

FEDERAL LAW OF THE RUSSIAN FEDERATION
“On financial rent (leasing)”
in accordance with the Federal law
“ON AMENDMENTS TO THE FEDERAL LAW “ON LEASING”

The objectives of this Federal Law shall be to diversify forms of investment in capital goods on the basis of financial rent (leasing) operations, to protect the ownership rights and the rights of the participants in the investment processes, and to ensure investment efficiency.

This Federal Law shall define specific legal, organizational and economic features of leasing.

Chapter 1. GENERAL PROVISIONS

Article 1. Application of this Federal Law

This Federal Law shall apply to the leasing of that property which comes within the category of non-consumable things (with the exception of parcels of land and other natural objects) being transferred to individuals and legal entities for temporary possession and use.

Article 2. Basic Concepts Used in This Federal Law

The following basic concepts shall be used in this Federal Law:

leasing shall be understood to mean a complex of economic and legal relationships, emerging in connection with implementation the lease transaction, including purchase of the subject of leasing;

lease transaction shall be understood to mean a contract, according to which the renter (the lessor) is bound to purchase the indicated by the lessee property from a certain seller and then to provide the lessee with the equipment for a special fee for temporary utilization. It may be stipulated in the contract that the choice of the seller and the property to purchase is made by the lessor;

leasing activity shall be understood to mean a form of investment activity whereby property shall be acquired and transferred under leasing agreement.

Article 3. Subject Matter of Leasing

1. Any non-consumable things, including enterprises and other bodies of property, buildings, structures, equipment, transportation systems, other movable and immovable property, which may be used in pursuit of business, may be the subject matter of leasing.

2. Parcels of land and other natural objects may not be the subject matter of leasing. Nor may leasing cover property which has been prohibited by federal laws from circulating freely or which has been allowed to circulate subject to special procedures.

Article 4. Parties to Leasing

1. The following shall be parties to leasing:

The lessor shall be an individual or legal entity which shall, using borrowed funds or funds of its own, acquire property into its ownership in the course of performance of a lease transaction and make it available to the lessee as the subject matter of leasing for a certain fee, for a certain term and on certain conditions for temporary possession and use with or without subsequent transfer to the lessee of the right of ownership to the subject matter of leasing.

The lessee shall be an individual or legal entity which shall, based on the leasing agreement, be bound to accept the subject matter of leasing for a certain fee, for a certain term and on certain conditions for temporary possession and use, all in accordance with the leasing agreement.

The seller (supplier) shall be an individual or legal entity which shall, based on the sale and purchase agreement with the lessor, sell to the lessor at an agreed time property which is manufactured (purchased) by it and which is the subject matter of leasing. The seller (supplier) shall be bound to transfer the subject matter of leasing to the lessor or the lessee in accordance with the terms and

conditions of the sale and purchase agreement.

2. Any of the parties to a leasing arrangement may be a resident of the Russian Federation or otherwise

Article 5. Leasing Companies (Firms)

1. The leasing companies (firms) shall be commercial entities, whether residents of the Russian Federation or otherwise, which shall perform as lessors, in accordance with their constitutive documents and the legislation of the Russian Federation.

2. Legal entities and individuals, whether residents of the Russian Federation or otherwise, and also citizens registered as individual entrepreneurs without a separate legal identity may become founders of leasing companies (firms).

3. A leasing company (not being a resident of the Russian Federation) shall be a foreign legal entity engaged in commercial activities in the Russian Federation in accordance with the procedure established by the legislation of the Russian Federation.

4. Leasing companies shall be entitled to borrow funds of any legal entities, whether residents of the Russian Federation or otherwise, in order to engage in leasing activities in accordance with the legislation of the Russian Federation.

Article 7. Forms of Leasing

1. The principal forms of leasing governed by this Federal law shall include domestic leasing and international leasing.

In domestic leasing, the lessor, lessee and seller (supplier) shall all be residents of the Russian Federation.

In international leasing, the lessor or lessee shall be non-residents of the Russian Federation.

2. A lease transaction may include conditions concerning extra services.

Extra services shall be services of any kind rendered by the lessor prior to the commencement, or in the process, of use of the subject matter of leasing by the lessee.

The list, extent and value of extra services, if any, shall on an obligatory basis be set out in relevant leasing agreements.

Article 8. Subleasing

1. Subleasing shall be a special class of relations arising out of the assignment to a third party of the rights to use the subject matter of leasing, which arrangement shall be executed in the form of a subleasing agreement.

In case of transferring the property into subleasing the legal claim to the seller goes to the lessee in accordance with the subleasing contract.

2. Where the subject matter of leasing is subleased, the obligatory requirement for such arrangement shall be the lessor's written consent.

Chapter II. LEGAL GROUNDS FOR LEASING RELATIONS

Article 10. Rights and Obligations of Parties to Leasing Agreement

1. The rights and obligations of the parties to a leasing agreement shall be governed by the rules of civil legislation, this Federal Law and the leasing agreement.

2. In the case of financial leasing and mixed leasing, the lessee shall be entitled to address claims directly to the seller (supplier) of the subject matter of leasing as regards quality, completeness and timing of delivery as well as other claims arising out of the sale and purchase agreement entered into by the seller (supplier) and lessor.

Article 11. Issues of Ownership

1. The subject matter of leasing transferred to the lessee for temporary possession and use shall remain the property of the lessor.

2. The right of possession and use of the subject matter of leasing shall pass to the lessee in full measure, unless provided otherwise by the leasing agreement.

3. The right of the lessor to dispose of the subject matter of leasing shall include the right to take the subject matter of leasing from the lessee's possession and use in such instances and pursuant to such procedure as are specified by this Federal Law and the pertinent leasing agreement.

Article 13. Securing the Rights of the Lessor

1. In case the lessee fails on more than two occasions in a row to make payment for the use of the subject matter of leasing after the date established by the leasing agreement as the due date for such payment, it will be written-off the account by sending the order to a bank or any other lending institution where the lessee's account is set up, to write off the monetary funds which equal to the overdue leasing payment. The undisputable write-off of the monetary funds does not deprive the lessee of the right to seize the court.

2. The lessor shall have the right to demand an early termination of contract and repossession of the subject matter of leasing in designated cases provided by this Federal Law, the legislation of the Russian federation and the leasing agreement.

In this case, the lessee shall incur all the expenses, caused by the return of the property, its dismantlement, insurance and transportation.

Article 15. Contents of Leasing Agreement

1. A leasing agreement shall, irrespectively of its term, be executed in writing.

2. Under a leasing agreement, the obligations of the parties, which are performed by parties to other agreements, shall arise by virtue of conclusion with other parties to the leasing arrangement of mandatory and associated agreements.

A sale and purchase agreement shall be one of such mandatory agreements.

Associated agreements shall include a borrowing agreement, a contract of pledge, a contract of guarantee, a suretyship contract, and others.

3. A leasing agreement shall contain an accurate description of the subject matter of leasing, which is to be transferred to the lessee. In case of lack of this information about the subject matter of leasing, the leasing agreement is considered lost.

4. Under a leasing agreement, the lessor shall be obligated as follows:

in the event of finance lease or mixed leasing, to acquire from a certain seller (supplier) into its ownership certain property for its transfer, for a certain fee, for a certain term and on certain conditions as the subject matter of leasing;

perform other obligations arising out of the content of the leasing agreement.

5. Under a leasing agreement, the lessee shall be obligated as follows:

to accept the subject matter of leasing as is stipulated in said leasing agreement;

to pay the lessor the leasing payments as it is stipulated in the leasing agreement;

upon expiration of the effective term of the leasing agreement, to return the subject matter of leasing unless otherwise provided for by said leasing agreement or to acquire the subject matter of leasing into ownership pursuant to a purchase and sale agreement;

to perform other obligations as may arise out of the contents of the leasing agreement.

6. The leasing agreement shall, on a mandatory basis, define circumstances which the parties

shall deem to be an indisputable and obvious breach of obligations leading to the termination of the leasing agreement and property settlement, and shall also establish a procedure for repossession/return of the subject matter of leasing.

7. The leasing agreement may provide for the lessee's right to extend the effective term of leasing and to preserve or amend the terms and conditions of the leasing agreement.

Article 17. Provision of Subject Matter of Leasing for Temporary Possession and Use, Maintenance and Return Thereof

1. The lessor shall provide the lessee with the leased property in a condition consistent with the terms of the leasing agreement and fit for the designated use of such property.

2. The subject matter of leasing shall be leased together with all of its accessories and all documents (technical certificate and so forth), unless otherwise provided for by the leasing agreement.

3. The warranty service of the subject matter of leasing may be effected by the seller/supplier if provided for by the purchase and sale agreement. The lessee shall effect maintenance of, medium and current repairs to the subject matter of leasing at its cost and expense, unless otherwise provided by the leasing agreement.

4. Upon termination of the leasing agreement the lessee shall return to the lessor the subject matter of leasing in the same condition in which it received it with due account taken of normal wear and tear or such wear and tear as stipulated by the leasing agreement.

5. If the lessee has failed to return the subject matter of leasing or has not returned it in time, the lessor shall be entitled to claim payments for the period of the delay. In the event that said payment does not cover the losses suffered by the lessor, it may claim compensation therefore.

6. In the event that a late charge is provided to be paid to the lessor for an untimely return of the subject matter of leasing, the losses may be recovered from the lessee in full plus the late charge, unless otherwise provided by the leasing agreement.

7. The detachable improvements made by the lessee to the subject matter of leasing shall remain its property, unless otherwise provided by the leasing agreement.

8. In the event that the lessee has made, with the lessor's written consent, improvements at its cost and expense to the subject matter of leasing which improvements may not be detached without damaging the subject matter of leasing, the lessee shall be entitled to receive compensation for the value of such improvements after the leasing agreement is terminated, unless otherwise provided by the leasing agreement.

9. In the event that the lessee has made, without the lessor's written consent, improvements at its cost and expense to the subject matter of leasing which improvements may not be detached without damaging the subject matter of leasing, the lessee shall not be entitled to receive compensation for the value of such improvements after the leasing agreement is terminated.

Article 18. Assignment to Third Parties of Rights and Obligations by the Parties to the Agreement

1. The lessor may assign its rights under the leasing agreement or its interests arising out of such agreement to a third party in full or in part.

2. In order to raise funds, the lessor shall be entitled to pledge the subject matter of leasing which shall be acquired in the future under the terms and conditions of the leasing transaction.

3. The lessee shall inform the lessor about all the rights of a third party.

Article 19. Transfer of Right of Ownership of the Subject Matter of Leasing

1. It may be stipulated in the leasing agreement that the subject matter of leasing shall be transferred in the ownership of the lessee upon termination of the leasing agreement or prior to it, all in accordance with the leasing agreement.

2. This Federal Law shall govern the cases of prohibiting the transfer of the right of ownership of the subject matter of leasing to the lessee.

Article 20. Procedure for Registration of Property/Subject of Leasing Agreement

1. The registration of immovable property which is the subject matter of leasing under the leasing agreement shall be effected in accordance with the procedure laid down by the legislation of the Russian Federation.

Special requirements, imposed by the legislation of the Russian Federation to the owner of the registered property (air crafts, sea crafts and other equipment) apply to the lessor and the lessee, as may be agreed between the parties.

2. The subject matter of leasing which must be registered with the state agencies (transportation systems, sources of increased danger and other subject matter of leasing) shall be registered in the name of the lessor or lessee, as may be agreed between the parties.

3. By mutual consent of the parties, the lessor shall be entitled to direct the lessee to register the subject matter of leasing in the lessor's name, in which case the details of the owner and possessor/user of the property must be specified in the registration documents on a mandatory basis. In instances where the agreement is terminated and the subject matter of leasing is repossessed by the lessor, the state agencies which have registered the property shall be obliged to annul the registration of the possessor/user at the lessor's request.

Article 21. Insurance of Subject Matter of Leasing and Business (Financial) Risks

1. The subject matter of leasing may be insured against the risks of loss/destruction, shortage or damage from the date of delivery of the property by the seller/supplier until the date of expiration of the effective term of the leasing agreement, unless otherwise provided by the agreement. The parties which shall perform the duties of insurer and beneficiary and the term of insurance shall be as determined by the leasing agreement.

2. Insurance against business/financial risks shall be effected as agreed by the parties to the leasing agreement and shall not be mandatory.

3. In instances specified by the legislation of the Russian Federation, the lessee shall insure its liability for performance of obligations arising out of harm as may be caused to life, health or property of other persons in the course of use of the leased property.

4. The lessee shall have the right to insure the risk of its violating the contract in favour of the lessor.

Article 22. Distribution of the Rights of the Parties

1. The lessee shall be liable for safe custody of the subject matter of leasing from all kinds of property damage, and for the risks related to destruction, loss, spoilage, pilferage, early break-down thereof and error made during its installation or operation, and for other property risks from the date of actual acceptance of the subject matter of leasing, unless otherwise provided by the leasing agreement.

2. The risk of the seller's/supplier's insolvency shall be borne by that party to the leasing agreement which has chosen the seller/supplier, unless otherwise provided by the leasing agreement.

3. The risk of non-compliance of the subject matter of leasing with the designated use of such subject matter under the leasing agreement shall be borne by the party which has chosen the subject matter of leasing, unless otherwise provided by the leasing agreement.

Article 23. Levy Execution of a Third party upon the Subject Matter of Leasing

1. No third party may levy execution upon the subject matter of leasing in respect of the lessee's obligations, including the instances where the subject matter of leasing is registered in the lessee's name.

2. Should any third party levies execution upon the lessor's property, such execution may only

apply to such object of the lessor's right of ownership as is the subject matter of leasing. Should execution be enforced, in addition to the lessor's rights, its obligations set forth in the leasing agreement shall pass to the transferee of the lessor's rights in respect of the subject matter of leasing on a mandatory basis.

Article 26. Obligations of the Lessee When the Subject Matter Is Lost

If the subject matter of leasing has been lost or the subject matter of leasing has lost its functions through the lessee's fault the lessee shall not be released from its financial liabilities under the leasing agreement, unless otherwise provided by the leasing agreement.

CHAPTER III. ECONOMIC FUNDAMENTALS OF LEASING

Article 28. Leasing Payments

1. Leasing payments shall be understood to mean the total amount of payments in accordance with the leasing agreement covered by the effective term of the agreement, which shall comprise reimbursement of the lessor's expenses, caused by the purchase and transfer of the subject leasing to the lessee, reimbursement of the lessor's expenses for the services provided in the course of performance of the leasing transaction, and the lessor's profit. In case transfer of right of ownership of the subject matter of leasing to the lessee is stipulated in the leasing agreement, the total sum of the leasing agreement may comprise the redemption price of the subject matter of leasing.

2. The amount, method and frequency of leasing payments shall be determined by the leasing agreement subject to the provisions of this Federal Law.

If the lessee and the lessor make settlements in respect of leasing payments with products (in kind) manufactured using the subject matter of leasing, the price of such products shall be agreed upon by the parties to the leasing agreement.

The amount of leasing payments, unless otherwise provided by the leasing agreement, may be changed by mutual consent of the parties on the terms, stipulated in the leasing agreement, but not more than once in three months.

3. The lessee's obligations to make leasing payments shall arise from the commencement of use by the lessee of the subject matter of leasing, unless otherwise provided by the leasing agreement.

4. For the purpose of taxation, leasing payments shall be recognized as operating and/or selling costs, in accordance with the Tax Code of the Russian Federation.

Article 31. Right of Parties to Leasing Agreement to Apply Accelerated Depreciation Rates to Subject Matter of Leasing

1. The subject matter of leasing, transferred to the lessee in accordance with the leasing agreement, shall be on the balance sheet of the lessor or the lessee by mutual consent.

The parties to a leasing agreement shall be entitled to apply accelerated depreciation rates to the subject matter of leasing by mutual consent.

2. Depreciation deductions shall be made by the balance holder which maintains the subject matter of leasing on balance sheet.

Article 34. Specific Features of International Operations Conducted by Parties to Leasing Transactions

1. The lessor shall be entitled, without the license from the Central Bank of the Russian Federation, to conduct international operations involving the movement of capital, to raise funds from the non-residents of the Russian Federation in order to acquire the subject matter of leasing for the period exceeding six months (180 days), but not in excess of the effective term of the leasing agreement.

2. The leasing companies shall be entitled, without a license from the Central Bank of the Russian Federation, to conduct operations involving the movement of capital, to pay interest for the

use of an installment plan extended by the seller/supplier of the subject matter of leasing regardless the date of actual receipt of the subject matter of leasing (current forex operations and operations involving the movement of capital).

3. In order to conduct international lease operations this Federal Law shall provide that:

importation into the territory of the Russian Federation and exportation from the territory of the Russian Federation (movement across the customs border of the Russian Federation) of the subject matter of leasing in order to use the same under the leasing agreement for the period exceeding six months, as well as the payment of the total amount of the leasing agreement for the period exceeding six months shall not be deemed operations involving the movement of capital in accordance with the legislation of the Russian Federation on currency control and regulation;

if the subject matter of leasing is imported into the territory of the Russian Federation and exported from the territory of the Russian Federation (moved across the customs border of the Russian Federation), all types of customs taxes and tariffs shall be calculated on the basis of the total customs value of the property in question. The customs taxes and tariffs shall be paid:

as of the moment of the subject matter of leasing is imported/exported, in the amount of the paid portion of the customs value of the property which value shall be evidenced by bank documents;

subsequently, customs taxes and tariffs shall be paid at the time that leasing payments are made or within 20 days of receipt of the leasing payments.

4. The procedure/system for payment of customs taxes and tariffs set forth by this Article shall be not deemed a deferral of customs payments nor shall it be deemed an investment tax credit.

Article 35. Prevention, Restriction, and Restraint of Monopolistic Activity and Competition Not in Good Faith

The prevention, restriction, and restraint of monopolistic activity and competition not in good faith in the leasing services market shall be the responsibility of the State Committee for Anti-Monopoly Policies in accordance with the anti-monopoly legislation of the Russian Federation.

CHAPTER IV. STATE SUPPORT FOR LEASING ACTIVITIES

Article 36. Measures Adopted by the State to Support Leasing Entities

The following measures in support of leasing entities (companies and firms) may be provided for by the laws of the Russian Federation and adopted by decisions of the Government of the Russian Federation, or decisions passed by bodies in the executive branch of government of the constituent elements of the Russian Federation (provided, however, that such measures come within the limits of their authority):

the development and implementation of the federal program to promote the leasing operations in the Russian Federation or in an individual region as part of the program of medium- and long-term social and economic development of the Russian Federation or such region;

the establishment, by using the state-owned property, of funds to provide security for bank investments into leasing operations;

the contribution of the state-owned capital toward the establishment of infrastructure for leasing operations within individual target oriented investment and leasing projects;

the measures of state protectionism in the field of development, manufacture and use of high-technology equipment;

the provision of financing out of the federal budget and of the state guarantees for leasing projects (Development Budget of the Russian Federation), including those involving non-resident firms;

the provision of investment credits for the purposes of carrying out leasing projects;

the exemption, pursuant to the procedure set forth by the legislation of the Russian Federation,

of banks and other lending institutions from tax on profit derived thereby from loans to the parties to leasing operations, for the period of at least three years for the purpose of performance of the respective leasing agreements;

the provision by legislative means of tax and credit benefits to leasing companies (firms) in order to create favorable economic conditions for their activities;

the creation, development, formation and improvement of legal and regulatory framework as is conducive to the protection of legal and property interests of the parties to leasing transactions;

the provision to the lessees which are engaged in processing or procurement of farm produce of the right to make leasing payments with supplies of produce on such terms and conditions as may be provided for in leasing agreements;

the recognition of breeding stock as the subject matter of leasing while carrying out leasing operations in the agri-industrial sector;

the creation of the fund of state guarantees for the purpose of export under international lease of domestic machinery and equipment.

CHAPTER 5. RIGHT OF INSPECTION AND CONTROL

Article 37. Right of Inspection Under a Leasing Transaction

1. The lessor shall be entitled to exercise control over compliance by the lessee of the terms and conditions of the leasing agreement and other ancillary agreements.

2. The purpose and procedure of inspection shall be set forth in the leasing agreement and other ancillary agreements between the parties thereto.

3. The lessor shall be obliged to give the lessor with unhindered access to the financial documents and the subject matter of leasing.

Article 38. Lessor's Right of Financial Control

1. The lessor shall have the right of financial control over the lessee's activities to the extent of the subject matter of leasing, the formation of financial results in the lessee's activities, and the performance of lessee's obligations under the leasing agreement.

2. The purpose and procedure of financial control shall be set forth in the leasing agreement.

3. The lessor shall be entitled to send the lessee written requests to provide information required to exercise financial control, and the lessee shall meet such requests.

CHAPTER 5. CONCLUDING PROVISIONS

Article 39. Effective Date of This Law

This Federal Law shall take effect on the date of its publication. The President of the Russian Federation is hereby requested to make his regulatory acts comply with the provisions of this Federal Law.

The Government of the Russian Federation is hereby instructed to make its regulatory acts comply with the provisions of this Federal Law within six months.