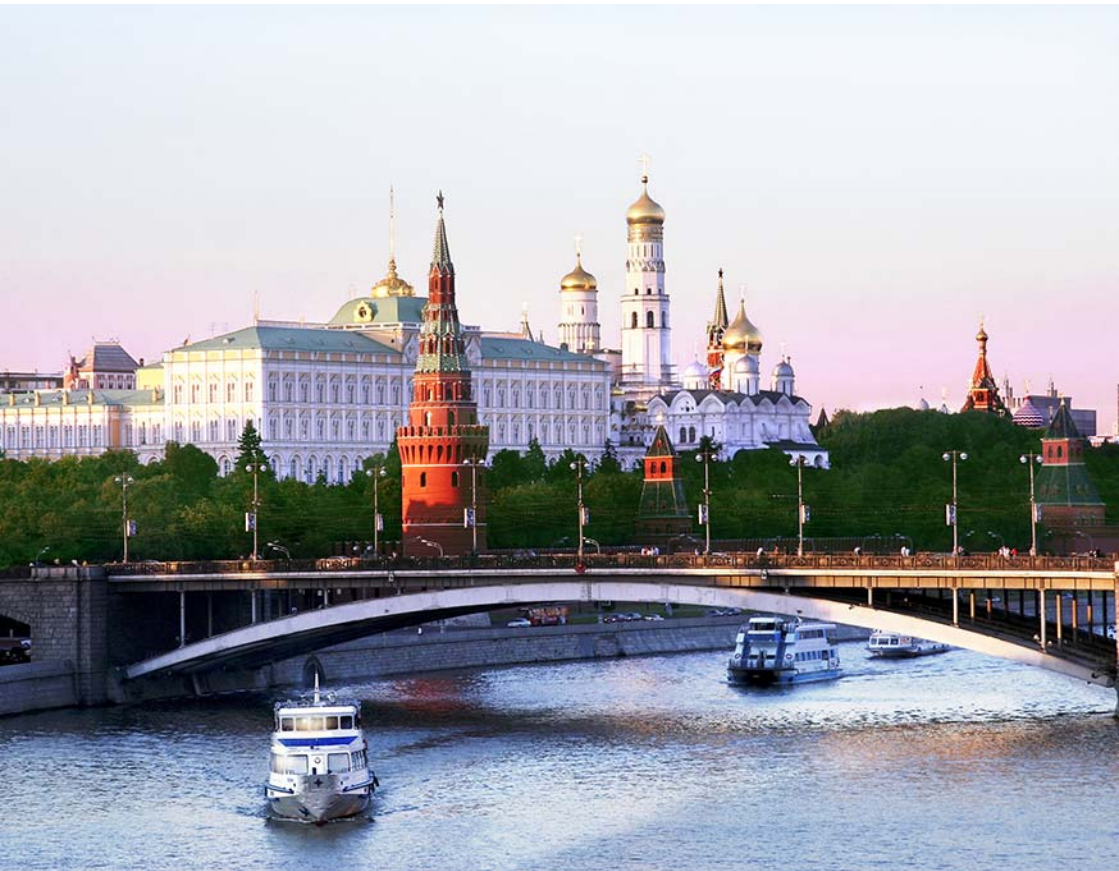


PKF

Accountants &
business advisers

Doing business in Russia



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FBK Company



Founded in 1990, FBK Company is one of the oldest audit and consulting firms in Russia.

Over this period FBK has grown from a small firm to one of the largest Russian audit and consulting companies. FBK is one of the leaders of Russian audit companies in terms of its total revenues and revenues gained from audit services.

The company's staff is over 900 employees. FBK has offices in Moscow, Kazan' (FBK-Povolzhje), Zlatoust (FBK South Ural), St. Petersburg and has regional partner in Novosibirsk.

Since 1995 FBK has been a member firm of PKF International Limited. Membership with PKF International Limited allows FBK to engage professionals from 400 audit and consulting firms located in 120 countries in joint efforts and employing unified techniques and quality standards. Sergey Shapiguzov, FBK President, is a member of the PKF European Board.

Our services for domestic investors

Establishing a company in the Russian Federation ("RF"), from a single place of business or branch to more complex joint-venture company or partnership, is a significant step for any business. You will need to focus on building a profitable business and maximizing the return on your investment at the same time dealing with many regulatory and administrative issues triggered by entering the RF market.

Why FBK?

FBK is the team of professionals working together to solve your problems. The wide range of help that we can provide and the depth of our knowledge of the local business environment allows you, with FBK as your guide, to invest in the Russian Federation the easiest and safest way and will give you better returns. "FBK" means that all your problems will be resolved the best possible way.

How should you structure your investment?

The way that your RF business or investment vehicle is structured and how it interacts with your non-RF interests will have a considerable impact on costs and tax charges that it will have to face. FBK has accumulated extensive experience of advising companies on various entities and arrangements that might be used to set up a business in the Russian Federation and help you identify the most tax-efficient structure for your business. When you are ready to take the profits from your investment we can advise repatriation strategies or any other procedure upon your decision.

Services

Assurance and Business Advisory

- auditing of Russian statutory accounts in accordance with both National and International Standards on Auditing;
- tax audit;
- tax accounting;
- preparation (restatement) of financial statements of Russian enterprises in compliance with IFRS;
- compilation of financial statements in accordance with IFRS;
- reviews of financial statements prepared in accordance with IFRS;
- advisory services to the client's staff on preparation, application and interpretation of IFRS;
- elaboration of unique chart of accounts and accounting policies for needs of individual clients;
- advising on development and implementation of methodologies for preparation of international financial statements;
- special purpose auditing;
- accounting and regulatory advising;
- set-up of accounting system;
- review of internal controls and recommendations to management.

Tax and Legal

- consultancy on corporate taxation and tax planning;
- legal analysis and compliance review;

- foreign legal entities consultancy;
- advising on Russian VAT and withholding tax;
- tax advising for expatriate specialists;
- tax auditing of Russian and international firms;
- international tax planning;
- consultancy on civil, corporate and international law;
- consultancy on investment and customs legislation, advising on exchange regulation;
- transaction and investment structuring;
- full legal support of merges and acquisitions;
- review and preparation of contracts, agreements and other legal documents;
- representation of clients in court and arbitration court including representation in Constitutional Court of the Russian Federation and Supreme Court of the Russian Federation (litigation);
- forensic services.

Financial and Management Advisory

- strategic analysis and planning;
- business planning;
- business process re-engineering and restructuring;
- management accounting and reporting;
- due diligence and feasibility studies;
- market research;
- brand-consulting;
- merges and acquisition;
- corporate strategy development.

Economic Analysis

- macroeconomic research;
- economic analysis and forecasting;
- regional (municipal) development consultancy.

Valuation

- business valuation;
- asset valuation;
- valuation for IFRS-1, IFRS-3 and SFAS 141;
- asset consulting.

IT Consulting

- business process analysis, design and optimization;
- development of IT-strategy for the company;
- development of requirements to information systems, consultancy on IT-product selection, holding tenders;
- IT-project management;
- implementation and support of corporate business applications (ERP, CPM, CRM) based on Oracle, SAP and Microsoft products;
- installation of computer-based automation of the process of tax report preparation and implementation of information tax accounting systems;
- company IT-auditing;
- automation of the process of tax report preparation.

Introduction



Geography

Russia occupies much of easternmost Europe and northern Asia, stretching from Norway to the Pacific Ocean and from the Black Sea to the Arctic Ocean, being the world's largest country by land area (17,075,200 sq km). Russia's land boundaries extend 21,139 kilometers, bordering the following nations: Norway and Finland in the northwest; Estonia, Latvia, Belarus, and Ukraine in the west; Georgia and Azerbaijan in the southwest; and Kazakhstan, Mongolia, and China along the southern land border. The Kaliningrad Region is an exclave on the Baltic Sea bordered by Lithuania and Poland. Russia's territory includes 11 time zones.

Moscow – the capital and the largest city – is three hours ahead of Greenwich Mean Time. Other major cities are such as St. Petersburg, Novosibirsk, Nizhniy Novgorod, Yekaterinburg, Samara, Omsk, Kazan', Chelyabinsk, Rostov, Ufa, Volgograd, and Perm.

The climate of Russia's vast territory ranges from temperate to Arctic continental. Winter weather varies from short-term and warm along the Black Sea to long-term and frigid in northern Siberia. Summer conditions range from warm on the steppes to cool along the Arctic coast.

Russia's possesses a vast variety of natural resources, many of which are located far from industrial processing centers. The fuel resources that supported development of industrial centers in European Russia have been depleted, necessitating reliance on coal, natural gas, and petroleum from Siberian deposits. However, Russia still has an estimated 6 percent of the world's oil deposits and one-third of the world's natural gas deposits, making it a major exporter of both commodities. Rich deposits of most industrially valuable metals, diamonds, and phosphates also are found in Russia.

Russia contains nearly 25 percent of the world's forests. Coastal and river waters support extensive fishing industry.

Society

In April 2006, Russia's population was estimated as 142.1 million. That total made Russia the eighth most populous country in the world. Of the total, 73 percent live in cities and towns, and 27 percent live in rural areas. Some 90,3 million people (63 percent of the population) were of working age in 2005. Russia traditionally has had a highly educated population. According to the 2002 census, 99.5 percent of the population above age 10 was literate.

There are at least 60 different recognized ethnic groups in Russia, but Russians (83%) contain the vast majority of the population. There are also Ukrainians (3%) and such non-Slavic linguistic and ethnic groups as Tatars (3,8%), Bashkirs, Chuvash, Komi, Komi-Permyaks, Udmurts, Mari, Mordovians, Jews, Germans, Armenians, and numerous groups in the Far North and in the Caucasus. Russian is the official language, although approximately 100 other languages are spoken.

Administratively, the Russian Federation consists of a great number of different federal subjects, making a total of 85 constituent components. Each area with a predominantly Russian population is constituted as an "oblast" or region (47); non-Russian nationalities are constituted as "ethnic enclaves" with the status of republics (21), autonomous "oblasts" (1), and autonomous regions (6), territories (8). The cities of Moscow and St. Petersburg are independent of surrounding jurisdictions; termed "cities of federal significance" they have the same status as oblasts. Under the Constitution of the Russian Federation, the republics, territories, oblasts, autonomous oblast, autonomous regions, and cities of federal significance are held to be equal in their relations with the federal agencies of state power.

In 2000 the administrative units of Russia were grouped into seven regional administrative districts as a new layer between the above subdivisions and the national level. The federal districts and their centers are Northwest (St.Petersburg), Central (Moscow), Volga (Nizhny Novgorod), South (Rostov-na-Donu), Urals (Yekaterinburg), Siberia (Novosibirsk) and Far East (Khabarovsk).

Political and constitutional system

Russia officially celebrates its independence on June 12, 1991, the date when the Russian Republic proclaimed its sovereignty from the Soviet Union.

The current Constitution of the Russian Federation was approved by voters in December 12, 1993. It provides for a federal republic whose government has separate and independent executive, legislative and judicial branches. The head of state is the President directly elected for a four-year term, holding considerable executive power. The President, who resides in the Kremlin, nominates the highest state officials, including the Prime minister (or Premier), who must be approved by the State Duma, the lower house of Russian Parliament. The President can pass decrees (executive orders) without consent from Parliament and he is also the head of the military forces and of the Russian National Security Council.

The bicameral parliament, or the Federal Assembly, is divided into an upper house, the Federation Council, and a lower house, the State Duma. Pursuant to the Federal Law "On the procedure of forming of the Federation Council" of August 5, 2000 the Federation Council consists of two representatives from each constituent entity of the Russian Federation: representative of the legislative power is elected by the legislative body of the constituent entity and the representative of the executive power is appointed by the chief executive officer of the entity. The Federal Law "On elections of the deputies of the State Duma of the Russian Federation" of May 18, 2005 specifies the proportional electoral system. According to this Law The State Duma is composed of 450 deputies serving a four-year term, which are elected from the federal election district proportionally to the number of the votes for the federal lists of candidates.

Main political parties are Yedinaya Rossiya (United Russia, 304 seats in the State Duma), Kommunisticheskaya Partiya Rossiyskoy Federatsii (Communist Party of the Russian Federation, 47 seats), Liberal Democratic Party of Russia (31 seats), Rodina – Natsionalnyi Patrioticheskiy Soyuz (Motherland – National Patriotic Union, 33 seats), etc. About 45 members of the Duma are women.

With a new Constitution and a new parliament representing diverse parties and factions, Russia's political structure subsequently showed signs of stabilization.

As it was mentioned above, the Russian Federation is a federal state. The Russian Constitution presents a daunting list of powers reserved to the federal center. The Federal State retains important areas of competence including: foreign affairs; defense; justice; human rights and liberties; federal and state property; determining the basic principles of federal policy in the field of state structure, the economy, the environment; establishment of the legal framework for a single market; financial, monetary, credit and customs regulation, emission of money and guidelines for price policy, etc. Powers shared jointly

between the federal and local authorities are less numerous. Regional jurisdictions are only allocated powers not specifically reserved to the federal government or exercised jointly. Those powers include managing municipal property, establishing and executing regional budgets, establishing and collecting regional taxes, and maintaining law and order.

Economy

Since 1991 the highly structured Soviet system, nominally following the standards of five-year plans, was succeeded by ambitious restructuring aimed at encouraging private enterprise. However, large sectors of the state-owned enterprise system, especially those in energy, transportation, communications, and heavy industry, remained under government control.

From 2000 to 2005, Russia's federal budget showed surpluses each year. Tax revenues grew more than six times between 1999 and 2006. Following the tax reform of 2001, which established a flat 13 percent income tax rate, income tax revenues increased annually through the early 2000s. The 2001 reform also reduced the corporate tax rate from 35 percent to 24 percent, and in 2004 the value-added tax was reduced from 20 percent to 18 percent. The approved budget for 2007 called for revenues of US \$268 billion and expenditures of US \$210 billion. Also since 1998 Russia's GDP began an eight-year trend of expansion that continued in 2006. In 2006 Russia's GDP was US \$984.6 billion (US \$1.72 trillion in terms of purchasing power parity), an increase of 6.7 percent over the 2005 figure, making it the ninth largest economy in the world and the fifth largest in Europe. If the current growth rate is sustained, the country is expected to become the second largest European economy after Germany and the sixth largest in the world within a few years. The official government forecast for 2007 is a 6.5 percent increase.

Russia's multiple mineral resources have given many of its products a strong position in world markets. Of particular economic importance are diamonds, of which in 2005 Russia accounted for one-quarter of world production; nickel (21 percent); cobalt (10.5 percent); platinum (12.4 percent); and aluminum (13.3 percent). Russia is still second in coal reserves and the oil and gas industries, among the largest in the world, provide key export commodities. Also Russia possesses abundant resources on water, which builds its energy industries, making it a net exporter of electric power and the fourth producer of energy in the world. So far, the Russian Federation is benefiting from rising oil prices and has been able to pay off much of its former debt.

Legal system

Since its adoption in a nation-wide vote in 1993 the Russian Constitution has been considered to be the primary and fundamental statement of laws in the Russian Federation. Article 15 of the Constitution specifies that it "shall have supreme legal force and have direct effect, and shall be applicable throughout the entire territory of the Russian Federation." Constitutional laws cannot become part of the constitution or amend parts of it absent a special legal act on constitutional amendment.

Statutes are the predominant legal source of Russian law, and may only be enacted through the appropriate legislative process. Codes are the basis for law on a matter, and they are usually supplemented with legislation to develop certain provisions. Codes are interpreted flexibly, and interpretation may be based on enumeration of "general principles" of the codes. Reasoning by analogy is also allowed.

The President has power to issue normative and non-normative decrees, provided they don't contravene the Constitution and laws. On the basis of the Constitution, federal laws and normative decrees of the President of the Russian Federation the Russian Government issues decrees and ensures their implementation thereof.

Government agencies may enact regulations through their general competency limited to the extent of the constitution and relevant codes. Consequently, agencies may have their powers limited by statutes.

The commonly recognized principles and norms of the international law and the international treaties of the Russian Federation are a component part of its legal system. If an international treaty of the Russian Federation stipulates other rules than those stipulated by the law, the rules of the international treaty are applied according to Article 15 of the Constitution.

There is no judge-made common law in Russia, and decisions of the courts shall only be based upon the Constitution, statutes and regulations. However, court judgments are not future precedent. More recently, the courts of the Russian Federation allude to the court orders as "settled judicial practice."

Judicial system of the Russian Federation consists of three kinds of courts:

- courts of general jurisdiction;
- arbitral courts;
- constitutional courts.

Courts of general jurisdiction are entitled to settle civil, criminal and administrative cases. The Russian Supreme Court is the superior court of general jurisdiction. Arbitration courts have the power to settle the economic disputes and other disputes connected with the business activities. Supreme Arbitration Court is the superior court in the system of the arbitration courts. The Russian Supreme Court and Supreme Arbitration Court have authority to issue general explanations of the substantive law and procedural issues. Still, lower courts that ignore relevant explanations will probably get reversed.

Constitutional Court of the Russian Federation is entitled to settle the questions of conformity of federal laws, President's decrees, Government's resolutions etc. to the Russian Constitution; to settle the disputes on competence between the federal public authorities, between the federal public authorities and the authorities of the constituent entities etc. Constitutional Court has the power to declare unconstitutional laws and other regulations to be unconfirmable to the Constitution and consequently to be void. Courts of general jurisdiction may decline to apply any law that violates the Constitution and any normative regulations. The Supreme Court of the Russian Federation has jurisdiction to determine the constitutionality of regulations issued by government agencies.

Foreign relations

The improvement of Russia's foreign trade and foreign investment positions has been a central policy of the Russian administration. In 2005 Russia took major steps toward its most important goal in foreign trade, membership in the World Trade Organization (WTO). In 2006–2007 Russia conducted series of bilateral negotiations with different countries concerning membership in WTO, took part in the certain conferences, multilateral consultations. As a result in 2007 Russia has reached the final stage of joining WTO. In May 2005, a new agreement extended its cooperation with European Union (EU) in a wide variety of economic and security areas and committed EU to support Russia's WTO membership in 2006.

The Russian Federation participates in many international organizations, such as: APEC, BIS, BSEC, CBSS, CE, CERN (observer), CIS, EAPC, EBRD, ECE, ESCAP, G8, IAEA, IBRD, ICAO, ICRM, IDA, IFC, IFRCs, IHO, ILO, IMF, IMO, Inmarsat, Intelsat, Interpol, IOC, IOM (observer), ISO, ITU, LAILA (observer), MINURSO, MONUC, NAM (guest), NGS, OAS (observer), OPCW, OSCE, PCA, PFP, UN, UN Security Council, UNAMSIL, UNCTAD, UNESCO, UNHCR, UNIDO, UNIKOM, UNITAR, UNMIBH, UNMIK, UNMOP, UNOMIG, UNTAET, UNTSO, UPU, WCO, WFTU, WHO, WIPO, WMO, WTO, WTrO (applicant), Zangger Committee.

Business structure



a) Foreign investment

General remarks

The Federal Law "On foreign investment in the Russian Federation" of July 9, 1999 determines the principal guarantees of foreign investors' rights to investment, revenues and profits gained therefrom, and the terms of business activity of foreign investors on the territory of the Russian Federation. The present law does not apply to relations connected with deposits of foreign capital in banks and other credit institutions and insurance organizations, which are subject to the special legislation of the Russian Federation, and to the non-commercial organizations in order to achieve some socially useful purpose, including educational, charitable, scientific or religious purposes. Some provisions don't apply to technical research and industrial production zones residents' activities. In addition subsidiary and dependent companies of a business entity with foreign investment don't have any legal protection and preferences established by the present law when performing their business activities on the territory of the Russian Federation. But a foreign investor, a business entity with foreign investment established on the territory of the Russian Federation in which foreign investors hold at least 10% of shares or contribution in the authorized capital of such entity shall be fully provided with legal protection.

The law "On foreign investment in the Russian Federation" stipulates the fact that both federal and regional laws regulate foreign investment in the Russian Federation. The subjects of the Russian Federation and local authorities within their competence may grant a foreign investor benefits and guarantees, perform financing and render other support forms for the investment project implemented by a foreign investor. So it can be recommended for foreign investors to draw attention to the legislation of concrete region with the object of some special rules.

Basic definitions

Basic definitions in the area of foreign investment have been introduced by the Federal law "On foreign investment in the Russian Federation".

Thus, *foreign investors* is understood as a foreign legal entity, a foreign organization not being a legal entity, a foreign citizen, a person having no citizenship who is permanently residing outside the Russian Federation, an international organization who may invest in the Russian Federation in accordance with an international treaty of the Russian Federation, and foreign states in accordance with the terms determined by federal laws.

Foreign investment is an investment of foreign capital into a commercial entity within the Russian Federation in the form of civil rights objects belonging to the foreign investor, including money, securities, other property, property rights, exclusive rights to results of intellectual activity having monetary value (intellectual property), as well as services and information.

Foreign direct investment is an acquisition by a foreign investor of a share of at least 10% (contribution) in the authorized capital of a legal entity established or being established within the Russian Federation in the form of economic partnerships and companies; investment of capital into fixed assets of a branch of the foreign legal entity; acting of a foreign investor within the Russian Federation territory as a lessor of a financial leasing of certain types of equipment at the customs cost no less than 1 million rubles.

Priority investment project is an investment project with a total amount of the foreign investment no less than 1 billion rubles, or an investment project with a minimum share contribution of foreign investors in the authorized capital of a commercial organization with foreign investment no less than 100 million rubles, included with a list of priority investment project being approved by the Government of the Russian Federation.

Law gives a definition of some other terms, such as *investment project*, *investment project payback time*, *reinvestment*, *aggregate tax burden*.

Guarantees for foreign investors

In general it can be said that the legal treatment terms of activities of foreign investors and use of profit gained from investment must be no less favorable than the legal treatment of activities and use of profit gained from investment that are accorded to Russian investors, with some exclusions established by laws as far as it can be necessary in

order to protect the principals of constitutional system, morality, health, rights, and legal interests of other persons, ensuring the country's defense and state security.

Thus, in the year 2008 the law "On procedures for making investments into business entities of strategic importance for the defense and security of the state" was adopted. The law has defined 42 activities of the economy as "strategic", therefore stipulated that preliminary consent must be obtained for transactions giving foreign investors control of more than 50 percent (10% in some areas) of the total number of votes, the right to appoint 50 percent of the members of the collective executive body, and/or the right to elect more than 50 percent of the members of the board of directors. There are specified the following strategic activities:

- activities related to the nuclear industry and nuclear and radioactive materials;
- activities subject to licensing and related to encryption, including development, manufacture, maintenance and sale of cryptographic machines and encryption-related services;
- development, manufacture, maintenance and sale of weapons and military equipment and ammunition;
- manufacture and distribution of industrial explosives;
- aviation security activities;
- space-related activities;
- development, manufacture, repair and testing of aviation equipment, including dual-purpose aviation equipment;
- television and/or radio broadcasting covering a territory that accounts for half or more of the population of a constituent territory of the Russian Federation;
- operations by a business entity having a dominant position in the manufacture and marketing of special metals and alloys used for the manufacture of weapons and military hardware;
- conducting a geological survey at and/or exploration and development of deposits of federal significance;
- catching aquatic biological resources, etc.

Foreign countries, international organizations, and companies under their control, including Russian companies, are also required to seek permission to acquire more than 25% of shares in strategic enterprises.

A foreign investor may invest in the territory of the Russian Federation in any forms which are not prohibited by the legislation and foreign investors are granted full and unconditional protection of rights and interests. A foreign investor is entitled to be indemnified for any damages incurred by its activity due to illegal actions or failure to act of state and local authorities or officers of such authorities.

The property of a foreign investor or a business entity with foreign investment is not subject to seizure, including nationalization and requisition except for the cases and reasons determined by the law or the international treaty of the Russian Federation.

In the event of new laws and legal regulations of the Russian Federation come into effect or existing laws and legal regulations of the Russian Federation amended and modified so that the overall tax burden on activity of the foreign investor or the business entity with foreign investor on realization of priority investment projects increases, or the regime and restrictions in respect to foreign investment in the Russian Federation is established as compared with the overall tax burden and regime that existed in accordance with laws and legal regulations of the Russian Federation by the date when financing of the priority investment project at the expense of foreign investment began, then such new Russian laws and legal regulations as well as amendments and modifications made to existing laws and legal regulations shall not be applied to the foreign investor and the business entity with foreign investment who are performing their priority investment projects at the expense of direct foreign investment during the complete investment project payback period, but not exceeding seven years from the date when financing of the investment project at the expense of foreign investment began, if goods, imported to the customs territory of the Russian Federation by the foreign investor and the business entity with foreign investment, are used according to the stated purposes of the investor for realization of priority investment projects.

Conditions mentioned above (so called indemnity from legislation changes disadvantageous for a foreign investor) apply to a business entity with foreign investment if shares (contribution) of foreign investors in the authorized capital of such organization amounted to at least 25% as well as to a business entity with foreign investment, which is carrying out a priority investment project, irrespective of a contribution of foreign investors in the authorized capital. Differentiation of investment project payback periods depending upon their types are to be determined by the Government of the Russian Federation.

Insurance guarantees of due consideration by the court, the arbitral tribunal or the international court of arbitration are stipulated for disputes, arising in relation with the

performance of investment and a foreign investor's business activity on the territory of the Russian Federation and guarantee of using the revenues, profits and other legally acquired money sums on the territory of the Russian Federation and exporting the same from the Russian Federation.

A foreign investor may participate in privatization of objects of state-owned and municipal property and a right to land, other natural resources, buildings, structures and other immovable property is guaranteed.

b) Business structures in Russia

It is possible to set up a Russian business through a variety of company forms and arrangements. The main types are set out below.

General remarks

Business in Russia may be conducted in various forms, with setting up a legal person or not, via Russian subsidiary company and via branches and representations.

The fundamental concept underlying Russian Company law is that a company and its participants are separate legal persons. The company therefore has rights and duties independent of its shareholders and directors and can take legal actions in its own name.

The most common groups of legal entities under Russian legislation are commercial and non-profit organizations. Non-profit organizations may conduct entrepreneurial activity within the framework of limitations stipulated in their statutory documents, but only as it serves the purposes for which such organizations have been established. The Civil Code of the Russian Federation and other federal laws stipulate establishing non-profit organizations in more than 30 forms: religious and public organizations, non-commercial partnership, associations and units, charity foundations, etc

Commercial organizations shall be the organizations pursuing gaining of profit as the principal purpose of their activity. In actual practice, the most common form of business organization in the Russian Federation is commercial organizations, among which the limited liability company is the most widespread. Less frequent forms are the full partner-

ship, limited partnership, the joint-stock company (closed and open). Other forms of commercial organizations exist in Russia are production cooperatives, state and municipal unitary enterprises, but these forms may be effective only for specific type of business.

The creation of associations of commercial and (or) noncommercial organizations in the form of associations and unions is permitted.

Forms for conducting business activities by foreigners

Subject to some requirements, foreigners in Russia are free to pursue business activities on the same terms and conditions as Russian citizens. Additionally, foreign entities are free to establish and operate in Russia their branches and representative offices. Below please find a concise presentation of the respective forms in which foreigners may conduct business in Russia pursuant to the Civil Code of the Russian Federation (Part I of November 30, 1994). The Civil Code specifies the following kinds of commercial legal entities: full partnership, limited partnership, Joint Stock Company, Limited Liability Company, Additional Liability Company.

Full partnership

Full partnership is a partnership, whose participants (full partners) in accordance with contracts concluded between them, engage in business activity in the name of the partnership and bear responsibility for its obligations with all of the property belonging to them. A person may be a participant only of one full partnership. Full partnership shall be established and shall operate on the basis of a constitutive contract signed by all the participants.

Management of full partnership shall be effectuated by the common consent of all the participants. Each participant shall have one vote unless another procedure has been provided for by a constitutive contract. Each participant of a full partnership shall have the right to act in the name of a partnership unless another procedure has been provided for by a constitutive contract. Profit and losses of full partnership shall be distributed between the participants in proportion to their participatory shares in the contributed capital unless provided otherwise by a constitutive contract.

The formation of partnership requires at least two founders (individual entrepreneurs or commercial organizations).

Participants of full partnership shall jointly and severally bear subsidiary responsibility with all their property for the obligations of the partnership. The participant withdrawn from the partnership shall be liable for the obligations of partnership which have arisen before the moment of his retirement, equally with the rest of the participants for 2 years from the date of approval of the report on the activity of the partnership of the year during which he has retired from the company.

The income of full partnerships is taxed on corporate level and additionally as income of natural or legal persons, which are members of such full partnership. Full partnerships are required to be registered in the Single State Register of legal entities.

The participant of a full partnership shall have the right to withdraw therefore having declared his refusal to participate in the partnership.

Limited partnership

A limited partnership shall be deemed as a partnership in which together with participants, effectuating business activity in the name of a partnership and liable for the obligations of a partnership with their property (full partners), there are one or several participant-contributors who shall bear the risk of losses, connected with the activity of the partnership, within the limits of the amounts of the contributions made by them and shall not take part in the effectuation by the partnership of business activity. A limited partnership shall be created and operate on the basis of a constitutive contract signed by all of a full partners.

Limited partners shall not have the right to take part in the administrative and business management nor to act in the name of the partnership other than under a power of attorney because of their limited liability. The general partners are entitled to manage and represent the company.

The regulations governing the stated capital (share capital) and the reserve fund are as those for full partnerships.

The contributor shall be liable to make a contribution to the stated capital. The contributors shall have the right to receive part of the partnership's profit due for his participatory share in the stated capital. They shall also have the right to withdraw from the partnership and receive his contribution in the procedure provided for by a constitutive contract at the end of the financial year.

Joint stock company

The legal status of a joint stock company is defined in the Civil Code and in the Federal Law "On the joint stock companies" of December 26, 1995. A joint stock company shall be deemed as a commercial organization whose charter capital has been divided into a definite number of shares certifying the liability rights of the company's participants (shareholders) toward the company. Shareholders shall not be liable for the JSC's obligations and shall bear the risks of losses connected with its activity within the limits of the value of shares belonging to them. Shareholders who have not fully paid up shares shall bear joint and several responsibilities for the JSC's obligations within the limits of unpaid portion of the value of shares. The constitutive document of JSC shall be the Charter confirmed by the founders.

The joint stock company may be established by one or more persons or companies who must execute the Formation Deed. However, the JSC may not be founded by one legal entity, which has only one participant. Russian legislation does not limit external company's participation in joint stock societies, except for specific branches of defense industry, banking, etc.

The company must be registered with tax authorities and special state body. Upon its registration the company obtains legal personality and from that moment its shareholders are separated from the liabilities of the company – a shareholder bears the risk of any loss limited to sums paid for the shares, no more. Also JSC must register the issue of their shares with divisions of the Federal Financial Markets Service. Transactions with unregistered shares are prohibited.

There are two types of JSC: Closed one – ZAO (up to 50 shareholders) and Opened one – OAO (more than 50 shareholders). The main difference between them is the following. The participants of Open JSC shall have the right to alienate the stocks belonging to them without the consent of other stockholders; such a JSC shall have the right to conduct an open subscription for the stocks issued by it and free sale thereof. Closed one – ZAO is the company where stocks are distributed only among its founders or other previously determined group of persons; such company shall not have the right to conduct an open subscription for issued stocks.

The minimum share capital for Closed JSC is 100 times the minimum monthly wage (10 000 RUR) and for Opened JSC – 1000 times the minimum monthly wage (100 000 RUR), of which at least 50% must be paid in by the date of entry in the Single State Register of legal entities. The remainder must be raised within one year. The share capital may be covered by in cash or in-kind contributions. Value of all in kind contributions is

subject to a mandatory evaluation by certain persons – founders or appraisers. If the contribution to share capital is made in the form of property to the amount more than 200 times the minimum monthly pay, it should be appraised by an independent auditor. The minimum nominal value of one share is 1 ruble.

All shares issued by JSC are nominal which exist in non-documentary form only as entries in a special shareholders register, maintained by the JSC itself or by an independent registrar (if the JSC consists of more than 50 shareholders). Title to such non-documentary securities transfers only at the moment of the making of the relevant entry in the shareholders register, not signing a treaty.

The governing bodies of a joint stock company shall be the following: general shareholders meeting, board of directors and executive body (CEO or collegial executive body). The Company Auditing Commission shall also be created in JSC.

Limited liability company

Legal status of the Limited Liability Companies (LLC) is defined by the Civil Code and the Federal Law "On the Limited Liability Companies" of February 8, 1998. Limited Liability Company shall be deemed to be a company founded by one or several persons, the charter capital of which is divided into participatory shares of amounts determined by constitutive documents. The participants of LLC shall not be liable for its obligations and shall bear the risks of losses connected with the activity of the society within the limits of value the contributions made. The constitutive documents of LLC shall be the Constitutive contract signed by its founders and the Charter confirmed by them.

This type of company (LLC) is most frequently used for doing business in Russia. It may be established by one or more persons or companies, but no more than 50 participants. However, the LLC may not be founded by one legal entity, which has only one participant. The company must be registered with tax authorities. Upon its registration the company obtains legal personality and from that moment its participants are separated from the liabilities of the company.

The minimum capital is 100 times the minimum monthly wage (10 000 RUR) and may be covered by cash or in-kind contributions (tangible and intangible assets such as e.g. real properties, machines, cars, patents, know-how, etc.). Value of all in kind contributions is subject to a mandatory evaluation by certain persons – founders or appraisers. If the contribution to share capital is made in the form of property to the amount more than 200 times the minimum monthly pay, it should be appraised by an independent auditor.

LLC and Closed JSC have much in common, but on the other hand there are substantial differences between them. The main difference is that Closed JSC has the right to issue shares, LLC has no such opportunity. LLC participants can withdraw freely at any time, irrespective of the consent of the other participants with payment of the actual value of participatory share.

LLCs are simpler to organize and manage than JSCs – there is no need to register the issue of shares, to keep register of shareholders, etc.

In comparison with a limited liability company, a joint stock company features more advanced corporate instruments such as bonds, authorized but not issued capital, not voting shares etc. On the other hand, its operations and management are subject to more stringent requirements than the operations of a limited liability company.

Additional liability company

Additional Liability Company shall be deemed to be a society founded by one or several persons, whose charter capital has been divided into participatory shares of the amounts determined by the constitutive documents, the participants of such company shall bear subsidiary responsibility jointly and severally for its obligations with their property in a multiple identical for all of the value of their contributions determined by the constitutive documents. In case of bankruptcy of one of the participant of the additional liability company his responsibility for the company shall be distributed among the remaining participants in proportion to their contributions. Therefore, such kind of commercial companies as Additional Liability Company is not widespread in Russia nowadays.

Individual entrepreneurship

Each natural person may conduct business as an individual entrepreneur (on unincorporated basis, without forming legal entities) from the moment of State registration in the Single State Register of individual entrepreneurs. In such case the proceeds from business operation are subject to a personal income tax. Individual entrepreneur shall be liable for his obligations with all of his property except for property against which execution may not be levied in accordance with law. Pursuant to the Civil Code (Part III of November 26, 2001) and the Federal Law "On legal status of the foreigners in the Russian Federation" of July 25, 2002 and other laws, foreigners have also the right to conduct business in Russia as individual entrepreneurs.

Representations and branches of foreign company

Foreign companies shall also be entitled to set up representation in Russia. However, the role of such offices is limited, pursuant to the Russian Civil Code; this role is basically to represent the interests of the foreign legal entity and to effectuate the defense thereof. The representation must be accredited in Commerce Trade Chamber or in the State Registration Chamber (accrediting agencies). The accreditation is the procedure of obtaining the certificate issued by the competent government agency which confirms the status of the foreign country's representation allowing its operation at the territory of the Russian Federation.

Only the accrediting agency may sanction the establishment of the representation of the foreign legal entity in Russia under paragraph the Rules on the Rules of Accreditation approved by the USSR Council of Ministers Decree No 1074 dated November 30, 1989.

A foreign company can also establish a branch with an entry in the register of Commerce Trade Chamber. The branch is entitled to effectuate all or part of the foreign company's functions, including the function of representation. Thus, the range of the branch's functions is wider than the range of the legal entity's representation's functions.

Representations and branches shall not be the legal entities. They shall be endowed with property by the legal entity which created them and shall operate on the basis of Statues confirmed by them. The heads of representations and branches shall be appointed by the legal entity and operate on the basis of the power of attorney. Representative offices and branches shall be named in the constituent documents of the legal person who set them.

Reorganization of legal entity

The procedure of reorganization of legal entity is regulated by the Civil Code of the Russian Federation and by the corporate legislation (the Federal Laws "On the Limited Liability Companies" and "On the Joint Stock Companies"). According to the Civil Code of the Russian Federation there are 5 forms of possible reorganization of legal entity in Russia: merger, accession, division, separation, transformation. Reorganization may be effectuated by decision of the founders of the company (or participants) or the organ of legal entity empowered thereof by the constitutive documents. In cases specified by the Law division or separation from the company's composition of one or several legal entities shall be effectuated by decision of empowered State agencies or by decision of a court. In special cases also determined by the Law merger, accession or transformation

shall be effectuated only with the consent of empowered State agencies (for example, for the purpose of protection of the competition).

The legal entity shall be considered to be recognized from the moment of State registration of initially created legal entities, except for the case of reorganization in the form of accession when the first of reorganized entities shall be considered to be reorganized from the moment of making an entry of the acceded activity of the second legal entity in the Unified state register of legal entities.

In the event of merger the rights and duties of each of legal entities shall pass to the one newly arisen in accordance with the act of transfer.

In the event of accession of the company to another company the rights and duties of the acceding entity shall be passed to the last entity according to the act of transfer.

In the event of the division of a company its rights and duties shall be passed to the entities which newly arise in accordance with the separation balance sheet.

In case of separation of one or several entities from legal entity, the rights and duties of the reorganized entity shall be passed to each of the separating company in accordance with the separation balance sheet.

In case of transformation of a legal entity of one type into a legal entity of another type (change of organizational and legal form) the rights and duties of the reorganized entity shall be passed to the new entity according to the act of transfer.

The act of transfer and division balance sheet shall contain provisions concerning legal succession regarding all obligations of the reorganized legal entity with respect to all creditors and debtors, including obligations being contested by the parties.

Business Finance



Raising adequate external finance is not always easy, especially for smaller businesses. However, with professional guidance the problem of obtaining adequate funding for initial investment as well as for future growth and expansion should not be difficult.

The size of the business concerned and the level of funding required will determine the sources of funding.

Equity finance

For certain levels of investment, venture capitalists provide a common source of equity funding. The amounts of money potential, available via this source, can be significant but success in securing such funding may not be so easy. Venture capitalists demand a rapid and relatively high return on their investments and require evidence of a sound management track record and a clear exit plan.

In return they may provide not only financial support but also valuable relevant experience. Often they are also part of Board of Directors.

Obtaining a listing on one of the open markets may provide the solution to business seeking to expand further. A listing will not only provide access to capital and growth and a market for trading in shares, but will also increase public profile and credibility.

According to the current legislation only stock exchanges are empowered to carry out stock exchange dealings on securities obtained listing. Main Russian stock exchanges are:

- Moscow Interbank Currency Exchange (MICEX);
- Russian Trade System (RTS);
- Saint Petersburg Currency Exchange (SPCEX).

Every stock exchange must provide a formation of a listing organization department.

Dealing with securities shall be regulated by the Federal Law "On securities market" of April 22, 1996 which specifies relationships in cases of issuance of securities, circulation of securities irrespective of the issuer.

Securities to be quoted must comply with certain requirements and conditions, such as:

- prospectus of registered securities issuances;
- report on registered overall securities issuances results;
- the issuer keeps all legislative directions on the security market.

Then if an issuer wishes the securities to be included in so called "A" or "B" Quoted List there are some complementary conditions:

- a three-year term of a company's existence;
- no company losses during two last annual tax periods;
- capitalized value of equities to exceed 10 billion / 1.5 billion rubles or the capitalized value of preference shares to exceed 3 billion / 0.5 billion rubles;
- monthly value of transactions on such securities to near practically to 25 million / 1.5 million rubles, etc.

Established financial control procedures are essential for a listing to be accepted.

Normally, special professional organizations will guide the company and will ensure compliance with legal regulations.

This area is also regulated and contains standings aimed to protect investors. So, a treaty, concluded with such organizations, cannot modify the legal rules to their disadvantage. In cases, when the provisions set by the contract, are less favorable to the investor than those in the legislation, such provisions are deemed null and void and are automatically replaced by the relevant provisions of the law.

Loan funding

Borrowing from a bank by way of overdraft remains the simplest form of external funding.

Overdraft is a credit granted by banks or lending agencies to the bank customer in compliance with the bank account agreement in the absence of cash resources or its deficiency. To receive an overdraft the bank account agreement shall be concluded and special clauses must be stipulated. Sum of money borrowed from a bank by way of overdraft and allowed quantity of overdrafts in the course of certain period of time may be restricted within coordinated extension quota.

However, as an overdraft can be called in at short notice, its use should generally be restricted to short-term cash flow funding, that's why it is called "operative crediting". Longer-term credit needs to be met by more secure loans, moreover since the interest rates will be higher.

Term loans

Fixed-term loans may provide a better solution to fund start-up costs, since repayment schedules and interest rates can be agreed and budgeted from the outset. Such loans are usually secured by a pledge on assets, such as property, debtors or plant and machinery. For smaller companies, the lender may also require personal guarantees from the directors or controlling shareholders.

Fixed or variable interest rates may be available with more complex arrangements available for larger loans including "caps", "collars", and "floors". These restrict the chargeable interest.

Credit may be granted to a borrower in a form of the "credit line", in other words by concluding a contract under which the bank undertakes an obligation to grant in future monetary means to a borrower in the amount stipulated by the agreement without any special negotiation. Two types of credit lines are known:

- for extension quota;
- for the limit of indebtedness ("revolving credit line").

Other loans

Loans to assist in the purchase of specific assets may come in different forms, varying from straightforward purchase of items through finance or operating leases. As each method will have different cost and taxation implications, advice should be sought on the most appropriate method for each particular situation.

Commercial credit

Contracts, execution of which is associated with transfer to the other party of sums of money or other items defined by generic features, may provide for granting of credit, including that in the form of advance payment, deferment or installment payment for goods, works or services.

Unless otherwise stipulated by sales contract, the goods sold on credit from the time of their transfer to the buyer and to their payment are held in pledge by the seller for the guaranteed execution by the buyer of his duty to make payment for the goods.

If the buyer fails to affect a regular payment for the goods sold by installment and transferred to him within the period stipulated by the contract the seller has the right to refuse executing of contract and demand the refund of the goods sold except when the sum of payments received from the buyer exceeds half of the price of the goods.

Credit against goods

The parties may conclude a contract providing for the obligation of one party to give to the other party items defined by generic features (the agreement on credit against goods), which can be a source of finance.

Financial Lease

It would be well to mention that leasing as relatively young scope of activity in the Russian Federation has a huge future trends and opportunities at the cost of flexibility, high effectiveness and quick recoupment. Full-scale international development as well as the development of the Russian Federation, provides the evidence of significant economic importance of leasing activity.

Experience shows that it's much simpler for any company to obtain needed assets by the way of leasing on the security of assets, than by its acquisition on loan proceeds.

The leasing contract is provided for in the Civil Code of Russian Federation and the Federal Law "On financial lease (leasing)" of October 29, 1998.

Under the leasing contract the lessor undertakes to acquire the property indicated by the leaseholder from the seller, specified by him, and to grant this contract to the leaseholder for charge in temporary possession and use for business purposes. In this case, the lessor bears no responsibility for the choice of a subject of lease and of a seller.

Pursuant to the new edition of the Federal Law "On financial leasing" any non-consumed things used in business may be the subject of the contract of financial lease except for land plots, other natural objects and the property, which is prohibited for the free circulation by the federal laws or for which the special procedure of circulation is settled. The military production can be the subject of the contract of financial lease in accordance with the international treaties of the Russian Federation, the foreign technology equipment can be the subject of the contract of financial lease in accordance with the order settled by President of the Russian Federation.

The risk of accidental destruction or damage of the leased property passes to the leaseholder at the time of the transfer of the leased property to him, unless otherwise stipulated by the contract of financial lease.

In their relations with the seller the leaseholder and the lessor act as joint and separate creditors.

Nowadays Russian and foreign companies – lessors may engage in leasing activity not on the basis of a license as it was provided before.

Financing against the assignment of a monetary claim (Factoring)

Special chapter regulating financing against the assignment of a monetary claim was created in the Russian Civil Code. In general, it is based on the Convention "On international factoring" although the Russian Federation doesn't take part in it.

Some differences between those acts of no small importance may be designated.

Under the contract of financing against the assignment of a monetary claim the financial agent transfers or undertakes to transfer to the client pecuniary means on account of the monetary claim of the client to a debtor that follows from granting by the client of goods, the performance of works or the rendering of services to the third person while the client assigns or undertakes to assign this monetary claim to the financial agent.

So, the Civil Code of the Russian Federation in contrast to the Convention doesn't provide for any limitation of the ceding monetary claim.

Russian legislation permits a "closed" factoring contract to be concluded whereas the Convention provides for an "open" factoring only when the financial agent or the client must notify the debtor about the assignment of a monetary claim.

According to the existing legislation the client shall not be liable for the non-fulfillment by the debtor of the claim, which is the subject of assignment in case the financial agent presents it for execution.

Although contracts of financing against the assignment of a monetary claim are not so widespread inside the Russian Federation, the opinion of analysts is that forming situation on Russian financial market is highly favorable for factoring services development.

Regulatory framework



Business persons and investors coming to Russia are required to comply with regulatory law governing the way in which they shall operate. This is a comparatively fast-changing area and the compliance burdens are increasing. We have only mentioned a selection of these.

Registration

General remarks

According to the Civil Code a company shall be a subject to State registration in the authorized body in order which is defined by the Federal Law "On State Registration of Legal Entities and Individual Entrepreneurs" of August 8, 2001. This law specifies the procedure of State registration, defines the list of the documents required for registration, the terms of registration etc. A legal entity shall be considered created from the moment of the State registration thereof.

Current legislation makes no provision for any special procedure of the registration of the companies with foreign investments. Pursuant to Resolution of the Russian Government the State registration is conducted by Federal Tax Service of the Russian Federation.

Under this law the procedure of the registration became more pared-down and simple. Firstly, registration of companies with foreign charter capital participation is the same as of Russian legal persons. Secondly, so-called principle of "one window" replaced old rules, according to which the applicant party was responsible for registering with social funds (the Social Insurance fund, the fund of Compulsory Medical Insurance, the Pension Insurance fund) and the State Statistic Committee, now registration with the federal tax authorities is enough.

Registration process

When registering a company, its founders must submit to the tax authorities the following documents:

- state registration application signed by the applicant and drawn up according to the format approved by The Government of the Russian Federation;
- decision whereby the legal entity has been formed (in the form of minutes, agreement or other document in compliance with Russian law);
- company's statutory documents, original or copies certified by a notary (Charter, Statutory Agreement, etc.);
- certificate of incorporation, or extract from the Trade Register of foreign legal entities of a relevant country of origin;
- document, confirming the state fee has been paid.

Although it is not mentioned in the indicated law a company must confirm an actual address and in practice can be interested in performing some other documents not mentioned above.

All copy documents from a legal entity or a natural person must be notarized. Any document supplied in a language other than Russian, must be accompanied by a translation and should be legalized (Apostille).

The registration authority has to register a company or a natural person as an individual entrepreneur in 5 days after proper documents have been submitted.

Special requirements

According to the general rule no any special requirements except for the prescribed in the Federal Law "On state registration of legal entities and individual entrepreneurs" are demanded from applicants to establish a legal entity. But special regulations comprise some additional requirements for the state registration of legal persons which are set up to protect society, to create conditions for stabilization of the conducting business, to exclude applicants lacking of experience, proper material and financial resources, and as a result incapable to carry out its functions professionally, from civil circulation.

In registration practice a company can be established easily needless to meet additional requirements, but in fact to carry out certain types of activities it has to receive a license and in any way has to satisfy with established additional requirements.

For instance, to establish a lending agency an applicant shall provide a registration body with business-program, auditor's conclusion on founders' accounting, documents confirming the proper performance of tax duties and sources of origin of asset transmitting to the stock capital, forms with information on candidates for the posts of the head of the organization and its chief accountant, deputy accountants of the organization and the head of the branch of the organization, deputy directors, chief accountants and deputy accountants of the branch, etc.

Included among information about candidates forms, mentioned above, are to contain reports about their special education, experience of guidance and convictions, lack and unavailability of which can be a reason for denial on state registration.

To carry out insurance activities a company must be registered as a so-called subject of insurance science. Requirements for such legal entities are rather strict and consist of those in the field of education, training and residence of its leadership.

Some special provisions require company's leadership to be formed of Russian citizens only. For example, organizations conducting business in the field of aviation may be established if foreign charter capital is less than 25 percent and its leadership shall be formed of Russian citizens.

Limitation of establishment of banking organizations also takes place and it provides for the quota of foreign investment participation of the Russian banking system the set out by the special federal law.

Some business activities such as a private detective and notarial practice, folk-medicine practice, operating in the business legal structure of credit consumer cooperatives, chambers of commerce and industry, conducting business as bankruptcy commissioners etc., may be carried out by the Russian citizens and/or by the Russian companies only.

And not least as applied to certain types of business activities circle of potential founders is restricted.

Thus, Russian citizens, foreign citizens and stateless persons upon condition they are domiciled at Russian Federation on the residential permit, companies and state organs may establish mass communication organizations. Public bodies, banks, credit institutions, insurance and investment companies and funds, social, religious and charitable organizations and natural persons which under the legislation can't conduct entrepreneurial business, are not allowed to participate in establishment of commodities exchanges. Farmers' economies may be set up by fixed related natural persons and not more than 5 non-related natural persons. Participation of organizations, conducting business in the area of production of goods and services, banks and credit institutions,

in financial industrial groups is compulsory, but social and religious organizations are debarred from conducting such an activity.

In a limited number of cases the legislator prescribes companies, involved in certain business activities, to be registered in determinate business legal structures.

Foreign investors show limited interest in registration as individual entrepreneurs, because it requires submission to the registering body a copy of the document confirming the right of the natural person to reside provisionally or permanently in the Russian Federation.

To receive more detailed information on this matter, please, contact us.

Activities requiring a license

General remarks

It is a common rule for commercial organizations that companies have the civil rights and assume the responsibilities necessary to engage in any type of activity not prohibited by federal law.

But according to the Federal Law "On licensing of certain activities" of August 8, 2001 companies may engage in certain types of activity, as listed by law, on the basis of a license. A license is understood as an official document, which allows a particular type of activity, carried out within a specified period of time. If the terms of a license include the principle that such activity is a company's exclusive activity, the company does not, during the effective period of such license, have the right to conduct any types of activity other than those types of activity stipulated by the license and those related thereto. Another rule is that licenses are issued separately for each type of activity.

In general activities under the license regulation are those, which may cause damage to the persons' health, rights and lawful interests, to the defense of the country and the security of the state, to the common cultural property without such regulation.

The licensing process

Business and entrepreneurial activities that require licenses are listed in Federal Law of August 8, 2001 "On Licensing of Certain Activities". The law indicated above does not apply to the activity of banks or credit organizations, communications, broadcasting, insurance, use of natural resources and the subsurface, the nuclear industry, education

and certain other areas. These will remain subject to separate licensing rules under other legislation.

To receive a license an applicant shall comply with licensing requirements and conditions, which are stipulated for in legislation.

The licensing process is rather time-prolonged. The decision to grant or deny a license is made within 45 days of receiving an application, which is supported by all required documents. The reasons for denial may be as follows:

- documents contain unreliable or misstated information;
- applicant doesn't comply with licensing requirements and conditions.

Under the law, the volume of goods, works, services manufactured or planned for manufacture may not be grounds for refusal to issue a license. This provision seeks to protect small businesses.

A legal entity's right to carry out the activity, that is subject to licensing, arise at the moment the relevant license is issued or at another date as may be specified therein, and it shall be terminated at the moment the license expires unless otherwise provided for by law.

The period for which a license is valid depends on the particular activity but generally lasts no less than 5 years. However, licenses can be elongated upon the applicant's request.

Legislation permits the holder of a license to conduct a designated activity within the whole territory of the Russian Federation upon notice to the licensing authorities in other subjects of the state.

A list of federal executive bodies that carry out the licensing of certain types of activities and the list of relevant activities are established in Resolution of the Government of the Russian Federation of January 26, 2006 No 46 "On Licensing of certain activities".

Tendencies of evolution of legislation on licensing

Basic tendency of evolution of legislation on licensing is the planned reduction of types of activities, requiring a license.

In fact, the licensing of livestock breeding, maintenance and repair of rolling stock and rail equipment, manufacture of elite seed, acceptance and transportation of aquatic bio-

logical resources (including fish and other aquatic animals and plants, fulfilled at sea) had been discontinued from January 1, 2006. The licensing of appraisal activity had been discontinued from July 1, 2006. The licensing of design and construction of buildings and structures, performance of engineering surveys for construction of buildings and structures and also the licensing of tour operator's and tour agent's activity had been discontinued from January 1, 2007.

The licensing of certain types of activities will discontinue on the date, when technical regulations setting are enacted. The licensing of such activities will be replaced by voluntary or mandatory certification of goods, works and services. These activities are as follows:

- aeronautical engineering;
- production and repair of aircraft equipment;
- operation of explosive, inflammable and chemically hazardous production facilities;
- expertise of industrial safety;
- tunnel survey;
- geodesic and cartographic activity;
- production of medical technology;
- production and repair of measuring equipment, etc.

Other activities requiring a license:

- trade in arms, bodies of fire-arms and practice cartridges;
- exhibition and collecting of arms, bodies of fire-arms and practice cartridges;
- organization of employment of Russian citizens abroad;
- medical and pharmaceutical activity;
- activity connected with the use of infection agents;
- cultivation of plants used for drug, narcotic and psychotropic preparations;
- restoration of cultural heritage objects;
- sale and servicing of cryptographic facilities;
- encryption of information;

- production and sale of graphic products guarded against counterfeiting;
- armament and military hardware engineering;
- production, sale, repair and disposition of armament and military hardware;
- production, housing, use and circulation of explosive materials of industrial application;
- housing, transportation and destruction of chemical weapon;
- production of pyrotechnic products;
- prevention of fire and fire extinguishing;
- hydrometeorological activity;
- carriage by air, sea, inland water, automobile and railway transport;
- collection, use, processing, transportation and disposal of hazardous wastes;
- organization and carrying out gambling games;
- storing-up, processing and realization of nonferrous and iron-and-steel scrap;
- activity of investment funds and occupational schemes;
- space activities;
- sale of electric energy for natural persons and some others.

Licensing requirements and conditions

To receive a license to carry out certain activities different requirements are established by legislation but in general it may be presented in following characteristic examples:

- requirements of the proper education, passing the qualifying examination, training on probation, specialized training, career progressive program, academic degree, specialists' certificate;
- proper experience;
- prohibition of positions overlapping;
- proper business reputation;
- lack of bankruptcy proceedings over a stipulated period of time;
- requirement to be current on taxes;

- requirement of proper resources;
- lack of dismissal on discreditable basis;
- lack of convictions;
- health status;
- citizenship;
- residence.

If you are interested in information on license requirements in well-defined sphere of business activity, our lawyers and experts will be pleased to give you the irrefragable answer.

Competition law

The competition legislation of the Russian Federation consists mainly of the Federal Law: "On protection of the competition" (dated July 26, 2006), The main purposes of this act are to provide unity for the economic territory: free circulation of goods, freedom of economic activity within the Russian Federation; to protect competition, to provide for conditions for effective functioning of the commodity markets.

Three considerable spheres of anti-monopoly regulation can be designated:

- activities, connected with protection of the competition, including prevention of the monopolistic activity and unfair competition carried out by Russian and foreign companies, state authorities and individual entrepreneurs;
- agreements, concluded outside the Russian Federation between Russian and foreign persons (organizations) concerning plants and (or) intangible assets within the Russian Federation or concerning shares of the Russian business entities, rights related to the Russian business entities;
- agreements, concluded outside the Russian Federation between Russian and foreign persons (organizations) which lead or may lead to the restriction of competition in the Russian Federation.

Crucial question to understand whether a company's activity limits competition is to analyze its position on the commodity or financial services markets. One of the main defini-

tions of the competition legislation is the dominant position of the business entity. Dominant position is such position that causes decisive influence on the commodity circulation or removing other entities from the commodity market or embarrassing the access to the commodity market. Generally the following conditions shall be considered as evidences of the dominant position:

- the share of such business entity in the commodity market is more than 50 %;
- the share of such business entity in the commodity market is more than 50 % if such dominant position is determined by the Federal Anti-monopoly Service.

For entities with market share of 35% or less there is a conclusive presumption of non-dominance position, for entities with market share between 35 and 50% there is a presumption of non-dominance. Dominance position in such circumstances has yet to be proved by the Federal Anti-monopoly Service. It can be made involving different criteria such as the stability of the entity's market share, the market share of its competitors, barriers to market entry, etc. For entities with market share of 50% or more there is an questionable presumption of market dominance. However, the business entity is entitled to submit to the Federal Anti-monopoly Service or to the court the evidences of its non-dominant position.

Entities, which occupy a dominant position, are subject to some restrictions on their activities. Improper use of the dominant position of the business entity is prohibited. Therefore, the following actions are interdicted by Law:

- establishment and maintenance of monopolistic high or monopolistic low price of the good;
- withdrawal of goods from turnover, the result of which is a price rise;
- imposture to the contractor such treaty conditions which are unprofitable for the last or unrelated to the contract;
- reduction or termination of production of goods economically or technically unfounded if there is a demand for such goods;
- refusal or avoidance to conclude contracts with some purchasers economically or technically unfounded if there is a possibility of producing or delivering appropriate goods, etc.
- establishment of different prices for the same goods;

- establishment of the unjustified high or unjustified low price of the financial service by the financial organization;
- establishment of the discriminatory conditions;
- making difficulties in access to the commodity market for others business entities.

Agreements or coordinated actions between the business entities limiting competition are prohibited if they cause:

- establishment or maintenance the prices (tariffs), extra charges;
- increase, reduction or maintenance the prices on the bidding;
- division of the commodity market according to the territorial sign;
- refusal to conclude contracts with some purchasers economically or technically unfounded;
- imposture to the contractor such treaty conditions which are unprofitable or unrelated to the contract;
- unjustified establishment different prices for the same goods etc.

Besides, there are two kinds of state control over the economic concentration according to the competition legislation of the Russian Federation:

1. obtaining of preliminary authorization from the Federal Anti-monopoly Service;
2. notification to the Federal Anti-monopoly Service.

Obtaining of preliminary authorization from the Federal Anti-monopoly Service shall be necessary in the cases of:

- merger of the commercial companies (excluding financial companies) if the aggregate value of the entities' assets under the balance sheets exceeds RUR 3 billions or if net sales of such entities from realization of goods for the previous year exceeds RUR 6 billions or one of the entities is included in the register of entities with market share more than 35 %.
- acquisition of the commercial company by another commercial company (excluding the financial company) if the aggregate value of the entities' assets under the

latest balance sheets exceeds RUR 3 billions or if net sales of such entities from realization of goods for the previous year exceeds RUR 6 billions or one of the entities is included in the register;

- acquisition of the financial companies or accession of the financial company by another financial company if the aggregate value of the entities' assets under the balance sheets exceeds the rate defined by the Government of the Russian Federation;
- establishment of the commercial company if its nominal capital is paid in shares and the property of another commercial company and if the aggregate value of the founders' assets under the balance sheets exceeds RUR 3 billions or if net sales of such founders from realization of goods for the previous year exceeds RUR 6 billions or if one of the entities is included in the register;
- establishment of the commercial company if its nominal capital is paid in shares or property of the financial company and if the aggregate value of the company's assets under the balance sheets exceeds the rate defined by the Government of the Russian Federation.

Notification to the Federal Anti-monopoly Service shall be necessary in the following cases:

- establishment the commercial company as a result of, merger of commercial organizations if the aggregate value of the entities' assets under the balance sheets or if net sales of such entities from realization of goods for the previous year exceed RUR 200 millions;
- acquisition of commercial organizations by another commercial organization if the aggregate balance sheet value of the assets or net sales of such entities from realization of goods for the previous year exceed RUR 200 millions;
- establishment the financial company as a result of merger of financial organizations if the aggregate value of the financial company's assets under the balance sheets doesn't exceed the rate defined by the Government of the Russian Federation;
- acquisition of financial organizations by another financial organization if the aggregate value of the entities' assets under the balance sheets doesn't exceed the rate defined by the Government of the Russian Federation;

- purchase the shares, property, transactions concluded by persons if the aggregate value of the entities' assets under the balance sheets or if net sales of such entities from realization of goods for the previous year exceed RUR 30 millions or if one of such persons is included in the register.

Notification of the Federal Anti-monopoly Service about the transactions and the others actions mentioned above shall be carried out within 45 days after the transaction (state registration of the new entity).

Currency regulation

The federal legislation regulating currency transactions is based on the Federal Law "On currency regulation and currency control" of December 10, 2003.

All transactions conducted inside the Russian Federation may be completed in the national currency of the Russian Federation – rubles or in foreign currency. On standing order all transactions involving foreign currency have to be executed through banks having a license from the Central Bank of the Russian Federation for conducting foreign currency operations (authorized banks).

The Law "On currency regulation and currency control" empowers certain authorities such as the Russian Government and the Central Bank to regulate the possession and the use of foreign currency by entities and persons inside the Russian Federation.

With that currency regulation distinguishes resident and non-resident status. Residents are:

- Russian nationals and foreign nationals and stateless persons domiciled at Russian Federation on the residential permit;
- legal entities created in accordance with the legislation of the Russian Federation and its branches and representative offices located outside the territory of the Russian state;
- diplomatic representations, consular offices of the Russian Federation and other official representations of the Russian Federation which are situated outside the territory of the Russian Federation;
- the Russian Federation, the subjects of Russian Federation and municipal formations which participate in such relations.

Non-residents are defined as individuals whose permanent place of residence is located outside the Russian Federation, legal entities created in accordance with foreign rules and their branches and representative offices located inside the territory of the Russian state, and any other natural and legal persons not qualified as residents.

Currency operations between residents are prohibited with the exception of those indicated in the legislation. Currency operations between non-residents may be done without any restrictions. Currency operations between residents and non-residents are free of limitation except for the currency transactions provided for by legislation. Thus, Central Bank of the Russian Federation can establish uniform rules of the deal passport issuance for residents when conducting operations between residents and non-residents in the authorized banks for the purpose of the record of the currency operations.

Foreign entities shall monitor the currency regulations very carefully as the penalties, established for its violation, are rather sizeable and can amount to sums of the currency operation.

E-commerce

Legislation of the Russian Federation in force establishes a number of rules, permitting e-commerce to be realized in practice. Legislation on this matter can be divided into some groups according to general regulation and special provisions. The Constitution of the Russian Federation determines the fundamental provisions and constitutional backgrounds. Principles of the Civil Code of the Russian Federation on concluding treaties are rather flexible to provide for availability of documents signed with so-called electronic digital signature. These rules didn't function some time ago because of the absence of the procedure of checking the legality of such electronic digital signature (except for established by parties themselves). Nowadays the Law "On Electronic Digital Signature" of January 10, 2002 acts. It establishes some rules to be kept to recognize electronic documents signed with an electronic digital signature as equivalent to documents under the sign manual. Special certifying centers should be established to give participants of electronic documents circulation certificates of signature keys. Certifying centers is to have all necessary material and financial means determined by the Government of the Russian Federation and its activity can be carried out on the basis of license only.

Other aspects of the electronic documents circulation are fixed in other laws such as the Federal law "On information, information technologies and protection of information" of July 27, 2006, Law "On Mass Communication Media" of December 27, 1991, etc.

Conformably to the taxation of e-commerce, the Tax Code of the Russian Federation doesn't contain any specific rules. Some questions may arise because of the trans-boundary character of Internet recourses, necessity to qualify the place of e-activity under conditions of absence of the taxation administration on electronic transactions concluded.

Money laundering

Federal law "On Combating Money Laundering and Terrorism Financing" of August 7, 2001 came into force on February 1, 2002. The present federal law is directly relevant to Russian citizens, foreign citizens and stateless persons, legal entities carrying out cash and real estate operations inside the territory of the Russian Federation in an effort to prevent, uncover and stop activity related to money laundering and terrorism financing. It prescribes a wide range of financial institutions (such as banks and non-bank financial organizations, securities market professionals, insurance and leasing companies) and other institutions (postal and other non-credit organizations that deal with the transmission of money, pawnshops, legal advisers, notaries, etc.) to inform a special central executive agency of any cash or deposit transactions involving RUR 600 000 or more, real-estate transactions involving RUR 3 000 000 or any other transactions deemed suspicious in the aspects of its relating to the criminal activity.

Organizations carrying out cash and real estate operations mentioned above are obliged to elaborate the rules governing a financial institutions' internal record keeping. The rules governing a financial institution's internal record keeping and the reporting of suspicious transactions include an obligation to perform increased due diligence on all complex or unusual patterns of transactions that have no apparent economic or visibly lawful purpose. Fact of no small importance is that such institutions are protected from any liability for breach of any restriction on disclosure of information recognized as official, bank, tax or trade secrecy or other information of restricted access imposed in accordance with the execution of the Money Laundering Law.

Organizations that fail to comply with the requirements of the Money Laundering Law more than once within one year period will have their licenses revoked.

Financial reporting and accounting



Accounting law

Russian accounting is regulated by a system of legal acts, which consists of four different levels of documents.

The first level of documents compiles the laws and other legislative acts regulating the way accounting is set up and maintained in entities. The Federal Law "On Accounting" occupies a major place among those. The regulation on accounting and reporting in the Russian Federation determines the procedures for setting up and maintaining the accounts and compiling and submitting the financial statements of entities, irrespective of their legal form, with some exception.

The Civil Code of the Russian Federation also is a major part of the system of legal acts on accounting, as it consolidates many issues regarding accounting. The Civil Code of the Russian Federation defines the existence of an independent balance sheet as one of the indications of a legal entity, establishes the necessity of approving the annual financial statements and instances where an audit opinion is required.

The Federal Laws "On joint-Stock Companies" and "On limited liability Companies" establish accounting and financial statements compilation requirements, confirmation of the reliability of the data contained in the internal auditor's annual report of a company determine the procedure by which the annual financial statements are approved, as well as instances when an audit opinion is required.

The second level of the system of legal acts consists of accounting regulations. At present, there are more than twenty Regulations (standards) on accounting, which establish principles and general accounting rules. These documents also provide main concepts related to distinct areas of accounting and possible methods for accounting for business operations.

The third level of documents include methodical instructions on accounting, including recommendations in which specific procedures for applying principles and regulations of accounting are set forth for particular types of activities. This group includes methodical recommendations for planning, accounting and calculating the cost of goods (work, services) in construction, farming, science and research and development, methodical recommendations on taking inventory of property and financial obligations.

The fourth level of documents in terms of the accounting regulation system includes documents belonging to the company itself, which determine its accounting policy in all systematic, technical and organizational aspects. If there are some specific accounting methods, not developed in a uniform manner, companies have the right to develop them independently and approve them with Order on accounting policy. The accounting policy adopted by the organization is applied consistently from year to year. Modification of the accounting policies may be effected in the event the legislation or the regulatory acts of charge of accounting regulation are changed, new methods of accounting are developed by the organization or a major change occurs in the conditions under which it operates. For the purpose of ensuring comparability of the accounting information, changes in the accounting policies shall be introduced from the beginning of a fiscal year.

Russian accounting is based on the double-entry method. Companies should use a working chart of accounts developed on the basis of the centrally established Chart of Accounts.

Economic operations should be accounted for in the currency of the Russian Federation (rubles). Therefore, transactions in foreign currency are accounted for in rubles in amounts converted from currency amounts according to the exchange rate of the Central Bank of the Russian Federation effective as at the transaction date.

Facts regarding economic activities should be documented in Russian. Source documents prepared in other languages should be translated into Russian line-by-line.

Supporting documents must be available for all economic transactions performed by the company. These documents serve as source-accounting documentation on which the accounting should be based.

According to Russian legislation, companies prepare financial statements monthly, quarterly and annually on an accrual basis.

Annual financial statements include:

- accounting balance sheet;

- profit and loss account;
- appendices thereto as provided in the regulatory acts;
- explanatory notes;
- audit statement confirming trustworthiness of the organization's bookkeeping reporting if it is mandatory.

A company's financial statements must present fully and reliably the company's economic and financial position, any change in this position as well as the financial results of the company's activities. A company's financial statements must include the results of the activities of the company's branches, representative offices and other structural subdivisions.

If the company has subsidiaries or associated companies, consolidated financial statements must be prepared in addition to the company's own financial statements. The consolidated financial statements must include figures from the reports of both companies located in the Russian Federation and abroad.

A financial year of a Russian enterprise is a calendar year.

Considering the fact that financial statements in Russia are prepared in accordance with statutory legislation, which differs from international regulations, in order to present the financial statements to Western founders or investors, the statutory financial statements are normally brought into compliance with international standards.

Obligatory annual audits

According to current Russian legislation, annual audits are compulsory for the following entities:

- open joint-stock companies;
- banks and other banking institutions;
- investment institutions;
- insurance companies;
- commodity and stock exchanges;
- charities and other (non-investment) funds financed by voluntary contributions

from legal entities and individuals;

- non-budgetary funds financed by obligatory contributions stipulated by statutory legislation from legal entities and individuals;
- companies whose balance sheet assets exceed 200,000 minimum monthly wages as at the end of the reporting period;
- companies whose annual income exceed 500,000 minimum monthly wages.

Normally, a company in the Russian Federation is entitled to select its own auditor. An auditor may be a legal entity or a registered entrepreneur who possesses an appropriate license.

In addition to a compulsory annual audit, companies may on their own initiative, engage an auditor to ensure that the financial statements are sufficiently reliable to attract additional investments, etc.

Expenses resulting from audit shall can be included into the composition of other outlays connected with production and sale from the taxable profit.

Taxation



a) Overview of taxes within the Russian Federation

General remarks

The Tax Code of the Russian Federation establishes the following taxes and fees:

- federal taxes and fees which are collected throughout the Russian territory;
- taxes and fees of the subjects of the RF (regional taxes and fees);
- local taxes and fees.

Regional and local taxes are enacted on the respective territory by the decision of the regional or local legislative body within the list of taxes set by the federal law.

Federal taxes and fees include value added tax (VAT), excise taxes, personal income tax (PIT), uniform social tax, corporate income tax (CIT), tax on extraction of minerals, water tax, fee for the right to use fauna and aquatic biological resources, state duty. Regional taxes and fees are tax on property of organizations, tax on gambling industry, transport tax. Land tax and individual property tax forms local taxes of the Russian Federation.

The taxation system is uniform across the Russian Federation, only small differences may occur in regional and local taxes. Generally, foreign companies and individuals pay the same taxes as Russian legal and natural persons. Exceptions to this rule are businesses where taxation is regulated by international treaties concluded by Russia (conventions for the avoidance of double taxation).

The main taxes shall be observed above.

Corporate Income Tax (CIT)

Companies, including partnerships, pay corporate income tax. Russian tax law does not define residence but distinguishes between domestic and foreign enterprises. Domestic enterprises are those which are established under the laws of Russia and are taxed on their worldwide income. Foreign legal entities are subject to CIT on profits derived from business activities carried on through a permanent establishment in the Russian Federation, or if a profit is obtained by a foreign legal entity in connection with its activity within the territory of the Russian Federation. Non-resident corporations deriving their profits from foreign trade with the Russian Federation are not deemed to have their income sourced in Russia.

Taxable Income and Tax Rates

The standard flat tax rate is currently 24%. 6,5% of it is paid to the federal government and 17,5% to republican authorities. The tax rate for the share transferred to regional authorities should not be less than 13,5 %. Enterprises, except foreign legal entities, are obliged to make monthly advance payments of their quarterly liabilities. Advance payments are due not later than the 28th day of the corresponding month.

Resident enterprises have the option to pay tax monthly based on their actual profits. Payments are due no later than the 28th day of the following month.

According to the current tax law there are no special benefits provided for entities such as religious associations, state and municipal museums, libraries or specialised restoration.

The following are deducted from the taxable base:

- profits used to finance certain capital investment in production and non-production facilities;
- the costs of maintaining certain social facilities;
- profits spent for needs of public health, education, culture, sport;
- charitable contributions;
- profits spent on scientific research and development and also donated to approve research foundations.

Taxation of Dividends

Dividends received by Russian companies and individuals from Russian companies and foreign enterprises are subject to a final withholding tax at the rate of 9%. Dividends received by foreign companies from Russian companies are taxed at the rate of 15%.

Taxation of Interest

Enterprises may deduct interest on bank loans up to a maximum rate established by law, and interest on suppliers' credit relating to the purchase of materials, works and services. No deduction is permitted for interest on loans neither for the purchase of fixed assets, intangible assets and other non-working capital nor for the interest on overdue or deferred credit.

For a Russian creditor the interest received is taxed at general CIT rate.

Interest paid to foreign legal entity is subject to withholding tax of 20%, unless the double taxation treaty fixes the lower tax rate or tax exemption. The application of the treaty rate and exemption is conditional upon presentation of a "certificate of tax residence" issued by the tax authorities in the beneficiary's country. The person paying the interest withholds and remits the tax.

Loss Carry Forward

Current trading losses may be used to offset profits for the same tax year. Enterprises may carry losses forward for 10 years subject to certain conditions.

Thin Capitalization

The Russian Tax Code contains provisions on thin capitalization restricting the ratio of debts towards certain related lenders to equity to 3:1. Therefore, interest paid on loans from a subsidiary where at least 20% of shares are held by the lender will not be tax-deductible in respect of the portion of these loans which exceeds three time equity capital of the borrower.

The debt-to-equity ratio should be determined on the end of every month and the year.

Transfer Pricing

The Russian Tax Code contains also provisions dealing with cross-border and internal transfer pricing. These restrictions apply to transactions between entities related through share capital (directly or indirectly – 20% stock threshold), barter and cross-border transactions.

If such transactions are concluded in circumstances differing from market conditions for more than 20%, taxable income of a Russian entity may be adjusted to arm's length when such income was disclosed lower than it would had been disclosed in the absence of pertinent relations between transacting parties. The transfer pricing restrictions apply to supply of goods and provision of services.

Value Added Tax (VAT)

VAT is levied on the supply of goods and services. The tax due to the budget is calculated as the surplus of output VAT over recoverable input VAT included in purchase invoices.

The standard rate of VAT is 18%.

Some supplies of basic foodstuffs and children's clothing and footwear are taxed at a reduced rate of 10%. Some imported medicines and equipment for medical and scientific research are exempt from VAT. Other exemptions include cultural and educational services, as well as services rendered by interpreters and lawyers.

In turn a zero VAT rate is levied on the export of goods. The 0% rate allows the supplier (exporter) to recover VAT inputs incurred on purchases from total amount of VAT owed to the budget.

A tax payer can decide whether he would like to have the surplus input VAT amount refunded by the tax authorities in cash via the VAT, or whether the surplus should be carried forward to the following quarter.

To receive an eminently qualified interpretation you may turn to our professionals.

Unified Social Tax

The Unified Social Tax is implemented and replaces the contributions to the Pension Fund of the Russian Federation, the Fund of Social Insurance of the Russian Federation and the Funds of Obligatory Medical Insurance of the Russian Federation. The tax is paid by the employers only and levied on the payroll of Russian employees. General tax rate depends on the amount of annual payroll per every employee and constitutes between 26% of the remuneration (if the annual tax base is less than 280.000 roubles (10 000 USD)) and 104.800 roubles (3,714 USD) + 2% of the amount exceeding 600,000 roubles (21 000 USD) (if the annual tax base exceeds 600 000 roubles).

Excise Tax

Excise tax is charged on particular groups of goods imported to Russia and produced domestically.

Excise tax is imposed on:

- ethyl alcohol, except cognac alcohol;
- alcohol containing products;
- beer;
- tobacco products;
- cars and motorcycles featuring engine power rating over 150 h.p.;
- petrol;
- engine fuels.

The excise tax is calculated either as a percentage of the value of goods produced (or the customs value) or on a quantity basis (constant rate per unit).

Personal Income Tax (PIT)

Personal income tax is levied on resident and non-resident individuals, whether they are or are not citizens of the Russian Federation. Individuals are considered to be resident if they spend more than 183 days in Russia in a calendar year. Residents are subject to income tax on their worldwide income and non-residents on their Russian sourced income only.

Personal income tax rate is 13% but special rates are applied to some kinds of income, e.g. prizes, insurance proceeds, interest on certain bank deposits, deposits on foreign currency (35%). The tax rate is established in the amount of 9% to the incomes from the share participation in the activity of organizations received in the form of dividends. Also, dividends and incomes of non-residents are taxed at 30%.

The following types of income are exempt from tax:

- state allowances and compensations;
- alimonies;
- grants for purpose of science, education, culture and art;

- medical expenses;
- scholarships, and some others.

Russian Tax Code knows such a category as standard, property, social and professional deductions, which must be granted under established conditions.

The tax year for individuals is a calendar year.

Generally, tax is due on a monthly basis. Employers (Russian organizations, individual businessmen and permanent representation of foreign entities) are obliged to calculate, withhold and remit to the budget tax due on their employees' remuneration. Individuals who receive income from abroad or who perform independent personal services are personally responsible for disclosing income.

At the end of the tax year each tax payer (except for those, who has only employment income) is obliged to file an annual tax return disclosing his aggregated annual income. The deadline for filing of the annual tax liability is 30 April of the following year.

Tax on Property of Organizations

Resident enterprises and foreign companies that own property within the territory of the Russian Federation are liable to property tax. The rate is set by the regional authorities but can not exceed 2,2% of the time average cost of the property (only fixed assets). The foreign companies, which do not have permanent establishment in Russia, but own movable property, are not property taxpayers in Russia.

Other Taxes

The owners of transport facilities (cars, motorcycle, buses etc.) have to pay transport tax. This tax is imposed by territorial divisions of Russian Federation. The tax rate depends on the technical characteristic of transport. Taxpayers must pay the tax according to a contributory scheme determined by legislative bodies of regions of the Russian Federation.

Companies, organising gambling establishments are subject to tax on gambling industry. The tax rates are fixed and are not related to profit.

Local authorities can define some rules of local tax payment, but cannot impose taxes not stipulated by the tax legislation. Local taxes include tax on the property of individuals; land tax. Tax on the property of the individuals should be paid by owners of dwelling houses, flats, cottages, garages and other constructions. The tax rate varies from 0.1% to 2% according to its inventory costs.

Taxpayers of the land tax are organizations and natural persons that have land plots in their ownership, that have the right to use them on a permanent basis or the right of the life heritable tenure thereof. Tax rates shall be established by normative legal acts of representative bodies of municipal formations and may not exceed 0.3% of the cadastral value of land plots referred to agricultural land or occupied by housing stock and by units of plumbing infrastructure of the housing and communal complex, or allotted as personal subsidiary plots for gardening and may not exceed 1.5% of the cadastral value of other land plots.

Double Taxation Conventions

Please find the actual information on a matter in Appendix 1.

b) Tax implications of a representative office, a permanent establishment or a Russian legal entity

The tax legislation of the Russian Federation is based on some concept definitions which are to be applied the same way.

There is no any general legal term defining the concept "taxpayer" as it is used in the specific meaning defined in certain articles of the Tax Code of the Russian Federation. As a whole it can be interpreted as organizations and individuals who are under an obligation to pay taxes and fees, respectively.

Organizations are legal entities set up in accordance with the legislation of the Russian Federation (Russian organizations) and foreign legal entities, companies and other corporate organizations with a civil legal capacity, set up in keeping with the legislation of foreign states, international organizations, their branches and representative offices set up on the territory of the Russian Federation (foreign organizations).

Such a way the Russian Federation relies on a definition of tax residence based on the place of incorporation, although some other factors may determine the organizations' status.

Foreign companies have in principle the same rights and obligations as Russian companies. Consequently Russian law is applicable to foreign companies in the same way as to Russian ones.

Both Russian and foreign companies may operate through its separate subdivision means any territorially separated subdivision, in whose location permanent places of employment are equipped. A separate subdivision of the organization is recognized as such, regardless of the fact whether its creation is reflected or not reflected in the organization's constituent instruments or their organizational and order documents and regardless of the powers vested in the said subdivision. In this case the place of employment shall be deemed to be permanent if it is created for a term exceeding one month.

Specific legal status and tax obligations of foreign companies, its branches and representative offices varies subject to the aim of taking tax payer duties, calculating and discharging of concrete tax.

Value Added Tax (VAT)

In view of the fact VAT is levied on the supply of goods and services, items of taxation are fixed as:

- sale of goods, works, services on the territory of the Russian Federation, including the sale of subjects of a pledge and transfer of goods, results of performed works, rendered services under a compensation agreement or a novation, as well as the transfer of property rights, including that on gratuitous basis;
- the transfer of goods, performance of works, provision on services on the territory of the Russian Federation for own purposes, with minor reservations;
- performance of construction and erection works for own consumption;
- importation of goods to the customs territory of the Russian Federation.

Providing for special provisions on the definition of the place of sale of goods or of works and services Tax Code of the Russian Federation allows to ascertain whether a company is to discharge tax obligations.

No special rules are established for foreign entities, with some reservations.

Foreign organizations are entitled to be registered with the tax bodies as taxpayers at the location of their permanent establishments in the Russian Federation. Since January 1, 2006 foreign organizations with wide enumeration of permanent establishments created inside the Russian territory are able to decide between all places of permanent establishments' location in an effort to file tax return and pay duty arising from the whole of taxable operations throughout the Russian Federation.

Inasmuch as it is foreign organizations' right to register with the tax body special layout is provided to pay taxes by those not registered in the Russian Federation.

In the cases of the realization of works and services whose place realization is the territory of the Russian Federation, by taxpayers that are foreign persons not registered at the tax bodies as taxpayers, the payment of the tax is to be made by the tax agents simultaneously with the payment of the monetary funds to such taxpayers.

Tax agents are recognized as organizations and individual entrepreneurs registered with tax authorities, who purchase on the territory of the Russian Federation of goods, works and services from the foreign persons. Tax agents are to compute, withhold from the taxpayer and pay to the budget the relevant amount of tax.

Subject to taxation are amounts of tax presented by the vendors to a foreign person being a taxpayer not registered with tax authorities of the Russian Federation when said taxpayer buys goods, works, services, property rights or pays the foreign person when importing goods to the customs territory of the Russian Federation for his production purposes or for the accomplishment of his other activities.

The tax rate determined by tax agents is the percentage of the standard tax rate (18% or 10%) to the tax base taken as 100 and increased by the appropriate amount of the tax rate.

Corporate Income Tax (CIT)

In an effort to apply chapter of the Tax Code of the Russian Federation on corporate income tax taxpayers are understood as Russian organizations, foreign organizations carrying out their activity in the Russian Federation through their permanent representations, or other foreign organizations receiving incomes from sources situated in the Russian Federation.

In general profit derived by the taxpayer is seen as an object of the taxation for corporate income tax, although different interpretations of it are established for groups observed above:

- for Russian organizations – derived incomes reduced by the amount of the effected expenditures which are defined by the legislation;
- for foreign organizations carrying out their activity in the Russian Federation through their permanent representations – incomes derived through these permanent representations, reduced by the amount of the outlays made by these permanent representations;
- for other foreign organizations – incomes derived from sources situated in the Russian Federation.

For the purposes of the tax legislation on corporate income tax the permanent establishment of the foreign organization in the Russian Federation is interpreted as an affiliate, representation, department or bureau, an office, agency, or other set-apart subdivision or other place of activity of this organization, through which the organization regularly performs its business activity on the territory of the Russian Federation, involved in:

- the use of mineral wealth or other natural resources;
- the performance of the contract-envisaged works aimed at the construction, installation, assembly, mounting, adjusting, servicing and running of equipment;
- selling commodities from store-houses situated on the territory of the Russian Federation which are owned or rented by this organization;
- the performance of other works, rendering services and carrying out other kinds of activity, with stipulated reservation.

However, the activity involved in organizing such representation does not of itself establish a permanent establishment.

The foreign organization is not recognized as having permanent establishment if it performs an activity on the territory of the Russian Federation through a broker, a commission agent, a professional Russian security market trader or through any other person acting in the framework of his principal regular activity.

If the foreign organization has on the territory of the Russian Federation more than one department, the activity through which is leading to the establishment of a permanent

establishment, the tax base and the sum of the tax shall be calculated separately for every department.

Foreign organizations performing an activity in the Russian Federation through a permanent representation pays tax according to the standard rate 24 %, although some exceptions with certain types of activities are performed:

- 15% on incomes derived in the form of dividends from Russian organizations by foreign organizations;
- 15% on income in the form of interest on government and municipal securities the terms of whose issue and trading provide for the receipt of income in the form of interest, and also on incomes in the form of interest from the bonds with mortgage cover, issued after January 1, 2007;
- 9% – on incomes in the form of interest on municipal securities issued for a period of not less than three years, up to January 1, 2007;
- 0% – on incomes in the form of interest on government and municipal bonds issued before January 20, 1997.

Foreign organizations performing an activity in the Russian Federation through a permanent establishment pay the advance payments.

The following kinds of incomes received by foreign organizations which are not connected with its business activity in the Russian Federation are referred as the foreign organization's income derived from the sources in the Russian Federation and are subject to levying with tax to be withheld from the source of the payment from the incomes:

- the dividends paid out to foreign organizations who are shareholders of Russian organizations;
- the incomes received as a result of the distribution in favour of foreign organizations of the profit or of the property of organizations, including in cases of their liquidation;
- the interest income from any kind of debt liabilities;
- the incomes from the use in the Russian Federation of the rights to the objects of intellectual activity;
- the incomes from sale of stocks (partner shares in the capital) of Russian organiza-

tions over 50 per cent of whose assets consist of immovable property situated on the territory of the Russian Federation, as well as of the financial instruments derivative from such stocks;

- the incomes from the sale of immovable property situated on the territory of the Russian Federation;
- incomes from letting out or subletting property used on the territory of the Russian Federation;
- incomes from international shipments, etc.

The rates of tax on incomes of foreign organizations not connected with activity in the Russian Federation through their permanent representation are established as 20 per cent from any kind of income except for specially stipulated by the Tax Code of the Russian Federation.

c) Selling into the Russian Federation

The import and export regulations are specified by the Customs Code of May 28, 2003, Customs Tariff Law of May 21, 1993, the Customs Tariff adopted by the Government Decree of the Russian Federation of November 27, 2006 No 718 and by a number of implementing ordinances.

Customs treatments

In an effort to regulate customs relations following customs treatments are established:

1. Basic customs treatments:
 - Clearance for internal consumption;
 - Export;
 - International transit;
2. Economic customs treatments:
 - Processing in the customs territory;
 - Processing for internal consumption;
 - Processing outside the customs territory;

- Temporary importation;
 - Customs warehouse;
 - Free custom zone (free warehouse);
3. Final customs treatments:
- Re-import;
 - Re-export;
 - Destruction;
 - Refusal in favour of the state;
4. Special customs treatments:
- temporary exportation;
 - Duty free trade;
 - Movement of supplies, etc.

Companies are allowed to choose any customs treatment prescribed below or to modify it according to the regulations. But this has to be proved by the declarant that he fulfils the requirements of the declared custom treatment granting total or partial exemption from customs duties and taxes or the reimbursement of sums has been paid or non-use of economic prohibitions and limitations.

Enumeration of documents required is determined by the Custom Code of the Russian Federation and it can't be extended but can be reduced by the empowered administrative body as applied to concrete customs treatments and procedures.

Customs charges and duties

According to Russian Customs Code when importing the goods into the customs territory of the Russian Federation the following customs payments are to be made:

- Import customs duty;
- VAT payable when importing the goods to the customs territory of the Russian Federation (according to Chapter 21 of the Russian Tax Code the standard rate of VAT is 18%.);
- Excise duty (for certain taxpayers and excisable goods specified in Chapter 22 of the Russian Tax Code);

- Customs fees which shall be deemed as the following:
 - customs fees for the customs execution (shall be paid when declaring the goods);
 - customs fees for the customs accompaniment;
 - customs fees for the customs storage.

Import customs duty rates are specified in the Customs Tariff of the Russian Federation and they depend on the customs value of the goods. Customs fees rates are defined by the Russian Customs Code and by the Russian Government Decrees. Where goods are conveyed across the customs border of the Russian Federation customs payments should be paid since the moment of crossing customs border.

The goods moved through customs border are subject to the customs duties. Tax base for the purposes of calculation of the customs duties are customs value of the goods and (or) their quantity.

The definition of customs value of the imported goods is made by consecutive application of the following methods of an estimation:

- At the price of the transaction with the imported goods (a method 1);
- At the price of the transaction with the identical goods (a method 2);
- At the price of the transaction with the homogeneous goods (a method 3);
- Subtraction of value (a method 4);
- Additions of value (a method 5);
- A reserve method (a method 6).

The basic method of definition of customs value is the estimation at the price of the transaction with the imported goods.

In a case the basic method can not be used, one of the methods listed above is applied. Thus each subsequent method of a customs estimation is applied, if customs value can not be determined by use of the previous method.

Methods of subtraction and addition of value (methods 4 and 5) can be applied in a return sequence under the discretion of the declarant.

Method 1: The price of the transaction is understood as the price actually paid, and the price subject to payment for the imported goods.

Thus the price of the transaction includes charges on transportation of the imported goods up to a place of their customs registration and the cost of packing (cost of packing materials and works on packing) and some other charges if they were not earlier included.

The price of the transaction can not be used for definition of customs value, if:

- there are restrictions concerning rights of the importer to this goods;
- the price of the bargain depends on observance of any conditions which influence can not be taken into account;
- the data used by the declarant at definition of customs cost, are not confirmed documentary;
- the importer and the exporter are interdependent persons, except the cases when their interdependence has not affected the price of the transaction (this fact should be proved by the declarant).

Method 2: As the base for definition of customs value the price of the transaction with the identical goods is accepted.

Thus "identical" goods are understood as goods, identical in every respect with the estimated goods, including:

- the purpose and characteristics;
- the quality, presence of a trade mark and reputation in the market;
- the country of origin;
- the manufacturer.

Insignificant distinctions in appearance can not form the basis for refusal in consideration of the goods as identical if the rest parameters are similar.

The price of the transaction with the identical goods is accepted as base for definition of customs value, if these goods:

- are alienated for import on territory of the Russian Federation;

- are imported simultaneously or not earlier than 90 days prior to import of the estimated goods;
- are imported on the same commercial conditions and at approximately same quantities, as the estimated goods.

The price of the transaction with the identical goods also includes charges on transportation of the imported goods up to a place of their customs registration and the cost of packing (cost of packing materials and works on packing) and some other charges if they were not earlier included

If the application of this method reveals more than one price of the transaction on the identical goods *the lowest of them* is applied to definition of customs cost of the imported goods.

Method 3: As the base for definition of customs value the price of the transaction on the goods, homogeneous with imported is accepted.

Thus "uniform" goods are understood as goods which are not identical in every respect, but have similar characteristics and consist of similar components. That allows them to carry out the same functions, as the estimated goods and to be commercially interchangeable.

To define the uniformity of the goods their following characteristics are taken into account:

- The purpose and characteristics;
- The quality, presence of a trade mark and reputation in the market;
- The country of an origin.

Using this method basic positions of method 2 are applied.

Method 4: The definition of customs value using the method of subtraction of value is made if the estimated, identical or homogeneous goods are sold (alienated) in territory of the Russian Federation in a constant condition.

The base for definition of customs value using this method is the price of a commodity unit, on which the estimated, identical or uniform goods are sold in the greatest batch in the territory of the Russian Federation in the moment as much as possible approached to

the moment of import (not later than 90 days from the date of import of the estimated goods), to the buyer who is not dependent on the seller.

Method 5: The base for definition of customs value using this method is the price of the goods designed by addition of:

- Cost of materials and other costs beared by the manufacturer in connection with manufacture of the estimated goods;
- The general expenses, typical for sales in the Russian Federation from the country-exporter of the goods of the same kind, including cost of transportation, cargo handling works, insurance up to a place of customs registration in territory of the Russian Federation etc.;
- The profit usually received by the exporter as a result of delivery to the Russian Federation of such goods.

While using this method charges on transportation of the imported goods up to a place of their customs registration and the cost of packing (cost of packing materials and works on packing) and some other charges also should be taken into account.

Method 6: In a case the customs value can not be determined by the declarant as a result of consecutive application of the specified five methods or customs bodies reasonably consider, that these five methods of definition of customs value can not be used, customs value of the estimated goods is determined and proved basing on the world customs practice.

Thus use of different ways of definition of customs value should correspond to the legislation of the Russian Federation and international principles of system of customs value estimation.

Customs bodies should give the declarant the price information available.

As base of definition of customs cost using this method can not be used:

- The price for a home market;
- The price for the goods of a domestic origin;
- The price of the goods delivered from the country – exporter in the third countries;
- Any way established or authentically not confirmed price.

Investment Incentives

Russian customs legislation stipulates some special provisions for foreign investors regarding reduction of customs payments. However, such regime may be used only if the investor meets certain requirements. This regime is charter capital contributions into the charter of Russian subsidiary.

If foreign investor declares these imports as charter capital contributions into the Russian subsidiary, in order to be exempted from taxation with customs duties the goods imported as charter capital contribution should be:

- not excised;
- related to the basic production assets;
- imported within timing established by constituent documents for formation of the charter capital.

There is a special List of the basic production assets authorized by the Government of the Russian Federation. The registration of all documents necessary for getting customs duty relief will take about 6 months from the moment the decision on contribution to the capital of the subsidiary is made.

According to the Russian tax legislation the goods imported to Russia as charter capital contribution is not subject to Russian customs VAT only in case this contribution is formed with process equipment, completing and spare parts to it. A special List of process equipment, completing and spare parts to it was authorized by the Russian State Customs Committee.

However, the right of the Russian State Customs Committee to establish such List is very arguable. Thus, in such case it is necessary for importer to ask for special Conclusion from the Russian Ministry of Economics and Trade concerning the goods which were not included in that List.

Please note, that, the Russian State Customs Committee as well as the Russian Ministry of Economics and Trade rarely make the positive Decisions, so the procedure will be troublesome.

Special economic zones in the Russian Federation

The Federal Law "On special economic zones in the Russian Federation" of July 22, 2005 is the core of the current government reform of special economic zones and its regime.

The law finalized attempts to formulate a unique and comprehensive regime for special economic zones in Russia with the proviso it does not apply to special economic zones established in the Magadan and Kaliningrad regions which operate under separate laws.

The law supposes introduction of a preferential tax regime and special import tariffs, and the main goal of the project is to stimulate investment on a mutually beneficial basis.

The law mentioned above does not hold any limitation on the number of special economic zones that may be created but in the reality at the initial stage of the reform such limitation will exist.

In any way creation of special economic zones is rather time-prolonged process, so first special economic zones can appear and act much more lately.

The Russian Ministry of Economic Development has announced application process for bidding the formation of each type of special economic zone. Municipalities and subjects of the Russian Federation were given the period between September 19, 2005 and November 2, 2005 to submit applications with all documents needed to satisfy the requirements established in special legislation to be regarded as bidders. Then the strict selection of requests received held by the Federal Agency for Management of Special Economic Zones had place and bidders would be named. The date of it was specified as November 2, 2005. The Federal Agency for Management of Special Economic Zones declared results and winning bidders were listed. Among them St. Petersburg, Moscow, Moscow and Tomsk regions are named as technical research zones, Tatarstan and Lipetsk region as industrial production zones.

The decision to create the special economic zone lies with the Government of the Russian Federation.

Winning bidders are expected, within 30 days from the date of the Government's decision, to sign an agreement with the Federal government on the formation of a special economic zone.

At the moment of the zone's creation there should be no assets belonging to private persons except for the infrastructure, such as communication lines, electricity, water supplies and roads. All land plots inside the territory of the special economic zone should be owned by the state or subjects and municipal units of the Russian Federation.

Special economic zones are created for a period of twenty years and it can't be elongated. But, the Government of the Russian Federation has power to liquidate special economic zones earlier under certain circumstances indicated in the legislation.

The Russian Federation is interested in development of its industry, production, science, technology, innovation, tourism, so, three types of special economic zones will be created:

- technical research zones for scientific projects;
- industrial production zones to develop industrial production;
- tourist and recreational special economic zones.

The law permits commercial organizations (except for unitary enterprises) and individual entrepreneurs to settle in technical research zones but individual entrepreneurs are restricted from operating in industrial production zones. Those legal entities and individual entrepreneurs are to be registered inside the municipal unit territory where the special economic zone is established and to enter into an agreement with the governing state authority of a special economic zone. Pursuant to the agreement, residents of industrial production zones are obliged to make capital investment amounting to not less than 10 million Euro within a specified period of time. A 1 million Euro investment must be made within one year the agreement was signed. No such regulation on amounts of investment is established for residents of technical research zones. Governing state authority of a special economic zone is obliged to conclude an agreement on a land plot lease with the resident to create conditions such investment activity inside the territory of the special economic zone to be carried out.

Residents of special economic zones are divested of establishing its branches and representative offices outside the territory of special economic zones.

Special economic zones residents are entitled to use:

- tax benefits;
- free customs zone treatment.

Regional authorities are empowered to provide for additional tax benefits.

With respect to profit tax resident companies would enjoy an amortization with a double rate, accelerated admittance of research and development costs, the deduction of previous years' losses from current year profits without restrictions. Companies would enjoy property tax exemption over five years and exemption from land tax over five years. Companies operating in technical research zones would also be relieved of tax on property and land for five years. They would also enjoy a lower unified social tax rate, 14 per cent as a maximum.

In fact companies and individual entrepreneurs registered in special economic zones will enjoy significant customs privileges. Special economic zones are pronounced to be free customs areas where external goods will be imported without payment of import customs duties and Value Added Tax. Russian goods will be imported to special economic zones on export conditions (without payment of export duties and Value Added Tax but with payment of excises, if any). Movement of goods to or out of the territory of special economic zones is subject to permission of the customs authorities.

Personnel



General remarks

The objective of Russian labor law is to regulate the conditions of employment. Russian labor law provides for minimum standards of protection of the employees' rights. This role is fulfilled mainly by the Labor Code of December 30, 2001 – the most important legal act in the area of labor law in Russia. A labor contract, collective agreement may depart from the provisions of labor law to the advantage of the employee but can not modify the legal rules to their disadvantage. In cases when the provisions set out in the contract are less favorable to the employee than those in the labor law, such provisions are deemed null and void and are automatically replaced by the relevant provisions of the labor law.

Collective agreements may provide for more favorable terms and conditions for employee.

Contract of employment

There are following types of labor contracts:

- Contract for an unlimited period – contract of unlimited duration.
- Contract for a limited period – contract for a predetermined period of time but no more than 5 years.

Remuneration

Remuneration shall be calculated and paid in Russian rubles. Remuneration in non-monetary form shall not exceed 20 % from the monthly wage. Basic remuneration must be paid at least twice in every month according to rules and procedures in force at the given establishment of remuneration. Deductions from the remuneration shall be effected only in cases specified by the Labor Code and other Federal Laws and they shall

not exceed 20 % if it is stipulated by the Labor Code and 50 % if it is stipulated by other relevant Federal Laws.

Foreigners may transfer their remuneration abroad once all the relevant taxes have been paid.

In principle, the employer and the employee are free to agree on whatever wage or salary they wish, but it shall not be less than minimum amount set by Federal Law. In 2008 minimum monthly wage is 2300 RUR, from September 1, 2009 it will be 4330 RUR.

Working Time

Working hours shall not exceed 40 hours a week and 8 hours a day.

Overtime is generally allowed only on condition of the written consent of the employee except for the cases specified in the Labor Code.

In case of overtime, the employee is entitled to allowance at a rate of no less than 150% for the first two hours of overtime and allowance at a rate no less than 200 % for the following hours. Overtime for each employee shall not exceed 4 hours during 2 days in succession and shall not exceed 120 hours per year.

Employees are entitled to 28 calendar days of the main paid annual leave. Certain categories of employees shall have the paid annual leave of more than 28 calendar days, such cases are specified in the Labor Code and others Federal Laws. The employees who deal with dangerous and (or) harmful labor conditions, who have some special labor conditions, who have unregulated working day, who work in the Far North etc. are entitled to have additional paid annual leave. The paid leave of 28 calendar days cannot be compensated for financially. Monetary compensation of the leave which was not used by the employee shall take place only if the annual leave of this employee exceeds 28 days or in the case of dismissal.

The employee shall have the right to obtain allowance for temporary disability in accordance with the federal laws. The Labor Code contains provisions on sick leave periods and allows 5 days off in case of extraordinary events such as childbirth, wedding, funerals etc.

Public Holidays

Official holidays in Russia are New Year (January 1-5), Orthodox Christmas (January 7), Day of Motherland's Defender (February 23), Women's Day (March 8), May Day (May 1), Victory Day (May 9), Independence Day (June 12), National unity Day (November 4).

Legislation Regarding Aliens

Pursuant to Article 62 of the Constitution of the Russian Federation foreign individuals shall have the same rights and incur the same obligations as the Russian citizens except for the cases stated by the Federal Laws and the international treaties of the Russian Federation. Rules stipulated by the Russian civil legislation shall be implemented to the relationships with participation of foreign individuals and foreign legal entities if otherwise is not specified by the federal laws.

Rules and principles of International Private Law stipulated by the Civil Code (Part III) define the order of personal law and applicable law determination in civil relationships with participation of foreign individuals and foreign legal entities. So personal law of the foreign individual shall be determined according to the law of the individual's citizenship. If individual has both Russian and foreign citizenship his personal law shall be determined as Russian law. Individual's legal capacity and civil efficiency shall be determined pursuant to the personal law. Personal law of the foreign legal entity shall be determined according to the law of the country where this entity was incorporated. Foreign legal entity's legal status, legal organizational form, requirements for the name of the entity etc. shall be defined due to the personal law of this entity.

Any property in the Russian Federation may be in the ownership of foreign individuals and foreign legal entities and can be used by them in effectuating the different transactions, except for individual types of property which in accordance with a law shall not belong to the individuals or companies generally and to the foreigners specifically. Thus, the Land Code of the Russian Federation of October 25, 2001 stipulates that foreign individuals and foreign legal entities shall have the right to own any land plots except for the near-border land (the list of such territories shall be defined by the President of Russia) and certain lands especially defined by the Federal laws. In particular, foreign individuals and foreign legal entities shall not have the right to own agriculture land plots, they only have the right to lease such land plots. The Land Code also specifies that foreign individuals and foreign legal entities shall only own the land plots for a fee (the rate of this fee shall be defined by the Land Code). The Residential Code of the Russian Federation of December 29, 2006 doesn't establish any restrictions for foreigners' rights of possession, use and disposition of the dwelling premises, but the foreigners are excluded from the list of persons who have the right to participate in privatization.

Emergence and termination of ownership right and other proprietary rights shall be regulated pursuant to the law of the country where the relevant property is situated, thus, if

it is situated in Russia the applicable law shall be the Russian law. The parties of the agreement shall have the right to choose the applicable law. When the parties don't specify the applicable law it shall be determined as the law of the country with which this agreement is closely connected, generally, it is the law of the executor of the agreement.

Terms and conditions of sojourn of the foreign individuals in Russia are specified in the Federal Law "On Legal Status of Foreign Citizens" of July 25, 2002. Term of sojourn of foreign individual in the territory of the Russian Federation shall be defined according to the term of visa drawn to him. Term of sojourn of foreign individual entered Russia in order which didn't require obtaining of the visa shall not exceed 90 days. Permission for part-time residence of foreign residence in Russia can be issued according to quota approved by the Russian Government. Term of part-time residence of foreign residence in Russia shall be 3 years.

Regulations regarding sojourn of the foreign individuals in Russia

According to the Federal Law "On Legal Status of Foreign Citizens" and other laws attraction of the foreign employees in Russia shall be possible upon the following conditions. The employee shall obtain the permission for working in Russia. The previous edition of the above mentioned Law stipulated that the employer were to obtain the permission for attraction of the foreign employees. New edition (which came into force from January 15, 2007) defines that if the foreigner has entered Russia using abolition of visas the employer shall not have to obtain the permission for attraction of such alien. He shall have to notify the competent executive agency. But the employers who attract the foreigners entered Russia with visa shall obtain the relevant permission. Migration card is the document which confirms the legality of sojourning of the alien who entered Russia using abolition of visas. Therefore the migration card shall play an important role when obtaining the permission for working.

Permission for working

Federal Law "On Legal Status of Foreign Citizens" stipulates that foreigners may only enter into an employment relationship if they have been granted a permission for working. The duration of permission for working depends on the duration of the residence permit.

Residence permission

There are three types of residence permissions under the Law governing stays by aliens:

- short-term (either for the period, stated by visa or a maximum of 90 days without visa);
- long-term (up to three years);
- permanent residence permits (up to five years).

The period of sojourning of the alien in the Russian Federation in case he concluded the labor or civil contract according to the Law "On Legal Status of Foreign Citizens" shall be prolonged for the term of this contract but for not more than one year. The period of sojourning stated in the mentioned Law can be reduced or prolonged up to 180 days by the Government of the Russian Federation.

The procedure of issuance the permission for sojourning and the list of the documents required therefore are stipulated by the Government of the Russian Federation.

The control over the sojourning of the aliens in the Russian Federation is performed by the *Federal Migration Service of the Russian Federation*.

Record of the migration process shall be conducted according to the Federal Law "On migration record of the foreigners and apatrides in the Russian Federation" of July 18, 2006.

Social Security Law

Social security legislation includes the Federal Law "On the basis of the mandatory social insurance" of July 16, 1999, the Federal Law "On mandatory social accident and professional disease insurance" of July 24, 1998 and other relevant laws. Social security insurance in Russia comprises the following types of insurance: pension, social, sickness and disability insurance. The first three types are covered by one tax, Unified Social Tax. The latter contribution is made monthly by the employer. Employees in Russia do not make any social contributions at all and bear no financial obligations for them.

Appendix 1.

Double taxation conventions



The chart below shows the withholding tax rates on dividends, interest and royalties under tax treaties concluded by the USSR and the Russian Federation. The Russian Federation has announced that it will honour the international agreements existing between the USSR and other countries. The table is for general guidance only.

	<i>Dividends</i>	<i>Interest</i>	<i>Royalties</i>
<i>Non-Treaty Countries</i>	15	20	20
<i>Treaty Countries</i>			
Albania	10	10	10
Armenia	5/10	0	0
Australia	5/15	10	10
Austria	0	0	0
Azerbaijan	10	10	10
Belarus	15	10	10
Belgium	15	15	0
Bulgaria	15	15	15
Canada	10/15	0/10	0/10
China	10	10	10
Croatia	5/10	10	10
Cyprus	5/10	0	0
Czech Republic	10	0	10
Denmark	10	0	0
Egypt	10	15	15
Finland	0	0	0

	<i>Dividends</i>	<i>Interest</i>	<i>Royalties</i>
<i>Treaty Countries</i>			
France	5/10/15	0	0
Germany	5/15	0	0
Hungary	10	0	0
India	10	10	10
Indonesia	15	15	15
Iran	5/10	7,5	5
Ireland	10	0	0
Iceland	5/15	0	0
Israel	10	10	10
Italy	5/10	10	0
Japan	15/10	0	0/10
Katar	5	5	0
Kazakhstan	10	10	10
Kirgizia	10	10	10
Korea	5/10	0	5
Kuwait	5	0	10
Libanjn	10	5	5
Lithuania	5/10	10	5/10
Luxembourg	10/15	0	0
Macedonia	10	10	10
Malaysia	15/20	0/15	10/15
Mali	10/15	15	0
Morocco	5/10	10	10
Moldova	10	0	10
Mongolia	10	10	20
Namibia	5/10	10	5
Netherlands	5/15	0	0
New Zealand	15	10	10
Norway	15	0	0

	<i>Dividends</i>	<i>Interest</i>	<i>Royalties</i>
<i>Treaty Countries</i>			
People's Democratic Republic of Korea	10	0	0
Philippines	15	15	15
Poland	10	10	10
Portugal	15	10	10
Romania	15	15	10
Slovak Republic	10	0	10
Slovenia	10	10	10
South-African Republic	10/15	10	0
Spain	15	0	5
Sri-Lanka	10/15	10	10
Syria	15	10	18/13,5/4,5
Sweden	5/15	0	0
Switzerland	5/15	0/5/10	0
Tadjikistan	5/10	10	0
Turkey	10	10	10
Turkmenistan	10	5	5
Ukraine	5/15	10	10
United Kingdom	10	0	0
United States	5/10	0	0
Uzbekistan	10	10	0
Vietnam	10/15	10	15
Yugoslavia (Fed. Rep.)	5/15	10	10

Appendix 2.

Chart of accounts



SECTION I. Non-Circulating Assets

The designation of account	Account number	The designation of control account and control account number
Fixed assets	01	In accordance with sorts of fixed assets
Depreciation of the fixed assets	02	
Profitable investment in material valuables	03	In accordance with sorts of material valuables
Intangible assets	04	In accordance with sorts of intangible assets and costs on research, development and technological works
Depreciation of the intangible assets	05	
.....	06	
Equipment meant for mounting	07	
Investment in non-circulating assets	08	<ol style="list-style-type: none">1. Acquisition of land plots2. Acquisition of nature utilization objects3. Construction of objects belonging to fixed assets4. Acquisition of objects belonging to fixed assets5. Acquisition of intangible assets6. Conversion of young animals into adult herd7. Acquisition of adult animals8. Performance of research, development and technological works
Deferred taxation	09	

SECTION II. Inventories

The designation of account	Account number	The designation of control account and control account number
Materials	10	<ol style="list-style-type: none"> 1. Raw and other materials 2. Purchased semi-products and completing parts, structures and parts 3. Fuel 4. Package and packing materials 5. Spare parts 6. Other materials 7. Materials transferred for outside processing 8. Construction materials 9. Inventory and household implements 10. Special rigging and overalls in stock 11. Special rigging and overalls put into operation
Animals' growing and fattening	11	
.....	12	
.....	13	
Reserves against reduction in the cost of material valuables	14	
Provision and acquisition of material valuables	15	
Deviation in the cost of material valuables	16	
.....	17	
.....	18	
Value added tax on acquired valuables	19	<ol style="list-style-type: none"> 1. Value added tax on acquisition of fixed assets 2. Value added tax on acquired intangible assets 3. Value added tax on inventories

SECTION III. Cost of Production

The designation of account	Account number	The designation of control account and control account number
Primary production	20	
Semi-products of own manufacture	21	
.....	22	
Subsidiary production	23	
.....	24	
General-production outlays	25	
General-economic outlays	26	
.....	27	
Production spoilage	28	
Servicing productions and economies	29	
.....	30	
.....	31	
.....	32	
.....	33	
.....	34	
.....	35	
.....	36	
.....	37	
.....	38	
.....	39	

SECTION IV. Finished Products and Goods

The designation of account	Account number	The designation of control account and control account number
Production, works and services output	40	
Good	41	1. Goods in stock 2. Goods in retailment 3. Used and empty package 4. Purchased manufacture
Trade markup	42	
Finished products	43	
Sale expenses	44	
Factory shipments	45	
Finished stages of outstanding works	46	
.....	47	
.....	48	
.....	49	

SECTION V. Monetary Assets

Cash	50	1. Organization's cash 2. Operative cash 3. Monetary documents
Settlement bank accounts	51	
Currency bank accounts	52	
.....	53	
.....	54	
Special bank accounts	55	1. Letters of credit 2. Cheque-books 3. Deposit accounts
.....	56	
Money orders on the way	57	
Financial investment	58	1. Shares and stocks 2. Debt securities 3. Granted loans 4. Contributions under a simple partnership agreement
Reserves against devaluation of financial investment	59	

SECTION VI. Settlements

The designation of account	Account number	The designation of control account and control account number
Settlements with suppliers and contractors	60	
.....	61	
Settlements with custom and customers	62	
Reserves against risky debts	63	
.....	64	
.....	65	
Settlements on short-term credits and loans	66	In accordance with sorts of credits and loans
Settlements on long-term credits and loans	67	In accordance with sorts of credits and loans
Settlements on taxes and fees	68	
Settlements on social insurance and security	69	1. Settlements on social insurance 2. Settlements on pension insurance 3. Settlements on obligatory medical insurance
Settlements with staff for remuneration of labour	70	
Settlements with advance holders	71	
.....	72	
Settlements with staff for other operations	73	1. Settlements on granted loans 2. Settlements on reparation of damages
.....	74	
Settlements with founders	75	1. Settlements on contributions to authorized (pooled) capitals of organizations 2. Settlements on disbursement of an income
Settlements with different debtors and creditors	76	1. Settlements on retirement and personal insurance 2. Settlements on claims 3. Settlements on interest and other income due 4. Settlements on deposited funds
Deferred tax liabilities	77	
.....	78	
Intraeconomic settlements	79	1. Settlements on allocated property 2. Settlements on on-going operations 3. Settlements on an agreement on the trust management of property

SECTION VII. Capital

The designation of account	Account number	The designation of control account and control account number
Authorized capital	80	
Owned stocks (shares)	81	
Capital reserves	82	
Capital surplus	83	
Profit and loss surplus/ outstanding losses	84	
.....	85	
Purpose-oriented financing	86	In accordance with sorts of purpose-oriented financing
.....	87	
.....	88	
.....	89	

SECTION VIII. Financial Results

Sale	90	1. Proceeds 2. Cost price of sale 3. Value added tax 4. Excise 5. Profit and losses from the sale
Other receipts and expenditures	91	1. Other receipts 2. Other expenditures 3. Other receipts and expenditures balance
.....	92	
.....	93	
Shortages and losses from spoilage of valuables	94	
.....	95	
Reserves against impending expenditures	96	In accordance with sorts of reserves
Expenditures of future periods	97	In accordance with sorts of expenditures
Receipts of future periods	98	1. Received receipts against future periods 2. Inpayments free of charge 3. Impending inpayments of debts on last years shortages 4. Difference between sums callable from guilty persons and balance sheet value of shortages of valuables
Profits and losses	99	

OFF-BALANCE ACCOUNTS

The designation of account	Account number	The designation of control account and control account number
Leasehold fixed assets	001	
Commodity material values accepted for storage	002	
Materials accepted for processing	003	
Goods accepted for sale on a commission basis	004	
Equipment accepted for mounting	005	
Strict accountability forms	006	
Insolvent debtors' liability written off as losses	007	
Objects accepted for providing for the discharge of obligations and payments	008	
Objects issued for providing for the discharge of obligations and payments	009	
Accumulated depreciation	010	
Fixed assets granted on lease	011	

Appendix 3.

Contact information



Ministry of Public Health and Social Development of the Russian Federation

Address: 3/25 Rakhmanovsky Pereulok, Moscow, Russia, 127994

Tel.: +7 (495) 928 44 53

Official web-site: www.mzsrrf.ru

Federal Service for Employment and Labor Relations of the Russian Federation

Address: 1 Birzhevaya Square, Moscow, Russia, 109012

Tel.: +7 (495) 298 87 37

Official web-site: www.rostrud.info

Ministry of Education and Science of the Russian Federation

Address: 11 Tverskaya Street, Moscow, GSP-3, Russia, 125993

Tel.: +7 (495) 629 70 62

Official web-site: www.mon.gov.ru

Federal Service for Intellectual Property, Patents and Trade Marks of the Russian Federation (Rospatent)

Address: 30 bld. 1 Berezhkovskaya Naberezhnaya, Moscow,
G-59, GSP-5, Russia, 123995

Tel.: +7 (495) 240 60 15

Official web-site: www.fips.ru

Ministry of Natural Resources of the Russian Federation

Address: 4/6 B. Gruzinskaya Street, Moscow, Russia, 123995

Tel.: +7 (495) 254 48 00

Official web-site: www.mnr.gov.ru

Ministry of Industry and Energy of the Russian Federation

Address: 7 Kitaigorodsky Proezd, Moscow, Russia, 109074

Tel.: +7 (495) 710 55 00

Official web-site: www.minprom.gov.ru

Regional Development Ministry of the Russian Federation

Address: 10/23 bld. 1 Sadovaya-Samotechnaya Street, Moscow, Russia, 127994

Tel.: + 7(495) 980 25 47

Official web-site: www.minregion.ru

Federal Agency for Construction and Housing and Communal Services of the Russian Federation

Address: 8 bld. 2 Stroiteley Street, Moscow, Russia, 119991

Tel.: +7 (495) 930 17 49

Official web-site: www.gosstroy.gov.ru

Ministry of Agriculture of the Russian Federation

Address: 1/11 Orlikov Pereulok, Moscow, Russia, 107139

Tel.: +7 (495) 207 80 00

Official web-site: www.mcx.ru

Ministry of Transport of the Russian Federation

Address: 1 bld. 1 Rozhdestvenka Street, Moscow, Russia, 109012

Tel.: +7 (495) 926 10 00

Official web-site: www.mintrans.ru

Ministry of Information Technologies and Communications of the Russian Federation

Address: 7 Tverskaya Street, Moscow, Russia, 125375

Tel.: +7 (495) 771 81 00

Official web-site: www.minsvyaz.ru

Ministry of Finance of the Russian Federation

Address: 9 Ilyinka Street, Moscow, Russia, 109097

Tel.: +7 (495) 298 91 01

Official web-site: www.minfin.ru

Federal Taxation Service of the Russian Federation

Address: 23 Neglinnaya Street, Moscow, Russia, 127381

Tel.: +7 (495) 913 00 09

Official web-site: www.nalog.ru

Federal Service for Insurance Supervision of the Russian Federation

Address: 3 bld. 1 Miuskaya Square, Moscow, Russia, 125993

Tel.: +7 (495) 251 32 02

Federal Service for Fiscal Monitoring of the Russian Federation

Address: 39 bld. 1 Myasnitskaya Street, Moscow, K-450, Russia, 107450

Tel.: +7 (495) 627 33 97

Official web-site: www.fedsfm.ru

Ministry for Economic Development and Trade of the Russian Federation

Address: 1, 3 1st Tverskaya-Yamskaya Street, Moscow, A-47, GSP-3, Russia, 125993

Tel.: +7 (495) 200 03 53

Official web-site: www.economy.gov.ru

Federal Customs Service of the Russian Federation

Address: 11/5 Novozavodskaya Street, Moscow, Russia, 121087

Tel.: +7 (495) 449 72 05

Official web-site: www.customs.ru

Federal Agency for Management of Special Economic Zones

Address: 18/1 Ovchinnikovskaya Naberezhnaya, Moscow, Russia, 115324

Official web-site: www.rosuez.economy.gov.ru

Federal Antimonopoly Service of the Russian Federation

Address: 11 Sadovaya-Kudrinskaya Street, Moscow, D-242, GSP-5, Russia, 123995

Tel.: +7 (495) 252 76 53

Official web-site: www.fas.gov.ru

Federal Financial Markets Service of the Russian Federation

Address: 9 Leninsky Prospekt, Moscow, GSP-1, Russia, 119991

Tel.: +7 (495) 935 87 90

Official web-site: www.fcsf.ru

Federal State Statistics Service of the Russian Federation

Address: 39 Myasnitskaya Street, Moscow, Russia, 103450

Tel.: +7 (495) 207 49 02

Official web-site: www.gks.ru

Federal Agency for Tourism of the Russian Federation

Address: 47 Myasnitskaya Street, Moscow, Russia, 107084

Tel.: +7 (495) 207 71 17

Official web-site: www.russiatourism.ru

Federal Migration Service of the Russian Federation

Address: 4 Boyarsky Pereulok, Moscow, Russia, 107078

Tel.: +7 (495) 924 73 23

Ministry of Justice of the Russian Federation

Address: 14 Zhitnaya Street, Moscow, Russia, 119991

Tel.: +7 (495) 955 59 99

Official web-site: www.minjust.ru

Federal Registration Service of the Russian Federation

Address: 4a Vorontsovo Pole Street, Moscow, Russia, 109830

Tel.: +7 (495) 206 96 27

Official web-site: www.rosregistr.ru

Pension Fund of the Russian Federation

Address: 4 Shabolovka Street, Moscow, Russia, 119991

Tel.: +7 (495) 959 80 11

Official web-site: www.pfrf.ru

Federal Mandatory Medical Insurance Fund of the Russian Federation

Address: 37 Novoslobodskaya Street, Moscow, GSP-4, Russia, 127994

Tel.: +7 (495) 937 44 55

Official web-site: www.ffoms.ru



FBK Company

44/1 Myasnitskaya Street
Moscow, Russia, 101990
Phone: +7 (495) 737 5353
Fax: +7 (495) 737 5347
E-mail: fbk@fbk.ru

www.fbk.ru

www.fbk-pravo.ru

www.elsfbk.ru

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