Doing business and investing in the Russian Federation 2010
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I am pleased to present you with the 2010 edition of our annual guide Doing Business and Investing in the Russian Federation.

The 14 chapters of this year’s edition cover a broad range of issues to be considered in evaluating the prospects of operating and investing in a business in Russia. These include the principal economic trends, regulatory framework, dynamics observed in the key industries, investment climate and other aspects relevant to businesses and individual investors.

The Russian economy was noted for its sustained growth during the period from 1999 to 2007. Having contracted due to the global economic crisis in the second half of 2008, the economy resumed moderate growth towards the second half of 2009. The combination of a continuing upward trend in oil and commodity prices, tight monetary policy and balanced governmental support of core enterprises is fuelling a gradual recovery of the Russian economy, which warrants new possibilities for foreign companies and investors in 2010 and onwards.

PricewaterhouseCoopers, with its worldwide network of experts and 20-year presence in Russia, has substantial experience in advising businesses and individuals on the specifics of the Russian market. We have extensive expertise in all major business sectors and dedicated specialists that are ready to offer services tailored to the needs of your business.

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

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1. Russia: country profile

1.1. Introduction

Geography and climate

Russia is vast, extending over much of the northern part of Eurasia: with an area of 17,075 million km² (6.6 million mi²), it is the largest country in the world. To the west, it borders Ukraine, Belarus, Poland and the Baltic countries; to the north, Finland, Norway and the Baltic republics; and to the south, Georgia, Azerbaijan, Kazakhstan, Mongolia, China and North Korea. Russia has a coastline on three oceans: the Arctic, the Atlantic and the Pacific.

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

The Russian Federation comprises 83 federal subjects, which are grouped into eight 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 and was replaced by the USSR, which was made up of 15 republics.

After a difficult victory in World War II, the Soviet Union consolidated its hold in Eastern Europe as a result of the Warsaw Pact and, as the dominant force in 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 breakup 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 is now the country’s prime minister.

1.2 Government structure

The 1993 Constitution states that Russia is 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 legally distanced from all branches of power, but he is most allied to the executive branch.

The legislature consists of 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 motion against the president. The Federation Council approves or rejects laws adopted by the State Duma and appoints high court judges.

On 30 December 2008 Dmitry Medvedev signed a constitutional amendment that extended 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 State Arbitrazh 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 State Arbitrazh Court is the final instance in commercial disputes, supervises lower arbitrazh courts and issues clarifications on interpretations of the law.

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 the norms of international law and international treaties and agreements with Russia as part of the domestic legal system. If an international treaty or agreement ratified by the Russian Federation establishes rules other than those established 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, and its relatively low-cost and generally highly skilled workers are one of the main attractions for investors. Russia’s population is approximately 141.9 million, of which 62.9% are of working age, 15.9% are below it, and 21.2% 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. English is compulsory in most schools.

Religion

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

Education

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

There are currently around 1,100 institutions of higher education in Russia. About 23% of the population has completed a higher education, and 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, income levels in big cities approach those in Central and Eastern Europe. The income of senior and middle management in Moscow and St Petersburg almost reaches that of their counterparts in developed countries.

1.5 Economy

Overview

Starting in 1991, after the breakup of the USSR, Russia’s GDP witnessed a sustained period of decline until 1998. After the 1998 economic crisis, the Russian economy began to pick up, 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, particularly in the construction and service industries. In 2007, Russia’s GDP grew by 8.1%, and in 2008 there was GDP growth of 5.6%.

The global economic crisis hit Russia in the second half of 2008. Following the world’s lead, the Russian economy began to shrink. The economic picture in Russia reflected that seen in Western Europe and the US: the drying up of financing, falling sales, and production and staff cuts.

In 2009 the economy contracted by 7.9%, though a positive recovery trend took place in the second half of the year, when the economy resumed moderate growth.

Industrial production decreased by 10.8% in 2009 as compared to the previous year. Manufacturing witnessed the most significant drop, falling 16% as a result of serious problems, especially in the automotive and construction material industries. In contrast, extraction decreased by only 1.2%, and saw a 4.9% increase in December 2009. Utilities fell by 4.8%.

A serious drop of 16% was recorded in the construction industry. Agricultural production increased by 1.2%.

Retail trade turnover decreased by 5.5%, while capital investments dropped by 17%.

In contrast, real disposable income was resistant to the crisis, and actually increased by 1.9%. Real wages fell by 2.8%.

The labour force numbered 75.7 million, or 67.8% of the total population. The number of unemployed people reached 6.3 million (8.4% of the workforce).

In 2009 CPI reached a record-low of 8.8% (as compared to 13.3% in 2008). The main drivers of declining inflation have been lower consumer demand, constrained access to consumer loans and very tight monetary policy.

The turmoil witnessed on global capital markets spread to Russia, resulting in global sources of funding effectively being closed. In 2009 foreign direct investments fell 41% to USD 40 billion (3.6% of GDP). Manufacturing, retail, mineral resource extraction and transport were the favourite targets for foreign investments. The net outflow of capital is estimated to be USD 52 billion.

The Russian equity market has plummeted even more dramatically than its western counterparts: in 2009, Russian companies attracted USD 1.7 billion via IPOs and SPOs, while in 2009 only one IPO was registered. However, 2010 is expected to see a boom in IPOs.

According to ReDeal Group preliminary data, in 2009 the M&A market in Russia fell by almost 50%, both in value and quantitative terms. Approximately 682 deals were concluded totalling USD 53 billion and the average deal value was USD 97.6 million, with 72 deals worth more than USD 100 million. The energy sector experienced the greatest M&A activity.

The country’s budget deficit in 2009 was RUB 2,326 billion (approximately 6% of GDP); in contrast, in 2008 there was a budget surplus of RUB 1,709 billion (4.1% of GDP).

Russia’s aggregate foreign debt decreased by 2.1% in 2009 to USD 469.7 billion (from USD 479.9 billion at the start of 2008). Government debt increased by 1.7%, to USD 30 billion from USD 29.5 billion. Banking sector debt decreased by 24.5% to USD 125.6 billion, down from USD 166.3 billion on January 1. Corporate debt (not including equity interest) rose 6.5% in the year to USD 299.8 billion, up from USD 281.4 billion.

Russia had USD 439.0 billion in gold and foreign exchange reserves on 1 January 2010 – 2.8% up on the previous year.

At the end of 2009, the international credit rating agencies Standard & Poor, Fitch and Moody’s revised their sovereign rating outlooks for Russia from “negative” to “stable”, thanks to higher oil prices and the lowering of inflation.

The Government and the crisis

The Ministry of Economic Development has drafted three economic development scenarios for the next three years: moderately conservative, pessimistic and optimistic. According to the basic scenario, moderately conservative, GDP will grow by 3.1% in 2010, by 3.4% in 2011 and by 4.2% in 2012. These scenarios are based on the prediction that oil prices will remain at rather high levels: USD 65 per barrel in 2010, USD 70 in 2011, and USD 71 in 2012. (See Appendix B).

President Medvedev believes that, although 2009 was a difficult year for the country, Russia has managed to achieve three important goals. The first is that the government has managed to maintain social stability and to make all planned social payments. The government began transitioning to a new pension system and as a result pension levels increased by a third. The second achievement was financial stability. The government and the Central Bank have managed to bring order to the financial sector and hence keep the national currency steady and stable. The third achievement is that the government has launched a mechanism for supporting its core enterprises. None of these large companies has gone bankrupt and all of them have received state support.

At the same time, there are problems which Russia has failed to tackle this year which constrain the development of the country’s economy: the dependence on raw material exports, a high level of unemployment and the low competitiveness of domestic enterprises.
The Russian Government has been quite proactive in tackling the crisis by taking economic policy measures alongside capital injections and bail-out packages. Various forms of aid have been transferred to struggling banks and corporations, sourced from federal budget funds, central bank reserves and two national funds. The government established a fund through the state development bank VEB to refinance Russian entities’ foreign corporate debts. Tax breaks were provided to major oil producers in an attempt by the Kremlin to stimulate investment. Programmes were undertaken to combat unemployment. Around RUB 1.2 trillion was spent on anti-crisis measures. In the 2010 budget, RUB 195 billion has been allocated to anti-crisis measures.

**Reserve Fund and National Wealth Fund**

In 2008 the Stabilisation Fund was divided into the Reserve Fund (which is invested abroad in low-yield securities and used when oil and gas incomes fall) and the National Wealth Fund, which invests in riskier, higher return vehicles, as well as federal budget expenditures. **The objectives of the Reserve Fund** are to ensure the financing of federal budget expenses and maintain the federal budget balance in the event of a decline in budget revenues from oil and gas. **The objectives of the NWF** are to co-finance the voluntary pension savings of Russian citizens and maintain the budget balance of the Pension Fund of the Russian Federation. NWF assets cannot be used for any other purposes.

At present, 45% of the funds are invested in US dollars, euros account for another 45%, and British pounds account for 10%.

The Reserve Fund totalled RUB 1.8 trillion at the beginning of 2010 and the National Welfare Fund totalled RUB 2.8 trillion. In 2009 RUB 2,688 billion, or about USD 86 billion, was allocated from the Reserve Fund to implement anti-crisis measures.

**Leading sectors**

**Energy, utilities & mining**

Russia possesses proven oil reserves accounting for around 5% of the world’s total. However, the country’s estimated oil reserves are thought to be far higher.

Exploration results for 2009 were rather successful: total reserves increased by 620 million tonnes. The biggest discovery of 2009 was the Savostyanovo field in the Irkutsk region, following exploration by the state-owned Rosneft oil company. According to the Natural Resources Minister, Russia’s explored oil reserves are returning to the level they were at 20 years ago, when the oil industry was at its peak.

Oil extraction went up by 1.2% (to 493 million tonnes) in 2009 as compared to 2008. 250 million tonnes were exported (102% compared to 2008).

With approximately 48 trillion cubic metres of gas, Russia possesses more than one-third of the world’s gas reserves. In 2009, gas production reached 575 billion cubic metres, 426.5 billion (93% compared to 2008) were consumed internally, and 170.6 billion cubic metres (90% compared to 2008) were exported.

In 2009, coal production saw a 10% decrease compared to 2008; 296 million tonnes of coal were produced and 100 million tonnes of coal were exported.

Russian is the world’s fourth largest power market, with approximately 221 gigawatts (GW) of installed generating capacity. In 2009 the industry has produced 989.5 billion kilowatt-hours (95% against 2008 results).

The historic reorganisation of RAO UES (Unified Energy System), which began on 1 July 2008, was designed to attract private investment into maintaining and renovating power generation and distribution assets, establish a competitive power market, and eventually liberalise electricity prices. Before its liquidation, UES had been overseeing the reforms, including the unbundling of its generation, distribution, and transmission operations and the privatisation of the wholesale and territorial generating companies (OGKs and TGKs, respectively) that were spun off from the utility’s thermal power assets. However, the national transmission grid, as well as UES’s former hydropower assets (consolidated under HydroOGK, since renamed RusHydro), remain majority state-owned. On a separate question, Russia is also reorganising its nuclear industry, placing a variety of agencies – including Energoatom, which operates the country’s ten nuclear power plants (NPPs) – under one state-owned holding. The government is planning to build numerous new NPPs over the next 20 years in order to substantially increase the share of nuclear energy in Russia’s overall electricity balance.

**Metallurgy**

Metallurgy is one of the core sectors of Russian industry, and plays a key role in the economy.

Russia is one of the largest players on the world metals market, the fourth largest steel producer in the world (after China, Japan and the US) and the third biggest exporter of metal products in the world. Russia is second in the list of the world’s largest aluminum and titanium producers, and is the world’s largest nickel producer.
The share of metallurgy in Russian GDP is about 5%; the sector accounts for 17% of the country’s industrial output and 14.2% of total exports.

2009 was a difficult year for metallurgy; the first half was characterised by extremely low world prices and demand for metal production. The second half showed signs of a slight recovery, as world prices showed a positive dynamic; however, they have still failed to reach pre-crisis levels.

In 2009 Russian metals and metal products output was 86.1% compared to 2008: 86.5% for the metallurgy sector and 83.2% for metal products.

In 2009 Russia produced 44 million tonnes of cast iron and ferrous alloys (91% of the previous year’s amount) and 56.8 million tonnes of steel (86% of the previous year’s amount).

The Russian non-ferrous metals sector was affected by low world prices for non-ferrous metals as well as low investments in the sector, which were down almost 50% in 2009 compared to 2008. Aluminium production in 2009 was 91% compared to 2008, copper production was 99% of the 2008 level, and nickel production 97.5%.

Retail & consumer

The increasing purchasing power of the population has been the main driver behind the recent rapid growth in Russia’s retail and consumer sectors. In 2009, Russia was ranked the second most attractive retail market in Russia’s retail and consumer sectors. In 2009, Russia has been the main driver behind the recent rapid growth in consumer spending and sales.

2009 was a difficult year for Russia’s economy, with the economic downturn cutting demand for consumer items. Retail sales fell 5.5% year on year and amounted to RUB 14.5 trillion (USD 456 billion) in 2009.

The Consumer Confidence Index (CCI) in the Russian Federation (which reflects aggregate consumer expectations of the population, as reported by Rosstat) fell to a ten year low (-35), in the first quarter of 2009, as people became more circumspect about both the economy and their own finances.

Towards the end of 2009 the mood of consumers began to improve and the CCI jumped 5% q-o-q in the fourth quarter of 2009 to a negative 20%.

Despite both shrinking disposable incomes and mounting unemployment having an effect on their businesses, the largest Russian retailers continued to open new stores, relying on the long-term recovery of a market still short of modern retail formats.

As the crisis progressed, a number of medium-sized retailers faced difficulties or the inability to borrow to finance their operations. This played into the hands of market leaders, but even within the top 20 retail chains, several companies had to collateralise property or equity to state banks. At the same time, multinational companies, such as Auchan or Metro, as part of major international groups, were somewhat protected from the problems many Russian chains faced.

Despite changes which should have facilitated a trend of consolidation on the retail market, overall 2009 did not witness many mergers and acquisitions on the Russian market – this applied both to Russian and international companies. Carrefour, the world’s No. 2 retailer after Wal-Mart, opened its first Russian store in Moscow in June 2009, but failed to close a deal with Seventh Continent and decided to withdraw from Russia. Wal-Mart, after being linked with several potential deals, finally opened an office in Moscow and the retailer is continuing to explore investment opportunities in the country.

Despite the economic downturn, emerging markets still offer high growth potential and are most likely to lead the economic recovery. Global retail and consumer companies, having to deal with sluggish growth at home, are keen to expand into emerging markets such as Russia. Multinational consumer companies are already either market leaders or significant players in the majority of segments of the Russian consumer sector. Recent cross-border deals include Baltimor-Holding selling part of its business to Unilever. Coca-Cola is also considering buying a controlling stake in the Russian juice maker Nidan Soki from the London-based private equity group Lion Capital. Under the deal, Coca-Cola would take over a leading position on the Russian juice market from PepsiCo.

Import substitution (a trade and economic policy based on the premise that a country should attempt to reduce its foreign dependency through the local production of goods) and the Law “On Trade” represent significant short-term challenges for the Russian retail and consumer sectors.

Not all retail and consumer market players welcomed the state’s initiative to establish guidelines for mutual relations among retailers and suppliers. The new Russian Law “On Trade” prohibits retailers with a market share of over 25% and annual revenues of over RUB 1 billion in each Russian city from increasing their market share. The law came into force for Russian constituent regions and Moscow and St Petersburg on 1 February 2010 and will come into force for urban and municipal districts on 1 July.

The government became entitled to establish, for stabilisation purposes, maximum permissible retail prices for certain types of essential food items for a period of up to 90 days. This right will be exercised if the growth of retail prices in certain regions exceeds 30% in 30 days. The law allows for so-called “bonuses” – fees producers have to pay to retail chains for selling their goods. However, a bonus cannot exceed 10% of the price of acquired commodities. The norm will not apply to essential food items, the list...
The framework envisages:

- A nearly five-fold increase by 2020 in the share of enterprises involved in technical innovations (the share of innovation products in total manufacturing production should increase from 5.5% in 2007 to 25-30% in 2020)
- More than doubling R&D spending as a proportion of GDP, from 1.1% to 2.5-3%
- Increasing the proportion of high-tech sectors in GDP from 10.5% to 17-20%
- Increasing the share of Russian high-tech exports in world high-tech exports seven-fold, from 0.3% to 2% by 2020

The programme has four main focus areas.

First, supporting technological priorities. Initially, the following top priorities were listed by Dmitry Medvedev: energy efficiency and energy saving, including the development of new types of fuel; nuclear technologies; space technologies associated with telecommunications; medical technologies; strategic information technologies, including the development of supercomputers and software. In addition, nanotechnologies have been singled out as a government investment priority. The Committee for Developing Technology and Modernising the Russian Economy was set up in May 2009 under President Medvedev’s instructions.

Second, the support of existing enterprises’ innovation activity, including introducing tax benefits for innovators, export support and the insurance of export contracts. Russian IT companies exporting software may be granted a five-year transition period before they switch to paying mandatory social insurance contributions instead of the unified social tax. Third, supporting the setting up of small innovation companies, and increasing the efficiency of the innovation infrastructure, including seed financing in partnership with the Russian Venture Company and the RUSNANO state corporation. In December 2009 the European Bank for Reconstruction and Development (EBRD) and RUSNANO signed a memorandum of understanding with respect to medium term investment of between EUR 500 million and EUR 1 billion in the Russian high-tech sector. The Moscow Interbank Currency Exchange (MICEX) and RUSNANO launched trading in the “Market for Innovations and Investments” in December 2009. This was timed to coincide with the IPO of shares in The Human Stem Cells Institute.

Business-incubators are to be established in former scientific and educational institutions. President Medvedev signed a law permitting higher educational establishments to set up small businesses. The document gives state-funded and science institutions the right to set up economic entities.

Fourth, the promotion of innovations in the state sector. The Russian Government technoparks programme has been extended to 2014. The setting up of Special Economic Zones (SEZs) of a technology-innovative type had already been announced in 2005.

Despite last year’s economic downturn, the volume of the Russian communications and information technology market grew by two percent to reach RUB 1.8 trillion (USD 56.6 billion) in 2009, according to preliminary estimates from the Ministry of Communications and Mass Media. With revenues from telecommunications services accounting for 72% of this market, telecommunications accounted for RUB 1.3 trillion (USD 41 billion) and went up by 6.4% in 2009 against the figure for 2008.

According to preliminary estimates from the Ministry of Economic Development, the information technology market
was worth RUB 496.5 billion (USD 15.6 billion) in 2009, which represents a 13% decrease on the previous year’s results. Hardware is a major IT segment, accounting for more than 51.4% of market revenue. The software industry accounted for 20% of the market, and services 28.6%.

By November 2009, the mobile phone penetration rate had reached 143.2%. Russia had a total of 207.9 million mobile subscribers, an increase of 20.1 million on December 2008. Mobile penetration is growing particularly quickly outside Moscow and St Petersburg, stimulated by sharp competition among the three major national operators: Mobile TeleSystems (MTS), VimpelCom and MegaFon.

Having received 3G licenses in April 2007 and launched services by the end of 2008, the three major national operators received regulatory permission to launch 3G services in Moscow only in December 2009. Prior to the green light for this being given, the Defence Ministry held the frequencies for military use. After the launch, mobile operators reported significant increases in their mobile data-traffic levels.

The state has indicated that talks are being held with key foreign telecom equipment manufacturers regarding the potential production of equipment in Russia, including centres of development construction, the employment of Russian professionals and the provision of technology and knowledge to Russia.

The fixed-line segment is dominated by the state-controlled Svyazinvest, whose privatisation has been delayed for a number of years. In autumn 2009, the Svyazinvest board of directors approved a plan to merge its seven regional units into the long-distance operator Rostelecom and an assets swap with AFK Sistema. In January 2010, Russia’s Federal Antimonopoly Service (FAS) gave its approval to the asset-swap deal. Sistema has been granted permission to obtain a 23.3% voting stake in the Moscow fixed-line incumbent MGTS (currently owned by Svyazinvest), which will then be passed on to the broadband operator Comstar. Sistema has also been given permission to acquire a 50% stake in the CDMA operator SkyLink. As a consequence of the deal, the government will gain a 25% plus one share in Svyazinvest, which is currently owned by Comstar, and a 100% stake in SkyLink, while Comstar will have a RUB 26 billion debt to the state-owned Sberbank written off.

The whole restructuring is projected for completion by spring 2011. In addition, Svyazinvest has announced plans to increase its presence in the Russian telecoms sector and hence become a major broadband and mobile operator. The state holding intends to list its shares on domestic and international stock exchanges.

Wired and mobile broadband is seen as a major revenue driver over the next few years. The authorities are to consider allocating additional 4G frequencies: Frequencies in the 2.5–2.7 GHz range are being lined up for consideration for Long Term Evolution (LTE)-based mobile technology, as well as mobile WiMAX services. The tenders were conducted in February – March 2010, and the state has allocated frequencies in the range of 2.3–2.4 GHz for wireless broadband services in 40 out of Russia’s 83 regions. Most of the licences were granted to companies affiliated with Svyazinvest.

### Automotive sector

Between 2002 and 2008 the demand for cars in Russia rose sharply to 3.17 million. In the same period, the demand in money terms increased from USD 10 billion to USD 69 billion. However, as a result of the current global financial crisis, sales in 2009 continued to decline; the reduction began in the second half of 2008. The number of new cars sold in Russia fell considerably in unit terms to 1.4 million (56% y-o-y decline), and in money terms to USD 26.8 billion (61% y-o-y decline). In 2009 Russia slipped to fifth in the list of top European car sellers, after Germany, France, Italy and the UK.

In connection with such a significant drop in the market, most car makers were forced to temporarily halt work on assembly lines. Nevertheless, none of the foreign OEMs have abandoned their plans to work and develop their businesses in Russia. In 2009, a decline in domestic manufacturing reached 64% for Russian brands (316 thousands cars) and 53% (279 thousands cars) for foreign brands. Despite this, the share of total sales of cars produced in Russia (local and foreign brands) increased to 53% (7% y-o-y growth).

The main contributing factors in market reduction remained similar in the second half of 2008: a difficulty in obtaining car loans (more applications refused, higher interest rates, higher deposits required, although towards the end of the year the situation had begun to improve); auto dealers experiencing profitability problems and an inability to generate liquidity flows; and negative GDP growth and a high unemployment rate, entailing a deterioration in consumer confidence and a decrease in disposable income.

In 2009, the Russian Government took several steps to support the automotive industry, such as increasing duties for imported cars, allocating funds for the state purchase of vehicles (at the rate of RUB 42.5 billion in 2009 and RUB 20 billion in 2010), state loans and guarantees for car makers and the extension of a low-interest loan
programme for consumers by the end of 2010. In April 2009 the government’s subsidised loan programme started, and over 71 thousand individuals took advantage of preferential loans.

In addition, in 2010 the state is planning to launch a RUB 11.05 billion programme commonly referred to as a “car scrappage scheme,” as well as a programme to expand and develop the automotive industry by 2020.

1.6 Foreign trade

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

The drop in oil, metal and other commodity prices had a significant impact on foreign trade turnover in 2009, which amounted to USD 468 billion – 36.2% down on the previous year. Both export and import volumes decreased significantly; nevertheless, the trade balance was positive.

The biggest problem for Russian exports outside the CIS is that they are dominated by inefficient commodities with low added value: 69.5% are mineral resources (oil, petroleum products, gas), 11.2% are metals, gems, precious metals and related goods. Chemicals and rubber account for 5.7%; machinery, equipment and transport vehicles – 4.6%, wood products – 2.6%, and food – 2.5%.

For imports, machinery, equipment and transport vehicles account for 46%, chemicals and rubber – 17.6%, food – 17.5%, textiles – 5.7%, metals – 5.2% and wood – 3%.

Russia’s main trading partners are Germany (turnover USD 39.9 billion), the Netherlands (USD 39.9 billion), China (USD 39.5 billion), Italy (USD 32.9 billion), Belarus (USD 23.4 billion), Ukraine (USD 22.9 billion), Turkey (USD 19.6 billion), the US (USD 18.4 billion), France (USD 17.1 billion), Poland (USD 16.7 billion), Japan (USD 14.5 billion), and Finland (USD 13.1 billion).

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 visit Russia (except for visitors from those countries which have a visa-free regime with Russia). To obtain 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 or, for business visitors from a number of European countries, prepared by the inviting company. 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 can take up to 25 business days from 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 8.4). 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”, one half of which will be retained by border guards when you enter 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 after 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 after arriving at their new place of stay. Within two business days after the foreign citizen’s departure, the hosting party is obliged to deal with de-registration.

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

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<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<tbody>
<tr>
<td>Exports</td>
<td>107.2</td>
<td>135.9</td>
<td>183.5</td>
<td>243.6</td>
<td>304.5</td>
<td>355.5</td>
<td>470.8</td>
<td>301.6</td>
</tr>
<tr>
<td>Imports</td>
<td>61</td>
<td>75.4</td>
<td>96.3</td>
<td>125.3</td>
<td>163.9</td>
<td>223.4</td>
<td>291.5</td>
<td>167.4</td>
</tr>
<tr>
<td>Trade balance</td>
<td>46.2</td>
<td>60.5</td>
<td>87.1</td>
<td>118.3</td>
<td>140.7</td>
<td>132.1</td>
<td>179.3</td>
<td>134.2</td>
</tr>
</tbody>
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* Ministry for Economic Trade and Development of the Russian Federation estimate, Rosstat
Currency

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

Average exchange rates in 2010: 1 USD = RUB 29.09; 1 EUR = RUB 39.09.

Cash, travellers 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, etc. As a courtesy, agendas are often circulated in advance. 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 before the beginning of the year.

Time zones

(GMT+2 to +12)

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

Time differences between Moscow and some major cities:

<table>
<thead>
<tr>
<th>City</th>
<th>Time difference</th>
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<tbody>
<tr>
<td>London</td>
<td>-3</td>
</tr>
<tr>
<td>New York</td>
<td>-8</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>+5</td>
</tr>
<tr>
<td>Singapore</td>
<td>+5</td>
</tr>
<tr>
<td>Zurich</td>
<td>-2</td>
</tr>
<tr>
<td>Shanghai</td>
<td>+5</td>
</tr>
</tbody>
</table>

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, though the economic crisis has had a significant impact on the business climate. In recent years, many reforms have been implemented, the tax system has become fairer and more transparent, Russia has become increasingly integrated with global markets, and customs have improved appreciably.

At the same time, the operating environment remains hazardous on a number of fronts, with many foreign investors scared off by poor legal safeguards, as well as high levels of bureaucracy and corruption. The government has made fighting corruption a key priority.

Under the crisis conditions businesses began closing down their investment programmes, and they encountered difficulties in repaying credit. The main problem, especially for small companies, is the availability of financial resources, the commercialisation of science-intensive developments and the support of exports. RUB 18 billion was allocated to supporting measures for small- and medium-sized businesses in 2009. It is planned to appropriate RUB 10 billion from the federal budget to support small- and medium-sized businesses in 2010, with a special focus on the innovation sector.

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, together with the Central bank, have developed an anti-crisis stimulus package aimed at minimising and mitigating the scale of the crisis, both for the economy and the population. In this context, the government continues to initiate change and introduce new methods to develop the currency, fiscal, budgetary and tariff policy, and the financial market and banking systems. The state is increasing its role in the economy, paying special attention to the oil and gas, banking and defence sectors.

In 2005 the government initiated a much-publicised National Priority Projects programme 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, in spite of the crisis.
Major development goals

In his Address to the Federal Assembly and his “Go, Russia” article, President Medvedev identified modernisation as a key priority for the development of Russia and cited five strategic goals which can be achieved by establishing the basis for a national innovation system and creating a favourable environment for research and development:

- The efficiency of production, transport and use of energy to be increased; new fuels for use on domestic and international markets to be developed
- Nuclear technology to be maintained and raised to a qualitatively new level
- Russia’s experts to improve information technology and strongly influence the development of global public data networks, using supercomputers and other necessary equipment
- Russia’s own ground and space infrastructure for transferring all types of information to be developed
- Russia to take a leading position in the production of certain types of medical equipment, sophisticated diagnostic tools, and medicines for the treatment of viral, cardiovascular, and neurological diseases and cancer

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. The Group of Twenty Finance Ministers and Central Bank Governors (G20), of which Russia is also a member, is to replace the G8 as the main consulting body for global financial issues. This was announced at the G20 summit in Pittsburgh in September 2009.

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)
- Group of Twenty (G20)
- Council of Europe
- Organisation 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

- 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
On 27 May 1997, NATO and Russia signed the NATO-Russia Founding Act, which provides the basis for a long-lasting 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.

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 arbitrazh courts. The litigation process starts by filing a statement of claim with an arbitrazh court, and the procedure is regulated by the Arbitrazh 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. The FAS has the power to prevent unfair competition, state aid or agreements that reduce competition, and abuse of a dominant position on the market.

To be legitimate, some types of state aid – meaning granting a commercial entity any privileges in the form of property, proprietary rights or proprietary benefits – must first receive written approval from the FAS.

An agreement 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. However, there are certain minor exceptions to this rule related to “vertical” agreements.

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

The FAS has the right to audit companies’ activities with regard to their compliance with competition law and request documents and information required for the audit.

Violating 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 revenue raised from transactions on a given

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market. The Russian Criminal Code establishes criminal liability for company executives guilty of breaching competition law.

**Price controls**

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

In addition, special price regulations have been established for certain other goods and services, including pharmaceutical products and alcoholic beverages.

If a company is seen as dominating a market, its prices may also be subject to the control of the anti-monopoly authorities (the FAS).

**Patents, trademarks and copyrights**

Russia is a party to all major international agreements and conventions on intellectual property.\(^2\)

From 1 January 2008, Chapter IV of the Civil Code of the Russian Federation came into force. It covers patents, trademarks and copyright issues, and replaces all previous legislation in 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.

The 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.

To enjoy legal protection of production secrets (know-how), the owner of the know-how must undertake specific actions under Russian law. The information constituting know-how must meet Russian legal requirements and must have real or potential commercial value owing to the fact that third persons do not know it and have no free access to it.

In addition, under Russian law the owner of the know-how must introduce a confidentiality regime with respect to the information that constitutes know-how.

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 (Rospatent). Generally, copyrights do not need to be registered. Copyright owners of software or a database may register them with Rospatent at their own discretion. After such voluntary registration, the assignment agreement for the registered software or database must also be registered with Rospatent.

**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 representing 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.

The right of ownership and other proprietary interest in real properties, their creation, encumbrance (e.g., mortgage, leasehold for a term of one year and longer, easement),

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\(^2\) 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 Singapore Treaty on the Law of Trademarks, the Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, the Locarno Agreement Establishing an International Classification for Industrial Designs, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure, the Strasbourg Agreement Concerning the International Patent Classification, 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.
transfer and termination are subject to state registration. With effect from 1 March 2009, the government agency which performs the state registration of rights to real properties (formerly the Federal Registration Service) was renamed the Federal Service for State Registration, Cadastre and Cartography and became responsible for the cadastral registration of real estate (including land plots).

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.

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 the 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 cannot 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 must 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 commissioning facilities. From 1 January 2007, the multiple appraisals that were previously required for reviewing project design documentation and issuing construction permits have been replaced by a single state examination (or “state appraisal”), to be carried out by a state authority. From 1 January 2010, there are no longer licensing requirements for entities in Russia undertaking certain construction activities (such as engineering surveying, preparing project documentation and construction works); instead, such entities are required to be members of a self-regulating organisation.

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 in out-of-court proceedings, it is only possible to levy on property in court. In certain cases provided by law, out-of-court proceedings for levy of execution are prohibited. If the pledgee levies on the pledged property, the property has to be sold through an auction. Russian law allows the 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 becoming considered a country with a stable investment climate. Russia has witnessed a large increase in foreign direct investment inflows over the last few 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. As part of the government’s plans to simplify the process by which investors can access strategic sectors, a draft law to moderate foreign investment restrictions in Russia’s strategic sectors and mineral resources was introduced in the lower house of parliament in March 2010. The law is expected to be adopted in the second quarter of 2010.

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

Among improvements for investors, Russia now has
- the lowest corporate tax rate of any G8 or BRIC country
- amended laws to allow BOT (build-operate-transfer) projects
- a framework allowing foreign investment in strategic areas

The government is to lower administrative barriers to foreign investment. First, by introducing a procedure for registering business activities by submitting a declaration to the government; and second, part of the process for declaring entry to business activities will be transferred to self-regulating organisations (SROs). In addition, the government is planning to shorten the time period for foreign enterprises to receive permission on investment projects. The recently formed Department of State Control of Economics will be in charge of removing barriers for foreign investors.

Corporate transparency

Russia has seen an improvement in corporate governance in recent years. A growing number of 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 with respect to corporate transparency.
There have been no significant improvements in disclosure policies in Russia recently and only moderate progress has been made.

Shareholdings and ownership

The challenges facing Russian corporate governance practices are similar to those in other developing economies, namely: a general lack of the necessary experience and skills among boards of directors, a shortage of financial market experts among top management, a lack of maturity in risk management structures and systems, and an inadequate transparency and selectiveness in corporate information disclosure practices.

Corporate governance of state-owned enterprises is a current high priority. The key challenges include strengthening the protection of minority shareholders, defining an effective state ownership policy, increasing the effectiveness of boards of directors and increasing the quality of disclosure of corporate information.

Financial information

Financial information remains a relatively weak area of disclosure for Russian companies, but 2008 witnessed an 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 and became far more rigorous. The terms and conditions for foreign investment in Russia are now regulated by the Law “On Strategic Industries”³, which came into force on 7 May 2008, and the Law “On Foreign Investments”⁴, 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 weapons, aviation and space industries, the law also declares 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 being 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, from 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.

However, on 30 December 2009 the Russian Government established regulatory provisions for an Advisory Committee on Foreign Investments which will include representatives of major foreign investors and advise the government on steps to be taken to improve the investment climate in Russia.

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, placed 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

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are fully paid; and the seller has received all necessary corporate approvals.

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 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 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 of a share deal:** Currently, 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 the 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 7 billion, and the balance sheet value of the assets of the target and its group exceeds RUB 250 million;

2) the aggregate revenue of the acquirer and its group from the sale of goods for the past calendar year exceeds RUB 10 billion, and the balance sheet value of the assets of the target and its group exceeds RUB 250 million; or

3) the acquirer or the target (or any company of its group) owns over 35% of the corresponding market.

These figures illustrate a significant raise in 2009 in thresholds for a company’s (or its group’s) financial indicators. The same applies to the limits for anti-monopoly approval of asset deals (please see below).

**Registration of shares transfer:** Transactions with participatory shares of a limited liability company require amending the foundation documents of the company (if these documents contain information on distribution of the shares which currently is not necessary) and subsequent state registration. In 2009, a requirement for the notarisation of agreements on the disposal of participatory shares was introduced.

**Anti-monopoly approval of an asset deal:** 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 7 billion, and the balance sheet value of the assets of the target and its group exceeds RUB 250 million;

2) the aggregate revenue of the acquirer and its group from the sale of goods for the past calendar year exceeds RUB 10 billion, and the balance sheet value of the assets of the target and its group exceeds RUB 250 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 in 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.

**Guarantees and rights of foreign investors**

Generally, foreign investors enjoy the same rights and guarantees as local market participants. However, as mentioned above, certain restrictions and requirements apply for foreign investors wishing to invest in certain sectors and investment targets (i.e., certain types of land plots, strategic companies, etc.)
Repatriation of capital and earnings

Repatriation of profits

The repatriation of cash from a branch to the head office can be done without restrictions after corporate profits tax has been paid at the permanent establishment level. In contrast, the repatriation of profits 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 (please refer to Sections 10.5, 10.8).

Repatriation of investment

The repatriation of an initial contribution to a Russian legal entity upon liquidation or exit is tax free. Some issues not addressed in Russian tax law are associated with tax risks:

- the repatriation of share premium (if applicable);
- the repatriation of cash in the event of a decrease in the charter capital (only the exit of a shareholder is covered);
- the repatriation of cash above the initial contribution upon liquidation (the treatment of the difference for tax purposes is not clear – dividends or other non-operational income).

3.2 Privatisation

Recent amendments to the Land Code and the Law “On Implementing the Land Code” are important in terms of land privatisation, and 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 2012. New pricing guidelines for privatising land have been established;
- pricing guidelines for land privatisation with respect to the owners of buildings that have always been private property have also been established;
- cities with over three 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 the land before 1 January 2012 (or 1 January 2015 for land plots that are located under a transport, communications and utilities line). Failure to fulfil this requirement may result in a heavy fine after 1 January 2013;
- guidelines for the privatisation of land beneath linear objects (electric power lines, pipelines, etc.)
4. Investment in oil, gas and mining

Overview
Despite protectionist legislation such as the Law “On Strategic Industries,” the oil, gas and mining sectors represent high-value investment targets for foreign investors. However, the presence of foreign investors in, for example, oil and gas service industries (drilling, operating, etc.) has increased only in recent years. Foreign technologies and machinery outstrip their Russian equivalents in many ways and therefore are in high demand on the Russian market.

General legal framework
The Federal Law “On Subsoil Resources” of 21 February 1992, as amended (the Subsoil Law), establishes the mining legal framework in Russia. Under this law, non-extracted subsoil resources are state-owned and not subject to sale, purchase, gift, pledge or any other form of alienation. Extracted materials, on the other hand, may be both private- and state-owned as established by a licence for subsoil use. Under the Subsoil Law, rights to subsoil use must be certified by a subsoil licence issued by the licensing agencies. A subsoil licence is a formal permit that provides all the terms and conditions for the licensed activities (underground sector, the type of right to subsoil use, the permitted use of the underground sector, the period of subsoil use and the term for the use of such underground sector by the licencee, etc).

These conditions are further specified and itemised in an agreement that must be executed between the licensing agencies and the licence holder. For licensed activities, establishing a Russian subsidiary company is usually recommended. Licence holders should be mindful of environmental and industrial safety requirements established by Russian law.

PSA legal framework
The other principal law governing subsoil use in Russia is the Federal Law “On Production Sharing Agreements” of 30 December 1995, as amended (the PSA Law). The PSA Law provides the legal framework for Russian and foreign investments in geological surveys, and the exploration and production of subsoil resources. Russia has concluded 3 PSAs with major foreign oil and gas companies. However, for political and legal reasons, no PSAs have been concluded since 1995.

Offshore exploration
Russian offshore resources represent about 25% of the world’s discovered oil and gas resources and are composed of about 80% gas and 20% oil deposits. These resources are regulated by the Law “On the Continental Shelf” of 30 November 1995, as amended. Currently, only two major state-owned companies
are permitted to be licence holders to Russian offshore resources; foreign companies provide most construction and service works.

**Export of natural resources**

Only Gazprom, the natural monopoly, is currently permitted to export gas. There are no significant legal obstacles to the export of other natural resources.

**Service business sector**

For the last few years, the Russian oil and gas and mining service sectors have shown stable growth; in 2009 the sector was worth about USD 15 billion (expert estimates vary from USD 10 billion to 20 billion). Foreign companies have roughly a 20% share in this highly competitive market and are continuing their M&A expansion. The most expensive and difficult works are performed solely by foreign companies (e.g., Halliburton, Schlumberger).

Russian law does not provide for any general “Russian content” clause, whereby foreign companies are obliged to hire a certain percentage of Russian nationals or use Russian-produced materials but it is applicable only for PSA projects.
5. Banking, finance and insurance

5.1 Banking system

Banking market
The Russian banking sector has developed rapidly in recent years, reflecting the strengthening Russian economy. Increasing disposable incomes, greater confidence in banks and increased financial awareness within the population were among the main factors contributing to this growth. However, the global financial crisis has had a significant impact on the sector.

According to the Central Bank of Russia, net profit within the banking sector decreased to RUB 96.4 billion in January – November 2009 (compared to RUB 314 billion in 2008). In the same period, the total assets of all Russian banks increased by 2.4% to RUB 28,691.9 billion, while in 2008 there was a 39.2% increase and the capital base grew by 21.8% to RUB 4,642.7 billion.

At the same time, as a result of high interest rates bank deposits made by Russian individuals rose by 18.5% in 2009, to RUB 6,998.8 billion. Credit to individuals decreased by 10.7% to RUB 3,586.2 billion. The total amount of credit provided to organisations, banks and individuals was RUB 20,047.3 billion, a 0.8% increase since the beginning of the year.

The total amount of overdue debt reached RUB 1,043.4 billion, representing 5.2% of the loan portfolio.

As of 1 January 2010, there are 1,058 credit organisations operating in Russia (4.7% fewer than on the same date in 2009). The top five banks control 47.9% of the assets.

The government backs up the consolidation of the banking sector to increase its effectiveness. Starting 1 January 2010, Russian banks are supposed to have equity capital exceeding RUB 90 million, and from 2012 the level is set to increase to RUB 180 million. Hence the number of banks is expected to decrease in the near future because of capital insufficiency.

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
licences 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.

At the end of April 2010 the Central Bank cut the refinancing rate for the thirteenth time, bringing it to 8% (from a figure of 13% at the beginning of 2009). The easing of the interest rate is intended to help revive the lending process.

**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 players 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, the financial crisis had a marked impact on the sector: the banks faced liquidity problems, an outflow of funds, and the level of bad debts increased.

The efforts of the Russian Government helped to prevent the collapse of the banking system. The level of government support provided to banks is considered to be one of the strongest in the world. In 2009, RUB 280 billion was allocated to support the banking system (in 2008 over RUB 2 trillion was provided). The Government’s priority was to make bank resources more available to companies in the real sectors of the economy and assist in the rehabilitation of struggling banks that are important for the general sustainability of the banking system. As a result, the Russian banking system managed to survive and the majority of players were saved.

One of the main risks that Russian banks are facing is loan quality. The total amount of overdue debt reached RUB 1,043.4 billion, of which the Top-20 banks account for 64%. Non-performing loan rates are expected to continue rising well into 2010. The proportion of overdue loans in the total loan portfolio reached 5.2%.

Though the toughest stage of the crisis passed, in 2009 credit markets in Russia remained tight and the negative impacts of the crisis are expected to make their effects felt in the next couple of years. The major challenge for the banks will be to improve the overall situation with lending.

**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. It also calculates the RTS Index, widely used as an indicator for the Russian securities market.

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

**Pensions and pension funds**

Pension reform is currently underway in Russia with mixed results. The 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 2009, a significant pension payments increase took place: the base pension was increased by 8.7% in March and 31.4% in December; the insured part – by 17.5% in April and 7.5% in August. In 2010 approximately 10% of GDP will be assigned to pensions. The Pension Fund’s budget spending in 2010 will be RUB 4.3 trillion (USD 149.4 billion, or EUR 99.6 billion). Pension payments are to grow by 46% on average.

The Russian Duma approved in its third and final reading the draft law on pension reform, which replaced the Unified Social Tax on companies with a system of “Social Insurance Contributions”. The 26% Unified Social Tax that employers previously paid on salaries is replaced by insurance payments to three funds: the Pension Fund (20%), the Health Insurance Fund (FOMS, 3.1%), and the Social Security Fund (2.9%). The change came into force on 1 January 2010. As of 1 January 2011, the tax rates will grow to 26%, 5.1% and 2.9% respectively, increasing the social security tax burden for employers to 34% overall.
The Law contains provisions on lowering the tax pay for some types of payees.

**Money laundering**

From 2001, a number of measures were implemented to bring anti-money laundering legislation into line with international standards, together with organisational and administrative measures to enforce the law. This has helped to increase the number of unaddressed cases of money laundering, though this 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 date and place of birth. Without this information, credit companies should not process transactions for sums exceeding RUB 600,000. The new law also requires 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 violated this law before 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.

At the G-20 Summit in Pittsburgh in September 2009, President Dmitry Medvedev and other leaders signed an agreement on firmly dealing with tax havens, money laundering, the proceeds of corruption, the financing of terrorist activity and prudential standards. The leaders entrusted the newly created Global Forum on Transparency and Exchange of Information with the task of improving tax transparency and the exchange of information, so that countries could fully enforce their tax laws to protect their tax base.

In December 2009 President Medvedev signed a draft law ratifying a treaty with other CIS countries to combat money laundering and the financing of terrorist activity. The treaty, signed in October, is aimed at improving the legal base to combat money laundering and strengthen co-operation between CIS members on this front.

According to The Economic Security Department of The Ministry of the Interior of Russia, in 2009 economic crime police in Russia uncovered over 8,400 crimes related to money laundering.

### 5.2 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 the charter capitals of foreign entities and advance payments on certain export/import transactions.

However, when making payments under foreign trade contracts and credit (loan) agreements between non-residents and residents, Russian residents should comply with certain requirements established by Russian currency control legislation.

In certain cases, Russian residents must formalise 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) and reporting requirements.

Russian law also establishes notification and reporting requirements for Russian residents who open foreign bank accounts. There is a special system in place for Russian residents using foreign bank accounts – they can receive funds in foreign bank accounts only in connection with a limited list of operations established by Russian law.

### 5.3 Specialised financial institutions

**Factoring**

In recent years, factoring in Russia has changed from being a service offered by banks to a separate financial business. The range of factoring services and their quality is gradually approaching global standards. In the summer of 2008, two large Russian banks entered the factoring market. Overtaking other Central and Eastern European markets,
the factoring business in Russia was estimated at being worth RUB 602 billion in 2008; however, due to the financial crisis in 2009 the market declined significantly to RUB 188 billion (during the period January – September) according to the Association of Factoring Companies.

The main reasons for the decrease are financing shortages and the toughening of requirements for clients and debtors.

In 2009 several important events for the industry took place. A number of leading companies went bankrupt, factoring operations licensing was abolished, and market players’ consolidation got underway within the Factoring Companies Association.

In 2010 factoring companies intend to increase investment into business development and work on decreasing rates through attracting cheap funding.

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

However, the economic crisis has taken its toll on leasing. According to the Russian Association of Leasing Companies, the leasing market suffered more from the crisis than many other industries, contracting more than twice. In 2009, the volume of new deals fell by 56% year on year reaching a total value of RUB 315 billion, as compared to RUB 720 billion in 2008. The value of received payments reached RUB 320 billion. Because creditors are currently apprehensive of long-term projects, leasing companies have lost almost all sources of funding. The main problems were financing difficulties and a lack of trusted clients.

The leasing market began reviving at the end of 2009, and is expected to recover not earlier than 2012. At the same time, leasing is considered a safe investment and the market will quickly develop as soon as investment activity picks up again. 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; ensure that insurance companies observe prudential norms specific to the insurance activity; license and oversee insurance companies and insurance brokers; and impose penalties for non-compliance.

In 2009 the insurance market, hit by the crisis, faced serious problems. Insurance premiums reached RUB 726.75 billion in Jan–Sep 2009 having increased by 2% over the last year, as compared with a 23% increase in 2008. The insurance market portfolio comprises the following segments: property 28.2%, liability 2.7%, mandatory medical insurance 45.9%, third party motor liability 8.6%, life insurance 1.4%, personal lines 11.4% and other obligatory lines 1.0%.

As of 30 September 2009, there were 722 insurance companies in Russia – a significant decrease compared with the beginning of 2008 (847). Some of the top companies are Rosgosstrakh, Ingosstrakh, Sogaz, RESO-Garantia and Rosno. The crisis pushed the market towards consolidation and as a result the market share of the top-20 companies reached 60%.

The recovery of the insurance market is expected to begin simultaneously with an increase in the budgets of enterprises and corresponding increase in individuals’ income.

5.4 Capital markets

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 circulation.

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 cannot be offered to the general public.

Under the current rules, the number of shares to be floated on foreign exchanges was capped at 5 to 25% (depending on the type of Russian company and on the exchange’s country of incorporation) of the overall issued shares in a company.

The issue 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 under 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 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 other 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.

Under amendments to Russian securities law effective as of May 2009, the circulation in Russia of securities issued by foreign companies is only permitted provided that certain requirements are met.

7 Please note that under the previous securities legislation, the placement and public circulation in Russia of securities issued by foreign companies was actually prohibited.
6. 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 clearance procedures.
- In order to import goods into Russia and clear them through customs, an importer has to make all customs payments due under the chosen customs regime and comply with other customs legislation requirements (e.g., certification requirements).
- The import of certain goods (e.g., pharmaceuticals, meat, etc.) requires licences.
- Russia has several special economic zones that offer customs benefits.

6.1 Customs policy

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

- Lowering customs duty on technological equipment imports;
- Simplifying the customs clearance process;
- Tighter customs control after the customs clearance of goods;
- Further development of customs integration between Russia, Belarus and Kazakhstan.

6.2 Import restrictions

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

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

6.3 Customs duties

Classification of goods

The Russian tariff classification system is based on the internationally adopted Harmonised 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% but not less than EUR 2 per litre 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 the customs value of goods. The base rates specified in the law apply to countries that enjoy 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 goods are exempt from customs duty: transit goods; goods imported by individuals for personal use (worth not more than approximately EUR 1,500 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., the Ukraine) are exempt from customs duty for import to Russia (subject to certain conditions). Russia, Belarus and Kazakhstan 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, 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 12 to EUR 2,400 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.

6.4 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 free circulation. In these instances, the interest on customs duty and taxes is not payable. Temporarily imported goods can only be used by the person who obtained customs’ permission for their temporary importation.

6.5 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.

VAT exemption
VAT exemption is also available for imported technological equipment; the list of eligible equipment is approved by the Russian Government.

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. Generally, foreign goods imported to and used within the SEZ are eligible for exemption from 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.

**6.6 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 certificates, 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.

**Customs value declarations**
The customs value of imported goods is declared in a customs value declaration in which the customs value should be properly supported by 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 the declared customs value, the list is not exhaustive.

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

**6.7 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 being released by customs. The storage period 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.

**6.8 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.
7. Business entities

7.1 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\(^8\).

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 in person the registration certificates – 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 to the address 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 the end of January 2010, the state duty to register a Russian legal entity is 4,000 roubles. There is no processing fee for state registration.

7.2 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 than Russian companies. 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.

7.3 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.

7.4 Joint-stock companies

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. Shareholders may conclude a shareholders agreement regulating the exercise of their rights.

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. Open joint-stock 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). 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\(^9\), 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 results in its termination, with no transfer of rights and obligations by succession to other persons.

7.5 Limited liability companies

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. The participants may conclude a participants agreement regulating the exercise of their rights.

\(^9\)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 2001, 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 should not be less than RUB 10,000.

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

### 7.6 Full and limited partnerships

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.

### 7.7 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 representative offices need to take the following steps:

- accreditation with federal 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 social (pension, medical 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 auxiliary 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 certain types of licences to conduct regulated activities, a representative office or unregistered branch may not.

The state duty for branch accreditation is RUB 120,000 as of the end of January 2010 (approximately USD 4,100). In addition, accreditation bodies charge a processing fee between USD 500 and USD 2,000, depending on the period of accreditation (from one year to five years, respectively).

### 7.8 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 auxiliary 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).
8. Labour relations and social security

8.1. 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), and in 2008 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 or internal policy 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 law makes it very difficult for the employer to dismiss an employee on disciplinary grounds.

Employers

Under 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 under the Federal Law “On Professional Unions, Their Rights and Guarantees of their Activities”.

After the collapse of the Soviet Union 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.

8.2 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 law. 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 after 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 prescribed 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, as well as in 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 the 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 prescribed by federal law. Any discrimination in the establishment and adjustment of salary rates is prohibited.

Termination of employment
An employer may terminate employment only on the specific grounds prescribed in the Labour Code and other federal laws. Employers must strictly comply with the procedures and documentation requirements of 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.
8.3 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 respective contributions.

Employer contributions
Currently, companies pay the following on employee compensation:

- **Obligatory Social Insurance Contributions (SIC)** have replaced Unified Social Tax (UST) with effect from 2010. A ceiling was set for the assessment and payment of insurance contributions in relation to an individual’s income. The rates are flat. In 2010 the ceiling for calculating contributions is set at RUB 415,000 per annum, and the assessment rate is to remain at the maximum rates set for UST (26%). From 2011 the overall assessment rate will reach 34%, and the ceiling will be adjusted.

- **Obligatory Accident Insurance Contributions (OAIC)** are made 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:
- Payments or other allowances under employment or civil law contracts with foreign citizens temporarily staying in Russia are exempt from SIC
- Payments or other allowances made by Russian organisations to foreign citizens working or doing business abroad are exempt from SIC
- Income paid to contractors is exempt from the Social Fund portion of the Obligatory Social Insurance Contributions and so effectively reduces the amount of SIC payable. Obligatory Accident Insurance Contributions (OAIC) are not payable if the civil contract does not stipulate accident insurance coverage

8.4 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 the children of expatriates.

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

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 was 3,976,747, while the quota for 2010, which has been approved by the Government, is only 1,944,356, (the sharp reduction is as a result of rising unemployment in Russia). If the quota has been filled, no work permits can be issued and, therefore, employing foreign nationals is prohibited.

The RF Government recently approved a new simplified procedure for highly-qualified foreign personnel. Such personnel are defined as those who receive a salary of not less than RUB 2 million per year. For such expatriates, a quota is not required and the procedure is limited to only obtaining individual work permits.

A company/employer is not required to obtain any additional permissions to engage such expatriates; in addition, work permits and working visas for such expatriates can be obtained for up to three years.

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 permit and work visa are 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., have permission to employ foreign personnel).
This requirement does not apply to foreign nationals permanently residing in Russia on a permanent 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 when they expire.

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 issuing employment and work permits.

Work authorisation documents are obtained on a quota basis. Companies intending to engage foreigners must submit a request for a quota every year before 1 May for the following year. Failure to apply for a quota may result in significant difficulties in employing foreign nationals.

Each year the government issues a list of professions for which a quota is not required. Usually, the list includes the senior management of Russian companies and branch/representative offices, as well as less common professions such as IT security specialists.

Obtaining work authorisation documents takes up to three months and can begin only 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 are entitled to stay and work in Russia on the basis of a work visa.

Each time a foreign person enters or leaves Russia, the authorities must be notified. Notification can be provided either by the foreign person's landlord or by the company for which he/she works. The same applies for family members.

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 immigration rules could result in fines of up to RUB 800,000 (approximately USD 27,200 as of 11 January 2009) per employee per violation.
9. Accounting and audit requirements

9.1 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 the 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.
Significant accounting differences between Russian accounting standards and IFRS

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 are no specific rules 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. As a result, 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:

<table>
<thead>
<tr>
<th>Provisions regarding business combinations accounted for as acquisitions</th>
<th>IFRS 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidation of special purpose entities</td>
<td>SIC 12</td>
</tr>
<tr>
<td>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</td>
<td>IAS 29</td>
</tr>
<tr>
<td>The translation of financial statements of hyperinflationary subsidiaries</td>
<td>IAS 21</td>
</tr>
<tr>
<td>The treatment of accumulated deferred exchange differences on the disposal of a foreign entity</td>
<td>IAS 21</td>
</tr>
<tr>
<td>De-recognition of financial assets</td>
<td>IAS 39</td>
</tr>
<tr>
<td>Recognition of operating lease incentives</td>
<td>IAS 17, SIC 15</td>
</tr>
<tr>
<td>Accounting for defined benefit pension plans and some other types of employee benefits</td>
<td>IAS 19</td>
</tr>
<tr>
<td>Accounting for an issuer’s financial instruments</td>
<td>IAS 32, IFRS 2, IFRS 7</td>
</tr>
<tr>
<td>Accounting for derivative financial instruments</td>
<td>IAS 39</td>
</tr>
<tr>
<td>Hedge accounting</td>
<td>IAS 39</td>
</tr>
<tr>
<td>Accounting for long-term assets held for disposal</td>
<td>IFRS 5</td>
</tr>
</tbody>
</table>

There are no specific rules requiring the disclosure 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 the 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, in which errors were identified (no retrospective correction is allowed) | 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 |

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.
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 the 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.

Intangible assets may be tested for impairment in accordance with IFRS.

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 a 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 law, 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 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 law stipulates that risks related to assets held under finance lease are borne by the lessee, 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 a 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 cases 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 parent company’s owners/shareholders. 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

Under 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.

9.2 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 from time to time amended.

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

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

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.

9.3 Audit requirements

Investor considerations

- An annual statutory audit is mandatory for all companies meeting certain criteria established by Russian law;
- Russian Standards on Auditing are close to international practice;
- From 1 January 2010, licensing is no longer mandatory for audit firms and auditors working independently;
In order to conduct audit activities, audit firms and auditors should have membership in a self-regulatory organisation.

Companies subject to statutory audit

Under Russian auditing law, 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": This replaces 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 2010, 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>
<thead>
<tr>
<th>PSAD</th>
<th>ISA</th>
</tr>
</thead>
<tbody>
<tr>
<td>PSAD N 1.</td>
<td>ISA 200.</td>
</tr>
<tr>
<td>PSAD N 2.</td>
<td>ISA 230.</td>
</tr>
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**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.
10. Tax system and administration

10.1 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 the 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, a 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 into line with OECD guidelines.

The most significant change from 1 January 2010 is the replacement of UST (Unified Social Tax) with obligatory social insurance contributions. The assessment rates are flat (26% in 2010, which was the maximum UST rate). In 2010, an individual's taxable salary is capped at RUB 415,000 per annum. One tax base has been established for contributions to all funds. New provisions relating to key elements of the new insurance contribution system generally coincide with the relevant UST provisions. Salaries and other forms of remuneration made to foreign nationals temporarily residing in Russia under employment and civil law contracts are exempt from insurance contributions taxation.

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.

**10.2 Direct and indirect tax burden**

According to the Federal Tax Service’s official website (www.nalog.ru), indirect taxes compose about 43% of total taxes collected between January and November 2009:

**Direct taxes:**

- Mineral resources extraction tax 32%
- Corporate profits tax 6%
- Obligatory Social Insurance Contributions 17%
- Other taxes 2%

**Indirect taxes:**

- VAT 40%
- Excise 3%

**10.3 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 superior authority (i.e., regional authorities cannot grant concessions on federal taxes).

**Federal taxes**

- Corporate profits tax
- Value-added tax (VAT)
- Excise taxes
- Personal income tax and Obligatory Social Insurance Contributions (that formally remain outside the Tax Code)
- Mineral resources extraction tax
- Payments for the use of natural resources
- Water tax

**Regional taxes**

- Property tax
- Transport tax
- Tax on gambling

**Local taxes**

- Land tax
- Individual property tax

Customs duty is governed separately by the Customs Code.

**10.4 Legislative framework**

Taxes, duty and fees are enacted by law and may be changed only by new legislation. Draft laws 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 Arbitrazh 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.

**10.5 Tax treaties**

As of the end of 2009, Russia has signed and ratified 78 double tax treaties (please refer to Appendix D). 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. 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 the unlimited deduction of advertising expenses).

10.6 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, obligatory social insurance contributions, 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.

10.7 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.

10.8 Withholding taxes

Under 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 the proper documentation of expenses is available.

Tax should be withheld by the tax agent and paid within three days after 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).

10.9 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.

10.10 Penalties

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

The 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 (8.75% per annum from 28 December 2009) 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, the collection of penalties requires the ultimate consent of the taxpayer or a court ruling.
10.11 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.

Under 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 (for transfer pricing). Advance pricing agreements are not available at present.

10.12 Tax litigation

A) Tax dispute resolution at pre-trial (administrative) stage

Tax disputes happen quite frequently in Russia; most taxpayers have to go through the tax litigation process at least once while doing business in Russia.

At present, taxpayers can challenge decisions and other documents/actions (or failure to act) of the tax authorities with a superior tax office or in court. From 2009, appealing some tax authority decisions is mandatory before the matter can be brought to court.

Unfortunately, few tax disputes are resolved at the pre-trial (administrative, superior tax office) stage. Taxpayers cannot negotiate tax audit results or enter into settlement agreements with the tax authorities and usually have to protect their rights in court.

B) Tax dispute resolution in court

Taxpayers can submit claims against the tax authorities with arbitrazh courts (i.e., courts that review and resolve economic disputes mainly between legal entities/entrepreneurs or legal entities/entrepreneurs and state authorities, including the tax authorities). Claims can be filed with a court within three months after a decision comes into force (provided that the taxpayer has gone through the pre-trial stage mentioned above) or after a taxpayer discovers that his rights were violated.

Initially, courts of the first instance (level) review disputes and issue decisions. Decisions of a first instance court can be appealed in appellate courts (second level) and cassational courts (third level). The average litigation process (all three instances (levels)) usually takes from nine to twelve months. Extremely rarely, resolutions/decisions of the said courts can be appealed in the Russian Supreme Arbitrazh Court.
11. Taxation of corporations

11.1 Corporate tax system

Taxable entities

Corporations and their shareholders are taxed separately. The maximum profits tax rate for all taxpayers from 1 January 2009 is 20% (it can be reduced to 15.5% 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 10.8).

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

An additional requirement related to the value of the investment to be at least RUB 500 million (approximately USD 16.5 million) is not applicable for the distribution of dividends based on profits earned in 2010 and later.
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” (the timing of this amendment is not clear).

**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.

A PE’s profits 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 the deductibility of expenses incurred abroad by a head office with respect to its PE in Russia, although most double tax treaties provide for such an option. 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.

### 11.2 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.

### 11.3 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 11.5) 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. The standard profits tax rate of 20% is applicable to all types of income of corporations except for dividends (please refer to section 11.1 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 does 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 the 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).

**11.4 Deductibility of expenses**

Expenses are generally recognised on an accrual basis. The main criteria for the 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).

An “amortisation premium” is allowed, which means that a taxpayer, from 1 January 2009, has the right to deduct (for certain categories of fixed assets) 30% of the cost of fixed assets purchased (or constructed) in the month when depreciation started. A “premium” recorded on assets sold within five years after 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 January 2010, 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 or at the taxpayer’s discretion, the following limits are applied:
  - For loans denominated in a foreign currency: 15%
  - For loans denominated in roubles:
    - If a loan was obtained before 1 November 2009: the refinancing rate of the Central Bank of Russia (8.75% per annum from 28 December 2009) multiplied by 2 (effective as of 1 January 2010 until 30 June 2010).
    - If a loan was obtained after 1 November 2009: the refinancing rate of the Central Bank of Russia multiplied by 1.1.

**Bad debts**

Losses resulting from writing off bad debts are generally deductible. Companies can also use a bad debt reserve. The method of accrual for a bad debt reserve for tax purposes may differ from that in financial accounting, since 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 axable profit before a loss carry forward deduction). Carry back is not allowed. Losses from the 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 specifically 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.

11.5 Related party transactions, transfer pricing

Currently, the following rules apply:

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) the comparable uncontrolled price (CUP) method, (2) the resale-minus method and (3) the cost-plus method. Under the Tax Code, the last method takes into account an operational rather than gross margin.

On 19 February 2010 a draft law on new transfer pricing rules passed the first reading in the State Duma (the lower chamber of the Federal Assembly of the Russian Federation, the Russian Parliament). The draft law is expected to be adopted by the end of the year and come into force on 1 January 2011.

The main points of the draft law are the following:

- Significant reduction of the list of transactions where the Russian tax authorities may control prices for tax purposes;
- Expansion of the list of related parties;
- Burden of proof that the prices of controlled transactions that do not correspond to the market will rest with the tax authorities;
- Introducing the arm’s length principle as the fundamental principle of Russian transfer pricing rules;
- Abolishing the present “safe harbour” provision (the allowable 20 per cent deviation of prices of controlled transactions from market prices);
- Expanding the list of information sources for determining market prices;
- Formally introducing a functional analysis as one of the comparability factors;
- Introducing new methods for determining market prices. Changes to the existing pricing methods to bring them more into line with internationally accepted transfer pricing principles;
- Introducing correlative adjustments for controllable transactions within Russia;
- Introducing reporting and transfer pricing documentation requirements;
- Introducing special transfer pricing audits to be performed by federal tax authorities;
- Introducing penalties for non-compliance with reporting requirements, as well as a penalty for failure to prepare transfer pricing documentation provided a transfer pricing adjustment is made by tax authorities;
• Introducing unilateral and multilateral Advance Pricing Agreements (APAs) for companies registered as “large” taxpayers (but not earlier than 2012).

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

11.7 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.

11.8 Energy, utilities and mining specifics

Recognition of exploration expenses for profits tax purposes
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 land reclamation are deducted evenly over a five-year period.

At the taxpayer's discretion, expenses related to obtaining a subsoil licence may be capitalised in the value of the licence (and further depreciated), or they may be deducted within two years after the acquisition of the licence.

Mineral Resources Extraction Tax (MRET)
The method of MRET calculation depends on the type of mineral resource.

MRET for crude oil is calculated using the amount of oil extracted and the MRET rate, determined based on a formula linked to world oil prices and the RUB/USD exchange rate. The MRET rate for November 2009 was RUB 2,836 (approximately USD 96) per tonne. For depleted oil fields, a special reducing coefficient can be applied to the standard MRET rate. A zero MRET rate applies to oil extracted from green fields located in certain regions of Russia (e.g., East Siberia, internal and territorial waters located in the northern polar zone, the Azov and Caspian Seas, and the Nenets and Yamal regions) during the initial stage of production, as well as for certain types of extra-viscous oil.

The MRET for natural gas is calculated as the volume of extracted gas multiplied by the flat tax rate of RUB 147 (approximately USD 4.9) per 1,000 cubic meters of extracted gas.

For other mineral resources, the MRET is calculated as the amount of the resource extracted multiplied by the respective ad valorem tax rates: 3.8% for potassium salt, 4% for coal, 4.8% for ferrous metals, 6% for products containing gold, 6.5% for precious metals other than gold, 8% for non-ferrous metals and diamonds, and 17.5% for gas condensate.

A zero rate of MRET applies for some resources (e.g., underground water used for agricultural purposes, mineral water used for medical purposes, etc.).

Export duty
The export duty on oil is calculated using a special formula linked to the average global price of Urals blend monitored on a monthly basis. The export duty rate for crude oil for January 2010 is USD 267 per tonne.

Starting 1 December 2009, the Russian Government has established a zero rate export duty for oil produced in thirteen oil fields located in East Siberia (including Vankorskoe, Yurubcheno-Tokhomskoye and Talakanskoye).

Excise tax on oil products
A flat rate excise tax is charged on the sale and import of gasoline, diesel fuel and motor oils. The excise rates for main oil products are established for 2010 at the following rate:

• Gasoline with octane numbers not exceeding “80”: RUB 2,923 per tonne (approximately USD 99)
• Gasoline with octane numbers exceeding “80”: RUB 3,992 per tonne (approximately USD 136)
• Diesel fuel: RUB 1,188 per tonne (approximately USD 40)

Starting in 2011, the excise on oil products will be levied based on five quality grades, and the rate on higher quality oil products will be reduced compared to lower quality oil products. For 2011 the excise duties are established at the following level:

• Gasoline compliant with standards Euro-5 and Euro-4: RUB 3,773 per tonne (approximately USD 128)
• Gasoline of Euro-3 standard: RUB 4,302 per tonne (approximately USD 146)
• Gasoline not compliant with any of the above standards: RUB 4,624 per tonne (approximately USD 157)

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

11.9 Other taxes

Property tax
The property tax base includes only the book value of fixed assets recorded 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 import of cars, tobacco, alcohol, petrol and lubricants. Special excise rates for each type of excisable good are established in the Tax Code.

11.10 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 the provision of funds/assets to a more than 50%-owned subsidiary.

Repatriation of cash
The 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, the 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 option 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 a 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.

11.11 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 the dividends (please refer to section 11.1). 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).

11.12 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 by three 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).
12. Taxation of individuals

12.1 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.

Under rules effective from 1 January 2007, individuals are tax residents if they spend more than 183 days in Russia, including the days of arrival and departure, during any twelve consecutive months (instead of 183 days within a calendar year, as under the previous rules). However, Ministry of Finance clarifications imply that an individual’s “final” tax residence status 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

Generally, individuals do not have to register as taxpayers, unless they are obliged to file a Russian tax return, in which case registering as a taxpayer becomes necessary. Individual entrepreneurs do have to register. Foreign nationals staying in the country temporarily are not eligible to be considered entrepreneurs in Russia.

12.2 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, the provision of a car for personal use, etc.) are treated as taxable income and are generally included at market value (including VAT).

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%.

12.6 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 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.
13. 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, a PricewaterhouseCoopers global website that provides a comprehensive guide to VAT information from over 70 countries.

13.1 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 to be 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 conducts 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.

13.2 Zero-rating

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

• the export of goods to a destination outside Russia;
• the transportation, loading/unloading and arranging of transportation, loading/unloading of exported goods performed by Russian organisations or Russian individual entrepreneurs;
• the 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.

13.3 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;
• the sale of securities;
• transactions involving medical equipment and medical services;
• the 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;
• the sale of scrap and waste ferrous metals;
• assignment of loan agreements;
• the import of technological equipment (including components and spare parts) that does not have a Russian equivalent.

13.4 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 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. Russian tax authorities have been focusing on the inclusion of royalty payments into the value of imported goods.

13.5 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.
13.6 VAT incentives

Re-export
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 recoverable as input VAT under the general rules.

0% VAT rate
The sale of certain goods (works, services) is subject to 0% VAT rate (for more details, please see section 13.2). Input VAT on purchases related to activities subject to a 0% VAT rate is generally recoverable.

VAT refund
If in a particular tax period there is an excess of input VAT over output VAT, the difference is subject to a cash refund or can be offset against current/future tax liabilities. In this case, however, the taxpayer will be subject to a mandatory desk tax audit. For more details, please see section 13.8.

13.7 Simplification measures
The entity should not fulfill a taxpayer’s obligations if revenue for three subsequent months is less than RUB 2 million. It should be noted, however, that this rule is not applicable for entities performing the sale of excisable goods nor for the import of goods into Russia.
Import VAT deferral is possible when importing perishable goods and when importing goods under international agreements.

13.8 VAT compliance

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

Information in VAT invoices
A VAT invoice containing all the necessary information must be provided in order to recover input VAT. Under the Tax Code, starting from 1 January 2010 minor errors in VAT invoices should not be a basis for Russian tax authorities to challenge input VAT.
No separate invoicing requirements are established for export sales.
A VAT invoice should be issued within five days after the shipment of goods (supply of goods and services).
A duplicate copy of the VAT invoice should be registered in a sales book, and incoming VAT invoices should be recorded in a purchases book.
By agreement of the parties, the payment obligation of the recipient may be denominated in a foreign currency.
No electronic VAT invoices are accepted. The Russian state authorities are currently considering the possibility of using electronic VAT invoices.

VAT liability
VAT on sales should be recognised 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 certificates 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 the 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/individuals who are not registered as taxpayers in Russia or when they lease or purchase state property.
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 withheld VAT if such VAT was actually paid by the respective tax agent to the budget and other VAT recovery criteria are met. Under Russian law, reverse charge VAT should be paid by the tax agent on the same day the payment to the foreign supplier is made.

With respect to reverse charge VAT, the tax agent (i.e., the Russian buyer) is obliged to issue a VAT invoice on behalf of the foreign supplier.

**Returns and payments**

All taxpayers are required to file VAT returns on a quarterly basis. The deadline for filing a VAT return is 20 days from the end of the tax period (a quarter).

Taxpayers have the option of paying VAT in three installments 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, 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 in a particular tax period there is an excess of input VAT over output VAT, the difference can be refunded or offset against current or future tax liabilities. It should be noted, however, that in this case the respective taxpayer will be subject to a mandatory desk tax audit.

The desk audit should be completed by the tax authorities within three months after the submission of the respective tax return. If as a result of the desk audit the tax authorities do not identify any issues, then the offset/refund of input VAT should be executed. If, however, the tax authorities identify issues during the desk audit, the offset/refund is likely to take more time, and the taxpayer may have to sustain its VAT position in court.

Starting from 1 January 2010, Russian tax law provides for a simplified procedure for VAT offset/refund prior to the tax authorities’ finalisation of the tax audit.

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**

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.
14. PricewaterhouseCoopers in Russia

About PricewaterhouseCoopers

PricewaterhouseCoopers (www.pwc.com/ru) provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 163,000 people working in 151 countries across the PwC network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

Key facts about PricewaterhouseCoopers Russia

- Operating in Russia for more than 20 years: first established in Russia as early as 1913; renewed its presence in the country in 1989
- Leader in audit and consulting services in Russia by revenue, according to figures published in March 2010 by independent rating agency Expert RA
- 6 offices in Moscow, St Petersburg, Kazan, Yuzhno-Sakhalinsk, Ekaterinburg and Vladikavkaz
- 2000 PwC clients are Russian and international companies from a wide range of sectors, as well as governmental and non-profit organisations
- More than 2,000 professionals

- 28 charity projects implemented in 2009 in Russia
- Over 220 PwC volunteers participated in charity projects
- RUR 2 mln were raised for the charity Downside Up through a fundraising expedition to Mt Elbrus
- RUR 217 mln raised by companies participating in the Charity Instead of Gifts initiative launched by PwC in 2005 to improve the quality of life of hundreds of people in need
- Saved approximately 1,866 trees by recycling 108,846 tonnes of paper
Corporate social responsibility

PricewaterhouseCoopers in Russia implements a corporate social responsibility strategy that embraces four main areas: the marketplace, the environment, the community and the workplace. Our work in these areas brings us into contact with a wide circle of stakeholders (our clients being key) with whom we have a constant dialogue. PwC invests in the health and wellness of its staff and their families, carries out the Small Steps campaign to reduce the firm’s impact on the environment, provides clients with high-quality services and supports initiatives in areas such as child welfare and education and culture.

Our services

Audit and Assurance
• Financial statements audit
• Financial accounting
• Regulatory compliance
• Sustainability reporting
• Capital markets expertise
• Non-financial assurance
• Actuarial services

Consulting
• Strategy and operations
• Finance and accounting
• Information technology
• Governance, risk and compliance
• People and change

Deals
• Valuation and strategy
• Infrastructure and project finance
• M&A lead advisory
• Business restructuring
• Financial, commercial, and operational due diligence
• Deal integration

Tax and Legal Services
• Corporate taxation
• International tax structuring
• Transfer pricing
• Indirect taxation and customs

• PwC takes first place in “Russia's Largest Audit & Consulting Companies” rating – Expert RA, March 2010, based on 2009 results
• PwC takes first place in “Russia's Largest Audit Companies” rating – Kommersant Publishing House and Dengi magazine, April 2010, based on 2009 results;
• PwC takes first place in “Russia's Largest Consulting Companies” rating – Finance magazine, April 2010, based on 2009 results
• Femida award in the Audit category, in recognition of the contribution PwC has made to creating a democratic society and developing the institutions of a law-based society – 2010, based on 2009 results
• Russian Lead Insurance Auditor and Advisor – Golden Salamandra, 2010 based on 2009 results
• No. 1 Business Consulting Practice Worldwide by revenue – Kennedy Information, April 2009

• Russian Lead Financial Advisor – Acquisitions Monthly, April 2009
• PwC takes first place in the IPO Auditor rating in terms of deal volume and number – ReDeal analytical group under the Offerings.ru project, 2009.
• Russian Transfer Pricing Firm of the Year – International Tax Review, May 2010
• Best Tax Team of the Year in Russia – World Finance, January 2009
• The Legal 500 recommends PricewaterhouseCoopers CIS Law Offices B.V. as one of Russia's leading law firms in the following categories: banking and finance, corporate and M&A (Moscow and St Petersburg), employment, shipping and transport, and tax.
• Leader in Information Security and IT Risk Consulting – Forrester Research, March 2009
• World’s Best Outsourcing Advisor – International Association of Outsourcing Professionals, April 2009
• Tax aspects of mergers and acquisitions
• Global compliance services
• ERP-based tax accounting
• Tax disputes resolution
• Individual taxation and international assignments services
• Human resources consulting
• Legal services

Corporate training
• Strategy, finance, internal audit and management tools (including logistics)
• Financial accounting and reporting (IFRS, US GAAP)
• ACCA, DipIFR exam preparation
• CIPD Postgraduate Diploma in Personnel and Development
• CIMA Diploma in Performance Management

Our industry practices
• Financial Services
• Energy, Utilities and Mining
• Consumer and Industrial Products and Services
• Technology, Communications, Entertainment and Media
Appendices

Appendix A: Main macroeconomic indicators of Russia in 2002–2009

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<tbody>
<tr>
<td>Gross domestic product (GDP) (USD billion)</td>
<td>345</td>
<td>431</td>
<td>592</td>
<td>764</td>
<td>985</td>
<td>1,290</td>
<td>1,757</td>
<td>1,230</td>
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<tr>
<td>Gross domestic product (GDP), % y-o-y</td>
<td>104.7</td>
<td>107.3</td>
<td>107.2</td>
<td>106.4</td>
<td>106.7</td>
<td>108.1</td>
<td>105.6</td>
<td>92.1</td>
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<tr>
<td>Fixed capital investments, % y-o-y</td>
<td>102.6</td>
<td>112.5</td>
<td>110.9</td>
<td>110.5</td>
<td>113.5</td>
<td>121.1</td>
<td>109.1</td>
<td>83</td>
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<tr>
<td>CPI, % y-o-y</td>
<td>15.1</td>
<td>12</td>
<td>11.7</td>
<td>10.9</td>
<td>9.0</td>
<td>11.9</td>
<td>13.3</td>
<td>8.8</td>
</tr>
<tr>
<td>Volume of industrial production, % y-o-y</td>
<td>103.7</td>
<td>107</td>
<td>106.1</td>
<td>104</td>
<td>103.9</td>
<td>106.3</td>
<td>102.1</td>
<td>89.2</td>
</tr>
<tr>
<td>Gold and foreign exchange reserves (USD billion)</td>
<td>48</td>
<td>77</td>
<td>125</td>
<td>182</td>
<td>303.7</td>
<td>476.4</td>
<td>427.1</td>
<td>439</td>
</tr>
<tr>
<td>FDI (USD billion)</td>
<td>3.5</td>
<td>8</td>
<td>15.4</td>
<td>14.8</td>
<td>30.8</td>
<td>55.0</td>
<td>60.0</td>
<td>40</td>
</tr>
</tbody>
</table>

Source: Rosstat, Central Bank of Russia, EIU, Ministry of Economic Development of the Russian Federation
## Forecast of the economic development of Russia for 2010–2012

### Economic development scenarios: 1a – pessimistic; 2 – moderately conservative (basic); 2b – optimistic

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer price index (CPI) as at year-end 2, 2b, 1a</td>
<td>108.8-109</td>
<td>106.5-107.5</td>
<td>106-107</td>
<td>105-106.5</td>
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<tr>
<td>Annual average consumer price index 2, 2b, 1a</td>
<td>111.7</td>
<td>106.1</td>
<td>107.4</td>
<td>106.9</td>
</tr>
<tr>
<td>Rouble/dollar annual average exchange rate 2</td>
<td>31.7</td>
<td>28.3</td>
<td>27.8</td>
<td>27.5</td>
</tr>
<tr>
<td>2b</td>
<td>31.7</td>
<td>28.0</td>
<td>27.2</td>
<td>26.5</td>
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<tr>
<td>1a</td>
<td>31.7</td>
<td>29.5</td>
<td>30.0</td>
<td>30.5</td>
</tr>
<tr>
<td>Rouble/dollar real exchange rate index, % y-o-y 2</td>
<td>94.6</td>
<td>113.7</td>
<td>106.1</td>
<td>104.7</td>
</tr>
<tr>
<td>2b</td>
<td>94.6</td>
<td>115.1</td>
<td>107.1</td>
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<td>1a</td>
<td>94.6</td>
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<td>101.9</td>
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<tr>
<td>Gross domestic product, RUB billion 2</td>
<td>39,212</td>
<td>43,137</td>
<td>48,352</td>
<td>54,114</td>
</tr>
<tr>
<td>2b</td>
<td>39,212</td>
<td>43,724</td>
<td>49,185</td>
<td>55,729</td>
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<tr>
<td>1a</td>
<td>39,212</td>
<td>41,696</td>
<td>45,692</td>
<td>50,702</td>
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<tr>
<td>Growth rate, % 2</td>
<td>91.5</td>
<td>103.1</td>
<td>103.4</td>
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<tr>
<td>2b</td>
<td>91.5</td>
<td>103.5</td>
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<td>1a</td>
<td>91.5</td>
<td>101.3</td>
<td>101.0</td>
<td>102.9</td>
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<tr>
<td>Industry, % 2</td>
<td>88.5</td>
<td>102.8</td>
<td>102.9</td>
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</tr>
<tr>
<td>2b</td>
<td>88.5</td>
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<td>88.5</td>
<td>101.7</td>
<td>101.9</td>
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<td>Fixed capital investments, % 2</td>
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<td>102.9</td>
<td>1079</td>
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<td>101.1</td>
<td>103.6</td>
<td>103.6</td>
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<td>Fee-based services to the population, % 2</td>
<td>95.5</td>
<td>102.9</td>
<td>103.8</td>
<td>103.8</td>
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<td>2b</td>
<td>95.5</td>
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<td>1a</td>
<td>95.5</td>
<td>101.9</td>
<td>101.6</td>
<td>102.7</td>
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<td>Real expendable household income, % 2</td>
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<td>103.0</td>
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<td>100.7</td>
<td>101.5</td>
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<tr>
<td>Real salaries and wages, % 2</td>
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<td>100.9</td>
<td>102.4</td>
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<td>2b</td>
<td>96.6</td>
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<td>1a</td>
<td>96.6</td>
<td>100.0</td>
<td>100.4</td>
<td>101.4</td>
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<td>Retail trade, % 2</td>
<td>94.3</td>
<td>103.3</td>
<td>104.1</td>
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<td>2b</td>
<td>94.3</td>
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<td>101.9</td>
<td>101.8</td>
<td>103.4</td>
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<tr>
<td>Total exports, USD billion 2</td>
<td>305.0</td>
<td>350.0</td>
<td>380.2</td>
<td>401.4</td>
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<td>2b</td>
<td>305.0</td>
<td>363.3</td>
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<tr>
<td>Total imports, USD billion 2</td>
<td>195.1</td>
<td>226.4</td>
<td>253.0</td>
<td>283.4</td>
</tr>
<tr>
<td>2b</td>
<td>195.1</td>
<td>231.7</td>
<td>262.3</td>
<td>302.8</td>
</tr>
<tr>
<td>1a</td>
<td>195.1</td>
<td>212.0</td>
<td>222.4</td>
<td>240.9</td>
</tr>
</tbody>
</table>

Source: Ministry of Economic Development of the Russian Federation
## Appendix B: Tax rates

### Corporate income tax rates
- 20% is the standard rate (effective from 1 January 2009), regional authorities can reduce it to 15.5%;
- 9% or 0% is the tax rate on dividend income;
- 15%, 9% or 0% is the tax rate on interest income on state securities (depending on the type of securities).

### Tax depreciation rates
- Straight-line and declining balance depreciation methods. The useful life of assets for the purposes of the 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 on certain classes of assets.

### Withholding taxes
- 15% on dividends and income from participation in Russian enterprises with foreign investments;
- 10% on freight income;
- 20% on certain other income from Russian sources, including royalties and interest;
- 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 then 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.

### Personal income tax
**For residents:**
- 13% standard rate (applied to the worldwide income of an individual);
- 9% for dividend income
- 35% for specific types of income (winnings, prizes and others).

**For non-residents**
- 30% standard rate (applied to income received from Russian sources);
- 15% for dividend income.

### Personal allowances (and/or credits)
- Main exemptions:
  - charity contributions;
  - social expenses: e.g., education expenses including on children, medical expenses with the exception of expensive treatments (up to RUB 120,000 (approx. USD 4,000));
  - income from the sale of immovable and other property held for three years or more;
  - income from the sale of immovable property and land plots held for less than three years in the amount of RUB 1m (approx. USD 33,300), or documented expenses;
  - income from the sale of other property held for less than three years in the amount of RUB 250,000 (approx. USD 8,300), or documented expenses;
  - income spent on the construction or purchase of premises or land acquired for the purpose of building a house (maximum RUB 2m; approx. USD 67,000) plus related interest payments. All objects should be located on Russian territory. This deduction can be granted only once in a lifetime. The deduction can be carried forward up to full utilisation;
  - income from the sale of securities and derivatives in the amount of documented expenses.

### Tax on foreign nationals working in Russia
- No special tax on foreign nationals working in Russia and from 1.1.2010 no social insurance contributions on salaries paid to foreign nationals

### Wealth tax
- None

### Estate and/or inheritance and/or gift tax rates
- No estate taxes (abolished from 1 January 2007). Gift taxes apply in limited situations

### Capital tax
- None

### Indirect taxes
- **Value-added tax**
  - 18% standard rate
  - 10% rate applicable to the sale of some types of goods (basic food products, medicines, etc.)
  - 0% rate for export sales

- **Excise**
  - Special excise rates are established for the production and import of cars, tobacco, alcohol, petrol and lubricants.
Appendix D: Corporate taxes in Russia: withholding taxes

<table>
<thead>
<tr>
<th>Country</th>
<th>Treaty benefits available from</th>
<th>Dividends (%)</th>
<th>Interest (%)</th>
<th>Royalties (%)</th>
<th>Construction site duration (months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania/RF</td>
<td>1 January 1998</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Algeria/RF</td>
<td>1 January 2009</td>
<td>5 or 15</td>
<td>0* or 15</td>
<td>15</td>
<td>6 and an aggregated period of more than 3 months in any 12-month period for furnishing services</td>
</tr>
<tr>
<td>Armenia/RF</td>
<td>1 January 1999</td>
<td>5 or 10</td>
<td>0</td>
<td>0</td>
<td>18</td>
</tr>
<tr>
<td>Australia/RF</td>
<td>1 January 2004</td>
<td>5 or 15</td>
<td>10</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Austria/RF</td>
<td>1 January 2003</td>
<td>5 or 15</td>
<td>0</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>Azerbaijan/RF</td>
<td>1 January 1999</td>
<td>10</td>
<td>0* or 10</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Belarus/RF</td>
<td>1 January 1998</td>
<td>15</td>
<td>0* or 10</td>
<td>10</td>
<td>no special provisions in the relevant DTT, local tax legislation provisions should apply</td>
</tr>
<tr>
<td>Belgium/RF</td>
<td>1 January 2001</td>
<td>10</td>
<td>0* or 10</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>Botswana (***</td>
<td>5 or 10</td>
<td>0* or 10</td>
<td>10</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>1 January 2010</td>
<td>10 or 15</td>
<td>0* or 15</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Bulgaria/RF</td>
<td>1 January 1996</td>
<td>15</td>
<td>0* or 15</td>
<td>15</td>
<td>12</td>
</tr>
<tr>
<td>Canada/RF</td>
<td>1 January 1998</td>
<td>10 or 15</td>
<td>0* or 10</td>
<td>0 or 10 (0% applies to specific types of rights)</td>
<td>12</td>
</tr>
<tr>
<td>China/RF</td>
<td>1 January 1998</td>
<td>10</td>
<td>0* or 10</td>
<td>10</td>
<td>18</td>
</tr>
<tr>
<td>Croatia/RF</td>
<td>1 January 1998</td>
<td>5 or 10</td>
<td>10</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Cyprus/RF</td>
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<td>5 or 10</td>
<td>0</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>Czech/RF</td>
<td>1 January 1998</td>
<td>10</td>
<td>0</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Denmark/RF</td>
<td>1 January 1998</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>12 and an aggregated period of more than 365 days in any 18-month period for drilling rig</td>
</tr>
<tr>
<td>Egypt</td>
<td>1 January 2001</td>
<td>10</td>
<td>0* or 15</td>
<td>15</td>
<td>12 and an aggregated period of more than 6 months in any 12-month period for furnishing services</td>
</tr>
<tr>
<td>Finland/RF</td>
<td>1 January 2003</td>
<td>5 or 12</td>
<td>0</td>
<td>0</td>
<td>12 and 18-month period for particular types of construction works</td>
</tr>
<tr>
<td>France/RF</td>
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<td>5 or 10 or 15</td>
<td>0</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>Germany/RF</td>
<td>1 January 1997</td>
<td>5 or 15</td>
<td>0</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>Greece/RF</td>
<td>1 January 2008</td>
<td>5 or 10</td>
<td>7</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Hungary/RF</td>
<td>1 January 1998</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>Iceland/RF</td>
<td>1 January 2004</td>
<td>5 or 15</td>
<td>0</td>
<td>0</td>
<td>12</td>
</tr>
</tbody>
</table>

Appendix C: List of countries with which Russia has concluded free trade agreements

1. Serbia
2. Ukraine
3. Belarus
4. Azerbaijan
5. Armenia
6. Kyrgyzstan
7. Tajikistan
8. Kazakhstan
9. Turkmenistan
10. Uzbekistan
11. Moldova
12. Georgia
<table>
<thead>
<tr>
<th>Country/Region</th>
<th>Date of Entry</th>
<th>Period</th>
<th>Rate</th>
<th>Special Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>India/RF</td>
<td>1 January 1999</td>
<td>10</td>
<td>0* or 10</td>
<td>10</td>
</tr>
<tr>
<td>Indonesia/RF</td>
<td>1 January 2003</td>
<td>15</td>
<td>0* or 15</td>
<td>15</td>
</tr>
<tr>
<td>Iran/RF</td>
<td>1 January 2003</td>
<td>5 or 10</td>
<td>0* or 7.5</td>
<td>5</td>
</tr>
<tr>
<td>Ireland/RF</td>
<td>1 January 1996</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Israel/RF</td>
<td>1 January 2001</td>
<td>10</td>
<td>0* or 10</td>
<td>10</td>
</tr>
<tr>
<td>Italy/RF</td>
<td>1 January 1999</td>
<td>5 or 10</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>Japan/USSR</td>
<td>1 January 1987</td>
<td>15</td>
<td>0* or 10</td>
<td>0 or 10 (0% applies to specific types of rights)</td>
</tr>
<tr>
<td>Kazakhstan/RF</td>
<td>1 January 1998</td>
<td>10</td>
<td>0* or 10</td>
<td>10</td>
</tr>
<tr>
<td>Korea, Democ-</td>
<td>1 January 2001</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>cratic People's</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rep/RF</td>
<td>1 January 1996</td>
<td>5 or 10</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Kuwait/RF</td>
<td>1 January 2004</td>
<td>0 or 5 (0% rate applies to dividends paid to governmental agencies or financial institutions)</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Kyrgyzstan/RF</td>
<td>1 January 2001</td>
<td>10</td>
<td>0* or 10</td>
<td>10</td>
</tr>
<tr>
<td>Lebanon/RF</td>
<td>1 January 2001</td>
<td>10</td>
<td>0* or 5</td>
<td>5</td>
</tr>
<tr>
<td>Lithuania/RF</td>
<td>1 January 2006</td>
<td>5 or 10</td>
<td>0* or 10</td>
<td>5 or 10</td>
</tr>
<tr>
<td>Luxembourg/RF</td>
<td>1 January 1998</td>
<td>10 or 15</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Macedonia/RF</td>
<td>1 January 2001</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Malaysia/USSR</td>
<td>1 January 1989</td>
<td>0 or 15 (15% rate applies to profits received by a resident of Malaysia from a joint venture)</td>
<td>0* or 15</td>
<td>10 or 15 (depending on the type of rights)</td>
</tr>
<tr>
<td>Mali/RF</td>
<td>1 January 2000</td>
<td>10</td>
<td>0* or 15</td>
<td>0</td>
</tr>
<tr>
<td>Mexico/RF</td>
<td>1 January 2009</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Moldova/RF</td>
<td>1 January 1998</td>
<td>10</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Mongolia/RF</td>
<td>1 January 1998</td>
<td>10</td>
<td>0* or 10</td>
<td>rates in accordance with local legislation</td>
</tr>
<tr>
<td>Montenegro/RF</td>
<td>1 January 1998</td>
<td>5 or 15</td>
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<td>10</td>
</tr>
<tr>
<td>Morocco/RF</td>
<td>1 January 2000</td>
<td>5 or 10</td>
<td>0* or 10</td>
<td>10</td>
</tr>
<tr>
<td>Namibia/RF</td>
<td>1 January 2001</td>
<td>5 or 10</td>
<td>0* or 10</td>
<td>5</td>
</tr>
<tr>
<td>Netherlands/RF</td>
<td>1 January 1999</td>
<td>5 or 15</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>New Zealand/RF</td>
<td>1 January 2004</td>
<td>15</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Norway/RF</td>
<td>1 January 2003</td>
<td>10</td>
<td>0* or 10</td>
<td>0</td>
</tr>
<tr>
<td>Philippines/RF</td>
<td>1 January 1998</td>
<td>15</td>
<td>0* or 15</td>
<td>15</td>
</tr>
</tbody>
</table>
### Appendix D: Corporate taxes in Russia: withholding taxes (continuation)

<table>
<thead>
<tr>
<th>Country/RF</th>
<th>Date</th>
<th>Withholding Tax</th>
<th>Exemptions</th>
<th>Duration Notes</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland/RF</td>
<td>1 January 1994</td>
<td>10</td>
<td>0* or 10</td>
<td>10</td>
<td>12 (may be extended up to 24 months upon agreement with the competent authorities)</td>
</tr>
<tr>
<td>Portugal/RF</td>
<td>1 January 2003</td>
<td>10 or 15</td>
<td>0* or 10</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Qatar/RF</td>
<td>1 January 2001</td>
<td>5</td>
<td>0* or 5</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Romania/RF</td>
<td>1 January 1996</td>
<td>15</td>
<td>0* or 15</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Saudi Arabia (***)</td>
<td>0 or 5</td>
<td>0* or 5</td>
<td>10</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Serbia/RF</td>
<td>1 January 1998</td>
<td>5 or 15</td>
<td>10</td>
<td>10</td>
<td>18</td>
</tr>
<tr>
<td>Singapore/RF</td>
<td>1 January 2009</td>
<td>5 or 10</td>
<td>0* or 7.5</td>
<td>7.5</td>
<td>6 and an aggregated period of more than 3 months in any 12-month period for furnishing services</td>
</tr>
<tr>
<td>Slovakia/RF</td>
<td>1 January 1998</td>
<td>10</td>
<td>0</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Slovenia/RF</td>
<td>1 January 1998</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>South Africa/RF</td>
<td>1 January 2001</td>
<td>10 or 15</td>
<td>0* or 10</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>Spain/RF</td>
<td>1 January 2001</td>
<td>5 or 10 or 15</td>
<td>0* or 5</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Sri Lanka/RF</td>
<td>1 January 2003</td>
<td>10 or 15</td>
<td>0* or 10</td>
<td>10</td>
<td>6 and an aggregated period of more than 183 days in any 12-month period for furnishing services</td>
</tr>
<tr>
<td>Sweden/RF</td>
<td>1 January 1996</td>
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<tr>
<td>Switzerland/RF</td>
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</tr>
<tr>
<td>Syria/RF</td>
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<td>15</td>
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<td>4.5 or 13.5 or 18 (depending on type of rights)</td>
<td>6</td>
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<tr>
<td>Tajikistan/RF</td>
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<td>5 or 10</td>
<td>0* or 10</td>
<td>0</td>
<td>12 (may be extended upon agreement with the competent authorities)</td>
</tr>
<tr>
<td>Thailand/RF</td>
<td>1 January 2009</td>
<td>15</td>
<td>0* or 10</td>
<td>15</td>
<td>6 and an aggregated period of more than 3 months in any 12-month period for furnishing services</td>
</tr>
<tr>
<td>Turkey/RF</td>
<td>1 January 2000</td>
<td>10</td>
<td>0* or 10</td>
<td>10</td>
<td>18</td>
</tr>
<tr>
<td>Turkmenistan/RF</td>
<td>1 January 2000</td>
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<td>5</td>
<td>12</td>
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<tr>
<td>UK/RF</td>
<td>1 January 1998</td>
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<td>0</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>Ukraine/RF</td>
<td>1 January 2000</td>
<td>5 or 15</td>
<td>0* or 10</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>USA/RF</td>
<td>1 January 1994</td>
<td>5 or 10</td>
<td>0</td>
<td>0</td>
<td>18</td>
</tr>
<tr>
<td>Uzbekistan/RF</td>
<td>1 January 1996</td>
<td>10</td>
<td>0* or 10</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1 January 2010</td>
<td>10 or 15</td>
<td>0* or 5 or 10</td>
<td>10 or 15</td>
<td>9</td>
</tr>
<tr>
<td>Vietnam/RF</td>
<td>1 January 1997</td>
<td>10 or 15</td>
<td>10</td>
<td>15</td>
<td>6 and more than 12-month period for furnishing services</td>
</tr>
</tbody>
</table>

* In general a 0% tax rate applies to interest payments to the governments of contracting states, and to payments guaranteed by the governments of contracting states.

** 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.

*** The Federal Law on ratifying the Convention was signed by the Russian President in November. Currently, there is no official information on the date when the Convention enters into force.
Appendix E: Useful sources of information

Government resources
www.kremlin.ru/ – Official presidential site
www.gov.ru/ – Official governmental portal (Russian)
www.duma.ru – Official site of the parliamentary lower house (Russian)
www.cbr.ru – Central Bank of Russia

Associations and business groups
www.amcham.ru – The American Chamber of Commerce in Russia
www.rbcc.com – The Russo-British Chamber of Commerce
www.aebrus.ru/ – The Association of European Businesses
www.rspp.ru/ – The Russian Union of Industrialists and Entrepreneurs
http://eng.tpprf.ru/ – The Russian Chamber of Commerce and Industry
www.invest2russia.com; www.b2russia.ru – project aimed to become means of investment exchange between Russia and global investors

Other
www.waytorussia.net/ – Independent guide to Russia
http://news.bbc.co.uk/2/hi/europe/country_profiles/1102275.stm – BBC country profile
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