



# Seizing opportunities

## Newsletter Kazakhstan

Latest news on law, tax and business in Kazakhstan

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## > Three-level reporting system of the international group in Kazakhstan

From Galymbek Kereibayev, Rödl & Partner Kazakhstan

### 1. Introduction

As is known, one of the actual problems of taxation of multinational corporations is the Base Erosion and Profit Shifting (BEPS).

Therefore, the main objective of international taxation is that in order to avoid the use of tax havens by net profit shifting through affiliated companies to the countries with preferential taxation, the net profit of a transnational corporation shall be used in those countries, where economic operations of the company are actually carried out and economic value of products, works and services is created and taxed.

In view of this, the Law of the Republic of Kazakhstan "On transfer pricing" (hereinafter referred to as "Transfer Pricing Law") was amen-

ded taking into account the OECD recommendations on BEPS, providing for the phased introduction of a reporting system of the international group in order to ensure the transparency of activities of its members.

These innovations affect the interests of foreign companies that form an international group and conduct their business in Kazakhstan through subsidiaries, branches (representative offices) and permanent establishments.

For the purposes of the Transfer Pricing Law, an international group refers to the aggregate amount of persons who are members of the international group, including the parent company of such international group that:

- include at least one person-resident of the Republic of Kazakhstan, branch, representative office or permanent establishment of a non-resident;
- interrelated by control and (or) interest;
- they are included in consolidated financial statements, or their financial statements are not accounted for in the consolidated financial statements only because of the size or materiality of such persons in accordance with IFRS or other internationally accepted standards of financial reporting adopted by stock exchanges.

The reporting system of the international group provides for the implementation of 3-tier reporting system for its members:

- 1) Level I (from 2016): introduction of the country-by-country-reporting (consolidated

reporting broken down by income, assets, taxes and other indicators);

- 2) Level II (from 2018): introduction of the statement of membership in the international group;
- 3) Level III (from 2019): introduction of Local and Master File.

## 2. Country-by-country-reporting (CbCR)

### Persons obliged to submit country by country reporting

Members of the international group, who shall be charged with the responsibility to submit country by country reporting (hereinafter referred to as the CbCR) are as follows:

- parent company-resident of Kazakhstan;
- authorized representative;
- legal entity-resident of Kazakhstan;
- legal entity-non-resident, who carries out its activity in Kazakhstan through a branch, representative office, permanent establishment.

### Threshold performance indicators of the international group for the submission of CbCR

CbCR shall be submitted subject to the following quantitative indicators:

- 1) if according to consolidated financial statements of the international group the revenue for the preceding financial year is *not less than 750 mln.<sup>1</sup> Euro*; this provision shall apply, if the parent company is a resident;
- 2) if according to consolidated financial statements of the international group the revenue for the preceding financial year is not less than the amount established by the legislation of the country of residence of the parent company or the authorized member of the international group (if the parent company is a non-resident). For example, according to

the German Tax Administration Code (Abgabenordnung)<sup>2</sup> CbCR shall be submitted to the Federal Central Tax Office (Bundeszentralamt für Steuern) if according to consolidated financial statements of the international group the revenue for the preceding financial year is *not less than 750 mln. Euro*.

Thus, the threshold performance indicators of the international group for the submission of CbCR are the same both in German and Kazakhstani legislation.

## 3. Procedure and conditions for submission of CbCR

### Procedure for submission of CbCR

If the parent company is a resident of Kazakhstan, the CbCR for the reporting financial year shall be submitted to the competent authority – the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan (hereinafter referred to as the SRC MF) by the parent company or authorized member of the international group not later than 12 months following the reporting financial year.

If the parent company is a resident of Kazakhstan, the CbCR for the reporting financial year shall be submitted by the parent company or authorized member of the international group upon request of SRC MF.

### Conditions for submission of CbCR

The responsibility to submit the CbCR upon request of SRC MF applies to the resident who is a member of the international group and is not a parent company or authorized member of the international group, subject to one of the following conditions:

- parent company of the international group or

<sup>1</sup> Using the arithmetic mean market exchange rate, as determined in accordance with the tax legislation of the Republic of Kazakhstan, for the corresponding financial year.

<sup>2</sup> §138a German Tax Administration Code (Country-related report of multinational enterprise groups).

- authorized member of the international group is not a resident of the Republic of Kazakhstan and is not obliged to submit country by country reporting according to the legislation of the state of their residence;
- parent company or authorized member of the international group have not performed their obligations to submit *the CbCR*.

For example, in accordance with § 138a of the German Tax Administration Code (AbgabenO), German companies, including parent companies of the international group (Konzernobergesellschaft) are obliged to submit CbCR.

- The state of residence of the parent company or authorized member of the international group has not entered into a valid international agreement with Kazakhstan on the exchange of information on taxation.

Such exchange of information is provided for in Article 26 of the Convention for the avoidance of double taxation (Germany-Kazakhstan)<sup>3</sup>. Furthermore, the Federal Republic of Germany<sup>4</sup> and Kazakhstan<sup>5</sup> have ratified the Convention on mutual administrative assistance in tax matters (Strasbourg, January 25, 1988), providing for the automatic exchange of information by the tax authorities of the participating countries.

- The state of residence of the parent company or authorized member of the international group, allows systematic failure to fulfil obligations on automatic exchange of information with the competent authority.

§ 138a of the German Tax Administration Code (AbgabenO) provides for the direct obligation of the Federal Tax Office (Bundeszentralamt für Steuern) to submit country by country reporting to the relevant financial departments in accordance with the terms of the international treaties.

A non-resident who is a member of the international group and carries out entrepreneurial activity in the Republic of Kazakhstan through the business subdivision (branch, representative office) or permanent establishment, subject to one of the above conditions.

Thus, subsidiaries and permanent establishments, including branches and representative offices<sup>6</sup> of foreign companies in Kazakhstan must submit CbCR upon request of SRC MF, if the parent company has not fulfilled these obligations in the country of its residence. CbCR should be submitted no later than 12 months from the date of receipt of the request from SRC MF.

#### 4. Information to be disclosed in CbCR

To date, the order of the Ministry of Finance has been approved dated February 14, 2018 No. 178. This order contains the regulations regarding the forms of CbCR and the rules for filling them.

According to this order, CbCR shall disclose the following summary information:

- on separate tax jurisdictions in regard of revenue (for transactions with interrelated and unrelated parties), income tax assessed and paid, accumulated profit (loss), headcount, tangible assets (except for cash and cash equivalents);
- list of members of the international group in regard of tax jurisdictions, reflecting the main business activities of each member of the international group (production, supply, and marketing). Such components as administrative, management and support services, provision of services to unrelated parties, intra-group financing, holding of shares or other equity instruments shall be specified separately.

<sup>3</sup>Agreement between the Republic of Kazakhstan and the Federal Republic of Germany for the avoidance of double taxation with respect to income and property taxes (Bonn, November 26, 1997).

<sup>4</sup>Federal law dated July 16, 2015 (BGBl. II S. 966)

[http://www.bundesfinanzministerium.de/Content/DE/Gesetzestexte/Gesetze\\_Gesetzesvorhaben/Abteilungen/Abteilung\\_IV/18\\_Legislaturperiode/Gesetze\\_Verordnungen/2015-07-23-Gesetz-zu-Amtshilfeuebereinkommen-in-Steuersachen/0-Gesetz.html](http://www.bundesfinanzministerium.de/Content/DE/Gesetzestexte/Gesetze_Gesetzesvorhaben/Abteilungen/Abteilung_IV/18_Legislaturperiode/Gesetze_Verordnungen/2015-07-23-Gesetz-zu-Amtshilfeuebereinkommen-in-Steuersachen/0-Gesetz.html)

<sup>5</sup>Law of the Republic of Kazakhstan as of December 26, 2014 No.267-V.

<sup>6</sup>In accordance with Art. 220 para. 1 subpara.8) of the Tax Code branches and representative offices of non-residents shall be considered to be permanent establishments, except where the activity of the representative office is preparatory and auxiliary and lasts no more than 3 years.

## 5. Statement of membership in the international group

The members obliged to submit statement of membership in the international group are:

- parent company-resident;
- authorized representative;
- legal entity-resident;
- legal entity-non-resident, who carries out its activity in Kazakhstan through a branch, representative office, permanent establishment.

A member of the international group must submit statement of membership in the international group, if he/she is obliged to submit reporting on transfer pricing (CbCR) in accordance with the Transfer Pricing Law.

### Form, procedure for the submission and content of statement of membership in the international group

Statement of membership in the international group shall be submitted by the said members of the international group on or before September 1, 2018. Then the member shall be obliged to submit the statement of membership in the international group annually before September 1 of the year following the reporting financial year.

The statement form is provided for in the order of the Ministry of Finance on the forms of CbCR dated February 14, 2018 No. 178 and shall include the following main indicators:

- information about a member of the international group (business identification number, category of a member of the international group (parent company, authorized member or other member of the international group), type of residency and state and tax registration number, data for the financial year, for which the consolidated financial statements are prepared);
- information about the parent company of the international group (contains similar indicators as well as the existence of a statutory obligation

to submit CbCR, code of a country where CbCR is submitted;

- Information about the authorized member of the international group.

## 6. Conclusion

Thus, if subsidiaries and permanent establishments, including branches and representative offices of foreign companies in Kazakhstan must submit country-by-country-reporting on transfer pricing<sup>7</sup>, they, as members of the international group, shall be additionally charged with responsibility to submit the statement of membership in the international group on an annual basis.

### Local and Master File

According to Article 7-1 and 7-2 of the Transfer Pricing Law, Local and Master File will be introduced in Kazakhstan from 2019<sup>8</sup>.

### Local File

Local File must be submitted by the member of the international group, including branches, representative offices and permanent establishment of the non-residents, if the following conditions have been fulfilled:

- during the reporting financial year, a member performed international business transactions (export and import transactions, transactions to perform work and provide services to non-residents, transactions of residents outside Kazakhstan) and
- revenue of a member, in accordance with its financial statements for the previous financial year, is not less than 5.000.000 of the monthly calculation index (or 30.061.748<sup>9</sup> Euro converted equivalent).

Local File provides summary information on the international business transactions of a group member. The exact information that such a Local File should contain will be determined during 2018. Local File should be submitted to SRC MF on an annual basis, no later than 12 months after the reporting financial year. Thus, reporting for the

<sup>7</sup> For information on the obligations and conditions for the submission of country by country reporting on transfer pricing - see above (para. II 3.2).

<sup>8</sup> Article 7-1 and 7-2 shall come into effect on January 1, 2019.

<sup>9</sup> At the exchange rate EUR/KZT (400,01) of the National Bank of Kazakhstan as of February 16, 2018.

first reporting period (2019) should be submitted on or before December 31, 2020.

### Master File

Master File must be submitted upon request of SRC MF by the member of the international group, including branches, representative offices and permanent establishment of the non-residents, if the following conditions have been fulfilled:

- a member performed international business transactions (export and import transactions, transactions to perform work and provide services to non-residents, transactions of residents outside Kazakhstan) and
- according to consolidated financial statements of the international group, the revenue for the preceding financial year is not less than 750.000.000 Euro.

Master File provides summary information on the material international business transactions of a group member. The exact information that the Master File should contain will be determined during 2018. Master File should be submitted no later than 12 months from the date of receipt of the request from SRC MF.

### Conclusion and recommendations

Taking the foregoing into consideration, subsidiaries and permanent establishments, including branches and representative offices<sup>10</sup> of foreign companies in Kazakhstan must submit CbCR upon request of SRC MF, if the parent company has not fulfilled these obligations in the country of its residence. CbCR should be submitted no later than 12 months from the date of receipt of the request from SRC MF.

If the members of the international group must submit country-by-country-reporting on transfer pricing, they shall be additionally charged with responsibility to submit the statement of membership in the international group on an annual basis.

From 2019, members will be obliged to submit local and master files, if they conduct international business transactions. Such an obligation shall come into effect if the threshold values of the Local File for a group member (30.061.748 Euro) and Master File for the international group as a whole (750.000.000 Euro) are exceeded.

Failure to submit the said reporting on transfer pricing may entail the imposition of an administrative fine in the amount of up to 4.500 Euro.

We will be delighted to explain you in detail all the features of the reporting described in this article and will answer your questions in a face-to-face meeting or at a seminar, which we are going to hold soon.

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<sup>10</sup> In accordance with Art. 220 para. 1 subpara.8) of the Tax Code branches and representative offices of non-residents shall be considered to be permanent establishments, except where the activity of the representative office is preparatory and auxiliary and lasts no more than 3 years.



## > Key innovations in the new Customs Code of Eurasian Economic Union

From Diana Tsoy, Rödl & Partner Kazakhstan

The Eurasian Economic Union (hereinafter – the EEU), as an international organizations, plays an important role in the economic integration processes in the post-Soviet area. It ensures free movement of goods, services, capital and workforce in the territory of such countries as Russia, Belarus, Kazakhstan, Kyrgyzstan and Armenia, which are the members of the EEC. For the period from January to October 2017, the total growth in the volumes of mutual trade vs similar period of the previous year amounted to 9.264,3 mln. USD or 26,7 percent. For mineral products, the figure increased by 2.524,5 mln. USD (26,5 percent), for machinery, equipment and vehicles – by 2.044,7 mln. USD (34,5 percent), for metals and metal products – by 1.900,6 mln. USD (48,2 percent), for chemical products – by 1.008,8 mln. USD (22,9 percent), for food products and agricultural raw materials – by 965,3 mln. USD (16,8 percent)<sup>1</sup>.

It is expected that in 2018 the goods turnover will increase due to the entry into force on January 1, 2018 of the new Contract on the Customs Code of the Eurasian Economic Union (hereinafter – the EEU CC), the rules of which will be the same for the five member states. All clauses of customs administration in the EEU territory will be the same. Best customs practices, including the provisions of Kyoto Convention on the Simplification and Harmonization of Customs Procedures and Baltic Agreement of WTO on Trade Facilitation provide the basis for the EEU CC. Let's consider the key innovations of the EEU CC.

### Simplification of the declaration process

First of all, the declaration process is substantially simplified. Now, the participants of foreign economic activity may not to provide the permits. Electronic declaration will take high priority over paper-based media, which will be used only in ext-

remis. For example, the certificate of origin will be such an exception.

Furthermore, the EEU CC makes it possible to accept the customs declaration or assign the goods in electronic form and in certain cases, even not involving the customs officers. Such a method, accordingly, reduces the time for customs procedures, minimizes the involvement of specialists, and plays an important anticorruption role for custom documentation.

New CC also envisages the purchase of goods through online stores located abroad. For 3 years, the maximum amount of online purchases will decrease from €1000 to €200. Goods in the value of over € 200 will be subject to additional fee. A situation with the goods transported by a car is similar. In 2019 it will be possible to transport over the border up to 35 kilograms (duty-free) amounting to €750, in 2020 the bar will drop up to 25 kilograms to a value of €500.

Moreover, thanks to the Single Window system, the documents will be executed and used through a single access point. During import transactions, along with customs formalities such as technical, sanitary, veterinary and other similar requirements, it will be necessary to provide appropriate certificates. This will lead to a better and faster interaction of all regulators. It is envisaged that customs clearance, which now takes an average of 1 day, will be performed in 4 hours. However, in the event of difficulties, the customs office reserves the right to conduct additional inspection and extend the period up to 10 days.

### Significant innovations and features of the new EEU CC

One of the important features of the EEU CC is the provisions concerning the authorized economic operator (hereinafter – the AEO). Pursuant to the EEU CC, there are envisaged 3 statuses. Owners of the 1st type license have the right to privileges in respect of customs procedures. 2nd type licenses simplify customs control. Persons, having the 3rd type licenses can use the prerogatives of both 1st and 2nd type licenses. Previously, only importers

<sup>1</sup>For more details on the results of foreign and mutual trade in goods produced in the Eurasian Economic Union see [http://www.eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_stat/tradestat/analytics/Documents/express/October2017.pdf](http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/analytics/Documents/express/October2017.pdf)

acted as the AEOs. After the entry into force of the new Code the producers, transportation carriers, brokers, exporters, airport operators, ports and terminals, warehouse owners and other legal entities that are involved in economic activities have the opportunity to be the AEO<sup>2</sup>. Such innovations simplify the business operations and strengthen public-private partnership.

At the moment, it is difficult to identify the shortcomings of the new EEU CC, because, as a rule, they are identified in practice. Therefore, it will be possible to talk about the shortcomings after a certain time. However, according to Sergey Katyrin – President of the Chamber of Commerce and Industry, the text of the EEU CC is highly complex as it contains about 300 references to national legislation. In addition, the document provides that the Eurasian Economic Commission will resolve about 100 issues with some binding decisions, which can lead to different interpretation of norms, and, as a result, to disputable situations.

Thus, it follows from the foregoing that the new EEU CC should significantly facilitate the implementation of customs operations, save time during “clearance”, and also makes the clearance

process more transparent. For the EEU countries the new EEU CC will become the accelerator of further integration and will help to achieve economic potential.

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<sup>2</sup> The concept of the authorized economic operator will acquire new content // <https://www.zakon.kz/4880566-ponyatie-upolnomochennogo.html>

## > Renewable Energy Sources - Auction

From Kairat Yermakhanbet, Rödl & Partner Kazakhstan

The global demand for renewable energy sources is growing constantly. This fact is caused by the inexhaustibility and environmental performance of such kind of energy.

Currently the Government of the Republic of Kazakhstan is paying a great deal of attention to developing the alternative energy sources. The Law “On Supporting the Use of the Renewable Energy Sources” was adopted since 2009. This topic was dedicated to the International Exhibition “Astana EXPO-2017”.

Approved in 2014 the preferential fixed rates have ensured that renewable energy sources will be developed.

Among other things, based on a significant fluctuation in the exchange rate, a mechanism should be developed in the future, which will allow to conduct annual indexation of fixed tariffs.

For projects with obligations in foreign currency, in case the change in the exchange rate of the national currency to convertible currencies will be 25 percent or higher, fixed tariffs will be closed to the dollar in the order determined by the Government of the Republic of Kazakhstan. In practice, the indexation of tariffs has led to the fact that the interest of foreign investors in the development of renewable energy has increased.

Since March 2018, Kazakhstan has followed a different strategy. The interest of investors should be increased due to the implementation of the auction system. It is envisaged that the auction for projects will be announced up to 1000 MWh. In 2018, 18 auctions are planned in 2 stages.

No.	Technology of the renewable energy sources used to generate the electrical power	Rate value, KZT/kWh (w/o VAT)
1	Wind power plants, except for the fixed rate for the Wind Power Plant Project “Astana EXPO-2017”, 100 MW, for the wind energy conversion	22,68
1-1	Wind power plants Astana EXPO-2017, 100 MW, for the wind energy conversion	59,7
2	Photovoltaic solar energy converters, except for the fixed rate for the solar power plant projects those using the photovoltaic modules based on the Kazakhstani Silicon (Kaz PV), for converting the solar radiance energy	34,61
3	Small hydropower plants	16,71
4	Biogas facilities	32,23

Table 1



For the first auctions, the maximum price will be set, which participants can shoot down in the auction. These maximum prices are determined by reference to the fixed tariffs defined in 2014.

The following auctions will be proceeded to the maximum price or the initial price (final) price, which was fixed at the last auction. Such a gradation also leads to a large number of participants at the beginning of the auction.

By and large, the transition to the auction system according to the Ministry of Energy of the Republic of Kazakhstan will lead to a decrease in prices for solar energy by 50 percent.

An important aspect related to the transition to the auction system is the issue of applying changes made to the legislation to the so-called PPA (Power Purchase Agreement), which have already been concluded before 2018 with the Kazakhstan Accounting and Finance center. Other conditions will not be affected by the introduction of a new auction system. The fixed tariffs set in 2014 (Table 1) will last for 15 years.

Thus, a potential investor is offered two possible investment models. On the one hand, these are projects that can be regulated by the old rules, on the other – participation in auctions.

At the beginning of the project, it is important to clarify all the risks associated with indexing (old) tariffs, and with the question of the need for a construction license. It is recommended to always carry out “Due Diligence”, which covers such and other risks in projects that may fall under the regulation of the old rules.

Participation in auctions can also be risky, as it is necessary to make a guarantee deposit, as well as a pledge in case of victory at the auction.

Our experience of consulting on projects in the field of renewable energy will allow us to become your reliable partner in this field both on the territory of the Republic of Kazakhstan and beyond. We are happy to answer your questions and provide detailed advisory on your individual requests.

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