles upon conversion of the tax amount at the Bank of Russia exchange rate at the day of drafting of the reporting documents.

6. Rules for calculating and paying profit tax, including the tax rate established by production sharing agreements shall be applied for the production sharing agreements concluded by the Parties before the Federal Law "on Production Sharing Agreements" came into effect."

Article 11. Supplement Article 3 of the Law of the Russian Federation on Excise Duties (Gazette of the Congress of the People's Deputies of the Russian Soviet Federative Socialist Republic and the Supreme Soviet of the Russian Soviet Federative Socialist Republic No. 52, Item 1872, 1991; Collected Acts of the Russian Federation No. 11, Item 1016, 1996; No. 3, Item 356, 1997; No. 7, Item 800, 1998):

"4. Exempted from excise duties shall be goods excisable in the Russian Federation (apart from cars) which are imported to the customs territory of the Russian Federation pursuant to design documentation for the performance of works on production sharing agreements by persons being investors or operators of the above agreements, or by other legal entities participating in the performance of works under the said agreements on the basis of agreements (contracts) with investors as well as the excisable kinds of mineral resources and products of their processing which are extracted in the course of performance of production sharing agreements as provided for by the above agreements if such goods are owned by investors in accordance with terms of the aforesaid agreements."

Article 12. Supplement Article 111 of the Customs Code of the Russian Federation (Gazette of the Congress of the People's Deputies of the Russian Federation and the Supreme Soviet of the Russian Federation No. 31, Item 1224, 1993) with Part two as follows:

"Exempted from customs duties shall be goods imported to the customs territory of the Russian Federation, including those imported under leasing in order to perform works under a production sharing agreement in accordance with a program of such works and the budget which were approved in the manner set out in the agreement or those exported from the territory in question pursuant to terms of such agreement. In such case the import and export customs duties shall be replaced with the division of products pursuant to terms of a production sharing agreement concluded in accordance with the Federal Law "on Production Sharing Agreements"."

Article 13. The present Federal Law shall enter into force upon its official publication.

President of
the Russian Federation

B. Yeltsin

Moscow, the Kremlin
No. 32-FZ
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