

# Doing business and investing in the Russian Federation

# 2009

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# Foreword



I am pleased to present you with the 2009 edition of our guide, *Doing business and investing in the Russian Federation*. This guide addresses some of the broader questions you may have regarding operating or investing in a business in Russia.

Russia has been one of the fastest growing economies in the world, and despite the difficult times, there continue to be significant business opportunities in Russia. Sustained growth over several years is an indication of the significant potential of the Russian market. Many of the key factors driving this growth, such as rich natural resources and a well-educated work force, will continue to be present when the markets recover.

PricewaterhouseCoopers has been advising companies and individuals on how to establish themselves in Russia for many years. We have extensive knowledge and experience in all major business sectors, and have advisors in all major industries ready to assist you.

I hope that you find this guide interesting and useful. If you have any questions or comments, please do not hesitate to contact me or one of my fellow partners.

**Peter Gerendasi**

A handwritten signature in black ink, appearing to read 'P. Gerendasi', with a long horizontal flourish extending to the right.

Managing Partner  
PricewaterhouseCoopers Russia

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# Office locations in Russia

## **Moscow (GMT+3)**

Kosmodamianskaya Nab. 52, Bld. 5  
Moscow, Russia, 115054  
Telephone: +7 (495) 967 6000  
Fax: +7 (495) 967 6001

## **St Petersburg (GMT+3)**

V.O., Sredniy Prospekt, 36/40  
St Petersburg, Russia, 199004  
Telephone: +7 (812) 326 6969  
Fax: +7 (812) 326 6699

## **Kazan (GMT+3)**

Pravobulachnaya, 35/2  
Kazan, Russia, 420111  
Telephone: +7 (843) 233 0707  
Fax: +7 (843) 233 0717

## **Togliatti (GMT+4)**

Frunze, 14B, office 313  
Togliatti, Russia, 445037  
Telephone: +7 (8482) 367 800  
Fax: +7 (8482) 367 800

## **Yuzhno-Sakhalinsk (GMT+10)**

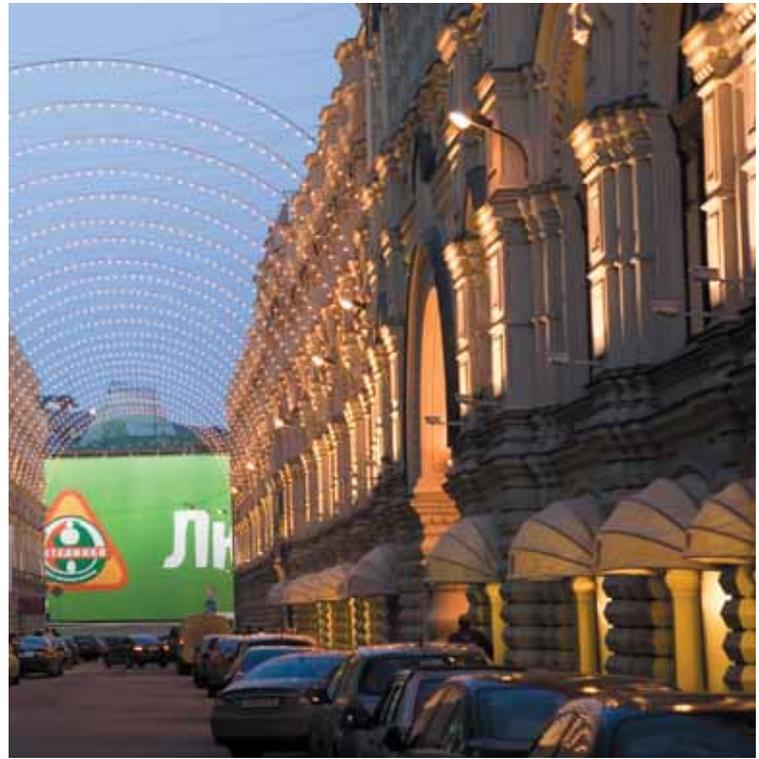
Kommunistichesky Prospekt, 32, office 501  
Yuzhno-Sakhalinsk, Russia, 693009  
Telephone: +7 (495) 723 8295,  
+7 (4242) 727 463/72  
Fax: +7 (495) 723 8295,  
+7 (4242) 727 463/72

## **Ekaterinburg (GMT+4)**

Gorkogo St., 7A, office 301  
Ekaterinburg, Russia, 620075  
Telephone: +7 (343) 253 1433  
Fax: +7 (343) 253 1430

## **Vladikavkaz (GTM+3)**

Gappo Baeva, 1, 3rd floor  
Vladikavkaz, Russia, 362040  
Telephone/Fax: +7(8672) 546 692



# 1. Russia: country profile

## 1.1. Introduction

### Geography and climate

Russia is a vast country extending over much of the northern part of Eurasia. With an area of 17,075 million km<sup>2</sup> (6.6 million mi<sup>2</sup>), Russia is the largest country in the world. To the west, Russia borders Ukraine, Belarus, Poland and the Baltic countries; to the north, Finland and Norway; and to the south, Georgia, Azerbaijan, Kazakhstan, Mongolia, China and North Korea. Russia has coastline on three oceans: the Arctic, the Atlantic and the Pacific.

Russian topography is very diverse: from tundra in the north to semi-arid in the south, with all variety of forests and grasslands from west to east. The climate is accordingly diverse, with arctic and subarctic zones in the north and subtropical areas in the south. The majority of Russia, however, has a continental climate.

The Russian Federation comprises 85 federal subjects, which are grouped into seven federal districts that are administrated by envoys of the president. There are 11 cities with a population of over 1 million: Moscow (the capital), St Petersburg, Novosibirsk, Nizhny Novgorod, Ekaterinburg, Samara, Omsk, Kazan, Chelyabinsk, Rostov-Na-Don and Ufa.

### History

Russia has been around for more than 11 centuries. The Russian Empire was abolished by the Bolshevik uprising in 1917 with the establishment of the USSR, which incorporated 15 republics.

After a costly victory in World War II, the Soviet Union consolidated its hold as a result of the Warsaw Pact and, as the dominant force behind the Eastern Bloc, entered into a long-lasting confrontation with the Western Bloc (the US and Western Europe) known as the Cold War.

Mikhail Gorbachev's late 1980s reform policy, known as "perestroika", led to the disintegration of the USSR in 1991. Russia, however, maintains strong business ties and good neighbourly relations with many former Soviet republics.

Today Russia is a federal presidential republic. In 2008 Dmitry Medvedev succeeded Vladimir Putin as the president. Vladimir Putin became the prime minister.

## 1.2 Government structure

The 1993 Constitution declares Russia a democratic federative state based on the rule of law and a republican form of government. State power in Russia is divided

among the executive, legislative and judicial branches.

Executive power is exercised by the Government, which comprises a prime minister, deputy prime ministers and ministers. The president is actually legally distanced from all branches of power, but he is most allied to the executive branch.

The legislature is the bicameral Federal Assembly, consisting of the State Duma (the lower house, or parliament) and the Federation Council (the upper house). The State Duma drafts legislation, can amend the Constitution and can file an impeachment against the president. The Federation Council approves or rejects laws adopted by the State Duma and appoints high court judges.

Recently the upper house of Russian parliament approved a constitutional amendment to increase the presidential term from four to six years. The amendments also increase the terms for lawmakers from four to five years.

The judicial branch comprises the three highest courts: the Supreme Court, the Constitutional Court and the Supreme (Commercial) Arbitration Court. The Supreme Court is the highest judicial body for all lower courts. It considers civil, criminal and administrative cases.

The Constitutional Court checks that laws and decrees do not contradict the constitution. The Supreme Arbitration Court is the final instance in commercial disputes, supervises lower arbitration courts and issues clarifications on interpretations of laws.

### 1.3 Legal system

The Russian legal system is based on statutory law rather than case law. The main legal acts are the Constitution, federal constitutional laws, federal laws, presidential decrees, governmental regulations, and laws of regional constituents of the Russian Federation.

The Constitution recognises norms of international law and international treaties and agreements with Russia as part of the domestic legal system. If an international treaty or agreement establishes rules other than those set by domestic law, the rules of the international agreement apply.

### 1.4 People

#### Population

Russia's well-educated workforce is an important asset for long-term growth. Its relatively low-cost and generally highly skilled workers are one of the main attractions for investors. Russia's population is approximately 142 million, of which 63% are of working age, 16% are below it, and 21% are above it. Approximately 54% of the population is female and 46% male.

Statistics show that Russia's population is steadily declining, but the government is trying to remedy this through immigration policies and federal programmes to stimulate birth rates and reduce mortality.

Russia is home to 160 ethnic groups. According to the latest census, the majority are Russian (79.8%), with Tatar (3.8%) and Ukrainian (2%) being the next largest groups.

#### Language

There is one official language: Russian. Russian is the most widely spoken Slavic language, and it is co-official in many former Soviet republics. English and German are the most commonly studied foreign languages in Russia. In most schools, English is compulsory.

#### Religion

The dominant religion is Russian Orthodoxy. Almost 80% of Russians identify themselves as Orthodox. The second most widespread religion is Islam, with centres in Tatarstan, Bashkortostan, Dagestan and other regions. Other religions include Protestantism, Judaism, Roman Catholicism, Buddhism and others.

#### Education

The Russian educational system is free. Primary and secondary education in Russia is compulsory and is seen as very in-depth: 97% of children get either a 9-year basic or 11-year complete compulsory education.

Currently there are around 1,100 institutions of higher education in Russia. About 23% of the population has completed higher education. Russia has one of the highest rates of people with doctorate degrees in the world.

#### Living standards

Although an estimated 14.7% of Russia's population receives income below the minimum subsistence level, the income levels in big cities approach those in Central and Eastern Europe. The income of upper and middle management in Moscow and St Petersburg almost reaches that of their counterparts in developed countries.

### 1.5 Economy

#### Overview

Starting in 1991 with the USSR's disintegration, Russia's GDP continuously declined until 1998. After the 1998 economic crisis, the Russian economy began to recover, with annual GDP growth at around 7% from 1999 to 2007. Driving this recovery were sharp increases in prices for Russia's main exports (oil, petroleum products, natural gas, metals), the import substitution effect caused by the rouble's

devaluation in 1998, tax reform, a tightening of fiscal policy, and greater social and political stability. Economic growth was also the result of an unprecedented boom in consumer-oriented sectors, especially construction and the service industry.

The global economic crisis hit Russia in the second half of 2008. Following the world's lead, the Russian economy began to shrink. Further GDP growth is expected to slow significantly as a result of the global economic crisis. One of the most significant factors was the steep drop in the price of Russia's main export, oil. The economic picture in Russia now reflects that seen in Western Europe or the US: financing is drying up, sales are falling, businesses have had to cut production and staff, and unemployment is on the rise.

Due to the negative impact of the crisis on the Russian economy, Standard & Poor's ratings service downgraded Russia's long-term sovereign credit rating from A- to BBB+ with a negative outlook. Fitch rates Russia BBB+ with a negative outlook. Moody's lowered Russia's rating outlook from positive to stable.

As per the Russian Ministry of Economic Development, GDP decreased by 2.4% in January 2009 as compared with 2.1% last December (seasonal and calendar factors were not taken into account). The economic decline in January 2009 was primarily due to significantly reduced industrial production, investment activity and construction as well as a slowdown in consumer demand.

Foreign direct investments were USD 60 billion in 2008. Mineral resource extraction, utilities, manufacturing, retail, real estate and construction were the favourite targets for both domestic and foreign investments.

By year-end 2008 the growth of Russia's external debt slowed down by 2.4 and equaled USD 87.5 bn. Due to the crisis in external financing and falling Russian equity market the period when private sector stepped up foreign borrowings was followed by a reduction in such borrowings by USD 36.7 billion in Q4 2008. The Russian banking sector saw the most significant year-on-year decrease in external financing – from USD 70.9 billion in 2007 to USD 9.0 billion in 2008. The inflow of investments from non-residents to other sectors fell from USD 144.7 billion to USD 90.6 billion.

The Russian equity market has plummeted even more dramatically than its western counterparts. Only three companies braved the market, raising a diminutive USD 918 million in comparison with USD 20100 million in 2007. This is the lowest level of IPO activity since 2003.

Inflation continues to be a challenge for the government. In 2007 CPI inflation was 11.9%; in 2008 it was 13.3%. During 2008 the rouble declined by 19% against the US

dollar despite heavy rouble support by Russia's Central bank. In January 2009 the rouble continued devaluating.

In August 2008 Russia's gold and foreign exchange reserves peaked at USD 596.6 billion. Since the crisis hit, reserves have declined, down to USD 455.7 billion as of 1 December 2008.

In the first nine months of 2008, Russia's M&A market reached USD 91.9 billion, down 3% year on year (USD 94.6 billion in the first nine months 2007). The first six months of 2008 saw 33% growth on the year, but in the third quarter, deal volume more than halved (from USD 36.9 billion in 2007 to USD 15.4 billion in 2008).

The number of deals in the first nine months of 2008 decreased 6.6% year on year to 888 (951 in the same period in 2007), and the average deal value was USD 121.1 million (USD 120.6 million in 2007).

The metals and energy sectors experienced considerable M&A activity, representing 52% of the market. In terms of number of deals, the service industry remains the leader year to year.

The labour force numbered 76.2 million people, or 53% of the total population. According to the Ministry of Public Health and Social Development, 6.4 million people (8.5% of work force) were classified as unemployed at the end of February 2009, under the methodology used by the International Labour Organisation. The state employment agency registered 2.0 million people without jobs, including 1.7 million receiving unemployment benefits.

The government has taken prompt steps to respond to the crisis, starting with a controlled devaluation of the rouble in response to falling oil prices. Prime Minister Vladimir Putin has ordered the 2009 budget to be recalculated based on a lower oil price; any potential deficit that results (it would be Russia's first in a decade) will be covered by the oil windfall funds. As part of its economic bailout plan, the Russian government has approved a list of strategic companies requiring special attention. Energy, transportation, telecoms, metallurgy and a few other sectors will receive financial support.

#### **Stabilisation Fund and National Wealth Fund**

Russia's Stabilisation Fund was set up on 1 January 2004 as part of the federal budget to provide budget deficit financing as needed. The fund may be used to cover federal budget deficits and for other purposes if its balance exceeds 500 billion roubles (approximately USD 19.5 billion). The fund's assets are invested in US dollars (45%), euros (45%) and pounds sterling (10%).

In 2008 the Stabilisation Fund was divided into the Reserve Fund and the National Wealth Fund. The former will be

maintained at a level not less than 10% of GDP to cushion the economy during any economic downturn. The latter is composed of windfall revenue from oil exports.

## Leading sectors

### Energy, utilities & mining

Russia has proven oil reserves of 60 billion barrels, most of which are located in Western Siberia. Russia's share in international oil production exceeds 10%. Over 70% of Russian crude oil is exported.

The commodities market was affected by the downturn in the financial markets. In the second half of 2008, world oil prices fell by more than 60% from a record high of USD 147 per barrel in July to USD 51 in March 2009, as the global recession reduced the demand for fuel.

The general tendency for the first nine months of 2008 was for oil export revenues to continue to go up, while export volumes decreased slightly. In the first nine months of 2008, Russia reduced oil exports to 166 million tonnes, or by 6.5% year-on-year. Oil export revenues rose by 62.5% to USD 125 billion.

Russia's oil production saw a slight (0.7%) decline in 2008: 488.1 million tonnes as compared to 491 million tonnes in 2007.

Russia is by far the world leader in natural gas reserves, with some 48 trillion cubic metres (1,680 trillion cubic feet). In the first nine months of 2008, production grew by 1.5% on the year to reach 484.8 billion cubic metres. Russian gas reserves are owned primarily by the monopoly Gazprom, which produces about 20% of the world's and 85% of Russia's natural gas.

In 2008 officials from Iran, Qatar and Russia decided to accelerate the establishment of an OPEC-like organisation between the world's biggest gas-exporting countries. Iran, Russia and Qatar own some 60% of the world's total gas reserves, and their collective decisions could greatly affect the global gas market.

Russia is the fifth-largest coal producer after China, the US, India and Australia. In 2008 Russian companies produced 326 million tonnes of coal, an increase of 3.9%. Russia is the third-largest coal exporter after Australia and Indonesia, exporting about 100 million tonnes in 2008. The country's biggest coal producer is Siberian Coal and Energy Company (SUEK), which supplies around a third of the domestic market's power-generating coal.

Russia is the world's fourth-largest power market. The Russian utilities sector underwent major changes in 2008. Effective July 2008, state-owned monopoly RAO UES was reorganised into separate generation, transmission and

retail companies to attract investments for modernisation. The Russian electricity market generated total revenues of USD 89 billion in 2008.

### Metallurgy

Along with oil and gas, metallurgy plays a key role in Russia's economy. Metals and metal products make up the second-largest commodity group in Russian exports. Russian iron and steel account for 51.9% of the European metals and mining industry's value.

Year-on-year growth for metals and metal products in the first nine months of 2008 was 1.5%. In the same period, Russia produced 40.2 million tonnes of cast iron and ferrous alloys (4.4% year-on-year growth) and 56.8 million tonnes of steel (5% year-on-year growth).

The leading players of Russia's nonferrous sector are RUSAL, UMMC, Norilsk Nickel, and VSMPO-AVISMA. The nonferrous sector is export-oriented and has been negatively affected by the global economic conditions. In 2008 the nonferrous sector saw growth in production of the following metals: wolframite (118.5%), titanium (104.8%), aluminium (105.8%) and magnesium (103.4%). Production of other metals saw a decline (cobalt 66.7%, copper 85.5%, nickel 95.3%, lead 85.3%).

Nonferrous exports started to decline in the first half of 2008. According to official data, there have been major declines in aluminium, copper and nickel production and export.

### Retail & consumer

The increasing purchasing power of the population has been the main driver behind the recent rapid growth of Russia's retail and consumer sectors. In 2008, Russia was ranked the third most attractive retail market in the Global Retail Development Index. However, personal consumption is expected to decline as a result of the economic downturn, creating new challenges for retail in Russia.

The retail industry's turnover in 2008 was around USD 561 billion. Russian retail is still in a unique position given the limited number of multinational players on the domestic market. Both India and China are faced with intensifying competition from global entrants such as Wal-Mart, Carrefour and Tesco, of which the latter does not have even a formal presence in Russia. However, several international chains have already expanded their presence in the non-food market, including IKEA, OBI, Leroy Merlin, Castorama; and in the food market, Auchan, Carrefour, Metro and Rewe. Russian retail giants such as the X5 Retail Group, Eldorado, Magnit, Euroset, M.Video, Seventh Continent, Dixi and the Kopeika chains are still among the top 10 Russian retail players. Given the extensive growth of modern retail

chains (both Russian and international) in recent years, the share of street markets and kiosks in Russia's retail turnover dropped to 13.0% in 2008, according to the Ministry for Economic Development of the Russian Federation. But in the first two months of 2009 the level of consumption was falling and consumers were switching from department stores to less expensive street markets.

State banks have come to the assistance of Russia's largest retail chains that have lost access to affordable credit for development. X5 Retail Group, Seventh Continent, Magnit, Dixi, Mosmart, Victoria, Kopeika, Lenta, Holiday, and O'Key have requested loans, and the ten retailers could receive up to RUB 50 billion.

Russia's increasing inflation rate has had a significant impact on the cost of basic foodstuffs in the last few years, raising the real possibility of government regulation of retail prices. Draft legislation already promotes the regulation of market consolidation levels for retailers, and there are indications of the government's desire to control the distribution of alcohol. Recently, the government adopted new milk regulations in an effort to promote domestic production.

Multinational consumer companies are already either market leaders or significant players in many segments of the Russian consumer sector. The food and beverages industry is dominated by companies such as Danone, Carlsberg, Nestle, Mars, Pepsi and Coca-Cola. Strong international players in the personal care, cosmetics and household products markets include Unilever, Procter & Gamble, L'Oreal, Oriflame, Avon, Mary Kay and Henkel. However, the Russian government sees the establishment of a new model of economic development – based on the effective use of domestic sources – as the main objective for 2009; the replacement of imported goods by domestic will become a trend.

Retail and consumer is still experiencing significant challenges for operational effectiveness and cost reduction. These are compounded by a shortage of good retail space, supply chain management issues (warehousing and logistics), shortages of labour and administrative barriers.

### Communications and IT

The Russian communications and information technology sectors have been developing rapidly and, according to the preliminary estimates of the Ministry of Communications and Mass Media, their revenues grew by 27% to reach USD 73.9 billion in 2008.

By the end of 2008, the mobile phone penetration rate had reached 129.4%. Russia had a total of 187.8 million mobile subscribers, an increase of 15 million from a year earlier. Mobile penetration is growing particularly quickly

outside of Moscow and St Petersburg, stimulated by sharp competition among the three major national operators: Mobile TeleSystems (MTS), VimpelCom and MegaFon. Yet the statistics are inflated, as they count SIM cards that have not been used for up to three to six months and ignore the fact that many people use several SIM cards.

Under the 3G licenses that VimpelCom, MTS and MegaFon won in tenders in April 2007, the companies must have third-generation networks in all regions of the country by November 2009. The three operators were actively rolling out their 3G networks in the country's regions during 2008, however, as of March 2009 they have 3G networks in only 30-40 out of 83 regions. All three big mobile operators announced plans to cut capital expenditures for 2009, complete ongoing construction and to freeze construction of networks in new cities for an indefinite period of time within the context of the ongoing economic downturn. Convergence is one of the trends witnessed in the telecom market. MTS, VimpelCom and MegaFon are likely to acquire more cellular retailers amid the financial crisis, controlling between 70% and 80% of the mobile handset retail market in the future.

In late December 2008, Russian Minister of Communications and Mass Media Igor Shchyogolev signed a ruling on licensing mobile virtual network operators (MVNOs), which the ministry expects will boost development in the communications market.

The fixed-line segment is dominated by state-controlled Svyazinvest. Its privatisation has already been delayed several times; the government may have intentions of creating a state-owned telecom corporation based on Rostelecom, the former state monopoly.

Broadband has been seen as a major revenue driver for the next several years, but telecom companies are already cutting their investment programmes for 2009.

In 2006 the government began liberalising the long-distance market by granting alternative operators licences for international and intercity calls. In autumn 2008 eight companies were operating on the market: Rostelecom, MTT, Golden Telecom, Transtelecom, Orange, Arktel, Synterra and Comstar-UTS.

According to the preliminary estimates of the Ministry of Communications and Mass Media, the information technology sector amounted to USD 23.5 billion in 2008, which is 33% better than last year's results.

Hardware is the major IT segment, accounting for more than 50% of the sector's revenue. Hardware sales grew by 22.6% to reach USD 9.9 billion in 2007.

The software industry is also on the rise, with growth of around 43.2% and sales reaching USD 3.1 billion in 2007.

In July 2007, a federal target programme for the development of nanotechnology in Russia for 2008 to 2010 was launched. During the first International Nanotechnology Forum in December 2008, deputy premier Sergei Ivanov announced that the total funding for nano initiatives had been approved at some USD 10 billion for the mid-term, with half of the funds coming from the Russian Nanotechnology Corporation.

### Automotive sector

In 2007, Russian automotive market sales rose 35% on the previous year to 2.8 million cars. Over the past six years, the demand for cars has risen five times in money terms, from USD 10 billion in 2002 to over USD 53 billion in 2007. The main reasons for such rapid growth were a steady increase in disposable incomes, better access to car loans, and expansion of dealership chains all over the country. In the first half of 2008, 1.6 million units sold and market volume was USD 33.8 billion, year-on-year growth of 41% and 64%, respectively.

During the second half of 2008, auto sales in Russia fell sharply. The main contributing factors are customers' difficulties in obtaining car loans (more applications refused, higher interest rates, higher deposits required); dealers' difficulties in financing their operations with capital expenditures and working capital; the weakening of the rouble against the US dollar and euro (prices for many foreign brands are in dollars and euros); a rise in unemployment and the related deterioration of consumer confidence; slowed GDP growth and the consequent decrease in disposable income. Over the fourth quarter of 2008, both Russian and foreign car makers have been reducing their investment plans and output, anticipating further drops in demand. Total sales in 2008 in unit terms were 3,175 (14% y-o-y growth), in money terms the market grew by 29% and reached USD 69 billion.

Russian car manufactures are losing their market share to foreign brands that are imported or have assembly plants in the country, but this may change due to increased customs duties on imported cars and the rouble's depreciation. The Russian government has offered tax breaks to companies that start major assembly lines in Russia. Ford, Renault, GM, Toyota, Volkswagen, KIA, Great Wall, Hyundai, Fiat, SsangYong, Hyundai, Fiat, Isuzu and others are already assembled in Russia. Suzuki, Nissan, Peugeot Citroen, Mitsubishi and others are building factories or have announced plans to set up assembly plants in Russia. An influx of foreign car component manufacturers in the next few years is expected. Practically the same tax breaks are being offered to large-scale car component producers.

## 1.6 Foreign trade

Until the middle of 2008, Russia's trade balance continued to move from strength to strength. Record volumes and prices on main exports in the energy sector and metals, first and foremost, conditioned a steady balance of payments.

The biggest problem for Russian exports is that they are dominated by inefficient commodities with low added value: 64.7% are mineral resources (oil, petroleum products, gas), 16.1% are metals, gems, precious metals and related goods. Machinery, equipment and transport vehicles account for only 5.6%, chemicals and rubber for 5.9%.

The drop in oil, metal and other commodity prices significantly affected the trade balance in the third and fourth quarter of 2008. Both export and import volumes decreased significantly, especially in the fourth quarter; nevertheless, the trade balance was positive.

Russia's main trading partners are Germany, the Netherlands, Italy, China, Ukraine, Belarus, Turkey, Poland, Finland, the US, Kazakhstan, Japan and South Korea. In the midterm, it is expected that imports will catch up with exports.

	2001	2002	2003	2004	2005	2006	2007	2008
<b>Exports</b>	101.6	107.2	135.9	183.5	243.6	304.5	355.5	470.8
<b>Imports</b>	53.8	61	75.4	96.3	125.3	163.9	223.4	291.5
<b>Trade balance</b>	47.9	46.2	60.5	87.1	118.3	140.7	132.1	179.3

\* Ministry for Economic Trade and Development of the Russian Federation estimate, Rosstat

## 1.7 Tips for business visitors

### Visas

As is the case with any business trip, some advance preparation is essential before visiting Russia. Here we provide some useful information for visitors.

Generally, every foreigner needs a visa to go to Russia (except for visitors from those countries which have a visa-free regime with Russia). To get a Russian visa, you first need a visa invitation letter from an entity in Russia (the inviting party). The invitation must be processed by the immigration authorities. Once the invitation has been obtained, you need to take it to the Russian consulate or embassy in the country where your passport was issued, or where you have permanent residency. Your passport should be valid for at least six months beyond the visa's expiry date. The whole visa process normally takes up to 25 business days, start to finish.

There are several types of visas, depending on the purpose of the stay. Business visas are for attending meetings,

conferences, auctions, conducting negotiations, concluding and extending contracts, and other business events. They are valid for 90 days during any 180-day period. Work visas are for people who work in Russia: on a daily basis, creating revenue for a company in Russia. Work visas can be obtained only on the basis of employer-sponsored work permits (for more information, please refer to clause 7.5). Russian immigration rules on obtaining visas are subject to frequent changes, so you should clarify the visa requirements with your local Russian embassy or consulate before applying.

Upon crossing the Russian border, you will be asked to fill out a “migration card”. The border guards will take one half upon entry into the country. You should keep the remaining half with you throughout your stay. It will be collected when you leave Russia.

Foreign citizens must register with the immigration authorities within three business days of their arrival in Russia. The hosting party (the individual or company that is hosting or employs a foreign national) is responsible for taking care of registration. If a foreign citizen changes their place of stay, they must re-register within three business days of arriving at the new place of stay. Within two business days of the foreign citizen’s departure, the hosting party is obliged to take care of de-registration.

People travelling to Russia should keep their passport, visa and other immigration documents with them at all times.

### Currency

The currency of the Russian Federation is the Russian rouble. The rouble is subdivided into 100 kopecks. The ISO 4217 code is RUB.

The exchange rates as at 15 April 2009 were:  
1 USD = 33.38 RUB; 1 EUR = 44.44 RUB.

Cash, traveller’s cheques and credit cards are all accepted in Russia, but cash remains the preferred method of payment. Credit and debit cards have grown significantly in popularity in recent years, and cash machines are now numerous. Euros and dollars can be exchanged at official exchange offices.

### Business and social etiquette

Russian business customs tend to be formal. Introductions are respectful, business cards are exchanged, and suits are worn. If you attend a meeting with a traditional Russian business, the same level of people should be represented on each side of the table, i.e., vice president from X and vice president from Y, deputy director from X and deputy director from Y. Agendas are often circulated in advance as a courtesy. The handshake is used both on meeting and taking leave, primarily among men.

### Public holidays

Russia has the following public holidays:

- New Year holidays (1, 2, 3, 4 and 5 January);
- Russian Orthodox Christmas (7 January);
- Defenders of the Fatherland Day (23 February);
- International Women’s Day (8 March);
- Spring and Labour Day (1 May);
- Victory Day (9 May);
- Russia Day (12 June);
- Unity Day (4 November).

If a holiday falls on a Tuesday or Thursday, the nearest Saturday or Sunday may be deemed an official work day in order for people to have three days off consecutively. The Russian government will normally publish these work day changes two to three months in advance of the holiday.

### Time zones

(GMT+2 to +12)

Summer (DST) (GMT+3 to +13)

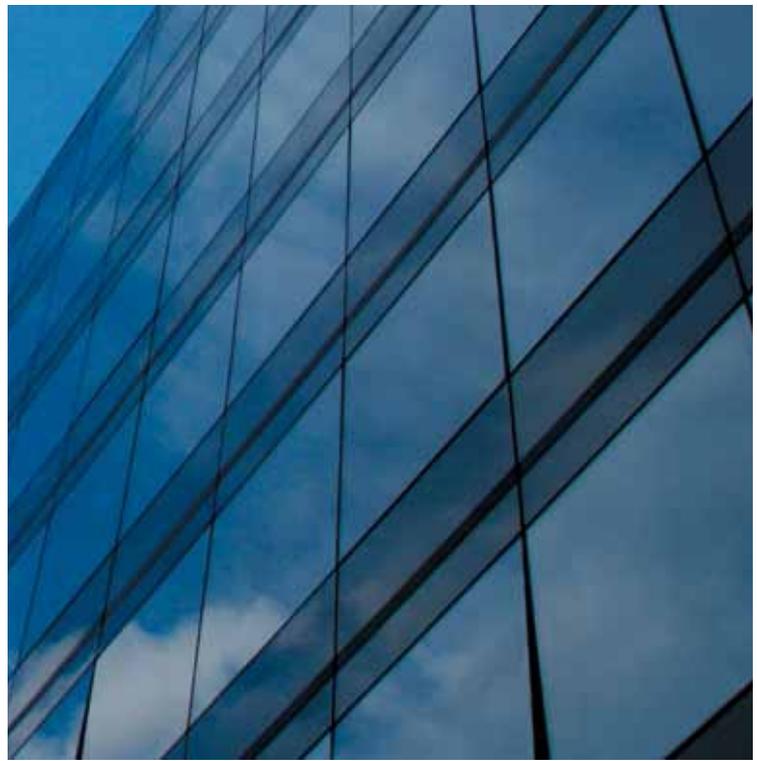
Time differences between Moscow and some major cities:

City	Time difference
London	-3
New York	-8
Hong Kong	+5
Singapore	+5
Zurich	-2
Shanghai	+5

### Living conditions

Living standards in Russia vary between the regions and the main cities. Prices in Moscow and St Petersburg are the highest in Russia. For foreign business people in particular, Moscow is the world’s most expensive city, according to the latest Cost of Living Survey by Mercer Human Resource Consulting. The survey covers and measures the comparative cost of over 200 items in each location, including housing, transport, food, clothing, household goods and entertainment.

Newly built housing in Russia’s cities meets international standards. Rents are equal to or higher than those in other major world capitals such as New York, London and Tokyo. Hotel accommodation is also very expensive.



# 2. Business environment

## 2.1 Business climate

The business environment in Russia has been steadily improving since the transition from a centrally controlled planned economy to a free market until the economic crisis occurred. Economic growth has been one of the fastest in the world, many reforms have been implemented, the tax system was becoming fairer and more transparent, Russia was increasingly integrated with global markets, and customs has improved noticeably in recent years.

However, real progress remains to be made to reduce the effects of a suffocating bureaucracy, corruption and a judiciary lacking independence. That said, corruption in Russia is no worse than in other emerging markets.

### Economic policy

Economic policy in Russia is primarily aimed at social, political and economic stability; further development of the institutional structure of the market; and economic diversification. In response to the crisis the government jointly with the Central bank have developed an anti-crisis program which is aimed to minimize the scale of economic crisis and mitigate it for both the economy and people. In this context the government continues to initiate change and introduce new means for development in the currency, fiscal, budgetary

and tariff policy, financial market and banking system. The state is increasing its role in the economy with the special focus on oil and gas, banking and defence sectors.

In 2005 the government initiated a much-publicised programme of National Priority Projects to develop social welfare and services in Russia through additional state funding in four areas: health, education, housing and agriculture. The government promised to continue funding these programmes despite the crisis.

## 2.2 International agreements

Russia is a major international power. The Russian Federation is recognised as being the successor to the former Soviet Union in international law: it has assumed the USSR's permanent seat on the UN Security Council, membership in other international organisations, rights and obligations under international treaties, and property and debts. As one of the UN Security Council's five permanent members, Russia has special responsibility for maintaining international peace and security. Russia has participated as a member of the Group of Eight (G8) industrialised nations since 1994, although the finance ministers of the G7 continue to meet several times a year, without their Russian counterparts.

Russia is a member of a large number of other international organisations, including the Council of Europe and the Organisation for Security and Cooperation in Europe. Russia plays a special role in Central Asian organisations: the Commonwealth of Independent States (CIS), the Eurasian Economic Community (EurAsEC), the Collective Security Treaty Organisation (CSTO), and the Shanghai Cooperation Organisation (SCO).

### Membership:

#### International Structures

- United Nations: Security Council, General Assembly, United Nations specialised agencies
- Group of Eight (G8)
- Council of Europe
- Organization for Security and Cooperation in Europe (OSCE)
- Permanent Court of Arbitration (PCA), also known as the Hague Tribunal

#### Regional

- Council of the Baltic Sea States
- Arctic Council
- Shanghai Cooperation Organisation
- Organisation of the Islamic Conference (observer)
- CIS and CIS structures

#### Economic Organisations

##### Universal

##### Trade

- United Nations Conference on Trade and Development
- World Trade Organisation (observer)

##### Financial

- International Bank for Reconstruction and Development (World Bank Group)
- International Development Association (World Bank Group)
- Multilateral Investment Guarantee Agency
- International Monetary Fund
- International Finance Corporation
- Bank for International Settlements
- Paris Club

##### Other

- World Intellectual Property Organization
- International Labour Organization
- World Federation of Trade Unions
- World Customs Organization
- International Organization for Standardization
- International Trade Union Confederation

#### Regional

##### Trade

- Organization of the Black Sea Economic Cooperation
- Asia-Pacific Economic Cooperation Forum

##### Financial

- European Bank for Reconstruction and Development

##### Other

- General Confederation of Trade Unions

#### NATO

On 27 May 1997, NATO and Russia signed the NATO-Russia Founding Act, which provides the basis for an enduring and robust partnership between the alliance and Russia.

The creation of the NATO-Russia Council (NRC), unveiled at the 2002 NATO summit in Rome, opened a new era in NATO-Russia relations, providing opportunities for consultation, joint decisions and joint action on a wide range of issues.

#### EU

The bilateral basis for EU relations with Russia is the Partnership and Cooperation Agreement (PCA), which came into force on 1 December 1997 for an initial duration of ten years. The PCA established an institutional framework for regular consultations between the European Union and Russia. At a St Petersburg summit in May 2003, the EU and Russia reinforced their cooperation by creating four “common spaces” under the Partnership and Cooperation Agreement: a common economic space; a common space of freedom, security and justice; a space of cooperation in the field of external security; and a space of research and education, including cultural aspects. A new partnership agreement is under consideration, but its conclusion has been postponed for political reasons.

#### World Trade Organisation

The Working Party on Russia’s accession to the WTO was established on 16 June 1993. Russia is currently negotiating entry to the WTO.

## 2.3 Legal environment

If you are involved in a commercial or tax dispute in Russia, you can seek to resolve it and defend your rights in state arbitration courts. The litigation process starts by filing a statement of claim with an arbitration court, and the procedure is regulated by the Arbitration Procedural Code. The litigation timeframe depends on the matter under dispute, but in practice, a full-cycle litigation in three instances (levels of courts) takes from 9 to 12 months.

## 2.4 Regulations for business

### Competition policy

The government regulator of market competition policy in Russia is the Federal Antimonopoly Service (FAS). Its primary objective is to ensure compliance with anti-monopoly regulations set out in Russian competition law<sup>1</sup>.

The FAS has power to prevent unfair competition, state aid or agreements that reduce competition, and abuse of a dominant position on the market.

To be legitimate, state aid – meaning granting a commercial entity any privileges in the form of property, rights or priority access to information – must first receive the written approval of the FAS.

Any agreements or activity that may imply or lead to control over prices, price fixing, or a change in prices, and thereby reduce fair competition, is prohibited.

Companies that dominate a market are prohibited from setting low or high prices, or different prices on the same goods. Forcing counterparts to accept disadvantageous contractual terms is also illegal.

Violation of competition law may entail severe penalties for a company and its management. For instance, for certain violations, the FAS may impose fines of up to 0.15% of the company's profits raised from transactions on a given market.

### Price controls

As a general rule, price controls exist only for natural monopolies, such as electricity, gas and railways, where companies must set prices in accordance with state tariffs.

However, if any company is seen as dominating a market, the FAS may regulate that company's prices if it finds them too high or low.

### Patents, trademarks and copyrights

Russia is a party to all major international agreements and conventions on intellectual property<sup>2</sup>.

From 1 January 2008, Chapter IV of the Civil Code of the Russian Federation came into force. It covers patents, trademarks and copyright issues, replacing all previous legislation on these areas. It codifies provisions of intellectual property law, introduces clear legal terminology and new intellectual property rights, resolves conflict of laws issues, and generally strengthens protection of intellectual property rights.

Russian civil law regulates the legal protection and use of inventions, utility models and industrial designs. Its provisions correspond with international treaties on patent law harmonisation and the Patent Cooperation Treaty. Consequently, many of its provisions are similar to those in other industrialised countries. In Russia, an examination of merits is conducted to confirm the patentability of an invention.

Legal protection of a trademark is provided on the basis of its official registration or under international treaties or conventions to which Russia is a party, including the Madrid Agreement. The trademark owner must actually use the trademark in its business activities. If the trademark owner does not use it, an interested party can apply to deregister the trademark with the Chamber of Patent Disputes.

Copyright is generally granted to the author(s) of works of science, literature and art. Exclusive right to reproduce, distribute, demonstrate, modify, etc. such works are granted to authors for their lifetime plus 70 years after their death and are transferable and disposable. Software is also covered by copyright laws.

Intellectual property licence or assignment agreements for patents or trademarks must be registered with the Federal Service for Intellectual Property, Patents and Trademarks of the Russian Federation. Copyrights do not need to be registered.

<sup>1</sup> Federal Law of the Russian Federation No. 135-FZ of 26 July 2006 "On Protection of Competition"

<sup>2</sup> Including the Patent Cooperation Treaty, the Madrid Agreement Concerning the International Registration of Marks of 14 April 1891 and the Madrid Protocol of 28 June 1989 thereto, the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks, the Berne Convention for the Protection of Literary and Artistic Works, the Brussels Convention Relating to the Distribution of Programme-Carrying Signals Transmitted by Satellite, the Convention for the Protection of Producers and Phonograms Against Unauthorized Duplication of Their Phonograms, the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations, the Paris Convention for the Protection of Industrial Property, the Locarno Agreement Establishing an International Classification for Industrial Designs, the Trademark Law Treaty, the Nairobi Treaty on the Protection of the Olympic Symbol, the WIPO Copyright Treaty and the WIPO Performance and Phonograms Treaty.

## 2.5 Property market

Russian law upholds and protects the right to own private property, including land, buildings, premises (i.e., parts of buildings) and other types of real estate.

The introduction of the Land Code of the Russian Federation in 2001 is seen as a major improvement in the legal regulation of the property market and a key step toward market reform in Russia. Currently, most land (unlike buildings and premises) is not privately owned, but held by federal, regional and local authorities. Owners of property built on state land may purchase the land, but many property owners prefer to lease land from the state instead.

Rights to real estate have to be registered (i.e., recorded in the State Register, which is a unified registry for the whole of Russia), as do any encumbrances on real estate (such as a mortgage, lease, easement, etc.). It has become easier to obtain technical and registration documents since the recent introduction of a “one-window” system and internal standards for registration authorities.

In addition to registration with the State Register, the main technical and legal information on land plots (their measurements, boundaries, buildings standing thereon, etc.) must be recorded in the state land cadastre.

A recently adopted law (effective 1 March 2008) on the State Real Property Cadastre introduces a unified state cadastre of real property and a procedure for providing property information to owners and any third parties.

Although the Land Code provides that if a building and the underlying land are owned by the same person, it is impossible to sell them separately, the land and the facilities located on it are treated as separate legal interests and may be owned by different persons.

In general, Russian law neither imposes major restrictions on foreigners nor makes distinctions between foreigners, Russian legal entities with foreign interest and Russian legal entities/citizens in relation to ownership of land (except

for agricultural land, land located near the Russian border, and certain other territories yet to be specified).

The vast majority of land (outside cities and populated areas) is still categorised as agricultural land, which means it cannot be used for development or industrial purposes. To use these lands for a purpose other than agricultural production, a landholder must first have the land reclassified to another category in accordance with its proposed use.

Russians and foreigners may acquire land held by the state or municipalities for development and construction. The Land Code allows the state or municipal authorities to refuse to grant land if the land in question may not be alienated or privatised, if the land is reserved for state or municipal needs, and in certain other cases specifically stated in the law.

Apart from land legislation requirements, a prospective developer has to comply with planning regulations that are rather complex and may differ depending on where the project is implemented. The new Town Planning Code, adopted 29 December 2004, introduced clearer and more transparent regulations governing the issuance of construction permits and permits for putting facilities into operation. From 1 January 2007, the multiple expert examinations previously required for review of project design documentation and issuance of construction permits have been replaced by a single state examination (or “state expert review”), to be carried out by a state authority.

Real property and certain rights to real property can be pledged. All pledges to real property must be registered. Unless the pledgor and the pledgee enter into an agreement on levy of execution (to be authenticated by a notary), it is only possible to levy on property in court. If the pledgee levies on the pledged property, the property has to be sold through an auction. Russian law allows securitisation of loans backed by real estate pledges, and legislation on mortgage-backed securities is developing rapidly.



# 3. Foreign investment

## 3.1 Foreign investment

### Investment climate

Russia is increasingly considered a country with a stable investment climate. Russia has witnessed a big increase in foreign direct investment inflows over the last couple of years thanks to a growing domestic market, rich human capital, natural resources and political stability, though this has slowed with the financial crisis.

Constraints on foreign business are being abolished and the regulatory environment has improved. However, several sectors remain closed to foreign investment. Current regulations restrict foreign involvement in the banking sector, and the government has restricted foreign access to 39 strategic sectors of the Russian economy, including nuclear energy, natural monopolies, military and special machinery, the space industry, and subsoil development.

Russian investment policy includes tax reliefs, decreasing administrative barriers, and developing private-public partnerships. The government is planning to invest in infrastructure projects to promote investment.

### Corporate transparency

Russia has seen improvement in corporate governance over recent years. Several major Russian companies meet international and US accounting standards for information disclosure and have introduced open lines

of communications with shareholders and analysts. However, there is still plenty of room for improvement, particularly as concerns corporate transparency.

Russian disclosure requirements are consistent with EU and IOSCO (International Organization of Securities Commissions) standards.

According to the Russian Transparency and Disclosure Survey 2008 by Standard & Poor's Governance Services, the index of transparency among the largest Russian companies has increased to 56% from 55% in 2007. It was 53% in 2006, 50% in 2005, 46% in 2004, 40% in 2003, and 34% in 2002. However, there have been no dramatic improvements in disclosure policies in Russia recently.

A breakdown by sector indicates that telecommunications remains the most transparent. The most notable rise in transparency was in the food, consumer and retail sector. The disclosure level of Russian banks remains low, especially when compared with their international counterparts, but 2006 saw a significant improvement of transparency in the largest Russian financial companies.

Privately owned companies are the most transparent, although some of the more progressive state-owned companies would be on the same level.

Russia experienced an IPO boom in 2006 and 2007. This has driven greater transparency, though some

of the companies that have completed international IPOs pursue a policy of minimal disclosure.

Corporate websites are offering greater amounts of information in English and broader disclosure.

There has been no significant progress among first-tier companies, the 54 largest by market capitalisation. Those companies that had been public and scored low on transparency in the past tend gradually to adopt higher standards of transparency and catch up with the rest.

### Shareholdings and ownership

A sharp increase in disclosure of shareholder rights and investor relations procedures is mainly due to companies' efforts to follow the recommendations of the Russian Code of Corporate Conduct, which focuses strongly on disclosure of governance procedures and shareholder rights.

Unlike in developed markets, disclosure of beneficial ownership is voluntary for shareholders in Russia, and there are few volunteers, especially among the ultimate beneficial owners of large stakes. Russian companies are commonly affiliated with each other via their shareholders, who do not disclose such information for fear of anti-monopoly regulations, investigations, and corporate raiders.

### Financial information

Financial information remains a relatively weak area of disclosure for Russian companies, but 2008 saw improvement in the disclosure of IFRS financial statements and notes. Not all companies report their annual financials under IFRS or US GAAP, but the situation is gradually improving.

The most critical areas of weakness in disclosure practices include detailed information about related-party transactions (e.g., exact terms and indication whether such transactions are carried out on market terms), exhaustive ownership disclosure (e.g., disclosing every shareholder owning over 10%), auditor engagement (scope of services, non-audit services, and remuneration), ownership structures of affiliates and subsidiaries, and details and principles of board and executive remuneration.

### Regulatory legislation

In May 2008 the regulatory legislation for foreign investors changed dramatically, becoming more rigorous.

The terms and conditions for foreign investment in Russia are now regulated by the Law on Strategic Industries<sup>1</sup>, which came into force 7 May 2008, and the Law on Foreign Investments<sup>2</sup>, which was amended with the adoption of the Law on Strategic Industries.

Under the Law on Strategic Industries, certain Russian companies are deemed to have strategic importance for Russia's national defence and security. In addition to industries such as weapons, aviation and space, the law also names natural monopolies, the mass media and companies involved in natural resource exploration and extraction (except where the Russian government owns more than 50% of the company) as strategic.

Foreign investors acquiring direct or indirect control over Russian strategic enterprises are required to obtain prior approval, or in certain cases post-transaction approval, of a special government commission. The Federal Antimonopoly Service and Federal Security Service must establish that the acquisition does not threaten Russia's national security, and the foreign investor may have to meet other requirements to gain approval.

The Law on Strategic Industries prohibits foreign states, international organisations and legal entities directly or indirectly controlled by foreign states or international organisations from acquiring control over strategic enterprises.

According to the latest amendments to the Law on Foreign Investments, any transaction with the participation of foreign states, international organisations or legal entities directly or indirectly controlled by foreign states or international organisations to acquire control over any Russian entity should also be reviewed by the governmental commission to ensure that the entity is not a strategic enterprise.

Transactions made in violation of the Law on Strategic Industries are void.

### Acquisition of shares: issues to consider

**Title to shares:** A buyer should make sure that: the seller holds the title to the shares; the shares have been duly authorised, validly and properly issued and distributed in accordance with Russian law and the foundation documents (this issue is most critical when acquiring shares in a privatised company); the shares are fully paid; and the seller has received all necessary corporate approvals.

<sup>1</sup> Federal Law of the Russian Federation No. 57-FZ of 29 April 2008 "On Making Foreign Investment in Commercial Organisations Strategically Relevant for the Security of the Russian Federation"

<sup>2</sup> Federal Law of the Russian Federation No. 160-FZ of 9 July 1999 "On Foreign Investments in the Russian Federation"; Federal Law of the Russian Federation No. 58-FZ of 29 April 2008 "On Amendments to Legal Acts of the Russian Federation"

When acquiring newly issued shares, a subscriber should monitor the process of share issuance, including share registration with the Federal Service for Financial Markets.

**Corporate law requirements:** If a buyer (together with its affiliates) acquires more than 30% of voting shares in an open joint-stock company, the buyer must make a public offer to the remaining shareholders of the company to acquire their ordinary shares at the fair market value. If the buyer (together with its affiliates) acquires more than 95% of the company's voting shares, the buyer must, at the request of the remaining shareholders, purchase their shares in the company at the fair market value.

The owner of 95% of a company's voting shares may, in turn, squeeze out minority shareholders by demanding to sell all shares held by them.

**Anti-monopoly approval:** Any individual, legal entity or group of persons acquiring more than 25%, 50% or 75% of the voting shares in a joint-stock company or more than 1/3, 50% or 2/3 of participatory interest in a limited liability company is required to obtain prior approval from the FAS if:

- 1) the aggregate balance value of the assets of the acquirer and its group exceeds RUB 3 billion, and the balance sheet value of the assets of the target and its group exceeds RUB 150 million;
- 2) the aggregate revenue of the acquirer and its group from the sale of goods for the past calendar year exceeds RUB 6 billion, and the balance sheet value of the assets of the target and its group exceeds RUB 150 million; or
- 3) the acquirer or the target (or any company of its group) owns over 35% of the corresponding market.

**Registration of shares transfer:** Transactions with shares of a joint-stock company require registration in the shareholders' register in order to ensure their transfer. The register can be maintained either by the company or by a professional registrar. Registration of the transfer usually takes from one to three days.

Transactions with participatory shares of a limited liability company require amending the foundation documents of the company and subsequent state registration. This procedure may take from seven to ten days.

**Anti-monopoly approval:** Prior anti-monopoly approval is required to acquire assets worth more than 20% of the book value of all the seller's fixed and intangible assets if:

- 1) the aggregate balance value of the assets of the acquirer and its group exceeds RUB 3 billion, and the balance sheet value of the assets of the target and its group exceeds RUB 150 million;

- 2) the aggregate revenue of the acquirer and its group from the sale of goods for the past calendar year exceeds RUB 6 billion, and the balance sheet value of the assets of the target and its group exceeds RUB 150 million; or
- 3) the acquirer or the target (or any company of its group) owns over 35% of the corresponding market .

**Registration of real estate transactions:** Transactions with real estate (acquisition, lease, mortgage and others), patents and trademarks require state registration. It normally takes 20 to 30 days to register a transaction and subsequently transfer the rights to the assets.

### Foreign exchange issues

Generally, Russian currency control legislation does not impose restrictions on foreign investments in Russia. Foreign companies may freely lend money to Russian companies and residents or acquire shares of Russian companies. However, Russian residents should meet certain technical requirements for making/receiving payments under these transactions, including drawing up a transaction passport when receiving loans from non-residents.

## 3.2 Privatisation

Recent amendments to the Land Code and the Law on Implementing the Land Code are important in terms of land privatisation, supporting the concept of one owner for a building and the land beneath it. The main amendments are:

- owners of privatised buildings located on state or municipally owned land may privatise this land up until 1 January 2010. New pricing guidelines for privatising land have been established;
- pricing guidelines for land privatisation with respect to owners of buildings that have always been private property have also been established;
- cities with over 3 million inhabitants have special land privatisation rules, which include possible restrictions on the construction and reconstruction of a land plot. This restriction may be lifted upon payment of a fee commensurate to or even exceeding the price of the land plot;
- legal entities that hold land plots in permanent use must switch to a lease arrangement or privatise this land before 1 January 2010. Failure to fulfil this requirement may result in a considerable fine after 1 January 2011;
- guidelines for the privatisation of land beneath linear objects (electric power lines, pipelines, etc.).



# 4. Banking, finance and insurance

## 4.1 Banking system

### Banking market

The Russian banking sector has developed rapidly in recent years, reflecting a strengthening economy. Increasing disposable incomes, higher confidence in banks and a greater financial awareness among the population were among the main factors contributing to this growth. Banks' assets have increased, totalling USD 427.1 billion as of 1 January 2009. However, the global financial crisis has had a major impact on the sector.

The sector is highly segmented. The top five banks control 44% of assets. If the financial crisis triggers M&A activity, this would lead to further concentration. Over the past few years, major Russian banks have attempted to reposition themselves as retail or universal banks. Banks currently offer only a limited range of commercial and retail products (compared to what is available in the EU and the US), but new financial products are being introduced to the market.

### Central Bank of Russia

The principal function of the Central Bank is to protect the rouble and ensure its stability; it is the sole issuer of roubles. The Central Bank sets and pursues a single state monetary policy and exchange rate policy; manages currency circulation; acts as the lender of last resort for credit

institutions and manages the bank refinancing system; sets the rules for conducting banking operations; manages most categories of state budget accounts; issues licenses to, regulates and supervises all credit institutions in Russia; and promotes and monitors the proper functioning of payment systems.

The Central Bank cooperates with international banking institutions, including the IMF and the World Bank. It also collaborates on the domestic financial market with the Federal Insurance Supervisory Service and the Federal Service for Financial Markets to exchange information and to maintain adequate surveillance over the financial market in general. The State Duma is currently considering a proposal to unite the supervisory functions of these three institutions under one regulatory body.

### Federal Service for Financial Markets

The Federal Service for Financial Markets (FSFM) is the federal executive body that regulates and supervises activity in the financial markets, including stock exchanges. It also regulates the investment of pension savings. The FSFM's key objectives are to maintain stability in the financial markets, make the markets more efficient and attractive to investors, increase market transparency and reduce investment risks. It regulates the activities of financial market participants and establishes the conditions for issuing and trading securities.

### Commercial banks

The banking sector had been developing rapidly, faster than the economy as a whole, and was one of the most attractive sectors for investment. However, since the middle of September 2008, deposit flows have been negative on a sector-wide basis.

The government has played a major role, replacing deposits and wholesale funding in the short-term in order to shelter the banking system from a full-blown crisis. Banks with an international credit rating (roughly the top 120 banks) or a Russian credit rating (another 20–30 banks) can tap the Central Bank directly for short-term funding on an uncollateralised basis.

On top of short-term funding to banks, the state has put in place two official medium-term programmes aimed at providing funding and refinancing support to corporate Russia. This will take further stress off the banking system by providing many of its largest clients with financial support at a time when banks are unable to.

The state is looking first and foremost to the large state-owned banks to channel its support into the broader economy. Many small banks, each with on average below 0.1% market share, are finding the going very tough without access to state support. In many cases, they are facing being acquired or ceasing operations.

A valuation of Russian banks' securities portfolios in September showed a loss of USD 3.7 billion (USD 2.1 billion in debt instruments and USD 1.6 billion in shares). Russian banks suffered new losses in October; those actively trading securities suffered less than others.

### Securities

The Russian securities market is represented by two major stock exchanges: the Russian Trading System (RTS) and the Moscow Interbank Currency Exchange (MICEX). RTS is for trading shares, while MICEX is for trading bonds.

The RTS stock exchange is Russia's leading stock exchange in terms of product offerings. The RTS stock exchange also calculates the RTS Index, widely used as an indicator for the Russian securities market.

MICEX organises stock transactions and foreign exchange trading and is developing the derivatives market. MICEX is the largest exchange in Russia, the CIS and Eastern Europe.

### Pensions and pension funds

Pension reform is currently under way in Russia with mixed results. Reforms are designed to encourage individuals and employers to invest in future pensions through certain changes in taxation, better regulation of private pension funds and wider opportunities to invest pension reserves.

Since 2004, people have been able to transfer the accumulative part of their state pension contributions to asset-management companies or private pension funds. These are regulated by the Federal Service for Financial Markets.

In 2007 the volume of pension savings transferred to private pension funds increased to RUB 26.9 billion (at the end of 2006, it was RUB 10.3 billion).

### Money laundering

From 2001, a number of measures were implemented to bring anti-money laundering legislation in line with international standards, as were organisational and administrative measures to enforce the law. This has helped to increase the number of uncovered cases of money laundering, though it remains an important issue for the Russian economy.

Russian authorities are tightening control over cash flows by introducing:

- special control over transfers of funds between individuals if the amount is equal to or exceeds RUB 600,000;
- special control over transactions with immovable assets if the amount is equal to or exceeds RUB 3,000,000;
- closer control by the Central Bank over the banking system and licence withdrawal.

Financial institutions, including banks and leasing companies, have had to introduce special monitoring and reporting functions and report to supervisory bodies regularly.

On 15 January 2008, amendments to a law on counteracting the legitimisation of illegally obtained income came into effect. The amendments require that banks "track, at all stages, non-cash accounts and money transfers that are made without opening an account", collecting the originator's name, VAT number, place of residence, and the date and place of birth. Without this information, credit companies should not process transactions for sums exceeding RUB 600,000. The new law also demands oversight of the transactions of foreign public officials and their close relatives. Additionally, credit companies must now identify the sources of foreign public officials' money and other property.

The Central Bank has extended a moratorium on revoking the licences of banks that have broken this law until 1 April 2009. The Central Bank was forced to take this action at the request of the Association of Russian Banks (ARB), since the previous moratorium expired on 1 October 2007, before the amendments had come into force.

## 4.2 Foreign currency market and foreign currency rules

Under Russian law, both resident and non-resident companies and individuals can freely perform currency transactions, including credit (loan) transactions, securities trading, contributions to charter capitals of foreign entities and advance payments on certain import transactions.

However, Russian residents should comply with certain requirements for making payments under foreign trade contracts and credit (loan) agreements between non-residents and residents.

Russian residents must draw up a transaction passport and provide the bank with documentation supporting the legal basis for the currency transaction. There are also some requirements concerning settlements under these transactions, including repatriation requirements (i.e., Russian residents must return proceeds from foreign trade agreements to Russia in the time stipulated by Russian currency control legislation).

Russian law establishes notification and reporting requirements for Russian residents who open foreign bank accounts. Russian residents' use of foreign bank accounts is restricted; they can receive funds in foreign bank accounts in connection with a limited list of operations established by Russian law.

## 4.3 Specialised financial institutions

### Factoring

In recent years, factoring in Russia has changed from a service offered by banks to a separate financial business. Overtaking other Central and Eastern European markets, the factoring business in Russia was estimated at USD 20.2 billion in 2007 and was expected to reach USD 35 billion to 40 billion in 2008, though the financial crisis will slow the market's further development. The range of factoring services and their quality are gradually approaching global standards.

In the summer of 2008, two large Russian banks entered the factoring market. Alfa-Bank began offering factoring services in July, and Sberbank announced that it would begin offering these services in 2009. The market entry of two of Russia's largest lending institutions will have a strong effect on competition within this sector.

The market remains largely under-regulated, without an official supervisory body. Factoring legislation is to be improved specifically in the field of licensing: Although banks, which make up 52% of the market, are subject to regulation and licensing by the Central Bank, there are no clear licensing requirements for factoring companies.

### Leasing

For the last several years, the leasing market had grown by over 50% per year. The market's large growth potential was due to huge demand, which in turn was caused by a high level of capital asset amortisation in the Russian economy and mid-sized businesses' need for long-term financial resources.

But the economic crisis has taken its toll on leasing. In the first nine months of 2008, the number of new deals fell 9.4% year on year, reaching a total value of RUB 605 billion. Because creditors are currently apprehensive of long-term projects, leasing companies have lost almost all sources of funding. As of 1 October 2008 the aggregate value of leasing companies' portfolios stood at RUB 1.4 trillion.

On the other hand, leasing is considered a safe investment, and the market will quickly develop as soon as investment activity starts back up. Many large projects that were put on hold at the planning stage will result in a substantial increase in the volume of deals in the market once funding reappears.

### Insurance

The Federal Insurance Supervisory Service (FISS) regulates and supervises insurance companies and insurance brokers.

The prime functions of the FISS are to supervise insurance companies' financial standing; to ensure that insurance companies observe prudential norms specific to the insurance activity; to license and oversee insurance companies and insurance brokers; and to impose penalties for non-compliance.

In 2008, insurance premiums grew by 21.9% year on year to reach RUB 946.2 billion. The insurance market portfolio comprises the following segments: property 33.3%, liability 2.4%, obligatory medical insurance 41.7%, third party motor liability 8.4%, life insurance 2.0%, personal lines 11.4% and other obligatory lines 0.8%.

As of 31 December 2008, there were 786 insurance companies in Russia. Some of the top companies are Rosgosstrakh, Ingosstrakh, Sogaz, RESO-Garantia and Rosno.

The market expects drastic changes, as many small insurance companies are to leave the market. The law obliges insurers to separate life insurance from other types of insurance. Many small insurers have already lost their licences, but the insurance market has yet to see a real purge.

## 4.4 Capital markets

The capital market and transactions with securities are primarily regulated by the Law on Securities and the Law on Protecting Investor Rights.<sup>1</sup> Offerings of corporate securities are regulated by the Law on Joint-Stock Companies<sup>2</sup> and by a number of regulations issued by the Federal Service for Financial Markets (FSFM) – the Russian securities market watchdog.

### Securities in Russia

Under Russian law, a security must be specifically recognised as such in the Russian Civil Code or other relevant laws. The Civil Code recognises shares, bonds, promissory notes, cheques, deposit and saving certificates, bills of lading, options on shares and Russian depository receipts as security instruments.

Most corporate securities should be registered with the FSFM before their placement and allotment.

Registration of an issue usually takes about 30 days and requires filing certain information and documents with the FSFM.

In a limited number of cases, the Law on Securities requires the issuer to register an issue prospectus. Companies that have at any time registered a prospectus are subject to capital markets disclosure requirements.

### Fundraising

A Russian company may raise funds by issuing equity or debt securities. Equity securities may be offered to the general public only by open (public) joint-stock companies. Shares of closed joint-stock companies and limited liability companies may not be offered to the general public.

Under the current rules, the number of shares to be floated on foreign exchanges was capped at 30% of the overall issued shares in the company.

The issuance and trading of bonds is governed by the Law on Securities, which distinguishes between secured

and unsecured bonds. Secured bonds must be fully secured with a third-party guarantee or surety, or with a pledge (or mortgage) over the issuer's and/or third party's securities or immovable property. Only companies that have existed for a minimum of two years may issue unsecured bonds. Russian joint-stock companies may also issue convertible bonds.

The issue of regular bonds should be registered with the FSFM. The current Law on Securities provides for a financial instrument called the stock-exchange bond. These bonds are distributed to the general public through a stock exchange and issued in accordance with a simplified procedure not requiring state registration. To be entitled to issue stock-exchange bonds, the issuer must comply with certain legal requirements.

Together with bonds, Russian companies make extensive use of promissory notes for debt financing. The Russian Federation is a party to the Convention Providing a Uniform Law for Bills of Exchange and Promissory Notes.

The Law on Securities also provides for a security called the Russian depository receipt (RDR). RDR are aimed at certifying holders' rights to a specified amount of shares or bonds of a Russian or foreign issuer.

Amendments to the Law on Securities adopted at the end of 2007 introduced a new type of investor: qualified investors, which comprise institutional investors such as brokers, dealers, credit organisations, insurance companies, non-governmental pension funds, etc. as well as legal entities and individuals that meet certain requirements. Certain financial instruments – for example, units/shares of direct investments funds, venture funds, credit funds and hedge funds – may only be distributed or allocated among qualified investors. Foreign financial instruments that do not qualify as securities in the Russian Federation can only be acquired by qualified investors.

<sup>1</sup> Federal Law No. 39-FZ of 22 April 1996 "On the Securities Market" and Federal Law No. 46-FZ of 5 March 1999 "On Protection of Investor Rights and Interests on Financial Markets"

<sup>2</sup> Federal Law No. 208-FZ of 26 December 1995 "On Joint-Stock Companies"



# 5. Importing and exporting

## Tips for exporters

- Generally, if goods are exported or imported between a foreign company and a Russian company, the Russian company is responsible for the customs procedures.
- In order to import goods into Russia and clear them through customs, an importer has to make all customs payments due in accordance with the chosen customs regime and comply with other requirements established by customs legislation (e.g., certification requirements).
- Importation of certain goods (e.g., pharmaceuticals, meat, etc.) requires licences.
- Russia has several special economic zones that offer customs benefits.

## 5.1 Customs policy

Russia's customs policy has seen several important areas of development:

- Lowering of customs duty on imports of technological equipment;
- Simplification of the customs clearance process;
- Tighter customs control after customs clearance of goods;

- Further development of customs integration in the Commonwealth of Independent States.

## 5.2 Import restrictions

Certain imports to Russia require permits, certification (e.g., of conformity, sanitation), licences and other approvals. They should be submitted to the customs authorities for clearance.

Russia imposes an anti-dumping duty on certain goods (e.g., metal pipes from Ukraine).

## 5.3 Customs duties

### Classification of goods

The Russian tariff classification system is based on the internationally adopted Harmonized Commodity Description and Coding System.

### Valuation rules

The customs valuation procedure is established in line with GATT/WTO principles. The customs value is generally equivalent to the DAF/Russian border transaction value of the goods concerned.

## Rates

Import duty applies to most goods. The majority of customs duty rates in Russia are ad valorem (i.e., a percentage of the goods' customs value). There are also specific duties for certain types of imports, calculated by volume, weight or quantity. Some duties have a combined rate incorporating the two and, therefore, the tax base may vary.

Base customs duty rates vary widely, from 100% on spirits to 0% for some printed matter and certain priority imports. Zero duty applies, for example, to a wide range of equipment and machinery. On average, duty rates fall between 5% and 20% of goods' customs value. The base rates specified in the legislation apply to countries that have been granted Most Favoured Nation status. Certain raw materials and handmade goods from "developing" and "least developed" countries may be imported at 75% of the base rates or zero rates, respectively. Goods originating in other countries will be subject to duty at double the base rates.

The following are exempt from customs duty: transit goods; goods imported by individuals for personal use (worth not more than approximately USD 2,500 and weighing less than 35 kg); cultural valuables; means of transport involved in the international movement of goods and passengers; humanitarian aid and some others.

## Free trade agreements

Russia has adopted free trade agreements with countries of the Commonwealth of Independent States (CIS). Goods originating from CIS countries (e.g., Ukraine) are exempt from customs duty for import to Russia (subject to certain conditions). Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan form a Customs Union, and goods originating from these countries are not subject to customs duty within this Customs Union.

## Excise tax

Certain categories of goods are subject to excise tax for import to Russia (e.g., alcoholic beverages, cigarettes, etc.). Generally, the excise tax rates are specific (i.e., based on the volume, weight or other characteristics of goods).

## Import VAT

For most goods, the import VAT rate is 18% of the customs value, inclusive of customs duty and excise (if any). Food, a certain range of children's goods and a limited range of other goods may be subject to 10% or 0% VAT.

## Customs processing fees

Customs processing fees are established as a flat fee and vary from approximately EUR 15 to EUR 3,000 per customs declaration depending on the customs value of imported goods.

## Payments

Customs payments are generally paid before or when submitting customs declarations to customs.

## 5.4 Temporary import relief

Goods may be imported under a temporary import customs regime, normally for a period of up to two years. Generally, goods are permitted for temporary importation if it is possible to identify them upon their re-export. Temporary importation requires permission from the customs authorities. Upon expiry of the temporary importation period, goods are moved out of Russia or placed under another customs regime (e.g., release for free circulation).

Temporary importation requires periodic customs payments of 3% per month of the total customs payments due had the goods been imported for free circulation. Upon export of the goods, these customs payments are not refunded. Customs has the right to require a security for customs payments (e.g., a deposit, pledge, bank guarantee, etc.).

Goods that qualify as fixed assets for production purposes may be admitted and subject to a 3% monthly customs payment for a temporary import period of 34 months if the Russian user does not yet have property rights (e.g., for leasing). After this period, the goods are considered released for home use. In these instances, the interest on customs duty and taxes is not payable by instalment. Temporarily imported goods can only be used by the person who obtained customs' permission for their temporary importation.

## 5.5 Customs duties incentives

### Charter capital contributions

Fixed production assets imported by a foreign investor as a charter capital contribution are free from customs duty. The goods must not be excisable and should be imported within the timeframe established for the formation of the charter capital.

Customs authorities can check to ensure the correct use and further disposal of goods exempted from customs duty.

A VAT exemption is also available for technical equipment imported as a charter capital contribution.

### Tolling

Goods imported into Russia for processing may be placed under an inward processing (IPR) procedure (subject to certain conditions).

Under IPR, goods (e.g., raw materials) imported for processing are eligible for full exemption from customs duty and import VAT, provided the processed/finished goods are

subsequently moved out of Russia within a deadline agreed on with customs. No export customs duty is charged upon the export of finished goods from Russia.

IPRs must be authorised by customs. Only a Russian company may apply for an IPR.

### Special economic zones

A number of special economic zones (SEZ) with a free customs regime have been established in Russia. Foreign goods imported to and used within the SEZ are free of import customs duty and VAT. When foreign goods or products of their processing are subsequently released into free circulation to the rest of Russia, import customs duty and VAT are payable. If the goods manufactured in a particular SEZ are exported to foreign countries, they are subject to export duty, if applicable. Foreign goods that were imported into the SEZ but not processed may be re-exported without paying export customs duty.

## 5.6 Documentation and procedures

### Registration of importers and exporters

There is no established procedure for registering importers and exporters with customs. However, in practice certain documents may be required by customs prior to importation (charter documents, tax registration certificate, etc.).

### Documentation

Russian customs regulations establish a comprehensive list of documents required for customs clearance purposes. In practice, the set of documents to be submitted to the customs authorities may vary depending on the character of imported/exported commodities, conditions of the transaction, etc.

### Declaration of the customs value

The customs value of imported goods is declared in a customs value declaration. The customs value should be properly supported by the appropriate documents. The list of such documents may vary depending on the terms of a particular transaction. While Russian customs regulations provide a general list of documents required to confirm customs value, the list is not exhaustive.

If the customs authorities disagree with the customs value declared by an importer, they may adjust it.

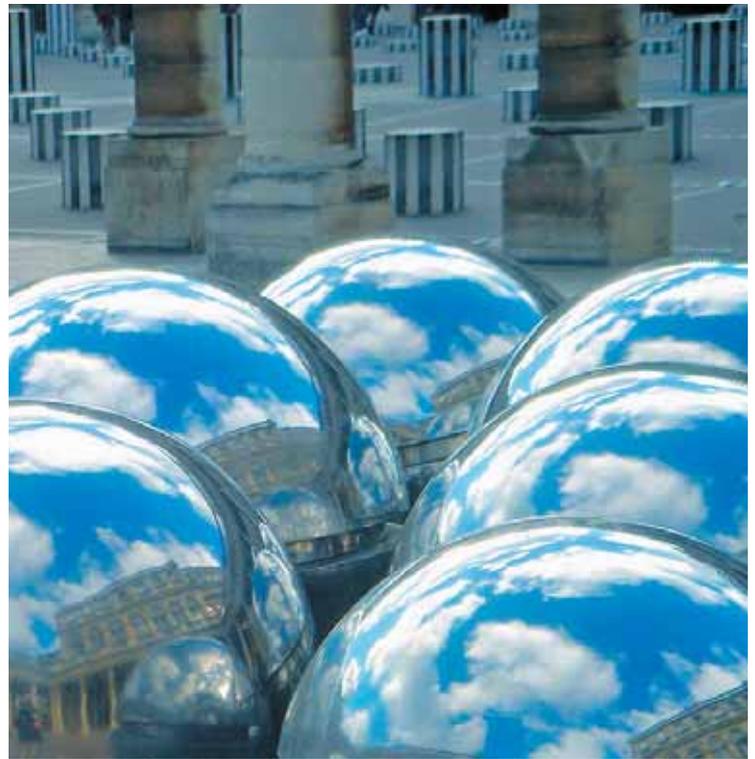
## 5.7 Warehousing and storage

Goods which are subject to customs control (e.g., imported goods which have not yet cleared through customs) can be temporarily stored at special warehouses before they are released by customs. The period for storage should not exceed two months, but an importer can ask the customs authorities to extend it to up to four months.

Warehouses for temporary storage are usually located near customs offices.

## 5.8 Re-exports

Goods which have been imported into Russia may be re-exported provided they have not been released for free circulation in Russia. They are re-exported without payment of export customs duty.



# 6. Business entities

## 6.1 Legal framework

Companies setting up operations in Russia commonly find themselves in circumstances where a formal legal opinion is required for basic issues that in Western countries would be resolved very easily and usually free of charge, but which in Russia can dramatically change the feasibility of a deal.

Foreign investors sometimes underestimate the need to follow important guidelines. This may have serious consequences when doing business in Russia. Familiarisation with the basic principles of the legal framework may save considerable time and expense later if a projected business structure (commonly accepted elsewhere) is not advisable or even possible in Russia. The current legislative framework for investment and business in Russia is described below.

### Civil Code

Chapter 1 of the Civil Code governs certain types of business organisations and their foundation. It covers requirements for foundation documents, name, location, governance and state registration of legal entities. It defines branches and representative offices and governs reorganisation and liquidation.

Joint-stock and limited liability companies are governed by separate federal laws<sup>1</sup>.

### Registration

The introduction on 1 January 2004 of a “one-window” registration procedure for Russian legal entities has not streamlined the business registration process. In Moscow, the situation deteriorated with a new requirement that only the CEO or director of a founding company may file a state registration application and retrieve the registration certificates, in person – no representation by proxy is allowed. This has drawn out the registration timeframe considerably.

If the CEO or director cannot come to Russia to file the application in person, it should be sent by registered mail (not by courier) to the Russian registration authorities, who process the application and return it either to the address of the founding company or of the entity being incorporated.

The registration process may take several weeks, or even months, to complete.

“Shelf” companies are generally not available, and the incorporation process can take from two to three months. Preliminary approval or subsequent notification of the Federal Antimonopoly Service is required in certain cases. As of 1 January 2009, the state duty to register a Russian legal entity is 2,000 roubles. There is no processing fee for registration.

<sup>1</sup> Federal Law No. 14-FZ of 8 February 1998 “On Limited Liability Companies” and Federal Law No. 208-FZ of 26 December 1995 “On Joint-Stock Companies”

## 6.2 Choice of entity

Foreign investors can choose from a number of different forms of business representation in Russia, from Russian legal entities to representative offices and branches of foreign legal entities. Russian legal entities may be established in various forms, including joint-stock companies, limited liability companies and partnerships.

Representative offices of foreign entities are strictly limited to conducting only liaison and support functions. Branch offices are free to perform all of a foreign entity's activities. Many investors opt for branch offices at the outset because these entities are able to engage in any kind of commercial activity, are easier to establish and are subject to less onerous reporting requirements. At the same time, for many investments, including joint ventures and production plants, and because of issues connected with licensing, customs and privatisation of state property, a Russian legal entity may be better suited to an investor's needs.

## 6.3 Forms of business entities

Currently, the following forms of commercial legal entities (for-profit) may be incorporated in Russia:

- Full partnerships;
- Limited partnerships ("kommandit" partnerships);
- Limited liability companies;
- Additional liability companies;
- Production cooperatives;
- Joint-stock companies (open and closed);
- Unitary enterprises (state-owned legal entities not open to foreign investors).

Of the above, only the joint-stock company resembles a corporation, but the limited partnership and the limited and additional liability companies also limit the liabilities of investors, as described below.

## 6.4 Joint-stock company

In accordance with the Civil Code, a joint-stock company's capital is divided into a definite number of shares. The participants of a joint-stock company (the shareholders) are not liable for the company's obligations and accept the risks of losses in connection with its activity within the limit of their respective stakes.

Russian law provides that only joint-stock companies may issue stock, which is deemed as securities and is subject to registration. Russian legislation describes "open" and "closed" joint-stock companies, which are broadly equivalent to public and private companies. Public companies must disclose certain financial and other information annually.

A company may be created as a new company or by reorganising an existing legal entity (consolidation, merger, division, spin-off or a change in legal form, etc.). A company is considered created from the date of its state registration.

The share capital of a joint-stock company is composed of the nominal amount of shares acquired by the shareholders. The minimum "charter" (share) capital for open and closed joint-stock companies is 1,000 and 100 times the minimum monthly wage<sup>1</sup>, respectively.

The higher management body of a joint-stock company is the General Meeting of Shareholders, which must assemble at least once per year. A company with over 50 shareholders must have a board of directors.

The company's executive body may be collegiate (board, directorate) and/or "one-man" (director, general director). The executive body of a joint-stock company carries out the day-by-day management of the company's activity and reports to the board of directors and to the general meeting of shareholders.

A joint-stock company may be liquidated voluntarily or by court order in the procedure or on the grounds established by the Civil Code.

The liquidation of a company shall result in its termination, with no transfer of rights and obligations by succession to other persons.

## 6.5 Limited liability company

Under the Civil Code, a limited liability company is established by one or several persons whose charter capital is divided into shares according to the formation documents.

In this type of company, the liability of each participant is limited to the value of its contribution. Each equity holder in a limited liability company has the right, at any time, to withdraw from the company and to receive an amount equal to its pro rata share of the company's net assets (provided the company is solvent). For foreign investors contributing significant amounts of time and money to a joint venture at the start-up phase, this aspect can be a problem.

<sup>1</sup> The term "minimum monthly wage" is used by the government as a ratio to calculate different payments and does not reflect the real minimum wage. As of 1 January 2009, the minimum monthly wage is 100 roubles.

The charter capital of the limited liability company determines the minimum size of the company's property guaranteeing the interests of its creditors. The minimum charter capital of a limited liability company is 100 times the minimum monthly wage.

The management structure of a limited liability company is similar to that of a joint-stock company.

## 6.6 Full and limited partnership

A full partnership is similar to the American general partnership, in which partners bear (full) joint and several liability for the partnership's obligations. A participant in a full partnership may not be a full partner in any other partnership.

A limited partnership, which is closer to the European kommandit partnership, has both full partners and partners whose liability is limited to their contributions. A full partner in a limited partnership may not be a full partner in another partnership, and its liability is the same as for full partners described above.

Partnerships under Russian law are generally regarded as legal entities and are taxed accordingly. Contractual agreements for joint activity, although they share some of the characteristics of a general partnership, do not create a legal entity and there are special rules governing their tax treatment.

## 6.7 Branches

A branch or representative office of a foreign legal entity needs to register with the authorities. However, in contrast to Russian legal entities, the process of registering a branch or representative office of a foreign company involves several federal and local authorities. To register, branches and rep offices need to go through the following steps:

- accreditation with federal and local bodies. Accreditation is mandatory, since the local banks and administrative authorities may not recognise the branch/representative office without it;
- tax registration;
- registration with state statistic authorities, obtaining statistics codes;
- registration with non-budgetary (pension and social security) funds;
- opening bank accounts.

Many investors confuse the concept of a branch and an accredited representative office, but they have important differences. An accredited representative office is not a Russian legal entity, but an officially recognised extension of a foreign legal entity. Russian law restricts the scope of an accredited representative office's activities to certain types of representational functions.

A branch's legal status differs substantially from that of a representative office. For example, under Russian law, a registered branch of a foreign legal entity (but not a representative office or unregistered branch) is treated as "an enterprise with foreign investment". Therefore, while a registered branch can hold a licence to conduct regulated activities (such as oil field development), a representative office or unregistered branch may not.

The state duty for branch accreditation as of 1 January 2009 is RUB 60,000 (approximately USD 2,400 as of 1 January 2009). In addition, accreditation bodies also charge a processing fee from between USD 500 and USD 2,000, depending on the period of accreditation (from one year to five years, respectively).

## 6.8 Representative office

An accredited representative office is not a Russian legal entity, but an officially recognised subdivision of a foreign legal entity. Although Russian law suggests that the scope of an accredited representative office's activity would be limited to certain types of representational functions, in practice many foreign firms conduct commercial activities that, according to a strict interpretation of the law, should only be conducted through a registered branch or a Russian company.

For the accreditation of a representative office, accreditation bodies charge a processing fee ranging from USD 1,000 to USD 2,500, depending on the period of accreditation (from one year up to three years, respectively).



# 7. Labour relations and social security

## 7.1. Labour relations

### Labour Code

Employer/employee relations are governed by the Labour Code (which came into force on 1 February 2002) and other special laws. In 2006, the Labour Code was significantly amended, primarily to correct wording ambiguities. In 2008 the Labour Code was supplemented with a section devoted to the work of athletes and coaches.

The Labour Code establishes that the employment relations of all employees working in Russia are governed by Russian legislation (regardless of citizenship or status, or that of their employers, unless otherwise stipulated by an international agreement).

The Labour Code heavily regulates employer/employee relations. The law provides employees with minimum guarantees that cannot be limited by any employment contract or an employer's internal regulations. Any provision in an employment contract that runs counter to these guarantees is illegal.

There are safeguards to protect employees against dismissal or termination of their employment contract by the employer (prior notice, severance allowances), a harmful working environment and excessive working hours. Employment legislation makes it very difficult for the employer to dismiss an employee on disciplinary grounds.

### Employers

In accordance with the Labour Code, an employer can be an individual or a legal entity. In instances established by federal laws, the employer may be an entity which has been vested with the right to conclude employment contracts. Representative offices and branches are not considered employers.

### Unions

Union activity is regulated in accordance with the Federal Law on Professional Unions, their Rights and Guarantees of their Activities.

After the collapse of the Soviet Union in 1991 and the formation of a market economy during the 1990s, the role of trade unions decreased significantly.

Today, unions in Russia are becoming more active and wielding more power over employers. They are initiating collective negotiations and concluding collective bargaining agreements. Under the Labour Code, the employer should take the opinion of the trade union into account before adopting certain internal regulations (i.e., internal policies) or dismissing trade union members.

## 7.2 Working conditions

### Wages and salaries

Salary must be paid in Russian roubles twice a month. Salaries may not be lower than the minimum monthly salary established by Russian legislation. The minimum wage is regularly adjusted.

As of 1 January 2009, the statutory minimum monthly wage (including for foreign nationals) is RUB 4,330 per month (approximately USD 147).

### Employment contracts

A written employment contract setting out the terms of employment must be concluded with every employee and drawn up in two copies, each of which is signed by both parties. The employer must draw up the employment contract within three business days of the day the employee started work.

The Labour Code establishes mandatory requirements for the content of employment contracts.

As a general rule, employment contracts are concluded for an indefinite term. A fixed-term employment contract (no more than five years) may also be concluded, but only in those circumstances specifically provided for by the Labour Code.

An employee's job responsibilities must be defined in the employment contract. An employee cannot subsequently be required to perform tasks outside the scope of duties described in the contract.

Employers are required to issue an internal order each time an employee is hired, transferred to a new job, granted a vacation, disciplined or dismissed, among other situations. Moreover, employers should adopt a certain set of internal regulations compliant with Russian law.

### Working hours

- Employers are required to keep a record of all time worked by each employee, including overtime.
- The standard working week in Russia is 40 hours over

a five- or six-day week. For certain categories of employees, the number of working hours should be reduced (for example, for employees aged from 16 to 18, disabled employees).

- The law strictly defines the minimum payment for overtime and holiday/weekend work.
- On the eve of public holidays, the working day should be one hour shorter.

### Paid holidays

All employees are entitled to a minimum of 28 calendar days of paid leave annually. Normally, employees may begin taking vacation time for first year of their work after they have worked at a company for six months continuously.

### Equal opportunities

It is prohibited to impose, directly or indirectly, any restrictions or privileges on the basis of gender, race, skin colour, nationality, language, origin, material and social status, career position, place of residence (including whether or not a person is registered at his place of residence or place of stay) or other characteristics not related to employees' business qualities, except in instances provided for by federal law. Any discrimination in establishment and adjustment of salary rates is prohibited.

### Termination of employment

An employer may terminate employment only on the specific grounds provided in the Labour Code and other federal laws. Employers must strictly comply with the procedures and documentation requirements provided by the Labour Code when terminating employment. The Labour Code gives additional protection to specific categories of employees, including minors, pregnant employees, employees with children, trade union members, and various other categories. Because of the detailed and varied termination requirements, legal advice should be sought before dismissing an employee.

An employee must give two weeks' notice of resignation upon termination of the employment contract at his own initiative.

## 7.3 Social security

### Coverage

Social and health security covers pensions, unemployment, maternity and child benefits, illness and other social services.

### Employee contributions

Employees currently do not pay Russian social taxes; employers make all contributions.

## Employer contributions

Russian social taxes were substantially reduced from 1 January 2001. Currently, companies pay the following on employee compensation:

- **Unified Social Tax (UST)** comprises numerous elements, including the Social Fund, the federal budget, and various medical funds (federal and regional). UST is generally levied on employees' and contractors' total remuneration at regressive rates starting at 26% for low-income employees, down to 2% for high-income employees.
- **Obligatory Pension Insurance (OPI)** contributions also accrue on employees' and contractors' total remuneration at regressive rates depending on the cumulative remuneration; the amount of this contribution is effectively credited against the federal budget portion of UST.
- **Mandatory Accident Insurance (AI)** against work-related accidents. Rates vary from 0.2% to 8.5% depending on the level of professional risk associated with the employer's activity.

Some key points to consider:

- Special conditions for foreign nationals were abolished in 2003. All components of the Unified Social Tax must now be paid on expatriates' remuneration.
- OPI contributions only apply for Russian nationals and foreign nationals residing in Russia (for example, with a residence permit). A foreign national's exemption from OPI contributions does not, however, reduce the total amount of social taxes payable on their compensation. Consequently, the overall level of payroll tax costs will be the same regardless of an employee's nationality.
- Income paid to contractors is exempt from the Social Fund portion of the Unified Social Tax and so effectively reduces the amount of UST payable. Accident Insurance (AI) is not payable if the civil contract does not stipulate accident insurance coverage.

## 7.4 Foreign personnel

### Accommodation and living conditions

Accommodation in Moscow often conforms to Western standards. There are many apartments or houses that can be rented or bought by expatriates to suit their needs.

Foreign employees usually bring their families to live in Russia. Accompanying family members can obtain Russian visas on the basis of the employment status of the working spouse. There are also schools which cater to children of expatriates.

### Restrictions on employment

There are no restrictions on how many foreign employees can work in a company or how long they can be employed in Russia. But there are some limits to the types of activities foreign employees can carry out (e.g. a foreign individual cannot work in public service, as pilots in command in civil aviation, etc.).

Foreign employees must obtain a work permit and a work visa prior to starting work in Russia.

The Russian government sets a quota for the number of foreign nationals that can be hired in a given year. The quota for 2009 is 4 million work permits, but the government is expected to reduce this by 50% due to rising unemployment. If the quota has been met, no work permits can be issued and, therefore, employing foreign nationals is prohibited.

### Fiscal registration number

There is no requirement to obtain a fiscal registration number for a foreign employee.

### Residence permit

Foreign personnel do not need residence permits to work in Russia; they are authorised to stay and work for as long as their work visa is valid.

### Work permit and visa

Under Russian immigration law, expatriate employees have the right to work in Russia only if they hold individual work permits, and employers can employ foreign personnel only if they hold employment permits (i.e., permission to employ foreign personnel).

This requirement does not apply to foreign nationals permanently residing in Russia on a residence permit or several categories of foreign employees engaged, for instance, in assembling technical equipment delivered to Russia. There are also certain exceptions for employees from CIS countries. Employers do not have to obtain an employment permit to hire these employees, but they should notify the state authorities of their employment.

Employment and work permits are generally issued for one year and for a particular region of Russia. They cannot be renewed and should be reapplied for after they have expired.

Russian immigration authorities will not issue employment or work permits on the basis of secondment agreements. Only a direct employment contract governed by Russian labour law can be the basis for obtaining both employment and work permits.

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The process of obtaining work authorisation documents in Russia takes up to three months and can be started once a company has been duly established. Employment during the pending period is prohibited.

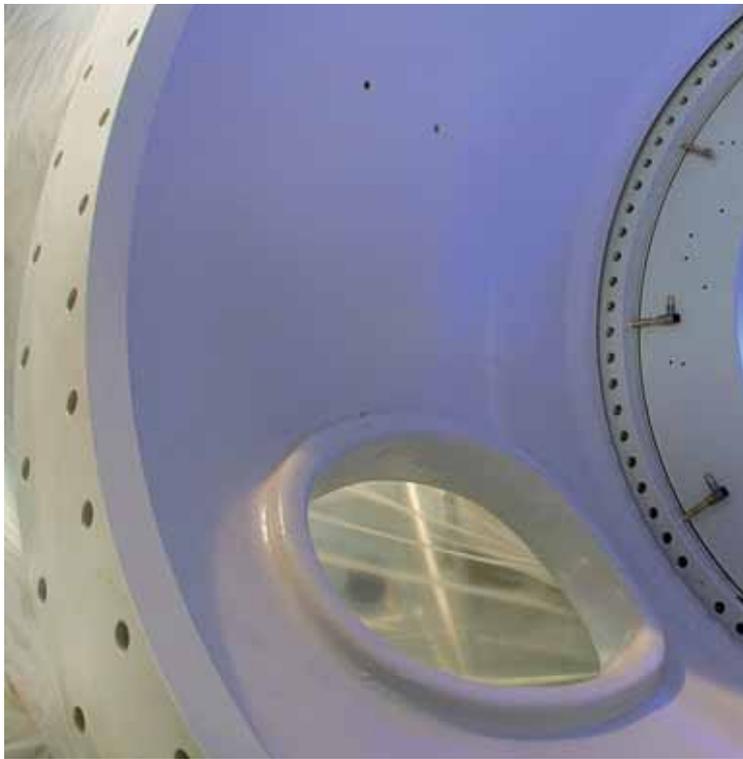
Once a foreign employee has obtained their individual work permit, they will be entitled to stay and work in Russia only on the basis of a work visa. The immigration authorities have become more stringent in checking that foreigners' visas comply with the purpose of their stay in Russia.

It is prohibited to work in Russia on a business visa. A business visa is issued specifically for business trips to Russia (e.g., conducting negotiations, concluding or

extending business contracts, or participating in auctions, exhibitions and other business events). Foreign nationals are entitled to stay in Russia on a business visa for no more than 90 calendar days in a 180-day period; no such limitations apply for work visas.

Accompanying family members should obtain separate work permits if they want to work. Family members receive special visas that are based on the work visa of the employed family member.

Failure to comply with the immigration rules specified above could bring fines of up to RUB 800,000 (approximately USD 27,200 as of 11 January 2009) per employee, per violation.



# 8. Accounting and audit requirements

## 8.1 Accounting

### Introduction of International Financial Reporting Standards

Russian Accounting Rules (RAR) are not yet in line with International Financial Reporting Standards (IFRS), but this is changing.

In 1998, the Russian government adopted a programme to reform Russian accounting in accordance with IFRS. Under this programme, new Russian Accounting Standards (RAS) are being introduced. These standards regulate major aspects of accounting, as well as the presentation and disclosure of information. The new RAS have introduced fundamental accounting assumptions and requirements, thus bringing Russian practice closer to international practice. Practical interpretation of the requirements and assumptions under RAR, however, may be different from IFRS (e.g., RAR are often form-driven).

In 2004, a new Accounting Development Plan was adopted, outlining fundamental changes to be introduced. The plan

calls for mandatory preparation of consolidated financial statements by public and other public interest companies in accordance with IFRS. Stand-alone accounts will be prepared by companies in accordance with Russian accounting rules, to be developed on the basis of IFRS. The plan also includes certain measures to develop the accounting profession, in particular, delegating the development of accounting standards to professional organisations, while leaving the state authorities to decide whether to adopt them or not.

It is expected that the procedure for preparing consolidated financial statements will be established by a federal law on consolidated financial statements, a draft of which is being discussed by the State Duma. Under the new law, consolidated financial statements of public companies will be prepared solely under IFRS, whose recognition and translation into Russian will be approved by the government. Consolidated financial statements will be subject to audit and publication.

<sup>1</sup>The table below is based on the results of "GAAP 2001 – A Survey of National Accounting Rules" conducted by seven leading accounting firms, including PricewaterhouseCoopers, and updated to include the latest developments in both RAR and IFRS.

### Significant accounting differences between Russian accounting standards and IFRS<sup>1</sup>

The main differences between Russian Accounting Rules and IFRS are:

- The concept of inflation accounting does not exist.
- Consolidated financial statements are treated as secondary to the stand-alone statutory financial statements of a company and are often not prepared.
- There are no rules for accounting for the impairment of some assets.
- There is not a specific rule for business combinations.

One of the major differences between Russian accounting and international practice lies in the understanding of the term “accounting” itself. In Russia, the term has a primary meaning of bookkeeping and a secondary connotation of financial reporting. Therefore, Russian Accounting Rules give extensive coverage to bookkeeping procedures, rather than financial reporting rules.

Russian accounting may differ from that required by IFRS because of the absence of specific rules on recognition and measurement in the following areas:

Provisions regarding business combinations accounted for as acquisitions	IFRS 3
Consolidation of special purpose entities	SIC 12
The restatement of financial statements of a company reporting in the currency of a hyperinflationary economy in terms of the measuring unit current as of the balance sheet date	IAS 29
The translation of financial statements of hyperinflationary subsidiaries	IAS 21
The treatment of accumulated deferred exchange differences on disposal of a foreign entity	IAS 21
De-recognition of financial assets	IAS 39
Recognition of operating lease incentives	IAS 17, SIC 15
Accounting for defined benefit pension plans and some other types of employee benefits	IAS 19
Accounting for an issuer's financial instruments	IAS 32, IFRS 2, IFRS 7
Accounting for derivative financial instruments	IAS 39
Hedge accounting	IAS 39
Accounting for long-term assets held for disposal	IFRS 5

There are no specific rules requiring disclosures of:

The fair values of financial assets and liabilities	IAS 32, IFRS 7
The fair values of investment properties	IAS 40
Certain segment information (e.g., a reconciliation between the information by reportable segment and the aggregated information in financial statements; significant non-cash expenses other than depreciation and amortisation that were included in segment expense and, therefore, deducted in measuring the segment result – for each reportable segment)	IAS 14
Summarised financial information on associates	IAS 28
Extensive disclosures on business acquisitions/disposals	IFRS 3
Significant management judgements made in the process of applying the entity's accounting policies and key sources of estimation uncertainty	IAS 1, IAS 36

There are inconsistencies between Russian Accounting Rules and IFRS that could lead to differences for many enterprises in certain areas. Under RAR:

Goodwill is calculated by reference to the book value of acquired net assets	IFRS 3
Proportionate consolidation may be used for subsidiaries in which the parent holds 50% or less of the voting shares	IAS 27
The useful life of property, plant and equipment is usually determined using periods prescribed by the government for tax purposes	IAS 16
Finance leases are generally defined in legal terms and the right of capitalisation is given to a lessor or a lessee by a contract	IAS 17
Derivative financial assets and liabilities are not recognised	IAS 39
Provisions can be established more widely or less widely than under IFRS	IAS 37
The correction of errors is included in the determination of the net profit or loss for the reporting period, but disclosed separately	IAS 8
Revenue recognition rules do not differentiate between exchanges of goods of a similar nature and value and exchanges of dissimilar goods, and do not discuss adjustment for the amount of cash or cash equivalents transferred in exchanges for dissimilar goods	IAS 18

In certain enterprises, the following issues could also lead to differences from IFRS:

Some parent companies do not prepare consolidated financial statements under IFRS	IAS 27.10
In the definition of control, it is not required that the ability to govern decision-making be accompanied by the objective of obtaining benefits from the entity's activities	IAS 27
Certain subsidiaries may be excluded from consolidation beyond those referred to in IFRS	IFRS 3
A subsidiary that is a bank may be excluded from consolidation if it is dissimilar from the rest of the group	IAS 27
Internally generated brands and similar items can be capitalised if the enterprise has an exclusive legal right	IAS 38
The realisable value of inventories is measured without deduction of selling costs	IAS 2

### Statutory requirements

Accounting in Russia is regulated by state authorities. The regulatory framework for Russian accounting has three levels. The first level includes the Law on Accounting, the Civil Code, the Law on Joint-Stock Companies, etc. The second level consists of Russian Accounting Standards. The Central Bank of Russia is responsible for setting standards for banks and other credit institutions, while the Ministry of Finance performs this function for all other companies. The third level is the accounting policies and internal accounting documents of a given company, which are developed based on the first two levels. Each company keeps its accounting books and prepares its financial statements in accordance with its approved accounting policies.

### Preparation of financial statements

#### Form and content of statutory financial statements:

The only financial statements acceptable for filing purposes are the stand-alone statutory financial statements of a legal entity registered in Russia.

The structure, presentation, procedures for preparation and other aspects of statutory financial statements are stipulated in the Russian Accounting Standard "Financial Statements of a Company". Financial statements should be prepared in Russian roubles and in the Russian language, and a company must submit its annual statutory financial statements to:

- Its stockholders, in accordance with its foundation documents;
- The state statistics authorities;
- The state tax authorities.

Basic annual statutory financial statements, called accounting reports, include: a balance sheet, a profit and loss account, and notes to both (the cash flow statement and the statement on changes in equity constitute a part of the notes).

For qualifying small businesses, a simplified set of accounting rules is allowed.

The reporting year is the calendar year.

### Some important aspects

**Balance sheet:** On the face of the balance sheet, all assets and liabilities should be classified into current and non-current depending on their maturity date. Assets and liabilities should be classified as current if their maturity date is within 12 months of the balance sheet date or within the operating cycle if the latter exceeds 12 months. All other assets and liabilities should be classified as non-current.

**Intangible assets:** Intangible assets are categorised according to the relevant accounting standard. Amortisation of an intangible asset is charged over its useful life by one of the following methods: straight-line method, sum-of-the-units method or diminishing balance.

An asset without a specified useful life is not amortised, but is tested annually for the purpose of determining its useful life. Amortisation starts after useful life has been determined. Positive goodwill is included in intangible assets and amortised on a straight-line basis over twenty years. Negative goodwill is accounted for as other income simultaneously.

**Property, plant and equipment:** Property, plant and equipment are recognised at historical cost. To offset the effect of inflation on the fixed assets base, a company has the right to perform revaluations of the historical value of fixed assets and accumulated depreciation once per year (at the beginning of the year) or less often, but still on a regular basis.

The depreciation of fixed assets may be carried out by one of the following methods: straight-line, diminishing balance, sum-of-the-year-digits, or sum-of-the-units. The useful life is determined by a company according to its accounting policy.

**Investments:** Investments should be initially recorded at the cost incurred by the investor, including amounts paid to a seller under a contract, fees paid to intermediaries in relation to an acquisition and other similar items. Securities (except for shares) are shown at the exchange rate of the given foreign currency established by the Central Bank of Russia as at the balance sheet date.

Investments in publicly listed stocks should be revalued at their market value on a regular basis. A provision is

created at the reporting year-end for financial investments in non-listed stocks if they are steadily declining.

**Inventories:** Inventories are initially recognised at cost. The cost of inventories (by type) can be assigned by using different cost formulas if they are transferred for production or otherwise disposed of. The following cost formulas are allowed: specific identification; average cost; first-in, first-out (FIFO). Last-in, first-out (LIFO) is prohibited. Finished goods are valued at actual cost, standard cost or direct cost. Work in progress can be valued at standard cost, direct cost, cost of raw materials and semi-finished goods, or actual cost (for unique production only). For reporting purposes, inventories should be measured at the lower of cost and net realisable value if (1) the price of inventory decreased during the reporting year, or (2) if inventory became obsolete or partially damaged. Provisions for impairment of inventories are created at the reporting year-end. In the balance sheet, inventories are shown net of the provision.

**Receivables:** Provisions for trade receivables that were not settled on the due date and are not secured by appropriate guarantees (under Russian legislation, such receivables are classified as doubtful) are created at the reporting year-end. In the balance sheet receivables are shown net of the provision.

**Legal reserve:** A legal reserve is created by a company in accordance with its foundation documents and may be used for a limited number of purposes (e.g., to cover the loss of the reporting year). The year-end balance of the legal reserve is carried forward into the next reporting period. Joint-stock companies must make a legal reserve in the amount of no less than 5% of the charter capital; joint-stock companies contribute no less than 5% of their annual net profit to the legal reserve until this fund is finally created.

**Finance lease:** Russian legislation stipulates that risks related to assets held under finance lease are borne by the lessor, unless the lease contract provides otherwise. For accounting purposes, the finance lease contract must define whether the lessor accounts for and depreciates an asset held under finance lease and the lessee accounts for such an asset off-balance sheet, or vice versa.

**Business expenses:** All regular business expenses for accounting purposes are taken in full into the calculation of the profit/(loss) for the reporting year. Such expenses include, for example, business travel expenses, advertising expenses and payments made under insurance contracts. For some of these expenses, adjustments are needed in order to calculate profit for tax purposes. Consideration should be given to differences between treatment of expenses for statutory accounting and tax accounting purposes.

**Borrowing costs:** Interest on loans is generally either recognised as an expense and taken in full to the profit

and loss account or capitalised. Other borrowing costs are recognised as other expenses and not capitalised. Russian accounting requires the capitalisation of interest during the construction of a non-current asset. Interest costs relating to non-depreciable fixed assets (i.e., land) can also be capitalised up to the moment the asset is recognised in the books.

**Cash flow statement:** Russian rules do not define the term “cash equivalents” and, therefore, cash balances per cash flow statement are reconciled to cash, rather than to cash and cash equivalents. Only the direct method is allowed.

**Explanatory notes:** The explanatory notes to the annual statutory financial statements must contain essential information about the company and its financial status, comparability of the information for the accounting year and the preceding years, significant accounting policies and other significant information for potential users of the financial statements. Any instances of non-compliance with the accounting rules must be reported in the explanatory notes with an explanation and discussion of the effect on the statutory financial statements. The notes must also announce changes in accounting policies for the following accounting year.

Regulations prescribe rules of disclosure that are in many respects comparable with international practice. These include post-balance sheet events, contingencies, related parties, earnings per share, segment information, government grants, etc. However, the practical implementation and details of these rules may differ. Generally, the scope of disclosure in RAR financial statements is lower than in IFRS financial statements, but it is increasing from year to year.

### Consolidated financial statements

Russian accounting requires that consolidated financial statements be prepared, but they are still treated as secondary to the stand-alone statutory financial statements and are often not prepared. Consolidated accounts can be prepared under either IFRS or RAR.

The decision to prepare consolidated financial statements under IFRS instead of RAR is made by the management of the parent company or its owners/shareholders. IFRS consolidated financial statements that are prepared instead of consolidated statutory financial statements must be provided to the owners/shareholders of the parent company.

Although the Russian consolidation rules introduce a procedural framework similar to IFRS, specific rules may differ (for example, in exceptional cases investments in subsidiaries and affiliates can be carried at cost) or may not address a number of practical issues.

### Publication of financial statements

According to the Law on Accounting, a company's annual statutory financial statements must be accessible to all interested users. Users can receive copies of annual statutory financial statements upon paying copying costs.

The Law on Accounting also requires that certain categories of companies (for example, open joint-stock companies, insurance companies) publish their statutory financial statements. They should also submit their statutory financial statements to regional state statistical authorities, in accordance with the company's registration, for further presentation to interested users.

The publication procedure for open joint-stock companies requires that balance sheets, income statements and audit reports be published. Prior to publication, statutory financial statements must be approved by an annual general meeting and audited. Depending on the volume of operations and the size of the company, it may publish a balance sheet and income statement in short form or in full.

The deadline for publication is 1 June of the year following the reporting year.

### Offices of foreign companies

The Law on Accounting is applicable to branches and representative offices of foreign legal entities in Russia unless otherwise stipulated in an international agreement to which Russia is a party. In setting up and maintaining an accounting function (including the preparation of financial statements), foreign legal entities, branches and representative offices in Russia may choose one of the following:

- Rules existing in the Russian Federation (RAR);
- Rules existing in the country where the foreign legal entity is located, if such rules do not contradict IFRS, as issued by the IASB.

The choice of accounting rules by a foreign entity must be documented as an accounting policy.

Irrespective of their choice of accounting rules, branches and representative offices of foreign legal entities must maintain tax accounting under the rules prescribed by the Russian Tax Code.

## 8.2 Chart of Accounts

In Russia the process of classifying accounting facts is regulated centrally; a uniform Chart of Accounts created by government authorities is traditionally used. There are three main charts: 1) for commercial (business) companies,

2) for banks, 3) for government-funded non-profit organisations (universities, hospitals, museums, etc.). The national Chart of Accounts is used, firstly, for working out typical accounting entries, and secondly, for preparing financial statements.

The Chart of Accounts consists of about 60 accounts and 59 sub-accounts grouped into nine main sections. It is amended occasionally.

The main sections of the Chart of Accounts are presented in the table below.

Account section	Number
Non-current assets	01-09
Inventories	10-19
Cost of production and work-in-progress	20-39
Finished goods and goods for resale	40-49
Cash and investments	50-59
Accounts receivable and payable	60-79
Equity	80-89
Financial results	90-99
Off-balance sheet accounts	001-011

Accounts included in the first eight sections, which are called balance-sheet accounts, are used in double-entry accounting. Section 9 includes special off-balance-sheet accounts reflecting various kinds of transactions that should be made beyond the double-entry system.

Each balance-sheet account has its own two-digit number (code), which is used in accounting ledgers and transactions. Off-balance-sheet accounts have three-digit numbers; they are declared by the Ministry of Finance and cannot be changed by a company. Some account numbers are not now in use but will be used in future revisions of the chart. Because of their complexity, most accounts are divided into sub-accounts. Each account or sub-account can be divided further into analytical accounts according to, for example, the number of suppliers.

On the basis of the Chart of Accounts and instructions to it, an organisation should approve a working chart of accounts containing a full list of accounts and sub-accounts needed for its accounting purposes.

## 8.3 Audit requirements

### Investor considerations

- An annual statutory audit is mandatory for all companies meeting certain criteria set by Russian legislation;

- New Russian Standards on Auditing (RSA) are currently being developed;
- Russian Standards on Auditing are close to international practice;
- Licensing is mandatory for audit firms and auditors working independently;
- In order to conduct audit activities, auditors should hold an audit certificate.

### Companies subject to statutory audit

Under Russian auditing legislation, some companies must have their annual statutory financial statements audited. Commercial non-governmental companies whose annual statutory financial statements are subject to statutory audit include:

- All open joint-stock companies;
- Banks and other credit institutions, insurance companies, commodity and stock exchanges, investment funds, state non-budgetary funds, charitable and other (non-investment) funds, etc.;
- Other companies with annual sales exceeding RUB 50 million for the previous reporting year and companies with total balance sheet assets exceeding RUB 20 million at the end of the previous year. These thresholds can be decreased for municipal enterprises by local law.

In addition, annual statutory financial statements subject to publication must be audited by independent auditors prior to their publication.

Consolidated financial statements are not subject to mandatory statutory audit.

### Standards for audits required by law

The Federal Law "On Audit", enacted in 2008, defines audit services; establishes the rights, obligations and liability of auditors and audit firms; discusses confidentiality and independence; and sets forth substantial compliance regulations.

In December 2008, the State Duma adopted a new Law on Audit. They replace audit licensing with audit firms' mandatory membership in self-regulated professional associations, introduce mandatory quality control and toughen the requirements on auditors' independence. Auditing standards in Russia are expected to be in line with international standards on auditing. Work on preparing these standards began in 2002, and as of 1 January 2009, the Government had approved 33 Russian standards on auditing (PSAD in their Russian abbreviation).

RSA cover the most important audit issues and can generally be compared to international practice, following ISA:

Table of correspondence between RSA (FPSAD) and ISA

PSAD	ISA	
PSAD N 1.	ISA 200.	Objective and general principles governing an audit of financial statements
PSAD N 2.	ISA 230.	Audit documentation
PSAD N 3.	ISA 300.	Planning
PSAD N 4.	ISA 320.	Audit materiality
PSAD N 5.	ISA 500.	Audit evidence
PSAD N 6.	ISA 700 Combined with ISA 701.	The independent auditor's report on a complete set of general purpose financial statements
PSAD N 7.	ISA 220.	Quality control for audits
PSAD N 8.	ISA 330.	Understanding the entity and its environment and assessing the risks of material misstatement
PSAD N 9.	ISA 550.	Related parties
PSAD N 10.	ISA 560.	Subsequent events
PSAD N 11.	ISA 570.	Going concern
PSAD N 12.	ISA 210.	Terms of audit engagements
PSAD N 13.	ISA 240.	The auditor's responsibility to consider fraud and error in an audit of financial statements
PSAD N 14.	ISA 250.	Consideration of laws and regulations in an audit
PSAD N 15.	ISA 315.	No longer in effect as of 16 December 2008
PSAD N 16.	ISA 530.	Audit sampling
PSAD N 17.	ISA 501.	Audit evidence – additional considerations for specific items
PSAD N 18.	ISA 505.	External confirmations
PSAD N 19.	ISA 510.	Initial engagements – opening balances
PSAD N 20.	ISA 520.	Analytical procedures
PSAD N 21.	ISA 540.	Audit of accounting estimates
PSAD N 22.	ISA 260.	Communication of audit matters to those charged with governance
PSAD N 23.	ISA 580.	Management representations
PSAD N 24.	ISA 000.	National framework for assurance engagements
PSAD N 25.	ISA 402.	Audit considerations relating to entities using service organisations
PSAD N 26.	ISA 710.	Comparatives

Table of correspondence between RSA (PSAD) and ISA  
(continuation)

PSAD	ISA	
PSAD N 27.	ISA 720.	Other information in documents containing audited financial statements
PSAD N 28.	ISA 600.	Using the work of another auditor
PSAD N 29.	ISA 610.	Considering the work of internal audit
PSAD N 30.	ISRS 4400 (Previously ISA 920).	Engagements to perform agreed-upon procedures regarding financial information
PSAD N 31.	ISRS 4410 (Previously ISA 930).	Engagements to compile financial statements
PSAD N 32.	ISA 620.	Use of the results of an expert's work by the auditor
PSAD N 33.	ISRE 2400	review of financial (accounting) reports
PSAD N 34.	ISQC 1	quality control of services in audit firms

### Conclusion

While significant progress has been made in the area of accounting reform over recent years, Russia still lacks a full and comprehensive set of accounting and auditing standards. The government recognises this and is working on further reforms.



# 9. Tax system and administration

## 9.1 Tax system

The Russian tax system is relatively new and many tax concepts and issues that are standard in most market economies are just beginning to emerge in Russia. As new concepts are embraced by the Russian authorities, they are often applied differently than in the West, or in other countries with developing tax systems.

Today, tax reform has largely been completed in terms of codification and elimination of multiple tiers of regulations. The Tax Code of the Russian Federation summarises the general tax principles, rights and obligations of taxpayers and tax authorities, description of taxes payable and other provisions.

The government is planning to introduce certain anti-avoidance provisions (including controlled company legislation). In the meantime, guidance from the higher courts lays out several anti-avoidance approaches, including the concept of unjustified tax benefits. The fiscal authorities are beginning to adopt these approaches and crack down on aggressive tax evasion. In doing so, they are beginning to use the substance over form approach. Overall, this is a rapidly developing area. Certain other concepts are planned to be introduced, including profits tax consolidation

and a significant upgrade of transfer pricing rules to bring them more in line with OECD guidelines.

In response to the economic crisis, in November 2008 a bill was passed to introduce a number of measures aimed at supporting businesses and individuals. The most significant change was the reduction of the corporate profits tax rate from 24% to 20%. Further tax incentives are being considered.

### Administration of the tax system

The Federal Tax Service, which is responsible for collecting taxes, is subordinate to the Ministry of Finance, which has overall responsibility for collecting state budget revenues and for setting tax policy.

Other tax law enforcement bodies include the Federal Agency for Economic and Tax Crimes under the Ministry of Internal Affairs, which is responsible for investigating tax crimes.

### Registration requirements

Every legal entity must register with the tax authorities in its place of location, as well as in each location in which it has a branch, a representative office, other separate subdivisions, immovable property or transport vehicles.

A foreign legal entity is required to register with the Russian tax authorities in each location in which it carries out activity through a subdivision (regardless of whether the activity is taxable or not) for a period exceeding 30 days cumulatively during a calendar year. Special registration requirements apply for foreign legal entities which (a) own immovable property in Russia, (b) own transport vehicles in Russia, (c) have movable property subject to taxation in Russia, (d) have opened bank accounts with Russian banks.

## 9.2 Direct and indirect tax burden

According to the Federal Tax Service's official website, indirect taxes compose about one-third of total taxes collected in 2008:

Direct taxes collected in the first nine months of 2008 in Russia:

Mineral resources extraction tax	40%
Corporate profits tax	19%
Unified Social Tax	11%
Other taxes	2%

Indirect taxes collected in 2008 in Russia:

VAT	25%
Excise	3%

## 9.3 Principal taxes

The Russian tax system provides for revenues on three budgetary tiers: federal, regional and local. All taxes are legislated at the federal level, although regional and local authorities have the power to set (or reduce) rates and establish procedures for regional or local taxes. Lower-tier authorities cannot grant concessions with respect to taxes governed by a higher authority (i.e., regional authorities cannot grant concessions on federal taxes).

<b>Federal taxes</b>	<ul style="list-style-type: none"> <li>• Corporate profits tax</li> <li>• Value-added tax (VAT)</li> <li>• Excise taxes</li> <li>• Personal income tax</li> <li>• Unified Social Tax</li> <li>• Mineral resources extraction tax</li> <li>• Payments for the use of natural resources</li> <li>• Water tax</li> </ul>
<b>Regional taxes</b>	<ul style="list-style-type: none"> <li>• Property tax</li> <li>• Transport tax</li> <li>• Tax on gambling</li> </ul>
<b>Local taxes</b>	<ul style="list-style-type: none"> <li>• Land tax</li> <li>• Individual property tax</li> </ul>

Apart from the taxes listed above, a company may be subject to certain obligatory pension and social insurance payments and pollution charges. Customs duty is governed separately by the Customs Code.

## 9.4 Legislative framework

Taxes, duty and fees are enacted by law and may be changed only by new legislation. Bills are developed by the Federal Assembly's lower chamber (State Duma), then approved by the upper chamber (Federation Council) and signed into law by the president.

The Russian legal system does not include case law, and each court ruling technically binds only the parties involved. Nevertheless, the Supreme Arbitration Court and Constitutional Court issue rulings and guidance for the consistent application of laws and compliance with the main constitutional principles, and this guidance plays an important role in defining the approaches taken by taxpayers and the fiscal authorities.

## 9.5 Tax treaties

As of November 2008, Russia has signed and ratified 69 double tax treaties. These tax treaties are usually based on the OECD Model Treaty (although the UN Model Convention is also still applied by developing countries). Local Russian tax authorities generally do not have much experience in interpreting and applying double tax treaties.

Withholding taxes on interest, dividends and royalties are typically reduced by tax treaties. Starting 1 January 2002, treaty benefits can be claimed by any entity or person provided that the foreign company's tax residence certificate is available (no advance clearance is required to apply a treaty's provisions).

Definitions of a permanent establishment in domestic law and in most tax treaties are largely similar. However, the domestic definition does not require a place of business to be "fixed", unlike most treaties. Some tax treaties provide more favourable rules with respect to certain types of tax deductions when determining the amount of business profits taxable by the Russian Federation (e.g., the German treaty allows for unlimited deduction of advertising expenses).

## 9.6 Tax returns and payments

Companies are required to file tax returns with the tax authorities on a monthly, quarterly or annual basis depending on the particular tax and the company's line of business. Some taxes (i.e., profits tax, property tax, Unified Social Tax, etc.) are paid in monthly, quarterly or annual instalments, with a final adjustment made when annual tax returns are submitted.

Companies may choose to calculate profits tax either monthly (with monthly advance payments calculated based on the actual profits received) or quarterly (with equal

monthly advance payments calculated based on profits received during the previous quarter). The final payment for the year is due by 28 March of the following year. The quarterly and annual returns should be filed within the same deadline as the payment due dates.

## 9.7 Assessments

The tax authorities do not issue tax assessments to enterprises. Instead, the company must pay the amount of tax indicated in the tax return.

## 9.8 Appeals

At present, taxpayers can challenge decisions and other actions (or failure to act) of tax authorities either with a superior tax office, or in court. From 2009, an appeal to a superior tax office will become mandatory before the matter may be brought to court.

## 9.9 Withholding taxes

In accordance with the Tax Code, income received by a foreign legal entity and not attributed to a permanent establishment (PE) in Russia is subject to withholding income tax in Russia (to be withheld at source). Withholding income tax rates are as follows:

- 15% on dividends and income from participation in Russian enterprises through investment;
- 10% on freight income;
- 20% on some other income from Russian sources, including royalties and interest;
- 20% of revenue or 20% of margin (24% before 1 January 2009) in relation to a capital gain (from the sale of immovable property located in Russia or shares in Russian subsidiaries where the immovable property located in Russia represents more than 50% of assets). Taxation of the margin (rather than the gross amount of income received from the above sales) can be applied only if proper documentation of expenses is available.

Tax should be withheld by the tax agent and paid within three days of the date when the income was paid.

Income tax withholding rates may be reduced under a double taxation treaty if the foreign company can confirm its tax residence to the Russian tax authorities prior to the date of payment (no advance permission from the Russian tax authorities is required).

## 9.10 Tax audits

Tax returns are desk-audited by the tax authorities upon their submission. The tax authorities also have the right to perform regular field audits of companies. Field audits should not last for more than two months (in some cases they may be extended to four months – for example in audits of “major” taxpayers or taxpayers that have several separate subdivisions – or to six months in exceptional cases), and may cover only three calendar years prior to the year of the audit. Once the tax period has been audited, the tax authorities may not audit the same period again, except when a taxpayer is reorganised or liquidated, or if the respective tax audit is performed as part of a superior tax office’s review, or if a taxpayer has filed an amended tax return with a reduced amount of tax due.

## 9.11 Penalties

The law covers a variety of tax violations and establishes penalties for each particular type.

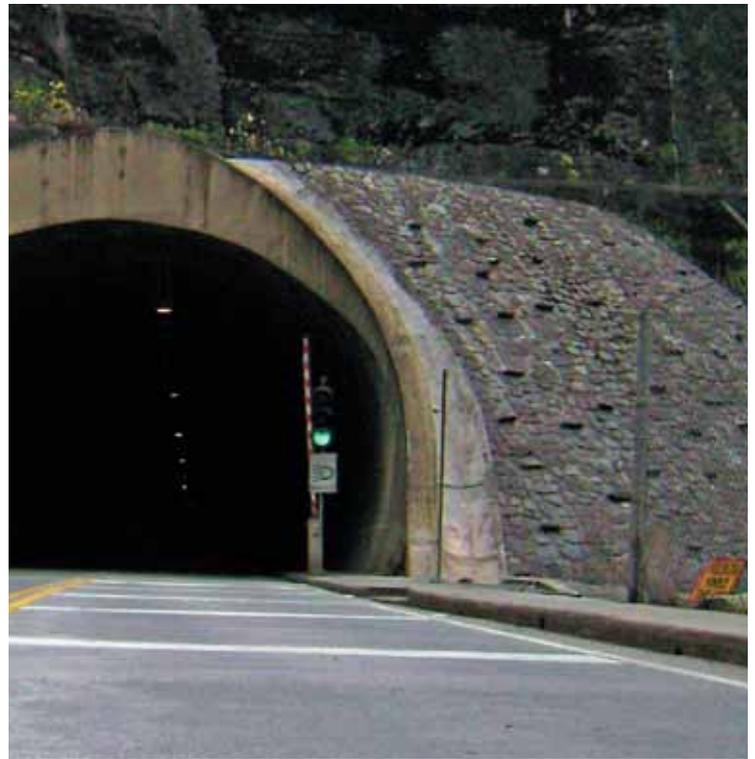
Underpayment of taxes may result in a fine equal to 20% of the underpaid taxes (or 40% if intent can be proven). The late filing of a tax declaration carries a penalty of 5% to 10% of unpaid tax per each month of delay in submitting the tax declaration. A number of fixed fines are imposed on a taxpayer for failure to register with the tax authorities or failure to supply them with the required information, etc. Failure to withhold tax may result in a fine of 20% for the tax agent.

Interest for late payment is charged at a rate calculated as 1/300 of the Central Bank of Russia’s re-financing rate (13% per annum from 1 December 2008) per day. The amount of underpaid tax and late payment interest may generally be collected by the tax authorities without the consent of the taxpayer or a court. However, collection of penalties requires the ultimate consent of the taxpayer or a court ruling.

## 9.12 Advance tax clarifications and advance pricing agreements

Taxpayers have the right to apply to the Ministry of Finance or the tax authorities for clarification of Tax Code provisions. If a taxpayer follows such clarifications (issued individually or placed in the public domain with respect to similar facts and circumstances), it will be relieved of fines or late tax payment interest. However, obtaining clarifications is difficult and time consuming.

According to draft amendments to Chapter I of the Tax Code, taxpayers will be able to conclude advance pricing agreements with tax authorities on the pricing methodology that they can use. Advance pricing agreements are not available at present.



# 10. Taxation of corporations

## 10.1 Corporate tax system

### Taxable entities

Corporations and their shareholders are taxed separately. The maximum profits tax rate for all taxpayers is 20% from 1 January 2009 (it can be reduced to 16% by regional authorities). The corporate income tax system distinguishes between resident legal entities, which pay tax on their worldwide income (credit relief is available for foreign tax paid up to the amount of the Russian tax liability that would have been due under Russian rules), and foreign legal entities, which pay profits tax on income derived through a permanent establishment (at the rate of 20%) and are also subject to withholding tax on income from Russian sources not related to a permanent establishment (at rates varying from 10% to 20% depending on the type of income and the mechanism for its calculation – for more information, please refer to Section 9.9).

### Dividends received by Russian legal entities

Dividends received by Russian legal entities from Russian or foreign legal entities are taxed in Russia at a 9% flat rate.

Dividends received from “strategic investments” are exempt from Russian income tax. An investment is considered strategic when:

- the owner (recipient of dividends) owns at least 50% of the capital of the payer of dividends, or owns depository receipts entitling it to receive at least 50% of the total amount of paid dividends;
- the share or depository receipts have been owned for at least 365 days on the day dividends are declared;
- the value of the investment is at least RUB 500 million (approximately USD 14 million as of 12 February 2009).

Dividends from companies residing in offshore zones with preferential tax regimes are not eligible for the tax exemption. The list of the above offshore zones is established by the Ministry of Finance.

### Dividends paid by Russian legal entities

The standard 15% tax rate is applicable to dividends paid by Russian legal entities to foreign legal entities. The tax should be withheld by the Russian legal entity paying

dividends. The tax may be reduced based on a relevant double tax treaty (typically to 10% or 5%).

### **Territoriality**

A company incorporated in accordance with the laws of the Russian Federation is considered a Russian tax resident.

In the future it is proposed that resident status will depend on “place of management” and also “residence of shareholders”. If the company qualifies as a Russian tax resident according to these criteria, the difference between tax paid abroad and standard Russian corporate income tax will have to be paid to the Russian budget. These amendments to the Tax Code may be adopted starting from 2010.

### **Representative offices / branches of foreign legal entities**

Technically, representative offices of foreign companies are only allowed to conduct representation activities, while branches are allowed to conduct trade or business. Whether a foreign company creates a PE in Russia depends on the scope and nature of its activities, not its legal form.

### **Permanent establishments**

Foreign legal entities pay tax on profits attributable to a permanent establishment (PE). A PE is broadly defined as “a branch, division, office, bureau, agency, or any other place through which a foreign legal entity regularly carries out its business activities in Russia.” Russia’s double taxation treaties may define a PE differently, which could result in tax relief in some cases. Conducting business through an agent may also create a taxable PE in Russia.

Profits of a PE are computed on substantially the same basis as for Russian legal entities, including the composition of tax deductible expenses. The Tax Code does not specifically provide for deductibility of expenses incurred abroad by a head office with respect to its PE in Russia, although most double tax treaties provide for such a possibility. If a foreign legal entity conducts free-of-charge preparatory or auxiliary services for third parties, a PE is considered to have been formed, and the tax base is calculated as 20% of its expenses relating to such activities.

Foreign legal entities operating in Russia through a PE follow the filing and payment schedules established for Russian legal entities, although they do not make monthly advance payments and pay profits tax on a quarterly and annual basis only.

## **10.2 Incentives**

At present, taxpayers may enjoy incentives granted either by regional or local authorities with respect to taxes paid to their budgets, or by special economic zones.

Regional incentives are granted to classes of taxpayers (typically large investors or entities operating in specific industries). The extent of regional incentives and the willingness of regional authorities to grant them have been diminishing over time.

The following types of special economic zones (SEZ) are available:

- technical research and implementation zones for scientific projects;
- industrial production zones to develop industrial production;
- tourism-recreation zones for the development of Russian tourism;
- port zones.

SEZ residents are entitled to a number of tax benefits, such as reduced profits tax, exemption from property tax and land tax, and exemption from customs duty and VAT in some cases.

## **10.3 Taxable income**

### **Tax base**

There are some differences between taxable income and income reported in statutory accounts. Income from the sale of goods, services and securities may be adjusted by the tax authorities in accordance with transfer pricing rules (taxable income may be based on market rather than actual prices). Only “controlled” transactions (please refer to Section 10.5 Related party transactions, transfer pricing) are subject to transfer pricing analysis.

The accounting period in Russia is the calendar year. The taxable base is calculated on an accrual basis (only small-scale taxpayers are still allowed to use the cash basis).

Inventory valuation can be carried out by four methods: FIFO, LIFO, average cost and individual cost methods. The standard profits tax rate of 20% is applicable to all types of income of corporations except for dividends (please refer to section 10.1 Dividends) and interest income on state securities (15%, 9% or 0%, depending on the type of securities).

## Securities

The key taxation principles for securities require that the sales price not deviate substantially from the observable market price for publicly traded securities or the market value computed in line with Russian valuation rules for privately held securities. Only professional securities market participants have the right to deduct securities tax losses from income from other operations without any limitations. Other companies have to calculate financial results from operations with public and private securities separately and may not offset losses from a different basket.

## Exempt income

Some types of income are exempt from profits tax:

- income in the form of property received from a parent which owns more than 50% of shares in the receiving party, or from a subsidiary of which the recipient owns more than 50% of shares;
- income from revaluation of fixed assets and securities;
- income in the form of property received as a contribution to the charter capital;
- income in the form of property received by a shareholder upon distribution of its subsidiary's assets (within a contribution limit);

## 10.4 Deductibility of expenses

Expenses are generally recognised on an accrual basis. The main criteria for deductibility of expenses is that the expense is (a) incurred in the course of an income-generating activity, (b) properly documented, (c) not mentioned in the Tax Code as non-deductible for tax purposes.

### Depreciation

Two methods of depreciation are allowed: the straight-line method and the declining balance method. The useful life of assets for tax purposes is established in the Classification of Fixed Assets, adopted by the Russian Government. Accelerated depreciation is permitted for leased property (a special ratio of up to 3 may be applied).

From 2006, an "amortisation premium" is allowed, which means that a taxpayer has the right to deduct 10% (from 1 January 2009, 30% for certain categories of fixed assets) of the cost of fixed assets purchased (or constructed) in the month when depreciation started. A "premium" recorded on assets sold within five years of their acquisition must be recaptured.

Intangible assets are amortised over the useful life of the asset (or ten years if the useful life of the intangible asset cannot be ascertained).

## Interest

From 1 September 2008 until 31 December 2009, interest expenses are deductible within the following limits:

- the average interest rate on similar loans obtained within one quarter from Russian lenders multiplied by 1.2;
- if there are no similar loans, the following limits are applied: 22% for loans denominated in a foreign currency, or the refinancing rate of the Central Bank of Russia (13% per annum from 1 December 2008) multiplied by 1.5 for loans in roubles.

## Bad debts

Losses resulting from writing off bad debts are generally deductible. Companies can use a bad debt reserve as well. The method of accrual for a bad debt reserve for tax purposes may differ from that in financial accounting because it is based only on the overdue payment period – if the delay exceeds 90 days, the full amount of the account receivable is expensed to the reserve.

## Employee remuneration

Employee remuneration is generally deductible. Documentation is crucial for deductibility – salary payments and bonuses are only deductible for profits tax purposes if they are set out in labour contracts.

## Losses

Tax losses may be carried forward for ten years without limitations (i.e., they can be used to offset the entire taxable profit before a loss carry forward deduction). Carry back is not allowed. Losses from sale of securities can be credited only to future income from the sale of the same type of securities (publicly traded or privately held). Losses from the sale of fixed assets are recognised evenly over the remaining useful life of the assets.

## Non-deductible expenses

The Tax Code establishes a list of non-deductible expenses:

- cost of assets transferred free-of-charge;
- penalties paid to the Russian budget;
- allowance accrued in financial reporting for revaluation of fixed assets or securities;
- some types of insurance expenses (except those specially mentioned in the Tax Code);
- employee remunerations not mentioned in labour contracts;
- some other expenses.

Some types of expenses are subject to limitations on tax deductibility: entertainment expenses, certain types of advertising expenses, interest on loans and other expenses.

## 10.5 Related party transactions, transfer pricing

The tax authorities may examine the prices applied in “controlled” transactions:

- transactions between related parties
- barter transactions
- foreign trade transactions
- transactions in which the prices fluctuated by more than 20% within a short period of time

The prices used in these transactions may only be adjusted for tax purposes if they differ from the market price by more than 20%.

The three methods available to determine market price are (in order of preference): (1) comparable uncontrolled price (CUP) method, (2) resale-minus method and (3) cost-plus method. According to the Tax Code, the last method takes into account an operational rather than gross margin.

The government has been working on amending the transfer pricing rules for a number of years. One of the significant proposed changes would be a requirement to have documentation in place to support the level of prices, broadly in line with the OECD transfer pricing guidelines. The draft bill has not yet been submitted to the State Duma for consideration.

## 10.6 Foreign exchange

Foreign exchange gains and losses are recognised for tax purposes on an accrual basis.

## 10.7 Tax computations

Russian provisions for the elimination of double taxation generally take the form of credit for taxes paid in other countries. For personal income tax and for corporate tax on dividends, credit is granted only if a double taxation treaty is in force.

## 10.8 Energy, utilities and mining specifics

### Profits tax

Expenses connected with exploring and appraising mineral resource deposits (regardless of whether the results are

positive or not) are deducted evenly over a twelve-month period. Expenses connected with preparing an area for mining activities and compensating damages to natural resources are deducted evenly over a five-year period. Expenses related to obtaining a licence may be capitalised into the value of the licence (and further depreciated), or they may be deducted within two years – taxpayer’s choice.

### Mineral Resources Extraction Tax (MRET)

The MRET base differs depending on the type of mineral resource. For crude oil and natural gas, the tax base is the volume extracted. For other mineral resources, the tax base is their value and different ad valorem tax rates apply. A zero rate applies for some resources (e.g., underground water used for agricultural purposes).

The MRET rate on crude oil is based on the amount of oil extracted, world oil prices and the RUB/USD exchange rate. The MRET rate for December 2008 was RUB 1,332 (approximately USD 48) per tonne. For depleted fields, a special reducing coefficient can be applied to the standard MRET rate, and a zero rate applies for green fields in certain territories.

The MRET rate for natural gas is RUB 147 (approximately USD 5) per 1,000 cubic metres of extracted gas. The rate for other resources depends on their type, varying from 3.8% (for potassium salt) to 17.5% (for gas condensate). The rate for products containing gold is 6%, for ferrous metals 4.8%, for coal 4%.

### Export duty

The export duty for crude oil is based on the average global price of Urals blend. The Russian government updates the rate every month (down from every two months due to the oil market’s current instability).

The export duty rate for crude oil in December 2008 was USD 192.1 per tonne.

### Excise tax on oil products and other payments

A flat rate excise tax is charged on the sale and import of gasoline, diesel fuel and motor oils. The excise rates on all excisable products are established up to 2011 inclusive. Starting in 2011 the rate on higher quality oil products (there will be five quality grades) will decrease.

Payments for the use of subsoil depend on the size of the licence area provided to the exclusive user of the subsoil and apply to the size of the area, not including mining allotments.

## 10.9 Other taxes

### Property tax

The property tax base includes only the book value of fixed assets reflected on the taxpayer's balance sheet (including property leased out). Intangible assets, inventories, work-in-progress and financial assets are not subject to property tax in Russia. The maximum property tax rate is 2.2%. Regional legislative bodies have the right to reduce the above rate, as well as to grant property tax exemptions.

### Excise

Excise taxes apply to the production and importation of cars, tobacco, alcohol, petrol and lubricants. Special excise rates for each type of excisable good are established in the Tax Code.

## 10.10 Branch versus subsidiary

### Financing

Provision of funds and assets to a branch is not subject to profits tax. Contributions to a subsidiary are only tax free if they represent contributions to capital or provision of funds/assets to a more than 50%-owned subsidiary.

### Repatriation of cash

Repatriation of cash from a branch to the head office is made without restrictions after corporate profits tax has been paid at the permanent establishment level. In contrast, repatriation of cash by a subsidiary is subject to Russian withholding tax (15% on dividends, 20% on interest, etc.) unless exempt or taxed at a reduced rate under a double tax treaty.

### Tax consolidation

The main advantage of doing business through a subsidiary with several subdivisions is the possibility of consolidating their profits and losses for tax purposes. Such consolidation is not allowed for branches of a foreign company unless the activities of branches form a unified technological process and special approval of the Ministry of Finance has been received (we are not aware that such approval is granted in practice).

Consolidation of VAT is allowed for branches of both a subsidiary and a foreign company.

### Allocation of expenses

Branches with the status of permanent establishment in Russia are normally entitled to deduct general and administrative expenses incurred by the head office under a relevant double tax treaty, while a subsidiary cannot deduct expenses incurred by the parent company.

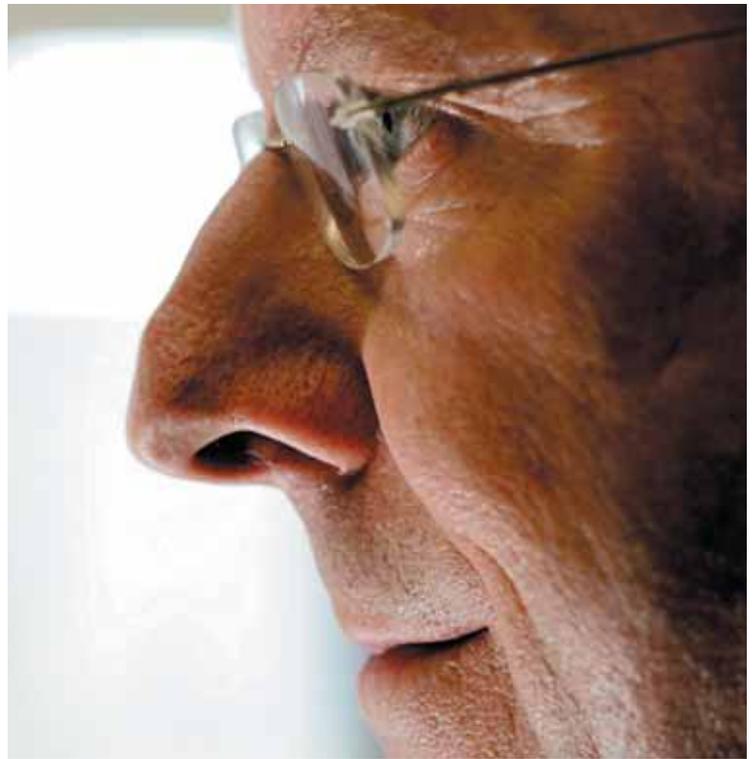
## 10.11 Holding companies

The Tax Code establishes a favourable tax regime for holding companies located in Russia. The tax rate for dividends received by Russian holding companies from foreign subsidiaries is 9%. A zero rate is applicable to dividends received by Russian holdings if the participation requirement is met regardless of who pays dividends (please refer to section 10.1 Dividends). The tax rate on dividends paid to foreign holding companies is 15% (tax must be withheld by Russian subsidiaries on each payment and may be reduced in accordance with a relevant double tax treaty).

## 10.12 Thin capitalisation rules

Interest on loans received from foreign shareholders (as well as their Russian affiliates, or loans guaranteed by foreign shareholders or their Russian affiliates) owning more than 20% of capital is deductible provided the loans do not exceed 3 times the equity allocable to this shareholder (12.5 times for banks and leasing companies). If the loans exceed this limit, the excess part of interest on the loans will be qualified for taxation purposes as dividends paid to foreign shareholders.

Such dividends are not deductible for profits tax purposes and are subject to withholding income tax at the rate of 15% (treaty benefits may apply to reduce the rate).



# 11. Taxation of individuals

## 11.1 Territoriality and residence

### Tax residence

For both Russians and foreign nationals, tax residence is determined by the number of days a person is physically present in Russia.

According to rules effective from 1 January 2007, individuals are tax residents if they spend more than 183 days in Russia during any 12 consecutive months (instead of 183 days within a calendar year, as under the previous rules). However, the Ministry of Finance clarifications imply that the “final” tax residence status of an individual will still be defined by counting the days spent in Russia within the relevant calendar year. Thus, the approach remains the same as under the previous legislation: in order to benefit from the 13% resident tax rate, a taxpayer should spend at least 183 days in Russia in a calendar year.

### Registration

Individuals do not have to register as taxpayers. Individual entrepreneurs do have to register. Foreign nationals are not eligible to be considered entrepreneurs in Russia.

## 11.2 Taxable income

Taxable income is computed as gross income less exemptions and deductions.

The following categories of income are subject to taxation:

- income from employment;
- income from independent activities;
- income from property and property rights;
- income from capital;
- income from real estate transactions;
- other income.

Tax residents in Russia are liable to tax on their total worldwide income received during the calendar year at a flat rate of 13% (except for dividends and other limited categories of income). Benefits in kind (accommodation, provision of a car for personal use, etc.) are treated as taxable income and are generally included at market value.

Tax residents pay 9% on dividend income and 35% on income derived from winnings, insurance benefits, “excess”

interest on bank deposits and selected loans. The deemed “benefit” of receiving a loan at an interest rate lower than two-thirds of the Central Bank of Russia’s refinancing rate, for rouble-denominated loans, or lower than 9% for loans denominated in a foreign currency, is considered a “material benefit”. For foreign currency loans, taxable income is calculated as the difference between interest calculated at 9% and the amount actually paid and is taxed at a flat rate of 35%.

### 11.3 Non-taxable income

Certain statutory allowances, state pensions, certain compensation payments, alimony, certain types of gifts and material aid are exempt from Russian taxation.

### 11.4 Deductions

There are a number of deductions and exemptions employed in arriving at taxable income for tax residents, the majority of which are immaterial in terms of the derived tax savings.

### 11.5 Taxation of non-residents

Non-tax residents pay 30% tax on income received from Russian sources, including income from working in Russia. Tax non-residents pay 15% on dividends from Russian sources. It may be possible to apply the relevant provisions of a double tax treaty to exempt certain types of income from Russian non-resident taxation.

## 11.6 Tax compliance

### Obligations of withholding agents

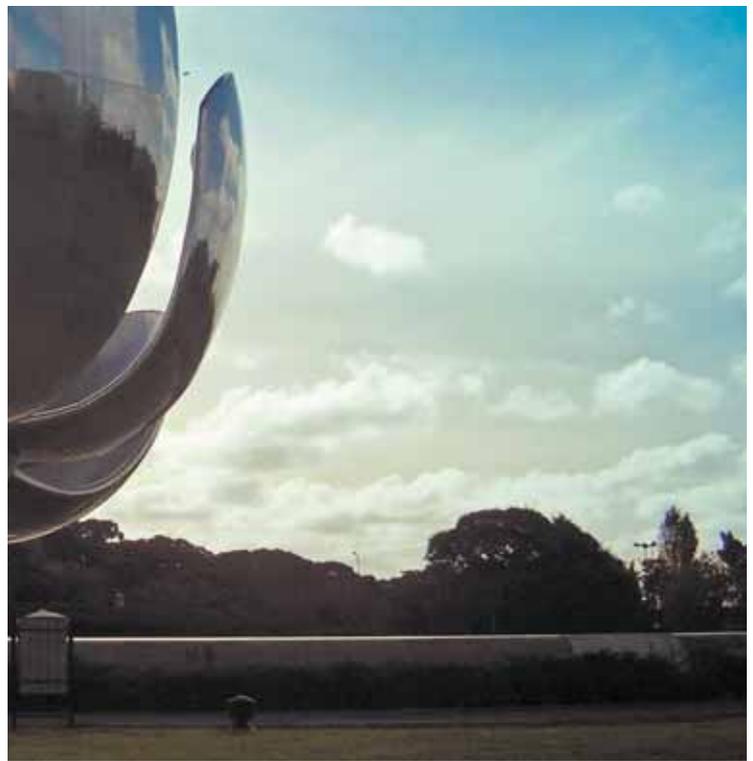
Income tax should be withheld at source by the employer (the tax agent) on all remuneration paid to individuals. Under the current rules, the responsibility to act as a tax agent lies with Russian legal entities, individual entrepreneurs and foreign legal entities that have separate subdivisions in Russia. In addition to withholding obligations, employers must provide the tax authorities with information on income paid and tax withheld and notify the tax authorities about income received by individuals from which tax could not be withheld at source.

### Tax returns for individuals

An individual is required to file an annual tax return with the Russian tax authorities if they:

- are self-employed;
- received income from which Russian tax was not withheld by a tax agent;
- received income from which Russian tax was withheld at the incorrect rate;
- are Russian tax resident and received income from sources outside Russia; or
- are entitled to and intend to take an income tax deduction under Russian law.

Personal income tax withheld by a tax agent is credited against the final tax liability for the year.



# 12. Value-added tax

The standard VAT rate is 18%. This rate applies to all goods and services that do not qualify for another rate or exemption (before 1 January 2004, the standard VAT rate was 20%).

A reduced rate of 10% VAT applies to some food, medical and children's goods.

Some of the information covered in this chapter can also be found on [www.globalvatonline.com](http://www.globalvatonline.com), a PricewaterhouseCoopers global website that provides a comprehensive guide to VAT information from over 70 countries.

## 12.1 Scope of VAT

All supplies of goods, works and services on Russian territory are generally within the scope of VAT.

Goods imported to Russia, construction work done without engaging a third party, and transfers of property rights and goods (works, services) for a taxpayer's own needs are also subject to VAT.

The administrative authority is the Federal Tax Service.

### Place of supply of goods

Russia is deemed the place of supply of goods when either of the following conditions is met:

- the goods are located in Russia and are not shipped or transported; or
- the goods are located in Russia when shipment or transportation begins.

### Place of supply of services

The general rule is that works and services are supplied according to where the supplier has its place of activity. However, there are some exceptions:

- works and services connected with most immovable and movable property (for example, repairs and maintenance) are deemed to be supplied in Russia if the property is located in Russia;
- services in the area of education, culture, art, tourism and sport are deemed to be supplied where physically performed;
- consulting, data processing, marketing, legal, accounting, advertising services; transfer of copyrights, licences and similar rights; engineering services; types of provision of personnel and some agency services relating to procurement are deemed to be supplied in Russia if the buyer carries out its activity in Russia.

The rules determining whether a business has its place of activity in Russia are complex and should be assessed on a case-by-case basis.

### Import VAT

Goods imported into Russia are subject to import VAT.

Import VAT is recoverable if the usual VAT recovery requirements are met. However, foreign companies that are not tax registered in Russia are not entitled to recover import VAT.

## 12.2 Zero-rating

A zero VAT rate is applicable (but is not limited to) to the following operations:

- export of goods to a destination outside Russia;
- transportation, loading/unloading and arranging of transportation, loading/unloading of exported goods performed by Russian organisations or Russian individual entrepreneurs;
- transportation, loading/unloading and arranging of transportation, loading/unloading of imported goods performed by Russian organisations or Russian individual entrepreneurs (except for Russian railway carriers);
- works (services) related to the transportation of goods in transit;
- some goods and services supplied to foreign diplomatic missions.

Applying a zero VAT rate gives taxpayers registered with the Russian tax authorities the right to input VAT recovery.

## 12.3 Exempt supplies

VAT exceptions apply to a broad range of goods and services, including:

- the lease of premises to foreign lessees or to organisations accredited in the Russian Federation (applies only when the corresponding foreign state offers a similar relief to Russian entities, or when stipulated by an international treaty (agreement));
- certain banking transactions;
- sale of securities;
- transactions with medical equipment and medical services;
- transfer of exclusive and non-exclusive rights to software, know-how, databases, inventions, and a range of other rights under a licence agreement (trademarks are not covered by the exemption);
- certain research and development services;
- assignment of loan agreements.

From 1 January 2009, the list of VAT exemptions will be extended to include the sale of scrap and waste ferrous metals.

Amendments to the Tax Code effective from 1 January 2009 introduce a VAT exemption for the import of technological equipment (including components and spare parts) that does not have a Russian equivalent. The Russian government is to approve a list of equipment for which this exemption will apply. The previous exemption for technological and production equipment imported as a contribution to the charter capital was revoked. The new exemption will apply to imports not only of technological and production equipment to be contributed to the charter capital of an entity, but also those made for other reasons (for example, under a buy-sell contract).

## 12.4 Taxable amount

The taxable amount is normally defined as the market value of

goods (works, services) supplied inclusive of excise duty and exclusive of VAT. If the Russian tax authorities consider that the price deviates from the market value of identical goods (works, services) by more than 20%, they may charge additional VAT.

When goods (works, services) are supplied free of charge, the price (and taxable amount) is to be defined as the market value of identical goods (works, services) excluding VAT.

The taxable value for import VAT purposes is defined as the customs value (including freight, insurance and other costs incurred prior to the customs border), increased by any applicable customs and excise duties.

## 12.5 Non-deductible input VAT

The following supplies are specifically denied input VAT deduction:

- VAT on works or services deemed to take place outside Russia;
- VAT on expenses related to non-VATable activities;
- VAT on expenses related to transactions which do not constitute a supply.

VAT cannot be deducted by foreign entities that are not tax registered with the Russian tax authorities.

## 12.6 VAT incentives

Goods declared for temporary importation may be granted full or partial relief from import VAT. When temporarily imported goods are re-exported or released for free circulation, import VAT paid under the partial relief regime is potentially deductible as input VAT under the general rules.

## 12.7 Simplification measures

Import VAT deferral is possible when importing perishable goods and when importing goods under international agreements.

## 12.8 VAT compliance

### Registration

There is no separate VAT registration in Russia, but general tax registration includes registration for VAT purposes. Russian legislation provides each taxpayer with an identification number applicable for all taxes.

### Information in VAT invoice

An invoice for VAT purposes must contain certain information in order to recover VAT.

No separate invoicing requirements are established regarding export sales.

A VAT invoice should be issued within five days of shipment of goods (supply of goods and services).

A duplicate copy of the invoice should be registered

in a sales journal, and incoming invoices should be recorded in a purchases book.

No electronic invoices are accepted.

By agreement of the parties, the payment obligation of the recipient may be denominated in foreign currency.

Receipt of a VAT invoice is mandatory for the recovery of input VAT.

### VAT liability

The liability to pay VAT arises when the VAT return is filed.

As of 1 January 2006, VAT on sales should be paid on an accrual basis. The time of supply for the supplier is the earliest of: the date of shipment (or, where the goods are not shipped, the date of the transfer of ownership) of the goods, the date of performance of the works or services, or the date of payment.

For ongoing or continuous supplies of services, there are no specific rules determining the time of supply. In practice, the tax authorities look to associated documentation, such as acts of acceptance between the parties, to determine the time of supply for services.

For late payment, interest of 1/300 of the Central Bank of Russia refinancing rate is charged for each day of delay on the outstanding VAT amount.

For non-payment of VAT, a fine of 20% of the outstanding VAT is charged. The fine can be increased to 40% if the tax authorities consider that underpayment/non-payment of VAT was deliberate.

The Russian tax authorities are entitled to check a taxpayer's activities for three years prior to the year in which a tax audit is initiated.

### Reverse charge

The reverse charge (withholding) procedure is applicable to all goods (works, services, property rights) deemed supplied in Russia under the VAT place of supply rules.

The Tax Code stipulates that taxpayers who are registered in Russia are obliged to act as tax agents when they acquire goods (works, services) in Russia from non-resident entities and from individuals who are not registered as taxpayers in Russia. In addition, from 1 January 2009, buyers of state property must act as tax agents. The tax agent must calculate the VAT, withhold it from the payment to the supplier, and remit withheld VAT to the authorities.

A Russian tax agent is entitled to recover the withheld VAT if it was paid by the tax agent on the same day the payment to the foreign supplier was made and other VAT recovery criteria are met.

Compliance with these requirements should be reflected in the transaction's supporting documents. Withheld VAT can be confirmed by a services agreement, which should

contain a clause stipulating that the payment amount for the service provider includes Russian VAT. It is also important that invoices and acts of acceptance indicate a VAT amount included in the supplier's remuneration.

VAT invoices are normally required for recovery of input VAT. However, in a purchase from a foreign supplier which is not tax registered in Russia, the Tax Code does not provide for the obligation to issue a VAT invoice, either by the seller or the buyer. In practice, the tax authorities expect that the Russian buyer prepares a VAT invoice on behalf of the foreign supplier.

### Returns and payments

From 1 January 2008, all taxpayers are required to file VAT returns on a quarterly basis. The time limit for filing a VAT return is 20 days from the end of the tax period (a quarter).

Starting from the third quarter of 2008, taxpayers have the option of paying VAT in three instalments in the three months following the relevant quarter.

### Refunds

VAT on goods and services (work) acquired in order to carry out VATable transactions should be recoverable.

Input VAT related to both VATable and non-VATable activities should be allocated between these two types of activities. After allocation, the input VAT related to non-VATable activities is generally not to be deducted, unless the related costs represent less than 5% of the total costs incurred by a particular taxpayer.

If a business is due a VAT refund, the amount due should first be offset against other existing tax liabilities of the same type or against liabilities of the next three months. If after the three-month period there is any balance left, in principle the taxpayer is entitled to a refund. Technically, a taxpayer is entitled to receive interest on the amount of any refund made after the established deadline.

In practice, VAT refunds have been difficult to achieve in Russia and are usually only granted after lengthy court litigation. However, the refund process improved through 2008, and with the economic crisis and resulting amendments to the Tax Code, these refunds may be more easily obtained in the future.

There is no cross-border refund mechanism for non-registered businesses. Only entities that obtain general tax registration in Russia are entitled to a VAT refund, provided other requirements for recovering VAT have been met.

### Recovery of VAT on advances paid to suppliers

From 1 January 2009, the Tax Code provides for the recovery of VAT on advances paid to suppliers for future supplies of goods (performed works, rendered services) and transfers property rights. This recovery can be made on the basis of VAT invoices issued by the seller, provided that the normal VAT requirements have been met.



# 13. PricewaterhouseCoopers in Russia

## About PricewaterhouseCoopers

- A global organisation with offices in 153 countries. One of the world's leading employers of highly skilled professionals – more than 155,000 staff all over the world
  - The largest professional services firm with an unmatched portfolio of client companies
  - An organisation that recognises and meets its responsibilities to a broad community of stakeholders
- 2008 Global Most Admired Knowledge Enterprises 'Hall of Fame' – Fortune 500, December 2008
  - The largest Russian audit and consulting company by revenue – Expert RA, March 2008
  - The largest Russian audit and consulting company by capitalisation of clients – Russia's Kommersant Dengi magazine and Expert RA, March 2008
  - Tax Firm of the Year in Russia – International Tax Review, May 2008
  - Best Tax Practice in Russia 2009 – World Finance, 2009
  - Best Tax Team of the Year in Russia – The New Economy, September 2008
  - Ranked first in the auditor rating based on volume of IPOs between January and June 2008 – offerings.ru website, January to June 2008
  - Mid-market Deal of the Year 2008 – Acquisitions Monthly, 2008
  - Due Diligence Advisor of the Year 2008 – Acquisitions Monthly, 2008
  - # 1 in Business Advisory Services and Management Consulting – Kennedy Consulting Research & Advisory, April 2009
  - Leading financial adviser in Russia 2009 – Acquisitions Monthly, April 2009
  - Leader in Information Security Consulting – The Forrester report, March 2009
  - PricewaterhouseCoopers CIS Law Offices B.V. is one of Russia's leading law firms. – Legal 500, 2009

Our mission is to build public trust and enhance value for our clients and their stakeholders. By building trust, we support the efficient and transparent functioning of financial and commercial markets around the world. By enhancing value, we help companies achieve their business objectives. We pursue this mission through industry-focused assurance, tax and advisory services.

## Key facts about PricewaterhouseCoopers Russia

- First established in Russia as early as 1913 and renewed its presence here in 1989
- The largest consultancy and audit business in the country (according to the rating agency Expert RA)
- Offices in Moscow, St Petersburg, Kazan, Yuzhno-Sakhalinsk, Togliatti and Ekaterinburg
- More than 2,500 professionals

### Corporate social responsibility

PricewaterhouseCoopers continues to develop its Connected to Russia programme, aimed at supporting initiatives in child welfare, education, culture and sport. For many years now, PricewaterhouseCoopers has provided support to orphanages, has been involved in international charity programmes to raise funds for children in need, and has funded the restoration of historic and literary heritage sites in Russia.

- 27 charity projects were implemented in 2007–2008
- 147 PwC volunteers
- 2 million roubles were raised for the charity Downside Up through a fundraising expedition to Mt Elbrus
- USD 1.2 million raised by companies participating in the Charity Instead of Gifts initiative will help improve the quality of life of hundreds of people in need
- PwC has become an official partner of legendary hockey team CSKA, following sponsorship in the 2007–2008 season

## Our services

### Assurance Services

- Audits to International Financial Reporting Standards (IFRS) and US GAAP
- Russian Statutory Audit

### Advisory Services

- Transactions
- Performance improvement

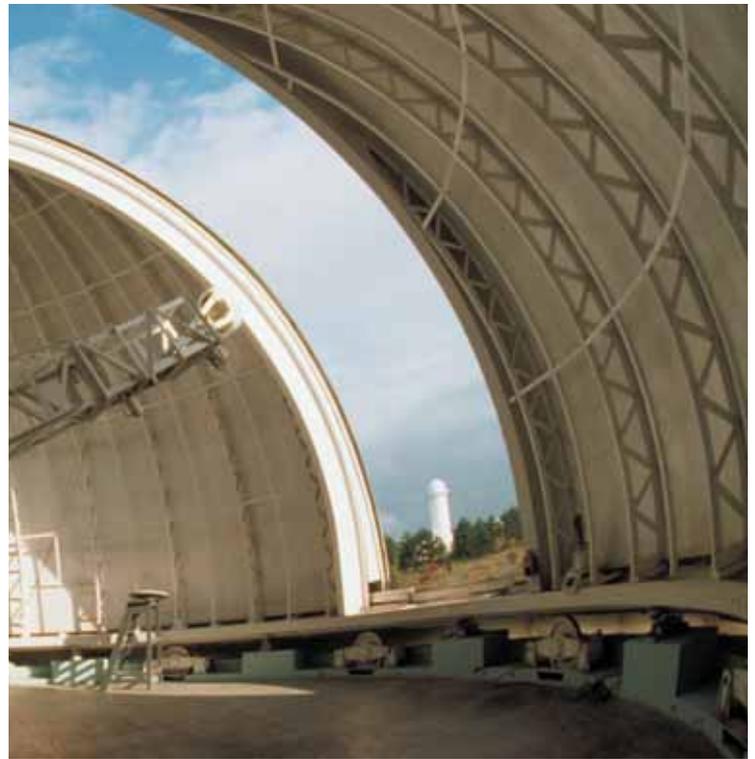
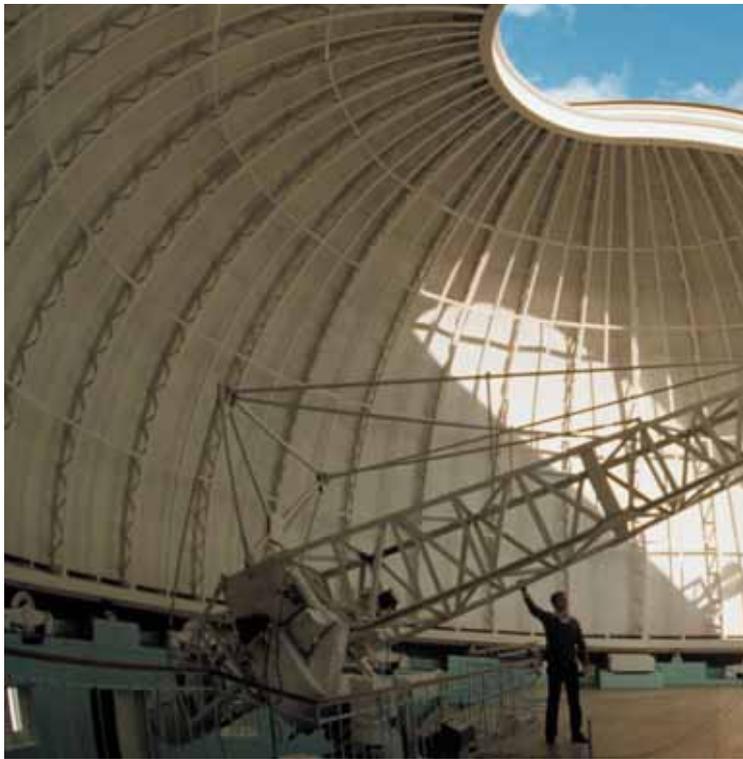
### Tax and Legal Services

- Global compliance services
- International tax structuring
- Transfer pricing
- Tax aspect of mergers and acquisitions
- Indirect taxation and customs
- Tax dispute resolution
- International assignment services
- Human resources services
- Legal services

### Client training

### Our industry practices

- Financial Services
- Energy, Utilities and Mining
- Consumer and Industrial Products
- Technology, Communications, Entertainment and Media



# Appendices

## Appendix A – Main macroeconomic indicators of Russia in 2002–2008

	2002	2003	2004	2005	2006	2007	2008
Gross domestic product (GDP) (USD billion)	345	431	592	764	985	1,290	1,757
Gross domestic product (GDP), % y-o-y	104.7	107.3	107.2	106.4	106.7	108.1	105.6
Fixed capital investments, % y-o-y	102.6	112.5	110.9	110.5	113.5	121.1	109.1
CPI, % y-o-y	15.1	12	11.7	10.9	9.0	11.9	13.3
Volume of industrial production, % y-o-y	103.7	107	106.1	104	103.9	106.3	102.1
Gold and foreign exchange reserves (USD billion)	48	77	125	182	303.7	476.4	427.1
FDI (USD billion)*	3.5	8	15.4	14.8	30.8	55.0	60.0

\* Source: Rosstat, Central Bank of Russia, EIU, Ministry of Economic Development of the Russian Federation

## Appendix B – Tax rates

Corporate income tax rates	<ul style="list-style-type: none"> <li>• 20% is the standard rate (effective from 1 January 2009) Regional authorities can reduce it by 4 percentage points for tax payable to the regional budget;</li> <li>• 9% or 0% is the tax rate on dividend income;</li> <li>• 15%, 9% or 0% is the tax rate on interest income on state securities (depending on the type of securities).</li> </ul>
Tax depreciation rates	Straight-line and declining balance depreciation methods. The useful life of assets for the purposes of straight-line method is established in the Classification of Fixed Assets, approved by the Russian Government. Accelerated depreciation for leased assets. A 30% depreciation premium (lump-sum deduction) is available in the month when depreciation starts (effective from 1 January 2009).
Withholding taxes	<ul style="list-style-type: none"> <li>• 15% on dividends and income from participation in Russian enterprises with foreign investments;</li> <li>• 10% on freight income;</li> <li>• 20% on certain other income from Russian sources, including royalties and interest;</li> <li>• 20% of revenue or 20% of margin in relation to capital gain (for sale of immovable property located in Russia or shares in Russian subsidiaries where immovable property located in Russia represents more than 50% of assets). Taxation of margin (rather than the whole amount of revenue received from the above sales) can be applied only if proper documentary support of expenses is available.</li> </ul>
Personal income tax	<p><b>For residents:</b></p> <p>13% - standard rate (applied to the worldwide income of an individual)</p> <p>9% - for dividend income</p> <p>35% - for specific types of income (winnings, prizes and others)</p> <p><b>For non-residents</b></p> <p>30% - standard rate (applied to income received from Russian sources)</p> <p>15% - for dividend income</p>
Personal allowances (and/or credits)	<p>Main exemptions:</p> <ul style="list-style-type: none"> <li>• charity contributions</li> <li>• social expenses: e.g., education expenses including those on children, medical expenses except for expensive treatments. (from 1 January 2008, up to RUB 120,000 (approx. USD 4,000))</li> <li>• income from sale of immovable and other property held for three years or more, or documented expenses</li> <li>• income from sale of immovable property and land plots held for less than three years in the amount of RUB 1m (approx. USD 34,000), or documented expenses</li> <li>• income from sale of other property held for less than three years in the amount of RUB 125,000 (approx. USD 4,250), or documented expenses</li> <li>• income spent on construction or purchase of premises (maximum RUB 2m; approx. USD 68,000) plus related interest payments. This deduction can be granted only once. The deduction can be carried forward up to full utilisation.</li> <li>• income from sale of securities in the amount of documented expenses or, for securities sold before 2007 and held for more than 3 years, full amount of income from sale.</li> </ul>
Tax on foreign nationals working in Russia	No special tax on foreign nationals working in Russia
Wealth tax	None
Estate and/or inheritance and/or gift tax rates	None (abolished from 1 January 2007)
Capital tax	None
Indirect taxes	<p><b>Value-added tax</b></p> <p>18% - standard rate</p> <p>10% - rate applicable to sale of some types of goods (basic food products, medicines, etc.)</p> <p>0% - rate for export sales</p> <p><b>Excise</b></p> <p>Special excise rates are established for production and importation of cars, tobacco, alcohol, petrol and lubricants.</p>

## Appendix C – Corporate taxes in Russia: withholding taxes

Country	Treaty benefits available from	Dividends (%)	Interest (%)	Royalties (%)	Construction site duration (months)
Albania/RF	1 January 1998	10	10	10	12
Algeria/RF	1 January 2009	5 or 15	0* or 15	15	6 and an aggregated period of more than 3 months in any 12-month period for furnishing services
Armenia/RF	1 January 1999	5 or 10	0	0	18
Australia/RF	1 January 2004	5 or 15	10	10	12
Austria/RF	1 January 2003	5 or 15	0	0	12
Azerbaijan/RF	1 January 1999	10	0* or 10	10	12
Belarus/RF	1 January 1998	15	0* or 10	10	no special provisions in the relevant DTT, local tax legislation provisions should apply
Belgium/RF	1 January 2001	10	0* or 10	0	12
Bulgaria/RF	1 January 1996	15	0* or 15	15	12
Canada/RF	1 January 1998	10 or 15	0* or 10	0 or 10 (0% applies to specific types of rights)	12
China/RF	1 January 1998	10	0* or 10	10	18
Croatia/RF	1 January 1998	5 or 10	10	10	12
Cyprus/RF	1 January 2000	5 or 10	0	0	12
Czech/RF	1 January 1998	10	0	10	12
Denmark/RF	1 January 1998	10	0	0	12 and an aggregated period of more than 365 days in any 18-month period for drilling rig
Egypt	1 January 2001	10	0* or 15	15	12 and an aggregated period of more than 6 months in any 12-month period for furnishing services
Finland/RF	1 January 2003	5 or 12	0	0	12 and 18-month period for particular types of construction works
France/RF	1 January 2000	5 or 10 or 15	0	0	12
Germany/RF	1 January 1997	5 or 15	0	0	12
Greece/RF	1 January 2008	5 or 10	7	7	9
Hungary/RF	1 January 1998	10	0	0	12
Iceland/RF	1 January 2004	5 or 15	0	0	12
India/RF	1 January 1999	10	0* or 10	10	12 (may be extended upon agreement with the competent authorities)
Indonesia/RF	1 January 2003	15	0* or 15	15	3
Iran/RF	1 January 2003	5 or 10	0* or 7,5	5	12
Ireland/RF	1 January 1996	10	0	0	12
Israel/RF	1 January 2001	10	0* or 10	10	12
Italy/RF	1 January 1999	5 or 10	10	0	12
Japan/USSR	1 January 1987	15	0* or 10	0 or 10 (0% applies to specific types of rights)	12
Kazakhstan/RF	1 January 1998	10	0* or 10	10	12
Korea, Democratic People's Rep/RF	1 January 2001	10	0	0	12 and an aggregated period of more than 6 months in any 12-month period for furnishing services

Korea, Rep./RF	1 January 1996	5 or 10	0	5	12 (may be extended up to 24 months upon agreement with the competent authorities)
Kuwait/RF	1 January 2004	0 or 5 (0% rate applies to dividends paid to governmental agencies or financial institutions)	0	10	6
Kyrgyzstan/RF	1 January 2001	10	0* or 10	10	12
Lebanon/RF	1 January 2001	10	0* or 5	5	12
Lithuania/RF	1 January 2006	5 or 10	0* or 10	5 or 10	9
Luxembourg/RF	1 January 1998	10 or 15	0	0	12
Macedonia/RF	1 January 2001	10	10	10	12
Malaysia/USSR	1 January 1989	0 or 15 (15% rate applies to profits received from joint-venture by resident of Malaysia)	0* or 15	10 or 15 (depending on the type of rights)	12 and more than 6-month period for installation or assembly projects
Mali/RF	1 January 2000	10 or 15	0* or 15	0	no special provisions in the relevant DTT, local tax legislation provisions should apply
Mexico/RF	1 January 2009	10	10	10	6
Moldova/RF	1 January 1998	10	0	10	12
Mongolia/RF	1 January 1998	10	0* or 10	rates in accordance with local legislation	24
Montenegro/RF	1 January 1998	5 or 15	10	10	18
Morocco/RF	1 January 2000	5 or 10	0* or 10	10	8
Namibia/RF	1 January 2001	5 or 10	0* or 10	5	9 and more than 6-month period for furnishing of services and installation projects
Netherlands/RF	1 January 1999	5 or 15	0	0	12
New Zealand/RF	1 January 2004	15	10	10	12
Norway/RF	1 January 2003	10	0* or 10	0	12
Philippines/RF	1 January 1998	15	0* or 15	15	183 days and an aggregate period of more than 183 days in any 12-month period for furnishing of services)
Poland/RF	1 January 1994	10	0* or 10	10	12 (may be extended up to 24 months upon agreement with the competent authorities)
Portugal/RF	1 January 2003	10 or 15	0* or 10	10	12
Qatar/RF	1 January 2001	5	0* or 5	0	6
Romania/RF	1 January 1996	15	0* or 15	10	12
Serbia/RF	1 January 1998	5 or 15	10	10	18
Singapore/RF	1 January 2009	5 or 10	0* or 7,5	7,5	6 and an aggregated period of more than 3 months in any 12-month period for furnishing services
Slovakia/RF	1 January 1998	10	0	10	12
Slovenia/RF	1 January 1998	10	10	10	12
South Africa/RF	1 January 2001	10 or 15	0* or 10	0	12
Spain/RF	1 January 2001	5 or 10 or 15	0* or 5	5	12

## Appendix C – Corporate taxes in Russia: withholding taxes (continuation)

Sri Lanka/RF	1 January 2003	10 or 15	0* or 10	10	6 and an aggregated period of more than 183 days in any 12-month period for furnishing services
Sweden/RF	1 January 1996	5 or 15	0	0	12
Switzerland/RF	1 January 1998	5 or 15	0** or 5 or 10	0	12
Syria/RF	1 January 2004	15	0* or 10	4.5 or 13.5 or 18 (depending on type of rights)	6
Tajikistan/RF	1 January 2004	5 or 10	0* or 10	0	12 (may be extended upon agreement with the competent authorities)
Thailand/RF	1 January 2009	15	0* or 10	15	6 and an aggregated period of more than 3 months in any 12-month period for furnishing services
Country	Treaty benefits available from	Dividends (%)	Interest (%)	Royalties (%)	Construction site duration (months)
Turkey/RF	1 January 2000	10	0* or 10	10	18
Turkmenistan/RF	1 January 2000	10	5	5	12
UK/RF	1 January 1998	10	0	0	12
Ukraine/RF	1 January 2000	5 or 15	0* or 10	10	12
USA/RF	1 January 1994	5 or 10	0	0	18
Uzbekistan/RF	1 January 1996	10	0* or 10	0	12
Vietnam/RF	1 January 1997	10 or 15	10	15	6 and more than 12-month period for furnishing services

\* In general 0% tax rate applies to interest payments to the Governments of contracting states, and to payments guaranteed by Government

\*\* 0% tax rate may be applied provided such interest is paid a) in connection with the sale on credit of any industrial, commercial or scientific equipment, or (b) in connection with the sale on credit of any merchandise by one enterprise to another enterprise

## Appendix D – Useful sources of information

### Government resources

[www.kremlin.ru/](http://www.kremlin.ru/) – Official presidential site

[www.gov.ru/](http://www.gov.ru/) – Official governmental portal (Russian)

[www.duma.ru](http://www.duma.ru/) – Official site of the parliamentary lower house (Russian)

[www.council.gov.ru/eng/index.html](http://www.council.gov.ru/eng/index.html) – Official site of the parliamentary upper house

[www.cbr.ru](http://www.cbr.ru/) – Central Bank of Russia

<http://www.economy.gov.ru/> – Ministry for Economic Development of the Russian Federation

<http://www.rost.ru/> – National Priority Projects

### Associations and business groups

[www.amcham.ru](http://www.amcham.ru/) – The American Chamber of Commerce in Russia

[www.rbcc.com](http://www.rbcc.com) – The Russo-British Chamber of Commerce

[www.aebrus.ru/](http://www.aebrus.ru/) – The Association of European Businesses

[www.rspp.ru/](http://www.rspp.ru/) – The Russian Union of Industrialists and Entrepreneurs

<http://eng.tpprf.ru/> – The Russian Chamber of Commerce and Industry

[www.invest2russia.com](http://www.invest2russia.com); [www.b2russia.ru](http://www.b2russia.ru) – project aimed to become means of investment exchange between Russia and global investors

### Other

[www.waytorussia.net/](http://www.waytorussia.net/) – Independent guide to Russia

[http://news.bbc.co.uk/2/hi/europe/country\\_profiles/1102275.stm](http://news.bbc.co.uk/2/hi/europe/country_profiles/1102275.stm) – BBC country profile

# Contact information:



**Peter Gerendasi**  
Managing Partner  
peter.gerendasi@ru.pwc.com



**David Gray**  
Partner, Energy, Utilities & Mining Practice leader  
david.gray@ru.pwc.com



**Richard Munn**  
Partner, Assurance Services leader  
richard.munn@ru.pwc.com



**Gordon Latimir**  
Partner, Financial Services Practice leader  
gordon.latimir@ru.pwc.com



**Bill Henry**  
Partner, Tax and Legal Services leader  
bill.henry@ru.pwc.com



**Chris Skirrow**  
Partner, Consumer, Industrial Products &  
Services Practice leader  
chris.skirrow@ru.pwc.com



**Robert Gruman**  
Partner, Advisory Services leader  
robert.gruman@ru.pwc.com



**Christopher Monteleone**  
Partner, Technology, Communications,  
Entertainment and Media Practice leader  
chris.monteleone@ru.pwc.com

PricewaterhouseCoopers Russia  
Kosmodamianskaya nab., 52, bldg. 5  
115054 Moscow, Russia  
Tel.: +7 (495) 967-6000  
Fax: +7 (495) 967-6001

[www.pwc.ru](http://www.pwc.ru)

## List of contributors:

Dmitry Aborin, Senior Tax Consultant

Ekaterina Avilova, Associate

Alan Broach, Tax Partner

Ksenia Debuire, Manager

Alexei Dingin, Associate

Valeria Efremova, Tax Manager

Evgeniy Gouk, Associate

Maria Grishina, Associate

Tatyana Gudilina, Research Assistant Manager

Diana Kalyaeva, Associate

Maxim Kandyba, Associate

Elena Kataeva, Associate

Karina Khudenko, Tax Director

Andrei Kolchin, Tax Partner

Natalia Komarova, Tax Manager

Leonid Kostroma, Research Manager

Nariman Kutlubaev, Senior Tax Manager

Nadezhda Levina, Senior Tax Consultant

Zorina Lexcier, Senior HR Consultant

Matvey Manuilov, Tax Director

Sarah Martin, Editor

Anna Nakonechnaya, Research Assistant Manager

Julia Nemtyreva, Junior Associate

Andrey Odabashyan, Associate

Gennady Odarich, Associate

Yana Proskurina, Associate

Anton Shishkin, Tax Manager

Evgeny Sivoushkov, Tax Director

Natalia Skochko, Tax Consultant

Marina Shmatikova, Tax Manager

Alexei Smirnov, Tax Director

Vyacheslav Sokolov, Partner

Vladimir Sokolov, Associate

Julia Sokolova, Senior Tax Consultant

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