Doing business in the Russian Federation
This book has been prepared by the Ernst & Young practice in the Russian Federation in order to provide the busy executive a quick overview of the taxation, forms of business organization, and business and accounting practices in Russia. Making decisions about foreign operations is complex and requires an intimate knowledge of a country’s commercial climate, with a realization that the Russian business and regulatory environment continues to evolve on multiple fronts. You should expect opinions on Russian matters to vary widely. Companies doing business in Russia, or planning to do so, are strongly advised to obtain current and detailed information from experienced professionals. This book reflects information current as of 1 August 2010.

Ernst & Young provides assurance, advisory, tax and legal, and transaction services in the principal cities of the world. Additional copies of this brochure may be obtained from Ernst & Young's Moscow office:

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## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preface</td>
<td>1</td>
</tr>
<tr>
<td><strong>General business information</strong></td>
<td>5</td>
</tr>
<tr>
<td>Time</td>
<td>5</td>
</tr>
<tr>
<td>Public holidays</td>
<td>5</td>
</tr>
<tr>
<td>Financial system</td>
<td>6</td>
</tr>
<tr>
<td>Bank regulators</td>
<td>6</td>
</tr>
<tr>
<td>Stock exchange and securities regulating authority</td>
<td>6</td>
</tr>
<tr>
<td>Currency control</td>
<td>7</td>
</tr>
<tr>
<td>General principles</td>
<td>7</td>
</tr>
<tr>
<td>Restrictions on operations between residents and non-residents</td>
<td>7</td>
</tr>
<tr>
<td>Liability for violation of currency law</td>
<td>7</td>
</tr>
<tr>
<td>Companies</td>
<td>9</td>
</tr>
<tr>
<td>Corporate forms</td>
<td>9</td>
</tr>
<tr>
<td>Russian legal entities</td>
<td>9</td>
</tr>
<tr>
<td>Branch and representative offices</td>
<td>12</td>
</tr>
<tr>
<td>Registration of businesses in Russia</td>
<td>12</td>
</tr>
<tr>
<td>Mergers and acquisitions</td>
<td>13</td>
</tr>
<tr>
<td>Antimonopoly control</td>
<td>13</td>
</tr>
<tr>
<td>Restrictions on strategic companies</td>
<td>13</td>
</tr>
<tr>
<td>Shareholder agreements</td>
<td>14</td>
</tr>
<tr>
<td>Taxes at a glance</td>
<td>14</td>
</tr>
<tr>
<td>Ernst &amp; Young’s annual tax survey</td>
<td>14</td>
</tr>
<tr>
<td>Tax audits</td>
<td>14</td>
</tr>
<tr>
<td>Tax disputes</td>
<td>16</td>
</tr>
<tr>
<td>Impact on investment</td>
<td>17</td>
</tr>
<tr>
<td>Tax Rates</td>
<td>18</td>
</tr>
<tr>
<td>Corporate profits tax</td>
<td>18</td>
</tr>
<tr>
<td>Taxpayers</td>
<td>18</td>
</tr>
<tr>
<td>Rates</td>
<td>19</td>
</tr>
<tr>
<td>Tax base</td>
<td>19</td>
</tr>
<tr>
<td>Taxable income</td>
<td>19</td>
</tr>
<tr>
<td>Exempt income</td>
<td>20</td>
</tr>
<tr>
<td>Deductible expenses</td>
<td>20</td>
</tr>
<tr>
<td>Interest</td>
<td>20</td>
</tr>
<tr>
<td>Depreciation</td>
<td>21</td>
</tr>
<tr>
<td>Other expenses</td>
<td>21</td>
</tr>
<tr>
<td>Loss carried forward</td>
<td>21</td>
</tr>
<tr>
<td>Dividend income</td>
<td>22</td>
</tr>
<tr>
<td>Capital gains/losses</td>
<td>23</td>
</tr>
<tr>
<td>Tax reporting and payment</td>
<td>23</td>
</tr>
<tr>
<td>Separate subdivisions</td>
<td>24</td>
</tr>
<tr>
<td>Tax accounting</td>
<td>24</td>
</tr>
<tr>
<td>Foreign tax relief</td>
<td>24</td>
</tr>
<tr>
<td>Transfer pricing</td>
<td>24</td>
</tr>
<tr>
<td><strong>Value-added tax (VAT)</strong></td>
<td>25</td>
</tr>
<tr>
<td>Taxpayers</td>
<td>25</td>
</tr>
<tr>
<td>Registration</td>
<td>25</td>
</tr>
<tr>
<td>Rates</td>
<td>25</td>
</tr>
<tr>
<td>Taxable operations</td>
<td>25</td>
</tr>
<tr>
<td>Place of supply of goods and services</td>
<td>25</td>
</tr>
<tr>
<td>The moment tax arises upon a sale</td>
<td>26</td>
</tr>
<tr>
<td>Non-taxable supplies</td>
<td>26</td>
</tr>
<tr>
<td>Imported goods</td>
<td>26</td>
</tr>
<tr>
<td>Calculation of VAT</td>
<td>26</td>
</tr>
<tr>
<td>Withholding of VAT on acquisitions from FLEs.</td>
<td>27</td>
</tr>
<tr>
<td>Tax reporting and payment</td>
<td>27</td>
</tr>
<tr>
<td>Assets tax</td>
<td>27</td>
</tr>
<tr>
<td>Taxpayers</td>
<td>27</td>
</tr>
<tr>
<td>Tax rates</td>
<td>27</td>
</tr>
<tr>
<td>Tax base</td>
<td>28</td>
</tr>
<tr>
<td>Tax exemptions</td>
<td>28</td>
</tr>
<tr>
<td>Tax reporting</td>
<td>28</td>
</tr>
<tr>
<td><strong>Other taxes</strong></td>
<td>28</td>
</tr>
<tr>
<td>Excise tax</td>
<td>28</td>
</tr>
<tr>
<td>Transport tax</td>
<td>28</td>
</tr>
<tr>
<td>Mineral extraction tax</td>
<td>28</td>
</tr>
<tr>
<td>Other taxes</td>
<td>28</td>
</tr>
<tr>
<td><strong>Miscellaneous tax matters</strong></td>
<td>28</td>
</tr>
<tr>
<td>Taxation of Russian-source income of FLEs without PE in Russia</td>
<td>28</td>
</tr>
<tr>
<td>Withholding tax</td>
<td>28</td>
</tr>
<tr>
<td>Russian source income</td>
<td>29</td>
</tr>
<tr>
<td>Tax rates</td>
<td>29</td>
</tr>
<tr>
<td>Treaty relief</td>
<td>29</td>
</tr>
<tr>
<td>Taxation of reorganization of companies in Russia</td>
<td>30</td>
</tr>
<tr>
<td><strong>Customs</strong></td>
<td>30</td>
</tr>
<tr>
<td>Overview</td>
<td>30</td>
</tr>
<tr>
<td>Import duties</td>
<td>30</td>
</tr>
<tr>
<td>Import of technical equipment</td>
<td>30</td>
</tr>
<tr>
<td>Export duties</td>
<td>31</td>
</tr>
<tr>
<td>Customs value</td>
<td>31</td>
</tr>
<tr>
<td>Customs coding</td>
<td>31</td>
</tr>
<tr>
<td>Customs procedures</td>
<td>31</td>
</tr>
<tr>
<td>Release for domestic consumption</td>
<td>31</td>
</tr>
<tr>
<td>Bonded warehouse</td>
<td>31</td>
</tr>
<tr>
<td>Temporary importation</td>
<td>32</td>
</tr>
<tr>
<td>Customs regime of processing</td>
<td>32</td>
</tr>
</tbody>
</table>
Time

Russia’s time zones progress from two hours ahead of Greenwich Mean Time (GMT) in the west to thirteen hours ahead of GMT in Anadyr in the extreme north-east of the country. Moscow, the capital city, is three hours ahead of GMT.

Time differences between Moscow and some major cities of the CIS are shown in the following table.

<table>
<thead>
<tr>
<th>City</th>
<th>Hours ahead of or behind Moscow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kyiv</td>
<td>-1</td>
</tr>
<tr>
<td>St. Petersburg</td>
<td>0</td>
</tr>
<tr>
<td>Baku</td>
<td>+1</td>
</tr>
<tr>
<td>Almaty*</td>
<td>+3/+2</td>
</tr>
<tr>
<td>Novosibirsk</td>
<td>+3</td>
</tr>
<tr>
<td>Vladivostok</td>
<td>+7</td>
</tr>
</tbody>
</table>

* Kazakhstan does not observe Daylight Savings Time.

Flying time between Moscow and some major cities of the world, as well as time differences, are shown in the table below.

<table>
<thead>
<tr>
<th>City</th>
<th>Time difference</th>
<th>Flying time</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>-3</td>
<td>3 hours 50 minutes</td>
</tr>
<tr>
<td>New York</td>
<td>-8</td>
<td>8 hours 30 minutes</td>
</tr>
<tr>
<td>Paris</td>
<td>-2</td>
<td>3 hours 45 minutes</td>
</tr>
<tr>
<td>Tokyo*</td>
<td>+6/+5</td>
<td>10 hours 25 minutes</td>
</tr>
</tbody>
</table>

* Japan does not observe Daylight Savings Time.

Source: http://www.timeanddate.com/

Public holidays

The following table lists the official public holidays in Russia.

<table>
<thead>
<tr>
<th>Holiday</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Year's Holidays</td>
<td>January 1-5</td>
</tr>
<tr>
<td>Russian Orthodox Christmas</td>
<td>January 7</td>
</tr>
<tr>
<td>Defenders</td>
<td>February 23</td>
</tr>
<tr>
<td>Defenders of the Fatherland Day</td>
<td>March 8</td>
</tr>
<tr>
<td>International Women's Day</td>
<td>May 1</td>
</tr>
<tr>
<td>Day of Spring and Labor</td>
<td>May 9</td>
</tr>
<tr>
<td>Victory Day</td>
<td></td>
</tr>
<tr>
<td>Independence Day</td>
<td>June 12</td>
</tr>
<tr>
<td>or Sovereignty Day</td>
<td></td>
</tr>
<tr>
<td>Day of National Unity</td>
<td>November 4</td>
</tr>
</tbody>
</table>

If any of the above holidays falls on a weekend, the holiday is postponed to the Monday (or Tuesday) following the date of the holiday. In addition, if any of the above holidays falls on a Tuesday or Thursday, it is customary for the preceding Monday or following Friday (respectively) to be an official public holiday and for the preceding Saturday or the following Sunday (respectively) to be a working day.

Foreign organizations in the Russian Federation, such as embassies and consulates, also usually observe their home countries’ public holidays in addition to the official public holidays listed above.
Financial system

Bank regulators

The Central Bank of the Russian Federation (CBRF) is the main regulator of banking activity. The CBRF issues licenses for all credit institutions in Russia. A general license allows banks to conduct almost all types of regular banking operations, including deposit and distribution of monetary funds, keeping accounts, making payments, and issuing guarantees. Special licenses are required only for a few types of banking operations, e.g., deposit and distribution of precious metals.

Stock exchange and securities regulating authority

The Federal Financial Markets Service (FFMS) controls and supervises financial markets, implements government policy on the securities market, regulates the activities of participants in the professional securities market, and protects the rights of investors and shareholders.

The major functions of the FFMS are as follows:

- Developing a regulatory legal framework for the securities market including adopting relevant regulations,
- Determining the key directions for development of the securities market,
- Registering security issuances, issuing prospectuses and results of security issuance,
- Keeping appropriate records and ensuring the disclosure of information on the securities market,
- Oversee issuers and participants in the professional securities market, including the issuance of licenses for investment funds, non-governmental pension funds, management companies, and special depositories,
- Perform inspections, issue mandatory prescriptions, bring administrative actions and take other legal actions.
Currency control

General principles

The official currency in Russia is the Russian ruble. In general, payments between residents must be made in Russian rubles. Residents can use foreign currency to determine the contract price but the payment should be in rubles.

Historically the area of currency control has been a source of confusion and uncertainty for foreign investors operating in Russia, but this situation has substantially improved during the last few years. Still, it is important that foreign investors address any potential currency control issues in advance of concluding any significant transactions with a Russian resident.

Restrictions on operations between residents and non-residents

Transactions between residents (Russian legal entities, their representative offices (branches) outside of Russia and individuals permanently living in Russia) and non-residents (foreign legal entities, their representative offices (branches) in Russia and individuals permanently residing outside of Russia) involving payments in foreign currency, Russian currency, securities denominated in rubles and foreign currency can be concluded without any limitations, with the exception of transactions in respect of which special methods of currency regulation could be imposed by the government and/or by the CBRF. Payments between non-residents in rubles are permitted through accounts opened in Russian banks.

As of now, most of the measures which were initially introduced to restrict certain transactions between residents and non-residents have been abolished. The main requirements which are still in force are:

- The obligation for residents to document currency operations, i.e., operations with non-residents with a passport of the transaction, which is a special document to be opened with the assistance of a Russian bank.
- The obligation to purchase and sell foreign currency and checks, including travelers’ checks, only through banks which have obtained a special license for carrying out operations with foreign currencies.

In addition, residents are also subject to the following requirements:

- Prohibition of foreign currency operations between residents (subject to certain exceptions)
- Obligatory declaration of currency in cash in the event of exporting by individuals from the Russian Federation in excess of certain thresholds
- Obligatory repatriation of ruble and foreign currency export proceeds.

Liability for violation of currency law

It is important to note that the penalties for violating the currency regulations can be quite significant. Prohibited currency operations and non-compliance with currency control limitations are subject to an administrative fine of 75-100% of the amount of the non-compliant currency operation. Moreover, for certain offenses, additional criminal liability can be imposed on the executives of the legal entity violating such regulations, including imprisonment. Non-compliance of banks with currency control regulations may result in revocation of their licenses.

An example of a violation of Russian currency control legislation is when (i) a foreign contractor does not pay its Russian supplier on time, or (ii) does not deliver goods to its Russian customer and does not return advance payments for those goods on time. Only Russian residents are responsible for such administrative offenses. Penalties may be charged in these cases, but a significant number of this type of offenses are successfully challenged in court.

In this respect, it is strongly recommended that this area be given due focus well in advance of concluding any material transactions.
Corporate forms

As in most jurisdictions, there are several forms through which a foreign company can undertake business activities in the Russian Federation. The most frequently used forms are a separate Russian legal entity and a branch or representative office of a foreign company.

Russian legal entities

The most commonly used types of Russian legal entity are limited liability companies and joint stock companies (mostly closed joint stock companies).

Other corporate forms (such as full or limited partnerships) are theoretically available to foreign investors but they are rarely, if ever, used.

Limited liability company

A limited liability company (LLC, or OOO in Russian) seems to be the most popular corporate form in Russia as its registration procedure is rather simple.

The charter capital of an LLC comprises the nominal values of its participants’ equity shares. The minimum charter capital of an LLC is currently RUB 10,000 (about US$330). Payment for equity shares may be in the form of both cash and in-kind payment when it is paid with shares of other companies, assets, equipment, etc. Since 1 January 2010, in case of charter capital increase, the payment of the charter capital of an LLC can be made by way of offsetting claims of the participants against the company provided that this has been agreed unanimously by the participants. In other words, debt-to-equity conversions are now possible in LLCs.

Equity shares of LLCs differ from shares of joint stock companies in that equity shares are not treated as securities and should not be registered with FFMS. However, with the exception of certain state duty issues, in practice the differences are limited.

The charter of an LLC can contain certain restrictions or special rights related to the transfer of participants’ rights, such as a prohibition against sales of equity shares to third parties and the right for participants to withdraw from the LLC without requiring the consent of other participants. If such withdrawal right is provided in the charter, the withdrawing participant should be paid the actual value of his equity share in the LLC. The transfer of equity shares of an LLC is now relatively more burdensome than it used to be as it now requires significant involvement of a Russian notary.
The maximum number of participants in an LLC is 50. An LLC cannot have as its sole founder another entity owned only by one person (company or individual).

The governing bodies of the LLC are the general meetings of participants and the board of directors (optional). An individual executive body (general director) runs the day-to-day business of the LLC; there can also be a collective executive body (managing board) running the day-to-day business of the LLC together with the general director.

**Joint stock company**
Joint stock companies (JSC, or AO in Russian) generally fall into two categories: closed (ZAO in Russian) and open (OAO in Russian). The fundamental difference between an open and a closed JSC is that in an open JSC, shares may be freely sold to third parties, while in a closed JSC share transfers are subject to the preemptive rights of other shareholders. An unusual feature of Russian law is that a shareholder may not waive his or her preemptive right but, at the appropriate time, elects either to exercise it or not.

The minimum capital requirement for incorporation is currently RUB 10,000 (equivalent to approximately US$330) for a closed JSC and RUB 100,000 (about US$3,315) for an open JSC. Shareholders can now pay their part of a charter capital increase by way of offset of mutual liabilities with the JSC, since the possibility to execute a straightforward debt-to-equity conversion has been introduced for JSCs from 1 January 2010.

The maximum number of shareholders cannot exceed 50 for a closed JSC but is unlimited for an open JSC.

JSCs distribute ordinary (voting) shares among their shareholders and, in contrast to LLCs, have the right to distribute one or more types of preference (non-voting) shares. The nominal value of such preference shares distributed must not exceed 25% of the company’s charter capital.

The charter of JSCs must determine the dividend rate and/or the value which is payable in the event of the company’s liquidation for preference shares of each type.

Open JSCs must comply with a number of information disclosure requirements of the FFMS, and for this reason closed JSCs are generally preferred and may be used for setting up a joint venture with a Russian partner. Open JSCs are commonly used for establishing publicly traded companies.
The basic differences between an LLC and closed JSC are shown below:

<table>
<thead>
<tr>
<th>LLC</th>
<th>Closed JSC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard registration procedures</td>
<td>Standard registration procedures plus registration of shares with the FFMS</td>
</tr>
<tr>
<td>At least 50% of the charter capital must be paid before the state registration</td>
<td>At least 50% of the charter capital must be paid within three months after the state registration</td>
</tr>
<tr>
<td>Profit can be allocated out of proportion to equity shares</td>
<td>Profit can be allocated only in proportion to shares</td>
</tr>
<tr>
<td>A participant can be excluded from an LLC by a court decision in case of major violations</td>
<td>A shareholder cannot be excluded from a closed JSC</td>
</tr>
<tr>
<td>If provided by the charter, the participants can be authorized to withdraw from an LLC at any time and receive the actual value of its equity share</td>
<td>A shareholder is not authorized to withdraw from a closed JSC (other than by selling its shares)</td>
</tr>
<tr>
<td>The sale price for shares or method for its estimation may be specified by the charter in advance</td>
<td>The sale price for shares may not be specified by the charter in advance</td>
</tr>
<tr>
<td>Information on amount and nominal value of each participant’s equity shares must be entered into the participants’ register and Unified State Register of Legal Entities</td>
<td>Information on amount and nominal value of each shareholder’s shares must be entered in the shareholders’ register only</td>
</tr>
<tr>
<td>Transfer of title to an equity share is usually subject to notarization</td>
<td>Transfer of title to a share must be made through the shareholders’ register</td>
</tr>
</tbody>
</table>
Branch and representative offices

Foreign companies may also operate in Russia without creating a legal entity by establishing a branch or a representative office. The main advantages of operating through a branch or representative office, compared with a JSC or an LLC, are that a branch or representative office has fewer administrative, tax, and accounting obligations and is considered to be non-resident for currency control purposes.

Branch

The branch of a legal entity is a separate subdivision of a legal entity whose headquarters are in another location and may be in another country. A branch may perform all the functions of a legal entity, including representative functions. The branch should have a manager or head of branch who acts on the basis of a power of attorney issued by its parent company. Since the branch is not considered to be a separate legal entity, all duties and rights will apply to the legal entity which is behind that branch. A branch may be inappropriate for certain activities, such as those that require licenses that are issued only to Russian legal entities. In addition, a branch is not recommended if it is expected that significant import activity will take place, since it is easier to manage customs procedures as a Russian legal entity.

The branch of a foreign company must be accredited and registered with the State Registration Chamber. The accreditation must be renewed every five years (whereas the registration of a JSC or LLC is usually for an indefinite period of time).

In addition, a branch of a foreign company must be registered with the tax authorities, social funds, and other state bodies. The nature of the activities performed will determine whether the activities are subject to Russian taxation. Generally, tax filings must be made even if no taxable activities are performed or if no income is generated.

Representative office

A representative office is generally understood to be a subdivision of a foreign legal entity (FLE) that represents the company’s interests in Russia. Representative offices are not officially allowed to undertake commercial activity under the Civil Code. Their main purpose is generally to promote commercial relations between the foreign legal entity and Russian enterprises and to gather information about the Russian market. In practice, many representative offices in Russia do engage in commercial activity. Another point to take into consideration when deciding on the form of establishing a legal presence in Russia is that a representative office may not be the most appropriate form for foreign entities which plan to hire a significant number of expatriates since the new favorable status of Highly Qualified Specialists (HQS) is not available for foreigners working for representative offices of FLEs. HQS benefit from significantly more favorable work permit and work visa procedures and less restrictive tax residency rules. Please see the section Immigration below for further details.

A representative office should be accredited with the State Registration Chamber or with the Chamber of Commerce and Industry (or, for example, with the Ministry of Education and Science in the case of educational activity) and registered with the State Registration Chamber, as well as with the tax authorities, social funds, and other state bodies. The maximum accreditation term is three years but can be renewed.

Registration of businesses in Russia

Russian companies, as well as branches and representative offices of foreign companies in Russia, must be registered with several state authorities. Companies must be registered with the state registration authority (currently the tax authorities) which takes care of both the state and tax registrations, with the state statistics service, and with three social benefit funds. Branches and representative offices must be registered and accredited (see above) and registered with a designated tax inspectorate for foreign companies, as well as with the state statistics service and three social benefit funds.
The establishment of a commercial legal entity may also require obtaining the prior approval of the Federal Antimonopoly Service when certain thresholds are reached in terms of balance sheet value of the assets or revenue or if the charter capital of a commercial legal entity is paid by shares or property of another commercial legal entity.

Foreign investors should be prepared to face a very formal and time-consuming process. As a preliminary step, significant time is necessary to gather and draft the documents to be filed with the competent authorities (notarized and legalized/apostilled corporate documents of the foreign company, constitutional documents of the newly created Russian company, constitutional documents of the newly created Russian company or business, etc.). As far as the registration itself is concerned, the average registration of a Russian legal entity, branch, or representative office takes approximately four weeks from the date of filing of the necessary documents with the authorities, but can take longer in certain circumstances.

If any documents filed in connection with a registration are considered unsatisfactory by a registration authority, then such documents may need to be re-filed. Further, certain registrations must take place in a prescribed sequence; thus, a delay at one stage of the process can cascade to subsequent stages of the process.

Additional steps are necessary for the entities to be fully operational, e.g., opening of bank accounts, manufacture of a corporate seal, and registration of the issuance of shares (for JSCs only) with the securities authorities.

Companies need not wait until the end of the entire registration process before starting their activities. They can begin operations after their state and tax registrations, production of a company seal and opening of permanent bank account(s); branches and representative offices can begin operations after their accreditation with authorized bodies, registration with the tax authorities, production of a seal and opening of permanent bank account(s).

**Mergers and acquisitions**

**Antimonopoly control**

Certain transactions (including mergers, acquisitions, establishment of new companies, purchase and sale of shares and/or assets) are subject to antimonopoly control. The prior approval or post-transaction notification of the Federal Antimonopoly Service (FAS) is required if certain thresholds are reached in terms of balance sheet value of the assets or revenue or market share of the companies involved in the transaction. Generally, the FAS approvals have been routinely granted. However, there have been situations when the FAS used its authority to prevent foreign companies from acquiring certain assets or enterprises.

Due to recent amendments to antimonopoly legislation, the FAS is now entitled to inspect the compliance of any business entity with antimonopoly regulations. Scheduled inspections are to be conducted regularly every three years. Unscheduled inspections may be held more frequently if the FAS receives information on any violations of antimonopoly legislation from various sources. Companies present in Russia must be prepared for potential FAS inspections ahead of time, since companies may receive notification of an upcoming FAS inspection as late as three working days in advance for a scheduled inspection and only 24 hours in advance for an unscheduled inspection. If an organization fails to present the documents to the FAS or is late in presenting them, it may be fined up to RUB 500,000 (i.e., approx. US$ 16,565).

**Restrictions on strategic companies**

Russian legislation sets certain limits for foreign investments in specified areas of the Russian economy which, according to the state, have strategic significance and therefore require a special regime of protection. There is a list of 42 types of activity (sectors) with strategic significance. Foremost among them are the environmental sector, nuclear industry, military equipment and industrial explosives, aviation and space sectors, mass-media activities, operations of natural monopolies, etc. The law limits or provides for a special regime for foreign investors to obtain control over Russian companies conducting activity in the above strategic sectors.
Shareholder agreements

Shareholder agreements can be concluded between the participants in an LLC and between the shareholders in a JSC. By entering into a shareholder agreement the parties may undertake to vote in a particular manner at general shareholder meetings, to agree on voting options with other shareholders, to acquire or dispose of shares at a pre-determined price and/or upon the occurrence of certain events, to refrain from share transfers subject to certain conditions, and/or to perform other actions related to the management of the company and its activities in a coordinated fashion.

Shareholder agreements are applicable only among their parties. This means that one cannot challenge a corporate decision on the grounds of this decision's noncompliance with the provisions of a shareholder agreement.

Shareholder agreements are expected to give shareholders greater flexibility in regulating their relations and to put an end to the practice of Russian courts invalidating shareholder agreements, including those governed by foreign law. However, we still anticipate some potential problems with the practical implementation of shareholder agreements. In particular, the enforceability of shareholder agreements by Russian courts is still unclear. Applicability of foreign law to shareholder agreements is also one of the open issues at the moment. For this reason, joint ventures involving significant financial commitment are often formed using non-Russian holding companies.

Taxes at a glance

Russian taxes are listed and regulated by the Russian Tax Code. The list of Russian taxes includes the following taxes and levies:

- **Federal taxes and levies** - VAT, excise duty, personal income tax, profits tax, mineral extraction tax, water tax, levies for the use of fauna and for the use of aquatic biological resources, state duty
- **Regional taxes** - assets tax, gambling tax, transport tax
- **Local taxes** - land tax, assets tax on individuals (introduced by a Federal law of 9 December 1991 and not included in the Tax Code).

Ernst & Young’s annual tax survey

Taxation is a significant part of corporate life and successful tax management is very important to businesses everywhere in the world, but particularly in Russia. Since 2005, we have been asking companies for their opinions on various dimensions of their tax affairs in Russia and publishing an annual report summarizing the results of the survey.

Tax audits

Interaction with the tax authorities is an essential part of conducting business in Russia. Our 2010 survey results indicate that the frequency of tax audits remained consistent over last three years. 30% of the companies participating in our tax survey face on-site audits each year or more often.

Our 2010 survey results further show that 63% of our respondents were charged with additional tax liabilities as a result of tax audits performed during 2009, mostly related to profits tax and VAT. The main reasons for additional tax charges were insufficient economic justification and documentation support of transactions. Only 29% of the companies agreed with the additional tax charges.
Tax disputes

Tax disputes with the tax authorities are also common practice for both Russian businesses and foreign investors in Russia. However, the results of our 2010 tax survey demonstrate a significant decrease of tax disputes and tax litigation cases compared to previous years. This reduction may be due to the changes in tax law introduced starting from 1 January 2009, according to which a taxpayer is required to appeal to the highest tax authority body before going to court.

As we observed during prior years’ surveys, the majority (67%) of the cases which went to court judgment were settled in favor of the taxpayer. However, one of the most interesting observations of our 2010 survey is that this percentage decreased significantly in comparison with prior years’ results, by 22 percentage points. At the same time, the number of respondents having lost the case or settled out of court increased this year by 7 percentage points and 15 percentage points respectively. These changes may be caused by the fact that more companies have started more actively using the practice of conclusion of an amicable agreement with the tax authorities during the litigation process. We are also starting to see the courts increasing their support of the tax authorities.
Impact on investment

Participants of our survey are also asked their opinion regarding the impact of the Russian tax regime on investments in Russia. Our 2010 survey results generally indicate that the tax regime is considered to have an either negative (52%) or neutral (44%) impact on the investment environment in Russia.

Similarly to prior years, non-Russian multinational companies are generally more critical over the tax regime’s impact on investment than Russian participants of our survey. Most multinational respondents consider that the tax regime in Russia has a more negative (60% up from 52%) than neutral (40% down from 41% in 2009) impact on investments in Russia.
## Tax rates

Tax rates on corporate income and capital gains are summarized below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate profits tax rate</td>
<td>20%</td>
</tr>
<tr>
<td>Capital gains tax rate</td>
<td>20%</td>
</tr>
<tr>
<td>Branch remittance tax</td>
<td>0%</td>
</tr>
<tr>
<td>Withholding tax</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>0/9/15%</td>
</tr>
<tr>
<td>Interest on certain types of state and municipal securities, mortgage-backed bonds, and certain income from certificates of participation in a mortgage pool</td>
<td>0/9/15%</td>
</tr>
<tr>
<td>Other interest paid to foreign companies</td>
<td>20%</td>
</tr>
<tr>
<td>International freight income</td>
<td>10%</td>
</tr>
<tr>
<td>Rental income derived from property used in Russia</td>
<td>20%</td>
</tr>
<tr>
<td>Royalties from patents, know-how, etc. paid to foreign companies</td>
<td>20%</td>
</tr>
<tr>
<td>Income from the sale of Russian immovable property or shares (and derivatives thereof) of qualifying property-rich companies</td>
<td>20%</td>
</tr>
<tr>
<td>Fines, penalties</td>
<td>20%</td>
</tr>
<tr>
<td>Payments of other similar Russian source income to foreign companies</td>
<td>20%</td>
</tr>
</tbody>
</table>

(a) The basic corporate profits tax rate consists of 2% payable to the central government and 18% payable to the regional government. Regional governments have the power to reduce the regional element by up to 4.5% (establishing the regional rate as 13.5%), giving a minimum overall rate of 15.5%.

(b) Capital gains of Russian companies are taxed at the corporate profits tax rate of 20% of the gain. However, in certain circumstances, the 20% rate applies to the gross income (see below).

(c) Dividends paid to foreign companies (which do not have a permanent establishment in Russia) are subject to 15% profits tax withholding, but reduced rates may apply under applicable double tax treaties. Dividends received by Russian companies are taxed at 9% unless they qualify for the participation exemption regime. Under this regime, dividends received by Russian companies from qualifying participations in Russian and foreign companies are tax-exempt (see Dividend income below).

(d) Interest on certain types of state and municipal securities, mortgage-backed bonds, and certain income from certificates of participation in a mortgage pool are subject to tax at reduced rates.

(e) Items of “active” income such as income from sale of goods, other property (except for Russian immovable property or shares and derivatives thereof of qualifying property-rich companies) or property rights, conducting work or rendering services in Russia are generally exempt from withholding income taxation in Russia.

The withholding tax rates indicated above apply to payments to foreign legal entities which do not carry out activities in Russia through a permanent establishment.

## Corporate profits tax

### Taxpayers

Taxpayers for profits tax purposes are (i) Russian legal entities (RLEs) and (ii) foreign legal entities (FLEs) that carry out activities in Russia through permanent establishments and/or receive income from sources in Russia.

### Russian legal entities

RLEs are taxed on their worldwide income. There is currently no consolidation or group relief for tax purposes; each company within a group is a separate taxpayer.

However, a draft law on tax consolidation was submitted to the Russian Parliament (Duma) for consideration in June 2010. The initial intention is to have this new law ready for entering into force starting 1 January 2011 together with the new transfer pricing regulations, though none of the Duma readings have been scheduled yet. Based on the current draft, the tax consolidation regime will be reserved for major Russian companies since under the draft, among other conditions, the right to consolidate for tax purposes would be conferred on groups of Russian legal entities where the parent company directly or indirectly holds at least 90% of the shares of its subsidiaries and total assets of all the companies in the tax group exceed RUB 1,000 billion as of 1 January of the tax year when the tax group is established (i.e., approximately...
33 billion USD). In addition, the total amount of federal taxes accrued in the calendar year preceding the year when the tax group is established must exceed 15 billion RUB and the total revenue received in the preceding calendar year must exceed 100 billion RUB. It is unclear whether and when the law will be adopted.

**Permanent establishments of foreign legal entities**

A permanent establishment (PE) of an FLE in Russia is a branch, representation, division, bureau, office, agency, or any other economically autonomous subdivision or other place of business through which the entity regularly carries out entrepreneurial activities in Russia. Such entrepreneurial activities include, for example, the use of subsurface resources, construction, assembly, the sale of goods from warehouses located in Russia, the performance of work, and the rendering of services.

A PE is considered to be formed from the moment when entrepreneurial activities begin to be regularly carried out through a division of an entity. The term “regularly” is not expressly defined and the determination of whether a PE is created as a result of an entity’s activities depends on each particular situation.

A PE of an FLE can also be created through activities of a dependent agent in Russia. A dependent agent is defined as a person who on the basis of contractual relations with that foreign legal entity represents its interests in Russia, acts in Russia in the name of that foreign legal entity and has and habitually exercises an authority to conclude contracts or to negotiate significant conditions of contracts in the name of that legal entity, thereby creating legal consequences for that foreign legal entity.

The following activities do not result in the creation of a PE in Russia: carrying out of activities of a preparatory and auxiliary nature for the head office; the possession of securities, share interests, and other assets in Russia; the mere conclusion of a simple partnership agreement to be carried out in Russia; the secondment of personnel to work for another entity in Russia; or the export and import of goods from or into Russia.

**Rates**

The profits tax rate is 20%. This rate is split into two components paid to different budgets:

<table>
<thead>
<tr>
<th>Budget</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td>2%</td>
</tr>
<tr>
<td>Regional</td>
<td>18%</td>
</tr>
</tbody>
</table>

The regional authorities may reduce their component of the tax rate down to 13.5%, making the lowest possible total tax rate 15.5%. Some regions have effectively adopted a reduced tax rate for certain categories of taxpayers under certain conditions (e.g., Leningrad region, Vologda Region, Kaluga Region, Krasnoyarsk Territory, Khanty-Mansisk region, etc.).

Different rates apply for specific types of income such as dividends (see Dividend income below), income paid to an FLE (see Miscellaneous tax matters below), and certain specific types of interest.

**Tax base**

Taxable profit of Russian companies is determined as gross income earned less tax-deductible expenses incurred.

Taxable profit of an FLE is defined as (i) income received through a PE reduced by expenses incurred by the FLE in relation to the PE’s activities and (ii) certain types of income received from other sources in Russia.

Taxable profit is normally determined on an accrual basis. Taxpayers are allowed to use the cash basis method only if their quarterly sales proceeds (excluding VAT) do not exceed RUB 1 million (approximately US$33,125) on average for the prior four quarters.

**Taxable income**

Gross income includes income from sales of goods (work and services), and non-sales income such as income in the form of interest received under loan agreements, income from leased properties, dividends and other income.

Taxable income is reduced by tax-deductible expenses.
**Exempt income**
The Tax Code provides a list of income which is not taken into account in determining the tax base.

The most significant exemption provided by the Tax Code is the exemption for funds received by an RLE without consideration (gratuitous financing) (i) from its parent (an entity or a physical person), if the parent owns more than 50% of charter capital of the RLE, or (ii) from its subsidiary, if the RLE owns more that 50% of this subsidiary. This exemption applies unless the assets received are transferred to third parties within one year from the day of receipt (this exception does not apply to monetary resources received).

Other exemptions provided by the Tax Code include, in particular, an exemption for contributions to the charter capital, credit facility or loans received, reimbursement of agent’s expenses, and assets received as a pledge or deposit as security for an obligation, as well as other specific exemptions.

**Deductible expenses**
Generally, expenses are considered to be deductible for profits tax purposes if they are “economically justified” and supported by proper documentation (drawn up in accordance with the laws of the Russian Federation), unless specifically disallowed by the Tax Code. The Tax Code contains a list of tax-deductible expenses, but this list is explicitly open and is secondary to the primary business purpose criteria. However, it is more difficult in practice to take a deduction for expenses which are not explicitly listed in the Tax Code.

In practice, form over substance has been the standard approach by the tax authorities, and the inability to support an expense by contract and invoice (plus other supporting documentation for certain expenses) tends to result in a non-deductible expense.

**Interest**
Interest expense deductibility is subject to arm’s length and thin capitalization tests. Thus, interest on any type of loan taken to finance business-related expenses (current or capital expenses) is in principle fully tax-deductible provided the interest charged is at an arm’s length rate, i.e., does not deviate more than 20% from the interest charged for comparable loans as defined by the Tax Code. In the absence of comparable loans obtained by the company, or at the company’s choice, the maximum amount of interest which may be deducted from taxable income should be taken to be equal to the refinancing rate of the Central Bank of the Russian Federation increased by a factor of 1.1 (applying this formula to the current rate, deductible interest on rouble loans would be capped at $7.75 \times 1.1 = 8.525\%$).

However, some temporary deductibility limits have been adopted for interest expenses. For interest accrued on loans in rubles between 1 January 2010 and 31 December 2012, the deductibility limit has been increased to the refinancing rate of the Central Bank of the Russian Federation increased by a factor of 1.8 (applying this formula to the current rate, deductible interest on rouble loans would be capped at $7.75 \times 1.8 = 13.95\%$). For interest accrued on loans in foreign currency starting from 1 January 2011 until 31 December 2012, the deductibility limit is to be capped at 80% of the refinancing rate of the Central Bank of the Russian Federation (at current rates this would result in a limit of $7.75 \times 0.8 = 6.2\%$).

The thin capitalization test restricts deductibility of interest on loans to RLEs which are issued either by (i) a foreign company that owns (directly or indirectly) more than 20% of the Russian company’s share capital or by (ii) a Russian company that is a related party to a foreign company mentioned above, or in respect of which (iii) the foreign company itself or a Russian related party (mentioned above) acts as a guarantor or otherwise undertakes to guarantee the repayment of the loan by the RLE. The debt-to-equity ratio above which restrictions apply is generally 3:1, but is 12.5:1 for banks and leasing businesses. Excess interest, which is the amount of interest on loans in excess of the 3:1 or 12.5:1 ratio, is non-deductible for profits tax purposes and is treated as a dividend paid to the organization in relation to which controlled indebtedness exists and is taxed accordingly.

Interest on debt used to acquire or construct capital assets is deductible currently against operating income.
Depreciation
Depreciable or amortizable assets are fixed and intellectual assets with a useful life of more than 12 months and a historical cost of more than RUB 20,000 (approximately US$663). This minimum historic cost threshold for recognition of a fixed asset subject to tax depreciation is to increase to RUB 40,000 (approximately US$1,325) starting 1 January 2011.

Taxpayers are allowed to pool assets into 10 groups, depending on the type of asset and their useful life, and to apply depreciation rates to the assets within each pool. Taxpayers may choose between straight-line (linear) and declining-balance (non-linear) depreciation methods and should apply the same method to all depreciable assets. As an exception, the non-linear method cannot be applied to certain long-lived assets. The exact depreciation rates are determined in a separate governmental decree, which sets out the allocation of various types of assets within the depreciation groups. The majority of technological equipment is subject to depreciation over a period from 7 to 10 years, while buildings are depreciated over more than 30 years.

Fixed assets involved in scientific and engineering activities, assets subject to a leasing agreement and assets used for work under conditions of an aggressive environment and/or on a multi-shift basis can be tax-depreciated at an accelerating coefficient of up to three compared to the normal tax depreciation rate.

Taxpayers who incur capital expenditures have the right to expense an “accelerated capital allowance” calculated on the historical value of the fixed assets and/or expense in question. The accelerated capital allowance is generally 10% of the historical value of the fixed asset, but it was recently increased to 30% for assets belonging to the third to seventh depreciation groups (which correspond to assets with a useful life from 3 to 20 years). The deduction applies to the acquisition of fixed assets and to extension, further equipping, reconstruction, modernization, retooling, and partial dismantling of fixed assets. The accelerated capital allowance should be reversed and included in the profits tax base if the fixed assets are sold less than five years after they were brought into use.

Furthermore, companies performing activity in the area of information technology are allowed to treat expenses for the acquisition of electronic and computer equipment as material expenses and deduct them in full when this equipment is placed into use rather than through depreciation (subject to certain conditions).

Other expenses
Advertising expenses such as mass-media advertising (TV, radio, telecommunication networks), outdoor advertising (billboards, illuminated signs), participation in exhibitions/fairs, maintenance of showrooms, and preparation of advertising brochures and catalogues are fully tax-deductible. Expenses for prizes awarded during advertising campaigns and expenses for other types of advertising are deductible up to 1% of the taxpayer’s sales revenue.

Training expenses incurred by a taxpayer for the professional training of its employees are deductible for tax purposes in full if (i) the training or education is provided by a licensed Russian or foreign educational institution, and (ii) the training or education is provided to employees or future employees.

Eligible R&D expenses are generally deductible evenly over one year, but the timing of the deduction depends on whether the research succeeded or failed to yield a positive result. Certain listed R&D expenses are deductible with application of a coefficient of 1.5.

Loss carried forward
Tax losses may be carried forward for 10 years. Taxpayers are able to carry forward their losses against their current taxable profits. Losses are used on a first-in, first-out basis.

Tax losses carry-back is not allowed.
Dividend income

Dividends received by Russian companies are subject to a 9% tax rate. In order to prevent double taxation of dividends, the tax base on domestic dividends paid is determined as the difference between dividends paid to RLEs by the taxpayer and dividends received from RLEs; i.e., further distribution of dividends received by RLEs from other RLEs to their own RLE investors is not taxable.

A participation-exemption regime applies to dividends received by RLEs in relation to investments meeting certain conditions. Dividends received by an RLE should be tax-exempt if (i) the RLE receiving the dividends has continuously owned for at least 365 calendar days a stake of at least 50% of the capital of the organization distributing the dividends or depositary receipts, conferring the right to receive dividends in an amount not less than 50% of the total amount of dividends payable by the organization as of the date of decision to pay dividends, and (ii) the acquisition cost of the stake exceeds RUB 500 million (approximately US$16.5 million). The RUB 500 million investment condition is abolished from 1 January 2011.

There is an additional participation-exemption condition for dividends paid by FLEs: the state of residence of this FLE must not be included in a list approved by the Ministry of Finance of countries which provide preferential tax treatment and/or do not require the disclosure of information when financial operations are carried out (offshore zones). Dividends received by RLEs from non-qualifying participations are taxed at 9%.

Dividends paid to FLEs are subject to a 15% tax rate with no credit for withholding tax paid on underlying dividends. The tax rate can be reduced by the provisions of an applicable double tax treaty (the minimum available rate under some tax treaties is 5% for qualifying participations).

See Appendix 5 for the list of countries with preferential tax regimes.
Capital gains/losses

Gains on the sale of capital assets are taxed at the standard profits tax rate. Capital gains are computed as gross proceeds less net tax book value (for depreciable assets) or acquisition cost (for other assets and property rights). Incidental costs of disposal are also deductible. Capital losses on the disposal of assets and property rights are deductible. For depreciable assets, the deduction should be taken evenly over the residual useful life of the property.

Gains of FLEs on sales of immovable property and on sales of shares (and derivatives thereof) in RLEs more than 50% of whose assets consist of immovable property situated in Russia are considered to be income of an FLE from a Russian source. Such income is taxed at the rate of 20%. However, if the expenses related to such income are not recognized as deductible, a tax rate of 20% applies to the amount of gross revenue realized.

Capital gains on the disposal of securities are subject to profits tax at the standard tax rate. Specific rules regulate the computation of capital gains on quoted and unquoted securities. Capital losses are available for deduction and carry-forward only against gains on the securities from the same category (i.e. quoted and unquoted). Gains of FLEs on sales of securities (other than shares and derivatives thereof in RLEs more than 50% of whose assets consist of immovable property situated in Russia) are not subject to tax in Russia unless the gains are attributable to a Russian permanent establishment.

Tax reporting and payment

Taxpayers must submit monthly or quarterly tax returns for each reporting period and annual returns for the calendar year. Quarterly returns are due within 28 days of the end of the reporting quarter. Annual returns are due by March 28 of the year following the reporting year.

Profits tax can be paid on either a monthly or a quarterly basis. If the monthly basis is used, the profits tax is paid 28 days
after the end of the month based on actual profit. Quarterly payments are due 28 days after the end of the quarter based on actual profit; however, monthly advance payments which are due on the twenty-eighth day of each month of the quarter and are equal to one-third of the total advance payments for the preceding quarter are still required.

Under the quarterly payment system, certain types of taxpayers, including PEs of FLEs, companies with sales income of less than RUB 3 million (approx. USD 99,400) per quarter on average for the last four quarters (to be increased to RUB 10 million from 1 January 2011), production sharing agreement investors, participants in simple partnerships, and beneficiaries of asset management agreements, are exempt from the obligation to make monthly advance payments within each quarter and hence make quarterly advance tax payments only.

**Separate subdivisions**

Russian companies with premises in more than one location have to register a separate subdivision and file a copy of their corporate tax declarations in each tax district in which they have permanent workplaces. They must also allocate taxable profits between the head office and the separate subdivisions in different regions. The apportionment should be based on (i) the net book value of fixed assets and (ii) at the discretion of the taxpayer, either the number of employees or on payroll.

**Tax accounting**

When accounting ledgers contain insufficient information to determine the profits tax base, taxpayers are required to maintain separate tax accounting ledgers. The tax base is calculated based on tax accounting data in relation to income and expenditure. The system of tax accounting should be organized by the taxpayer independently, based on the principle of consistent application of the norms and rules of tax accounting. The procedures for the maintenance of tax records should be formally established in a taxpayer's accounting policy.

**Foreign tax relief**

As previously indicated, RLEs are taxed in Russia on their worldwide income, i.e., Russian-source income and foreign source income. Therefore, both Russian and foreign source income are taken into account when determining the tax base.

To avoid double taxation, amounts of tax paid in accordance with the legislation of foreign countries by an RLE are creditable against the Russian tax payable by the RLE. The amount of the tax credit may not exceed the amount of tax payable in Russia on the income taxed in the foreign jurisdiction. Foreign tax on foreign source dividends, however, can be credited against Russian tax on dividends only if such credit relief is envisaged by an applicable double-tax treaty (often the case). For other types of income, a tax credit is granted regardless of whether a treaty exists.

*See Appendix 4 for treaty withholding tax rates.*

**Transfer pricing**

The Russian transfer pricing (TP) provisions allow the tax authorities to adjust actual prices up or down to the market level for tax purposes. The TP provisions apply to the following types of controlled transactions involving goods, work or services:

- Transactions between related parties
- Foreign trade transactions
- Barter transactions
- Transactions where the prices fluctuate in excess of 20% within a short period of time.

When the transaction price deviates by more than 20% from the market price, the tax authorities have the right to adjust the price.

This legislation has been relatively ineffective at curbing the use (abuse) of transfer prices for tax minimization schemes, primarily due to the legislation’s focus on form over substance combined with the lack of independent market prices for purposes of validating the market-level nature of the transfer prices applied. Currently, taxpayers are not required to maintain any documentation support.

However, the tax authorities are taking the issue seriously and are increasingly scrutinizing transfer prices – with some success, which can be seen by the increasing number of court cases year on year.
In February 2010 the draft TP law was approved in the first reading in the lower chamber of the Russian parliament (Duma). The second and the final third readings of the draft TP law are expected to take right after Duma’s summer holiday in September 2010. The intention is to have the amended TP rules in force from 1 January 2011, although there is a chance that the enactment date will be delayed given the current uncertainty with regard to the final approval of the draft TP law.

The draft TP law represents an alignment with the OECD Guidelines although significant differences still remain. It is generally very prescriptive in nature and to a large extent focused towards the strategic industries at the core of the Russian economy, e.g., oil, gas and minerals.

One of the major proposed changes will be the introduction of explicit functional analysis requirements, i.e., a focus on substance over form, plus the elimination of the current 20% allowable deviation from market prices. Transactions involving licensing of intellectual property and intercompany financing would also be within the scope of the amended TP rules.

Additionally, the rules would introduce TP reporting requirements and contemporaneous TP documentation requirements. All this would put much more onus on the taxpayer to demonstrate his compliance with the rules as compared to the current rules where the tax authorities solely bear the burden of proof.

Finally, the amended rules would also introduce an Advance Pricing Agreement (APA) program which is expected to come into force one year after the enactment of the amended TP rules.

**Value-added tax (VAT)**

**Taxpayers**

Taxpayers for VAT purposes are (i) organizations, (ii) private entrepreneurs, and (iii) persons who are deemed to be taxpayers of VAT in connection with the conveyance of goods across the customs border of Russia.

**Registration**

Taxpayers cannot elect to register separately for VAT purposes. Tax registration is for the purposes of all corporate taxes.

**Rates**

VAT is levied at a general rate of 18% on taxable supplies, which include the majority of domestic sales of goods and services. Certain basic food products, children’s goods, certain medical products, medicines, drugs, newspapers, and magazines are subject to a reduced rate of 10%.

Exported goods and some other specified supplies (e.g., sales to diplomatic missions) are subject to VAT at a zero rate. Supplies to the CIS member states are treated as exports.

**Taxable operations**

The following operations are VAT-able: (i) sales of goods (work, services) in the territory of Russia, (ii) transfers of goods (work, services) in the territory of Russia for own needs, expenses of which are not deductible for profits tax purposes, (iii) performance of construction and installation work for own consumption, and (iv) importation of goods into the customs territory of Russia.

The transfer of ownership of goods (or the results of work or services) without consideration is regarded as a sale for VAT purposes.

**Place of supply of goods and services**

Goods are deemed to be sold in Russia if either (i) the goods are situated in Russia and are not shipped or transported or (ii) the goods are situated in Russia at the time of the commencement of shipment or transportation.

Services are deemed to be provided in Russia in the following seven situations: (i) the services (work) are directly connected with immovable property situated in Russia; (ii) the services (work) are connected with movable property situated in Russia; (iii) the services are actually rendered in Russia in the sphere of culture, art, education, tourism, leisure, or sport; (iv) the purchaser of the services (work) carries out activities in Russia; (v) transportation services and related services
provided by Russian organizations or private entrepreneurs, where the point of departure and/or destination point are in the territory of Russia; (vi) services (work) which are directly connected with transportation of goods placed under the international customs transit regime and are provided by organizations or private entrepreneurs whose place of activity is deemed to be the territory of Russia and (vii) the activities of the organization or a private entrepreneur which performs the work (renders the services) are carried out in the territory of Russia (with respect to the performance of work (rendering of services) not envisaged in points (i) to (vi).

The point (iv) above relates to the following types of services: the transfer and licensing of intangible property; the provision of consulting, legal, accounting, advertising, marketing, engineering, and information processing services; the provision of personnel secondment services (where the staff works in Russia); the rent of movable property (with the exception of land motor vehicles); the provision of services related to the development of computer programs and databases (computer software and information products) as well as their adaptation and modification; and certain other types of services.

The place of activity of services provided by a Russian organization or private entrepreneur where means of transport such as aircraft, seagoing vessels, or inland vessels are provided for use for transportation purposes under a lease agreement (time chartering) with a crew is not deemed to be Russia if transportation occurs between ports which are situated outside the territory of Russia.

**The moment tax arises upon a sale**

The moment tax arises indicates the period in which VAT received from customers should be recognized for tax purposes.

VAT is applied under the accrual method. It is accrued as of the earliest of the following dates:

- The day on which goods (work and services) or property rights are dispatched (transferred)
- The day on which payment or partial payment is received in respect of future supplies of goods (performance of work, rendering of services) or transfer of property rights. However, prepayments received for the delivery of goods or services subject to a 0% VAT rate or exempt from VAT are excluded from the VAT tax base.

**Non-taxable supplies**

Exempt supplies include the provision of financial, insurance, educational, cultural, or medical services, and the provision of certain medical equipment, prosthetics, and facilities for disabled persons.

The list of VAT-exempt transactions also includes the provision of exclusive rights on inventions, utility models, industrial designs, software, databases, integrated circuit topographies and production secrets (know-how) and provision of such rights under license agreement. The exemption is not applicable to trademark royalties.

Certain activities aimed at development and/or modernization of innovative products and technologies are also exempt from VAT, in order to support companies engaged in innovative and R&D activities.

There is no right to offset input VAT on VAT exempt supplies.

**Imported goods**

Imported goods are subject to import VAT levied at the customs border. VAT on imports is generally collected at customs and is payable on the total value of the goods, including import duty and excise tax where applicable.

Certain goods are exempt from customs VAT. For example, certain listed technological equipment and spare parts of such equipment are exempt from import VAT. See the **Customs** section below for further information on this import VAT exemption.

**Calculation of VAT**

Generally, VAT due to the state is calculated as the difference between output VAT collected from customers for goods, work or services sold, and input VAT charged by suppliers.
VAT charged by suppliers is generally recoverable by a company as long as the underlying costs relate to taxable business activity of the company. VAT refunds are permitted only for tax-registered persons making taxable supplies in Russia.

Under the principles of accrual tax accounting, input VAT is offsettable when expenses are incurred and a VAT invoice is received.

If the amount of VAT charged by suppliers exceeds the amount of VAT collected from customers, the difference can be reimbursed to the taxpayers either through a cash refund or through offset against the taxpayers’ future obligations to the state (future payments of VAT or other federal taxes), subject to certain procedures and conditions. This difference is first investigated by the tax authorities during an in-house audit within three months of the submission date of the tax return. Subsequently, if they do not identify any discrepancies in the VAT reported, the tax authorities should adopt a decision for the VAT amount to be reimbursed. If the taxpayer has tax arrears due to the state, the tax authorities should independently credit the amount of VAT which is reimbursable against the tax due. If the taxpayer does not have any tax arrears due to the state, the amount of VAT which is reimbursable should be refunded upon the taxpayer’s application. Alternatively, the taxpayer can request a credit of the refundable amount of VAT against future tax payments.

Under certain conditions the reimbursement (offset, refund) of VAT can be granted to taxpayers “in advance”, i.e. before the completion of an in-house tax audit of the returns submitted. “Accelerated refund” may be granted to (i) the taxpayers which exists for a period of more than three years and whose gross total amount of tax paid for the three previous calendar years is not less than RUB 10 billion (approx. 331.3 million US$) and (ii) the taxpayers who have submitted a bank guarantee to the tax authorities for the corresponding amount.

In practice, obtaining refunds of input VAT takes a significant amount of time. Delay in the recovery or offset of excess input VAT is currently one of the most significant issues for Russian taxpayers.

**Withholding of VAT on acquisitions from FLEs**

When RLEs acquire goods, work, or services from FLEs which are not registered for tax purposes in Russia, and the place of sale of the goods (work, services) is in Russia, the tax base is determined by the purchaser, acting as a tax agent. The tax agent should calculate, withhold from payment made to the FLE, and pay to the state the appropriate amount of VAT.

VAT withheld from payments to FLEs is recoverable by the Russian purchaser under the usual VAT recovery provisions for VAT charged by Russian suppliers.

**Tax reporting and payment**

Taxpayers must file VAT returns on a quarterly basis (by the twentieth day of the month following the calendar quarter). Payments should be made in equal installments by the twentieth day of each of the three months following the tax period which has ended.

Separate subdivisions do not have to compute and pay VAT; all VAT compliance can be centralized at the head office level.

**Assets tax**

**Taxpayers**

Assets tax is paid by the following taxpayers:

- RLEs
- FLEs carrying out activities in Russia through a permanent establishment or owning immovable property in Russia.

**Tax rates**

The assets tax rate is determined by the regional authorities but cannot exceed 2.2%.

Certain regions provide full exemptions from assets tax to taxpayers performing certain investment projects.
Tax base

For RLEs and FLEs carrying out activities in Russia through a permanent establishment, assets tax is levied on movable and immovable property, which is recorded as fixed assets in their accounts maintained under Russian accounting principles.

The tax base is the average annual value of the assets, calculated on the basis of the net book value of the fixed assets period by period (three months, six months, nine months, and calendar year).

Tax exemptions

Certain assets are excluded from the tax base, in particular land plots and other natural resource sites, certain historical and cultural monuments, public railway tracks, federal public roads, pipelines and electricity lines.

Tax reporting

Taxpayers should complete quarterly tax returns estimating the cumulative tax due for the current calendar year, less quarterly settlements already made. The quarterly returns should be submitted to the tax authorities along with any additional settlement due.

Other taxes

Excise tax

Excise tax is payable on domestic sales of certain goods produced in Russia and on imports thereof. The list of goods subject to excise includes alcohol, beer, tobacco, cars, motorcycles, petrol, diesel fuel, motor oil and straight-run petrol. The rates are ordinarily established in rubles per unit or in percentages of value and vary significantly. Imported alcohol and tobacco are cleared through customs only if these goods bear excise stamps. With some exceptions, export sales are exempt from excise tax. Excise tax is deductible for profits tax purposes.

Transport tax

Transport tax applies to both legal entities and physical persons who register vehicles. For most types of vehicles, tax rates vary from RUB 5 to RUB 50 (US$0.16 to US$1.65) per horsepower of the engine capacity of the vehicle. Regional authorities are entitled to increase or decrease the tax rates, but not more than fivefold.

Mineral extraction tax

Tax rates for oil and gas represent fixed-duty rates based on physical volume or quantity, but are subject to variation in line with changes in world prices. Other minerals are subject to tax based on the value of extracted commercial minerals.

Other taxes

Other taxes payable by companies include personal income tax, social contributions (see section on Individuals below), water tax, gambling tax, pollution tax, land tax, and various licensing fees.

Miscellaneous tax matters

Taxation of Russian-source income of FLEs without a PE in Russia

Withholding tax

By and large, the source taxation regime is relatively similar to OECD principles. Russian source income unconnected with the business activities of the FLE in Russia through a PE should be subject to profits tax in Russia at source. The payor of income is responsible for withholding and remitting the tax to the state.
**Russian source income**

The list of Russian source income includes the following:

- Dividends and other forms of profit distribution from Russian entities;
- Interest income from all types of debt obligations, including profit-sharing and convertible bonds;
- Royalty payments in respect of copyrights, patents, trademarks, industrial designs, secret formulas or processes used within Russia;
- Income from sale of shares (share interests) in Russian entities, if more than 50% of the assets of such entities consists of immovable property situated in Russia, and of financial instruments derived from such shares (share interests), except when such shares are sold on a foreign stock exchange;
- Gains from the alienation of immovable property located in Russia;
- Rental and lease payments relating to assets used in Russia;
- Certain income from international transportation;
- Fines and penalties for the violation of contractual obligations by Russian persons and public bodies;
- Other similar income.

**Tax rates**

<table>
<thead>
<tr>
<th>Type of income</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest</td>
<td>20% (*)</td>
</tr>
<tr>
<td>Income from operation, maintenance or lease of vessels, planes or other means of transport or containers in international traffic</td>
<td>10%</td>
</tr>
<tr>
<td>Dividends</td>
<td>15%</td>
</tr>
<tr>
<td>Capital gains from disposal of immovable property and capital gains from disposal of shares of Russian entities, if more than 50% of the assets of such entities consists of immovable property</td>
<td>20%</td>
</tr>
<tr>
<td>Rental income</td>
<td>20%</td>
</tr>
<tr>
<td>Royalties</td>
<td>20%</td>
</tr>
<tr>
<td>Other types of income</td>
<td>20%</td>
</tr>
</tbody>
</table>

*(*) *Interest on certain types of state and municipal securities, mortgage-backed bonds, and certain income from certificates of participation in a mortgage pool are subject to tax at reduced rates.*

**Treaty relief**

Double-tax treaties, including those concluded by the Russian Federation and those to which the former USSR was a party (which the Russian Federation observes as a successor state), may provide relief in the form of reduced or zero rates of withholding tax. Tax treaties to which the former USSR was party are honored by Russia, unless the other party to the treaty has renounced the treaty or it has been replaced by a new treaty. In the last few years, Russia has entered into many new treaties based on the OECD Model Convention and now has an extensive treaty network. As of 1 June 2010, Russia has 76 in-force double-tax treaties with 77 countries (taking into account that Serbia and Montenegro are the legal successors of the respective DTT between Yugoslavia and Russia).
A foreign company claiming an exemption from Russian withholding tax based on a treaty must obtain and provide to the Russian payor a tax residency certificate issued by the foreign tax authority confirming that the company is a tax resident in the relevant treaty country.

See Appendix 5 for blacklist of jurisdictions approved by the Ministry of Finance as of 2 February 2009.

Taxation of reorganization of companies in Russia

Share deal
Reorganizations of companies (in the form of merger, acquisition, transformation, spinoff, or demerger) in Russia are generally tax-neutral. A reorganization of companies should not give rise to any tax charge in Russia for the shareholders of the reorganized company or companies. In addition, the reorganization of Russian companies does not give rise to any taxation for the resulting companies with respect to the assets, accounts receivable, and/or obligations transferred by the reorganized company. Generally, there are no change of control limitations on the use of tax attributes, such as tax loss carry-forwards.

Asset deal
The Tax Code contains provisions applicable to asset deals involving the acquisition of a company as a single property unit. Under these provisions, the concept of positive and negative goodwill is recognized for tax purposes in Russia. The excess of the acquisition price of the company as a property unit over its net assets' value is treated as positive goodwill (price premium) by the acquirer and depreciated evenly over five years for profits tax purposes, whereas for the seller the positive goodwill should be considered to be taxable income subject to profits tax. The negative difference between the acquisition price of the property unit and its net assets' value is recognized as a negative goodwill (price discount) and treated as taxable income by the acquirer and as a loss deductible for tax purposes by the seller.

Customs
Overview
Customs regulation in Russia is generally based on international standards and the Russian customs legislation contains provisions which are similar to the provisions of the EU Customs Code. The Russian Federation is a member of the World Customs Organization, the International Convention on Harmonized Commodity Description and Coding System (Brussels, 1983), and the Convention on Temporary Import (Istanbul, 1990). Russia is expected to enter the World Trade Organization. The Russian Federation also follows the Kyoto convention on simplification and harmonization of customs procedures and considers joining this Convention in 2010.

In addition, Russia is currently in the process of implementing a Customs Union with Belarus and Kazakhstan (the “Customs Union”). The unified customs legislation of the Customs Union (e.g. the Customs code of the Customs Union) is directly applicable in Russia.

Import duties
Imported goods are generally subject to import customs duties and import VAT. Certain categories of goods (such as alcohol, tobacco, personal cars, and gasoline) are also subject to excise duties (see Other taxes).

Customs duty rates vary from 0% to 20% of the customs value of the goods. Import VAT is generally 18% (subject to certain exceptions) and is calculated on the basis of the sum of the customs value and the customs duty. Import VAT paid by the importer is generally offsettable against its output VAT.

Current customs tariffs set zero duty rates for books, medicines, certain technological equipment, and some other goods. Humanitarian aid, goods which are needed to rectify the consequences of natural calamities, accidents and disasters, as well as diplomatic goods are exempt from customs duties and VAT.

Import of technical equipment
Certain categories of manufacturing equipment (including components and spare parts) for which there are
no equivalent produced in Russia (according to a list approved by the Russian government) are exempted from VAT on importation into Russia. Certain types of technological equipment are also exempt from customs duty (i.e., are subject to 0% customs duty).

In addition, any equipment imported as contribution in kind to the charter capital of a Russian company from a foreign shareholder can be exempt from customs duty under certain conditions.

Export duties

Certain categories of goods (e.g., oil, natural gas, timber) are subject to export customs duties.

Customs value

Customs valuation in Russia is based on the GATT/WTO rules. The customs value of imported goods is usually determined as the value of the goods as indicated in the invoice plus certain other costs associated with the importation of the goods but not included in the transaction price. These additional costs are typically the cost of delivery of the goods to the border (e.g., transportation and insurance costs), royalties or other payments for use of intellectual property, the cost of materials provided free of charge by the purchaser to the seller, etc. This method of calculation of the customs value of imported goods is called the transaction value method.

If the customs value cannot be estimated with the transaction value method, other methods may apply: the price of a transaction involving identical or similar goods, the deduction cost method, the summation cost, or the reserve method.

Customs coding

The Unified Customs Nomenclature of the Customs Union is applicable in Russia. This nomenclature is based on the Harmonized Commodity Description and Coding System of goods. Therefore, the first six digits of the commodity code should be identical in Russia and in the EU, although there are some differences in practice. It is possible to obtain a binding decision from the customs authorities concerning the classification of goods.

Customs procedures

All cross-border transfers of goods and vehicles in Russia are carried out under one of the customs procedures prescribed by customs legislation of the Customs Union. Each customs procedure provides different terms for clearance, which have a considerable effect on the tariff and non-tariff barriers under import and export transactions. Below is a summary of the main customs procedures.

Release for domestic consumption

The customs procedure of release for domestic consumption is used when goods are imported into Russia without the intention of their being re-exported. This is the most frequently used and most straightforward procedure. Under this procedure, after the payment of customs duty, import VAT and customs clearance fees, the goods are considered to be in free circulation in Russia.

Bonded warehouse

When goods are imported under the bonded warehouse customs procedure, the imported goods are kept in a special warehouse under supervision of the customs authorities (customs bonded warehouse) until their sale to the final customers, their final use in Russia, or their re-exportation outside Russia. The payment of customs duties and import VAT is postponed until the actual sale of the goods to the final customers in Russia and their removal from the customs bonded warehouse.

Goods kept in a customs bonded warehouse must remain in unchanged condition; i.e., it is prohibited to manufacture, assemble, or transform goods stored in a customs bonded warehouse.

The period of storage of goods in a customs warehouse cannot exceed three years. After the expiration of the storage period, the goods should be placed under another customs procedure. If the goods are released for domestic consumption, customs duties and VAT are due. If the goods are re-exported to a country outside the Customs Union, no customs duty or import VAT are due.
**Temporary importation**

The temporary importation procedure is a customs procedure under which the use of goods in Russia is permitted with full or partial exemption from customs duties and import VAT.

The time period for temporary importation cannot exceed two years (or 34 months for leased fixed assets).

A full exemption is granted in limited cases for goods which are intended to be used in non-sales operations. Typical examples of temporary importation with full exemption are importations of goods for an exhibition or for testing in Russia.

A partial exemption is granted in other situations when, at the moment of the importation of the goods to Russia, it is intended that the goods will be maintained in Russia for a limited period of time and will be re-exported afterwards. Under the partial exemption, the importer has to pay customs payments in monthly installments of 3% of the total amount calculated as if the goods were released for free circulation. These amounts are not refunded if the goods are re-exported.

Once the period of temporary importation has expired, the goods can be either re-exported out of Russia or released for free circulation in Russia. If the goods are finally released for free circulation, the outstanding amount of customs payments should be paid together with late payment interest.

This procedure is widely used in practice, in particular in the case of importation for leasing operations in Russia.

**Customs procedures of processing**

There are three different procedures of processing:

**Processing of goods in Russia for export.**

Under this procedure, companies whose business involves processing of goods in Russia, can, under certain conditions, import goods into Russia for their processing without payment of customs duty and import VAT. A bank guarantee may be required to secure the payments of customs duties and taxes which can be due in case of violation of the conditions for this procedure.

Once the goods have been processed into finished products, they should be exported. If the finished products are released for free circulation in Russia, customs duty and import VAT are due on the value of the raw materials, as well as late payment interest.

**Processing of goods for domestic consumption.**

Under this customs procedure, customs duties are due only once the finished products are released for free circulation in the Russian market. Thus, customs duties apply to the finished goods. Imported raw materials for processing are exempt from customs duties but are subject to import VAT. To apply this procedure, a special decision of the government is required.

**Processing of goods outside Russia.** The procedure of processing of goods outside Russia allows exportation of goods for their processing and subsequent re-importation into Russia. Customs duties and import VAT are due only on the value added by the processing operations but not on the value of imported goods. This procedure is useful for goods which need to be exported for repair outside Russia.

**CIS free trade regime**

According to the free trade regime among CIS countries, goods originated and imported into Russia from one of the CIS countries are exempt from customs duties. In order to qualify for this exemption, the goods should be imported under a contract concluded between CIS residents and the goods should be imported directly from the territory of a CIS country. VAT and excise duties (if applicable) are due.
of the participating countries are able to circulate between the three countries free of customs clearance and without payment of customs duties and VAT as well as free of any economic limitations. Such goods do not have to be placed under any special customs procedures.

Nevertheless, it should be mentioned that there are several exceptions from the rules of the Customs Union, and certain goods still must be declared to customs when they are imported from one member-state to another.

**Special economic zones**

SEZs are defined territorial areas with a special regime for carrying out entrepreneurial activity and special business incentives, in particular certain tax and customs privileges.

Four types of zones are now envisaged by the law:

- Industrial production SEZs
- Technological/innovative SEZs
- Tourism/recreational SEZs
- Port SEZs.

SEZs are created at the initiative of the executive body of the region and the municipality in whose territory the SEZ is intended to be formed, but the decision on the effective creation of an SEZ is made by the Russian government.
To enjoy the benefits of a SEZ, it is necessary to be a resident of this SEZ, i.e., to be registered within the territory of the SEZ, to conclude a special agreement with the SEZ managing bodies, and to fulfill certain conditions in terms of activity and level of investment in the SEZ.

The SEZs in the Kaliningrad and Magadan regions are regulated by separate laws and have different incentives than other SEZs.

The major tax and customs privileges are the following:

- Accelerated amortization, with a coefficient of two (only for industrial production, technological/innovative and port SEZs).
- Provision of work/services by port SEZ residents on the territory of a port SEZ are not subject to VAT.
- Reduced social contribution rates (only for technological/innovative SEZs).
- Five-year exemptions of assets tax and land tax.
- Possible reduction of profits tax rate to 15.5%.
- Guarantee against unfavorable changes in tax legislation.
- Customs procedure of free customs zone (only for industrial production, technological/innovative and port SEZs).

Due to the establishment of the Customs Union, the customs procedure of free customs zone is expected to be amended and new requirements for processing operations would be established. The new requirements for the customs procedure of the free customs zone will not apply to the SEZ located in the Kaliningrad region.

Financial reporting and auditing

Sources of accounting principles

Regulatory bodies


The accounting regulations for Russian legal entities are based on the Civil Code, the 1996 federal law On Accounting, the Statutes on Accounting and Reporting in the Russian Federation (namely accounting standards (PBUs)), and other numerous laws and accounting regulations issued by the Ministry of Finance.

The 2000 Chart of Accounts for Bookkeeping of the Financial and Economic Activity of Enterprises and the Instruction for Its Application with amendments adopted in 2003 describes the bookkeeping methodology in detail. Although Russian statutory accounting requirements are mandatory, the federal law On Accounting allows departures from them in exceptional cases when a fair presentation cannot be achieved through their application, while accounting standard 1/2008 Accounting Policy or Organization prescribes the possibility of developing an appropriate method on the basis of the Russian accounting standards and IFRS if accounting methods do not exist in the current accounting legislation.

The Russian accounting system continues to differ from the accounting principles generally accepted in the US (US GAAP) and international financial reporting standards (IFRS).

In July 2010 the Russian State Duma and Upper House of Parliament approved a Federal Law regarding Consolidated Financial Statements. This Law should take effect starting August 10, 2010. It establishes general requirements for the preparation and publication of

<table>
<thead>
<tr>
<th>Type of special economic zone</th>
<th>Location of zones</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial production</td>
<td>Elabuga (Tatarstan) and Lipetsk region</td>
</tr>
<tr>
<td>Technological/innovative</td>
<td>Dubna and Zelenograd (Moscow region), St. Petersburg and Tomsk</td>
</tr>
<tr>
<td>Tourism/recreational</td>
<td>Stavropol region, Kaliningrad region, Irkutsk region, Krasnodar region, Altay region, Republic of Altay and Republic of Buryatiya, Russkiy island (the Far East)</td>
</tr>
<tr>
<td>Port</td>
<td>Khabarovsk region and Uliyanovsk.</td>
</tr>
</tbody>
</table>
consolidated financial statements by Russian legal entities. The law requires all important public companies to publish their consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) starting from the year following the year when IFRS will be accepted for the application in Russia. Listed companies which prepare consolidated financial statements according to internationally recognized standards other than IFRS must present and publish their consolidated financial statements starting from the statements for the year following the year when IFRS will be accepted for application in Russia but not earlier than for the 2015 financial statements. Annual consolidated financial statements are also subject to obligatory audit.

The Ministry of Finance submitted a draft of the Regulations which will define the timing and process for the transition to IFRS in Russia. This draft would also set the responsibilities of the expert body which will examine IFRS documents and prepare their translation.

The Ministry of Finance submitted a draft of a new Law on accounting to the State Duma in June 2010. As it is stated in the draft, the new Law on accounting is expected to become effective in 2012.

Financial accounting and reporting is separate and distinct from tax accounting and reporting.

The accounting function continues moving closer to being a financial reporting tool rather than solely a control mechanism for regulatory authorities or a tax compliance tool. Twenty-one accounting standards have been issued by the Ministry of Finance comprising guidance on various accounting matters. Also, several new accounting standards are currently in the development stage.

Books and records
The general provisions of the accounting standards, including PBU No. 4/99 Statute on Accounting and Reporting in the Russian Federation, envisage that the main aim of accounting is to form full and accurate information on the activity of an enterprise and its assets and liabilities. Financial reports are to be used by the company internally – by managers, shareholders, and owners, as well as by external investors, creditors, and other users of accounting reports. The Federal Law On Accounting requires that an enterprise refer to the accounting legislation to independently define its accounting policy, which should reflect the structure, industry, and other particular features of its operations as well as accounting methods.

The Federal Law On Accounting applies to all organizations located in Russia and to branches and representative offices of foreign companies, unless otherwise stipulated in the international treaties of the Russian Federation. However, the Statute on Accounting and Reporting allows representative offices of foreign companies to conduct accounting in accordance with their home country accounting regulations, if these regulations do not contradict IFRS.

Methods of accounting
Companies in Russia must use the accrual method for the preparation of financial statements and accounting purposes.

Fundamental concepts
Accounting principles include the concepts and principles of accruals, going concern, prudence completeness, timeliness, relevance, substance over form, matching revenues and expenses, completeness, comparability, consistency and rationality. However, the application of these principles may differ from practices common in other countries. For example, in practice Russian accounting tends to focus on form rather than substance; the laws are very specific as to the documents required to support a transaction, and this emphasis on the legal form may override the application of other accounting principles.

The going concern issue is relevant in this emerging market due to the possibility that some enterprises may not continue economic activity in their current financial position.
Significant accounting concepts for investors

Accounting principles for specified accounts and business transactions are discussed below.

Foreign currency transactions
All bookkeeping entries must be recorded in rubles, which is also the reporting currency for statutory purposes.

Although Russia is no longer considered a highly inflationary economy, due to its inflationary past the ruble amounts require analysis in order to better understand the financial position and results of operations. For bookkeeping purposes, foreign currency transactions are converted to rubles using the exchange rate as specified by the Central Bank of the Russian Federation at the date of the transaction.

Companies may apply different useful lives for their accounting and tax books.

Inventories
Inventories are carried at cost. Inventory should be written down at year end if the realizable value is lower than cost. The realizable value is measured without deduction of selling costs.

The allowed accounting methods for determining cost are:
- Average cost
- Individual cost (specific identification)
- First-in, first-out (FIFO).

The most commonly used method is average cost. The cost of manufactured inventory must include direct costs and allocated indirect manufacturing costs.

Investments
Investments are recorded in the amount of the actual expenditure. Investments in marketable equity securities should be recorded at market value if the market value is lower than cost. Companies registered with the Securities Exchange are allowed to record trading securities at their market value.

Bank transactions
An enterprise’s cash balance reflects only the activity recorded by the bank. Since the bank statement and its supporting documents are the source for the entries in the enterprise’s books, there is no need to perform a reconciliation of the enterprise’s books and the bank statement.

Tax liability
PBU No. 18 Accounting for Deferred Income Taxes has introduced certain elements of accounting for deferred taxes, specifically the application of an income statement approach to identifying temporary differences between tax and book bases.

Capital and reserves
Shareholders’ capital is the entire amount authorized by the charter. The non-contributed portion of the registered shares is recorded as a receivable from shareholders and included in current assets. Treasury shares are shown as a negative amount in the capital and reserves section of the balance sheet.

Enterprises may set up a reserve fund from retained earnings. The purpose of the reserve fund is to cover accumulated losses or buy back the entity’s shares; such a reserve fund should be created in a sum not less than 5% of authorized capital for joint stock companies.

Net income
Although it is based on the accruals method, Russian accounting can differ
from IFRS in regards to recognition of revenues and expenses.

The correction of fundamental errors is included in the determination of net income of the reporting period.

Disclosure, reporting, and filing requirements

Disclosure requirements
The statutory annual financial report in Russia consists of the following

- Balance sheet
- Profit and loss statement
- Other supplementary information, including cash flow statement and equity statement.
- Explanatory notes to the financial statements
- Audit opinion, if the enterprise is a subject to obligatory audit.

The format of the balance sheet, profit and loss statement, and supplemental schedules is prescribed by current regulations (order of the Ministry of Finance). All statements must be prepared in the Russian language and use rubles as the reporting currency.

Other supplementary information and explanatory notes to the financial statements must include the following information:

- Cash flow statement
- Statement of changes in shareholders’ equity
- Summary of accounting policies in the Explanatory Notes to the financial statements
- Details describing all the departures from mandatory accounting requirements when a fair presentation cannot be achieved through their application
- Additional details on significant accounts (intangible assets, fixed assets, investments, debtors, creditors, shareholders’ equity, revenues, cost and expenses)
- Disclosure of commitments, contingencies, important subsequent events, guarantees, related parties, earnings per share, and operating segment information
- Discussion and analysis of the financial results, future plans, risk management, and on information considered important by the management.

Quarterly financial reports must include a balance sheet and profit and loss statement.

Reporting and filing requirements
The reporting year for all enterprises is from January 1 to December 31. For newly established legal entities, the first accounting year is the period from the date of their state registration until December 31 of the same year, or, for enterprises established after October 1, until December 31 of the following year. The enterprise’s annual reports must be submitted to their owners and to the Tax Inspectorate of the Federal Tax Service and other statistical bodies within 90 days of the year following the reporting year. Quarterly reports must be submitted within 30 days after the close of the quarter.

Financial reports must be signed by the enterprise’s general director and chief accountant. Annual reports must be examined and approved according to the corporate charter of the enterprise.

Public companies, banks, insurance companies, and investment funds must present their annual reports to the general public by June 1 after the close of the fiscal year.

All companies listed on the Russian Stock Exchange should submit quarterly financial reports (balance sheet, profit and loss statement, and required disclosures) and additional information to the Federal Service on Financial Markets within 30 days after the close of the quarter. At present, such companies are permitted to file their IFRS or US GAAP based financial statements in lieu of statutory accounts. In the future, however, they will need to make their existing IFRS or US GAAP financials available to the general public.
Audit requirements
The federal law N 307-FZ On Audit prescribes criteria for obligatory statutory audit:

- Open joint stock companies
- Banks, insurance companies, stock exchanges, and investment institutions
- State municipal, unitary enterprises
- Companies with revenues and/or total assets exceeding a certain limit as of the end of year preceding the reporting period (currently, revenue for the year >RUB 50 million (about US$1.657 million) and total assets >RUB 20 million (US$662,000)
- Other cases when federal laws stipulate mandatory audit.

Differences between international financial reporting standards (IFRS) and Russian statutory accounting principles
The Russian requirements for commercial companies are based on the Civil Code, the Federal Law on accounting, and the company’s chart of accounts and incorporate accounting regulations and standards of the Ministry of Finance. However, while a number of pronounced requirements formally follow IFRS, their application and interpretation may be materially different.

Despite the existence of accounting standards statements (PBUs), Russian statutory accounting depends on various orders and letters issued by the Ministry of Finance which prescribe accounting methods and approaches.

These and other circumstances may result in departures from the standard requirements and consequently further inconsistencies with IFRS from those outlined below. The major differences are as follows:

- Definition of reporting and functional currency (the financial statements for Russian statutory purposes should be prepared in rubles only)
- The mandatory existence of supporting documentation prepared in accordance with the prescribed format for both accounting and tax purposes
- The inflation concept does not apply to Russian statutory accounting
- There is no concept for business combinations and purchase price allocation
- The goodwill concept is not properly prescribed and is not applied
- In spite of the existing guidance for the preparation of aggregated financial statements (Order #112) which requires that the parent company prepares separate and aggregate financial statements if it has subsidiaries, this order is not fully complied with and enforced, whereas in IFRS the consolidation concept should be fully applied
- The fair value concept is not applied for Russian accounting; non-current assets and non-current liabilities are stated at the historical values
- The impairment concept is not applied to fixed assets
- In spite of the prescribed principle of prudence in accounting statement standards, the accrual concept is not fully implemented in statutory accounting in some circumstances, whereas in IFRS the concept should be fully applied
- The regular revaluation of entire classes of fixed assets under Russian statutory accounting principles is allowed under the prescribed rules
- Differences in the accounting for the capital and reserves
- Differences in the method of deferred tax calculation.

The use of different national statutory accounting standards makes the comparison of opportunities and financial decisions more difficult and costly for the potential investor or user of the financial statements. Differences in accounting standards between IFRS and Russian statutory accounting principles also impose additional costs on companies that must prepare financial information based on multiple reporting models in order to raise capital in different markets, as well as creating potential confusion as to which are the real numbers. The gradual transition to IFRS under the guidance of the Ministry of Finance and the adoption of a new law on the preparation of consolidated financial statements in accordance with IFRS are extremely important steps for the development of accounting in Russia and global convergence of accounting principles.
Individuals
**Income tax**

**General**

Russia currently has a flat 13% personal income tax rate (for tax residents), one of the lowest personal tax rates of any non-tax-haven country in the world. The low rate is, however, somewhat offset by continuing difficulties faced by taxpayers in dealing with the tax administration system: even paying tax can be logistically challenging in Russia.

**Who is liable?**

Payers of Russian individual income tax are defined as tax residents of Russia and non-resident individuals who receive income from Russian sources.

**Definition of resident**

For tax purposes, individuals are considered resident if they are present in the country for 183 days or more in a period of 12 consecutive months. At the time of writing, the Ministry of Finance and the Federal Tax Service were continuing to promulgate a view that an individual must also spend at least 183 days in Russia in a calendar year to be considered tax resident for tax purposes. However, this further requirement is not stated in the Tax Code.

As regards counting of arrival/ departure days for tax residency determination purposes, until recently, the usual position of the tax authorities was that, for purposes of the Russian tax residency test, days of arrival do not count as Russian days and days of departure do count. However, more recent letters from the Russian Ministry of Finance suggest that any day spent in the Russian Federation should count as a Russian day. Because this position is new, it is difficult to predict how the local tax authorities will apply it in practice and there is a risk that they may tend to continue not to count days of arrival.

Accordingly, non-residents are those individuals who do not meet the aforementioned test.

**Object of taxation**

Russian tax residents are taxed in Russia on their worldwide income.

Individuals who are not tax residents in Russia are taxed on their Russian source income, which includes but is not limited to the following:

- Remuneration for the performance of employment duties, services, and actions in Russia (regardless of where paid)
- Dividends and interest paid by a Russian organization
- Insurance payments made by a Russian organization
- Income from the sale of property in Russia (e.g., immovable property, participation interests in the charter capital of organizations, etc.) which has been owned by the taxpayer for less than three years and income from the sale of securities regardless of ownership period
- Rent from property located in Russia
Tax rates
There are currently five flat rates of 9%, 13%, 15%, 30%, and 35%, applicable to different types of income.

<table>
<thead>
<tr>
<th>Type of income</th>
<th>Flat tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend income and certain other less common forms of investment income (both Russian and non-Russian source) received by residents</td>
<td>9%</td>
</tr>
<tr>
<td>All income for which another rate is not specified, including salary and other income earned by tax-resident individuals, and by any foreign individuals who qualify as “Highly Qualified Specialists” for immigration purposes, regardless of tax residency status</td>
<td>13%</td>
</tr>
<tr>
<td>Dividend income and certain other investment income received by non-residents (except for earnings of Highly Qualified Specialists)</td>
<td>15%</td>
</tr>
<tr>
<td>All taxable income (other than dividends) received by individuals who are not tax residents in Russia and who are not foreign citizens qualifying as Highly Qualified Specialists under immigration rules</td>
<td>30%</td>
</tr>
<tr>
<td>Interest income on bank deposits in excess of the refinancing rate of the Central Bank of the Russian Federation plus 5% on ruble deposits (or exceeding 9% on non-ruble deposits), certain prizes, and deemed income from certain loans extended at a rate of the lesser of 2/3 of the refinancing rate for ruble loans or 9% for loans denominated in foreign currency</td>
<td>35%</td>
</tr>
</tbody>
</table>

Example of calculation of taxable income for most individuals

<table>
<thead>
<tr>
<th>Income earned by</th>
<th>Russian tax residents and any foreign individuals who qualify as “Highly Qualified Specialists” for immigration purposes</th>
<th>Russian tax non-residents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment income*</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Other income received in Russia**</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Other income received outside Russia***</td>
<td>200</td>
<td>n/a</td>
</tr>
<tr>
<td>Deductions ***</td>
<td>n/a</td>
<td></td>
</tr>
<tr>
<td>Taxable income</td>
<td>12,200</td>
<td>12,000</td>
</tr>
<tr>
<td>Tax rates applicable</td>
<td>13%</td>
<td>30%</td>
</tr>
<tr>
<td>Tax</td>
<td>1,586</td>
<td>3,600</td>
</tr>
</tbody>
</table>

* Employment income consists of compensation, whether received in cash or in kind, including but not limited to salary, bonuses, and expatriate allowances.
** Rental income, capital gains, etc.
*** The Russian Tax Code envisages the following categories of deductions from the taxable base: standard, social, property-related, and professional. Standard deductions are very insignificant and are relevant only to taxpayers with low levels of income.

Tax collection procedure
Tax is, for most taxpayers, payable through withholding at source. Any individual who has received income subject to tax in Russia where the tax has not been already withheld at source or was not subject to withholding is obliged to file a tax return. In particular, individual filing obligations typically arise due to non-withholding in one of the following situations:

- A Russian tax resident has received income from payers outside Russia
- An individual has received Russian source income that should not be subject to withholding at source
- An individual has received Russian source income from another individual under a civil-legal contract (e.g., rental or sales agreements).

An individual may also file a tax return on a voluntary basis, even where there is no technical requirement to do so. In particular, this may be needed in order for excess withholding to be refunded in connection with certain tax deductions which cannot be granted through the payroll.

Annual tax returns are due no later than by April 30 of the year following the reporting calendar year; the corresponding tax self-assessed in the declaration must be paid no later than July 15 of said following year. Foreign nationals permanently leaving Russia are required to file a tax return one month prior to their departure and pay the corresponding tax within 15 days of filing the return.
Although the law stipulates self-assessment, many tax authorities continue to issue formal notifications of a taxpayer’s liability.

Under the Tax Code, a penalty of 5% per month is imposed for the late submission of a tax declaration for the first 180 days after the deadline. This accelerates to 30% plus a 10% per month penalty thereafter. This penalty is uncapped. Criminal sanctions could also be applied in rare cases. The late payment of tax is subject to interest at a rate of 1/300 of the annual refinancing rate of the Central Bank of the Russian Federation for each day of late payment.

**Capital gains and losses**

The capital gain on operations with securities is generally calculated as the difference between the proceeds from the sale of securities and the documented acquisition costs and expenses (including fees for services connected with purchase or sale of the securities). The tax is either withheld at source by the payer of income or otherwise paid by the taxpayer upon filing the tax return. Losses from the sale of securities can be offset against gains of securities of the same class. Losses can be carried forward for up to 10 years from the current tax period.

The taxation of stock options and other equity-based compensation is not dealt with specifically in the Tax Code.

**Personal allowances**

Tax-resident taxpayers are entitled to the following tax deductions:

- Educational fees in respect of the taxpayer (up to a maximum of RUB 120,000 per year – approx. US$4,000) and his or her dependent children (up to a maximum of RUB 50,000 (approx. US$1,650) per annum per child; this deduction is only available if the expenses are paid to a licensed educational establishment (typically only Russian institutions will have such a license)

- Expenses for medical services, medication and medical insurance contributions in respect of the taxpayer, spouse, parents, and children, limited to RUB 120,000 per annum in total, provided the expenses relate to services provided by a licensed medical institution in Russia; certain medical expenses, connected with so-called expensive types of medical treatment, a list of which is established by the government, are tax deductible without limitations

- Pension insurance contributions to licensed Russian non-state pension funds in respect of the taxpayer, spouse, parents, and children and additional insurance contributions for the accumulative component of the state labor pension paid by the taxpayer (up to a maximum of RUB 120,000 per annum)

- The aggregate amount of the above tax deductions cannot exceed 120,000 rubles (except for expenses on children’s education and on expensive types of medical treatment)

- Property purchase expenses – up to RUB 2,000,000 spent on the construction or acquisition of living premises in Russia, together with unlimited amounts of mortgage interest or certain other bank interest paid on a loan to fund such an acquisition or construction, is deductible; this deduction may be claimed once in a lifetime only

- Income from the disposal of any property (except securities) that has been owned by the taxpayer for more than three years is exempt from tax

- The first RUB 1,000,000 of income from the disposal of immovable property that has been owned by the taxpayer for less than three years is fully deductible against the sale proceeds (alternatively, the taxpayer can elect to pay tax on the actual taxable gain, if any, equal to gross proceeds less documented expenses)

- The first RUB 250,000 of income from the disposal of movable property (except securities) that has been owned by the taxpayer for less than three years is fully deductible against the sale proceeds (alternatively, the taxpayer can elect to pay tax on the actual taxable gain, if any, equal to gross proceeds less documented expenses)

- Charitable contributions to scientific, cultural, educational, health care, religious and social security organizations financed in part by the state, limited to 25% of taxpayer’s total income received in a calendar year.
Deduction for property purchase expenses, expenses related to pension insurance contributions to Russian non-state pension funds and professional tax deductions can be obtained through the payroll. Other deductions can only be claimed by the taxpayer through the submission of a tax declaration.

Individual entrepreneurs and other individuals performing work or services on a contractual basis may deduct associated business expenses. Property tax paid by these taxpayers is deductible if the property is directly used in carrying out entrepreneurial activities. Taxpayers who cannot document expenses incurred in connection with their entrepreneurial activities are allowed a standard professional tax deduction at a rate of 20% of total income received from entrepreneurial activities.

Taxpayers are also entitled to a variety of standard deductions. For example, most taxpayers are entitled to a standard deduction of RUB 400 for the taxpayer (RUB 500 or RUB 3,000 per month for certain disabled individuals, veterans and victims of natural disasters) and RUB 1000 for each child/dependent, which fully phases out in the month in which the taxpayer’s cumulative year-to-date income exceeds RUB 40,000 (RUB 280,000 for the child/dependent deduction).

In addition, tax-resident taxpayers are entitled to the following exemptions:

- State allowances (e.g., maternity benefit and unemployment benefit), except for sickness allowances
- State pensions
- Payouts from certain insurance policies, including, in particular, obligatory insurance, life insurance policies (within certain limits), insurance covering damage to life or health, and voluntary pension insurance
- Contributions to most medical insurance policies made by companies for the benefit of individuals
- Certain gifts received from physical persons and legal entities (depending on type of property transferred as a gift, its value, and degree of relation to the grantors)
- Income/Items received by way of inheritance in most situations.

Payroll taxes

Social contributions

Starting from 1 January 2010 the unified social tax was replaced by a system of social contributions to the pension fund, social insurance fund and medical insurance funds (local medical insurance funds and federal medical insurance fund). Contributions are paid entirely by the employer; there are no “matching” employee contributions in Russia.

Social contributions are to be accrued on all payments to individuals under employment agreements, civil-legal contracts of a service nature, and copyright agreements. Generally the tax base includes salary and most benefits provided to employees.

Social contributions are not due on remuneration of employees who are not Russian nationals and are not Russian residency permit holders.

Exemptions

The following payments and benefits are not subject to social contributions:
Payments to foreign citizens temporarily located (not holding temporary or permanent residency permits) in Russia. The pay of foreign citizens temporarily or permanently residing in Russia is subject to social contributions in full.

- State social benefits, including sick pay and maternity pay
- Severance payments (up to statutory limits and subject to certain rules) except compensation for unused vacation
- Fees for additional professional education, training and retraining of employees (subject to certain conditions)
- Reimbursement of business trip expenses
- Reimbursement of employees' expenses on the payment of interest on loans for the acquisition or construction of a dwelling (subject to certain conditions)
- Reimbursable expenses incurred by an individual for work/services under civil-legal agreements

The pay of foreign citizens is also subject to the unified social tax regardless of expatriates’ eligibility for the corresponding benefits.

### Social contribution rates

Social contributions are to be made for each individual until the base for such contributions for a given employee exceeds RUB 415,000 (approx. US$ 13,750) on a cumulative basis from the beginning of the year. No social contributions are to be made once the cumulative annual income reaches that threshold.

In 2010, the social contribution rates remain unchanged in comparison with the previous maximum rates of the components of the unified social tax:

<table>
<thead>
<tr>
<th>Extra-budgetary fund</th>
<th>Social contributions rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension Fund</td>
<td>20.0%</td>
</tr>
<tr>
<td>Social Insurance Fund</td>
<td>2.9%</td>
</tr>
<tr>
<td>Federal Compulsory Medical Insurance Fund</td>
<td>1.1%</td>
</tr>
<tr>
<td>Territorial Compulsory Medical Insurance Fund</td>
<td>2.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>26.0%</strong></td>
</tr>
</tbody>
</table>

Note: US$1 = approx. RUB 30.1869 as of 1 August 2010.

### Compulsory pension insurance

Compulsory contributions are payable entirely by employers directly to the Pension Fund at a flat rate of 20% as described above. This percentage is split into insurance and cumulative parts according to each employee’s year of birth. The contributions cease to be paid once an employee’s income exceeds RUB 415,000 for the year.

The contributions apply to the pay of Russian citizens and certain categories of foreign citizens (persons permanently or temporarily residing on the territory of the Russian Federation).

### Social contribution changes from 2011

As of 1 January 2011, the social contribution rates will rise as follows:

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</tr>
<tr>
<td>Territorial Compulsory Medical Insurance Fund</td>
<td>3.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>34.0%</strong></td>
</tr>
</tbody>
</table>

The combined social contribution rates will constitute 34% in 2011, or an increase of 8% against the figure for 2010.

These contributions will be applicable until the cumulative year-to-date remuneration of the employee concerned reaches 415,000 roubles, unless the cap threshold for social contributions is raised by the government from 2011.

### Workplace accident insurance

In addition to the above social contributions, all employers are required to pay to the Social Insurance Fund separate contributions insuring against accidents at work and professional diseases on behalf of all of its employees, including all foreign employees.

For the purposes of these contributions, all companies are split into 32 classes, depending on the level of potential professional risk with the employer’s industry and activities, with a specified rate for each class. Rates vary from 0.2% of the payroll for the first class to 8.5% for the thirty-second class. The applicable rate is then levied on total earnings without any cap.
The rate is generally 0.2% for most employers that predominantly or only employ office workers.

**Employment**

In the years leading up to the onset of the global economic crisis in 2008, the Russian labor market had become to a large extent an employee’s market. The lack of qualified employees in some industries had become critical and sharpened competition for the most experienced and qualified human resources among employers. Larger compensation packages and more elaborate benefits were offered to key employees. This situation had its roots in various factors. The decrease in the Russian population, coupled with a certain loss of quality in education programs, as well as the steady economic growth supporting the growth of small and medium businesses, resulted in a further decrease in qualified labor in Moscow and other regions.

However, since 2008 the world economic crisis has changed this trend significantly. Many businesses in these challenging times began focusing on cost cutting and optimization of cash flows, which has been fostering careful planning of personnel costs. Many companies faced a necessity to reduce headcount or introduce part-time working hours, as well as pare back benefits and training. It is worth mentioning that any cost-cutting measures which affect the human resources of the company should be carefully planned in advance and properly documented, as violation of certain procedures established by Russian law may result in a negative outcome for the company.

Notwithstanding this recent upheaval in the labor market, the underlying demographic issues in Russia remain the same, with a very significant drop in the number of university graduates beginning in 2010, largely because of a steep decline in birthrates following the collapse of the Soviet Union in 1991, with little improvement in those birthrates to this day. Thus, the economy begins to improve, one may expect a return to previous challenges of a tight labor market in Russia - indeed, this issue may take on unprecedented severity in the years to come. Already the economy has started showing signs of recovery. This has also been followed by some major employers in Russia introducing some of the most significant salary increases for employees since 2008.

**Russian Labor Code**

The Russian Labor Code forms the basis of labor relations in Russia, establishing procedures for hiring and dismissal of employees, as well as regulations concerning working time, vacations, business trips, salary payment, and so on. The Labor Code continues to be very protective of employees. If a conflict arises, an employee would be able to demand the application of any relevant protective provisions of the Labor Code, which will prevail over any conflicting provision of the individual’s labor contract. Moreover, the Labor Code establishes certain guarantees for some categories of employees which should be fulfilled by employers even if they are not specifically mentioned in the employment agreements.

Russian labor law applies to all employees working on the territory of Russia regardless of their nationality or country of incorporation of their employer. In other words, Russian labor law covers not only Russian citizens, but also expatriates working in Russia, regardless of where employment contracts were concluded. It is worth mentioning that Russian immigration rules and their practical administration, which have become increasingly complex, oblige employers to conclude local employment agreements with expatriates in order to obtain work permits.

Normal working hours in Russia are eight hours per day and 40 hours per week with a lunch break which can be no less than half an hour and not more than two hours. Russian law is stringent in limiting overtime hours. Under the Code, overtime work may technically only be required in exceptional circumstances or upon written consent from an employee and should be compensated at an increased rate or by provision of additional days off. The maximum number of overtime hours per year is limited to 120 hours. However, in practice this criterion is not always met.
It is possible to establish a non-standardized working hours regime under which hours are not fixed, but the employee must then be provided with at least 3 days of additional annual vacation.

Employees must be granted at least 28 calendar (as opposed to working) days of paid vacation a year. Maternity leave (generally a mandatory 140 days), compensated by the State Social Insurance Fund up to a maximum of RUB 1,136.99 per day, and with the mother’s position kept available until the child is three years old, is also provided for. Upon giving birth, mothers are entitled to receive a one-time allowance in the amount of approximately RUB 11,000. Employees are also eligible to take leave to take care of the child until he/she reaches the age of three years. In this case an employer will have to pay out a monthly allowance of about RUB 14,000 until the child reaches the age of one-and-a-half years, which would be financed by the State Social Fund.

Employees are also compensated for periods of illness by the State Social Insurance Fund up to a maximum of RUB 1,136.99 per day. The size of allowances financed by the Social Insurance Fund and the maximum amount of sick leave provisions are subject to periodic increase.

Labor regulations in Russia mandate additional vacation time, hardship allowances, and several other benefits for individuals working and residing in the Far North and certain other remote regions of the country with harsh environmental conditions.

Recruitment

In addition to the conclusion of a written labor contract with an employee (which should be in Russian or bilingual), the recruitment must be documented internally by the employer through the issuance of a formal appointment order stating the name, position, and date of appointment of the new employee. Legislatively introduced guarantees for the employees and rights of the employees may not be contractually limited. Under the labor law, it is normal for an employment contract to be for an indefinite term, since fixed-term employment contracts can only be used in limited cases.

An employer hiring an employee may wish to establish a probation period, which can be of a maximum duration of three months for all employees except for a general director and chief accountant, for whom the probation period may be up to six months.

The employer is also responsible for the proper maintenance of labor books for each employee.

Upon conclusion of employment agreements with Russian employees, it is necessary to request their insurance certificate for State Pension Insurance. The personal number indicated in the certificate plays an important role for state pension accruals, as the Pension Fund allocates pension contributions to this account. If an employee does not have such a certificate, it is the employer’s obligation to submit an application to the Pension Fund and obtain the certificate. Foreign citizens staying in Russia based on work visas are not covered by the Russian pension system and do not need insurance certificates.

Termination

An employee may only be terminated for one of the reasons specifically listed in the Labor Code. The procedure for termination is also expressly provided in the Code and should be strictly followed in order to reduce risk of challenge in court. The Labor Code provides for the following general grounds for employment termination:

1. Mutual consent of the parties
2. The expiry of the term of the employment agreement (in case of a valid fixed-term agreement)
3. The employee’s initiative
4. The employer’s initiative
5. Circumstances beyond the parties’ control (force majeure).

In practice, many of the causes for employment termination are very hard to apply due to very complicated procedures for documenting them, and such terminations may be relatively easily disputed by the employee in court. Among the most wide-spread grounds for employment termination are voluntary resignation (at the employee’s initiative) and employment termination under mutual consent agreements.

As for the employer’s right to terminate the employment agreement, the employer may actually terminate employment only if
certain conditions are met. An employment agreement may be terminated by the employer in the event of certain violations committed by the employee or a repeated failure by the employee to perform his job duties properly, or in case of certain events such as the liquidation of an organization, staff reduction, the unsuitability of the employee for the position held or work performed by reason of insufficient skills as confirmed by the results of attestation (which is also a statutory regulated procedure), and others. As separate grounds for termination of an employment agreement, the Labor Code envisages the right of the employer to terminate an employment agreement with an employee on probation if the results of the probation are unsatisfactory, by giving at least three days’ notice before the probation period expires.

There is a formalized procedure for redundancies foreseen in the Labor Code to which an employer should adhere. Employees should be informed regarding any staff reduction at least two months in advance and should be offered other suitable vacant positions in the company. An employee discharged for redundancy should be paid a severance allowance equal to his average monthly earnings. This allowance in general cases will be retained for the period of time taken to find employment, but not more than two months from the day of discharge. In exceptional cases the allowance may be retained for a third month. For employees working in Far North regions this period can be even longer and can reach up to six months.

Remuneration

Under Russian labor law, an employer has significant discretion regarding the level of compensation and the methods through which this is delivered.

The development of the Russian labor market has brought it closer to the labor markets of Western European countries, and human resources management practices are approaching global best practices. More companies benchmark their pay levels against the market using the results of compensation and benefits surveys, and take into consideration market practice when developing benefits packages. Competition for qualified personnel also forces employers to provide better opportunities for professional and career growth.

It should specifically be noted that care should be taken before implementing any global stock option plans or other equity-based compensation plans for Russian employees, as the legislative framework for such programs is limited and the accounting, tax, labor law, and currency control implications are complex.

Immigration

Company registration with employment service and monthly reporting on job vacancies

As a prerequisite to starting many work permit application processes, companies should be registered with the local employment service, and in any event should be observing the employment law requirements to submit monthly information on all current vacancies (including positions intended for both Russian and foreign citizens).

If the employer is not in compliance with the above, there is a high risk that further applications for work permits for expatriate employees will be rejected by the authorities.

Highly Qualified Specialists (HQS)

Starting from 1 July 2010 “Highly Qualified Specialist” (HQS) was introduced as a new term in Russian immigration legislation. A HQS is a foreign citizen earning not less than 2,000,000 rubles per annum from an employer in Russia.

A simplified quota-free one-step application procedure for work permits and visas is established for HQS intending to work in Russia for Russian legal entities or branches of foreign legal entities (but not representative offices). Such HQS may apply for work permits and work visas valid for three years with the opportunity to extend their validity for subsequent three-year periods, in comparison with one-year work permits and visas received by other foreigners.

Companies have to register HQS with the tax authorities and provide these individuals with private medical insurance. The immigration legislation also establishes a requirement for employers engaging HQS to submit quarterly reports to the immigration authorities on salaries/remuneration paid to HQS, on cases of termination of employment agreements with HQS and on cases of provision of unpaid leaves exceeding one month.
Submission of foreign labor needs forecasts (quota applications)

Companies must report annually, before May 1, the number of foreign employees (including both actual employees and civil/legal contractors, but excluding HQS) they anticipate needing to engage in the following calendar year (including CIS citizens), including the precise positions and citizenships of those anticipated foreign employees. This effectively constitutes an application for quota, whereby quota must first be obtained before it is possible to launch a work permit application for any foreigner who is not a HQS or to occupy a limited list of specific quota-free job positions. It is in theory possible to apply for quota at other times of the year, although approval may be harder to obtain for such “off-cycle” quota applications.

Work permits

In accordance with the Russian immigration legislation, all expatriates working in Russia (except for some specific categories) must hold valid work permits. A company planning to engage expatriates to work in Russia should assume the responsibility for the work permit application process and take into consideration that, with the possible exception of HQS (see above), it will be time and resource consuming, often confusing and contrary, and not without risk, but should note that most organizations do, in due course, manage to achieve something workable.

Note that most CIS citizens apply for their own work permits under a simplified procedure. The further discussion below focuses on the longer procedure applicable for citizens who are from other countries and who are not HQS.

The application process (possible only after any necessary quota has been obtained by the employer) consists of three key steps, whereby an employer first submits to the Employment Center the latest information on job vacancies foreseen for expatriate employees. At the second stage the employer applies to the Migration Service for a permit to engage foreign labor (corporate permit). And finally, once a corporate permit is issued, an individual work permit should be applied for.

Work visa

Once the individual’s work permit is issued, the employer should arrange for a work visa invitation. A single-entry work visa is initially issued by the Russian Consulate abroad and is valid for up to three months. Once the foreign individual arrives in Russia under this single-entry work visa, it should be replaced by a multiple-entry visa valid for the term of an individual’s work permit, but not more than one year.

In the case of accredited representative offices, it may be possible to apply for work visas on a schedule independent of the work permit process.

Notifications

Companies are required to notify various state authorities regarding the engagement of foreign employees.

The tax authorities additionally monitor compliance with the notification procedures and often request copies of such notifications when accepting corporate reporting documents, including payroll-related tax reporting.

Enrollment/De-enrollment

The enrollment procedure involves the responsible hosting party notifying the respective territorial office of the Federal Migration Service within three business days of a foreign citizen’s arrival at the place of his/her stay in the Russian Federation, or arrival at a new location in Russia where this individual will stay for three days or more.

A de-enrollment must be completed by the responsible hosting party within two calendar days of a foreign individual’s departure from Russia.

The responsible hosting party will generally be the hotel if the foreign citizen is staying at a hotel, or otherwise the employer.

Sanctions for non-compliance with the immigration legislation

Russian legislation envisages severe sanctions for companies, their executives and foreign citizens for non-compliance with the immigration legislation. The upper end of financial sanctions applied to a company can reach RUB 800,000 (per foreign individual per violation); the worse case scenario can include deportation of the individual from the country and/or suspension of the employer’s business activities for up to 90 days and/or a company being banned from engaging any foreigners under the simplified HQS regime for up to 2 years. Financial sanctions and even deportations have been increasingly applied.
When calling from an international location, the caller must use the international telephone country code for Russia, 7, as a prefix.

**Major business and commercial organizations**

**American Chamber of Commerce**  
Dolgorukovskaya Ulitsa, 7, floor 14  
Moscow, 127006  
Russia  
Tel: +7 (495) 961 2141  
Fax: +7 (495) 961 2142  
Email: info@amcham.ru  
Website: www.amcham.ru

**Association of European Businesses**  
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Moscow, 127473  
Russia  
Tel: +7 (495) 234 2764  
Fax: +7 (495) 234 2807  
Email: info@aebrus.ru  
Website: www.aebrus.ru
Verband der Deutschen Wirtschaft  
(German Economic Association)  
Pervy Kazachi Pereulok, 7  
Moscow, 119017  
Russia  
Tel: +7 (495) 234 4950  
Fax: +7 (495) 234 4951  
Email: buero@vdwrus.msk.ru  
Website: www.vdw.ru

Russo-British Chamber of Commerce  
Galereya Aktyor Business Centre,  
4th floor, ul. Tverskaya, 16/2  
Moscow, 125009  
Russia  
Tel: +7 (495) 961 2160  
Fax: +7 (495) 961 2161  
Email: maria.sarkisova@rbcc.com  
Website: www.rbcc.com

Chambre de Commerce et D’Industrie  
Française en Russie  
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Moscow, 125009  
Russia  
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Fax: +7 (495) 721 9995  
Email: info@ccifr.ru  
Website: www.ccifr.ru

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Websites: www.government.ru,  
www.gov.ru

Ministry of the Interior  
of the Russian Federation  
Zhitnaya Ulitsa, 16  
Moscow, 119049  
Russia  
Tel: +7 (495) 667 2221  
Website: http://www.mvd.ru

Ministry of Civil Defence, Emergencies  
and Disaster of the Russian Federation  
Teatralnyi pr-d, 3  
Moscow, 109012  
Russia  
Tel: +7 (495) 626 3901  
Fax: +7 (495) 624 1946  
Website: www.mchs.gov.ru

Ministry of Health and Social  
Development of the Russian Federation  
Rakhmanovsky Pereulok, 3  
Moscow 127994  
Russia  
Tel: +7 (495) 628 4453  
Website: www.minzdravsoc.ru

Ministry of Foreign Affairs  
of the Russian Federation  
Smolenskaya-Sennaya Ploshad, 32/34  
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Tel: +7 (499) 244 1606  
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Ministry of Economic Development  
GSP-3, Pervaya Tverskaya-Yamskaya  
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Moscow, A-47, 125993  
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Tel: +7 (495) 694 0353  
Fax: +7 (499) 251 6965  
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Ministry of Defence  
of the Russian Federation  
Znamenka Ulitsa, 19  
Moscow, 119160  
Russia  
Tel: +7 (495) 696 8800  
Website: www.mil.ru

Ministry of Culture  
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GSP-3, Malyi Gnezdnikovskiy Pereulok,  
7/6, bld. 1,2  
Moscow, 125993  
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Tel: +7 (495) 629 2008  
Fax: +7 (495) 629 7269  
Website: www.mkrf.ru
Federal Antimonopoly Service
GSP-5, Sadovaya-Kudrinskaya Ulitsa, 11
Moscow, D-242, 123995
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Tel: +7 (499) 795 7653
Fax: +7 (495) 254 8300
Email: international@fas.gov.ru
Website: www.fas.gov.ru

Federal Financial Markets Service
GSP-1, Leninsky Prospect, 9
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Tel: +7 (495) 935 8790
Fax: +7 (495) 935 8791
Website: www.fcsmeru

Federal Service for Tariffs
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Moscow, 109074
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Tel: +7 (495) 710 4507
Email: info@fstrf.ru
Website: www.fstrf.ru

Federal Service for Ecological,
Technological and Nuclear Supervision
Lukyanova Ulitsa, 4, korp. 8
Moscow, 105066
Russia
Tel: +7 (495) 411 6037
Website: www.gosnadzor.ru

Federal Migration Service
Boyarskiy Pereulok, 4
Moscow, 107078
Russia
Tel: +7 (495) 698 5663
Website: www.fms.gov.ru

Federal Taxation Service
Neglinnaya Ulitsa, 23
Moscow, 127381
Russia
Tel: +7 (495) 913 0009
Website: www.nalog.ru

Federal Space Agency
GSP-6, Schepkina Ulitsa, 42
Moscow, 107996
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Fax: +7 (499) 975 4467
Website: www.federalspace.ru

Federal Agency for Special
Economic Zones Management
Ovchinnikovskaya Naberezhnaya, 18/1
Moscow, 115324
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Website: www.rosoez.ru

The Central Bank
of the Russian Federation
Neglinnaya Ulitsa, 12
Moscow, 107016
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Tel: +7 (495) 771 9100
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Website: www.cbr.ru

Russian Chamber of Commerce
and Industry
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Moscow, 109012
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Email: tpprf@tpprf.ru
Website: www.tpprf.ru

Federal Service of Meteorology
and Environment Monitoring
Novovagankovsky Pereulok, 12
Moscow, 123995
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Tel: +7 (495) 252 1486, 255 2275
Fax: +7 (495) 252 5504, 255 2434
Email: kopu@mcc.mecom.ru
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Moscow, 107450
Russia
Tel: +7 (495) 607 4902
Fax: +7 (495) 607 4087
Email: stat@gks.ru
Website: www.gks.ru
Appendix 2: Exchange rates (as of year’s end)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>RUB/EUR</td>
<td>–</td>
<td>27.2</td>
<td>26.1</td>
<td>26.5</td>
<td>32.4</td>
<td>36.1</td>
<td>37.4</td>
<td>34.2</td>
<td>34.7</td>
<td>35.8</td>
<td>38.0</td>
<td>43.8</td>
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</table>

Source: Central Bank of the Russian Federation

Appendix 3: Economic performance statistics

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010E*</th>
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<tbody>
<tr>
<td>Nominal GDP, US$ billion</td>
<td>310</td>
<td>345</td>
<td>432</td>
<td>589</td>
<td>763</td>
<td>989</td>
<td>1289</td>
<td>1671</td>
<td>1226</td>
<td>1480</td>
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<tr>
<td>Real annual GDP growth, %</td>
<td>5.1</td>
<td>4.7</td>
<td>7.3</td>
<td>7.2</td>
<td>6.4</td>
<td>7.4</td>
<td>8.1</td>
<td>5.6</td>
<td>-7.9</td>
<td>4.8</td>
</tr>
<tr>
<td>Inflation, %</td>
<td>18.6</td>
<td>15.1</td>
<td>12</td>
<td>11.7</td>
<td>10.9</td>
<td>9</td>
<td>11.9</td>
<td>13.4</td>
<td>8.8</td>
<td>7.0</td>
</tr>
<tr>
<td>Industrial output growth, %</td>
<td>4.9</td>
<td>3.7</td>
<td>7</td>
<td>7.3</td>
<td>4</td>
<td>6.3</td>
<td>6.0</td>
<td>2.1</td>
<td>-10.9</td>
<td>5.5</td>
</tr>
<tr>
<td>Unemployment rate, %</td>
<td>8.8</td>
<td>8.1</td>
<td>8.6</td>
<td>8.2</td>
<td>7.6</td>
<td>7.2</td>
<td>6.5</td>
<td>6.2</td>
<td>8.4</td>
<td>8.3</td>
</tr>
</tbody>
</table>

* RBC consensus forecast

Source: Russian Federal Statistics Service (Rosstat)
Appendix 4: Treaty withholding tax rates

The maximum rates of withholding tax under double tax treaties currently in force are as follows:

<table>
<thead>
<tr>
<th>Payee resident in</th>
<th>Signatory</th>
<th>Dividends (%)</th>
<th>Interest (%)</th>
<th>Royalties (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>Russia</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Algeria</td>
<td>Russia</td>
<td>5/15 (a)</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Armenia</td>
<td>Russia</td>
<td>5/10 (b)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Australia</td>
<td>Russia</td>
<td>5/15 (c)</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Austria</td>
<td>Russia</td>
<td>5/15 (d)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>Russia</td>
<td>10</td>
<td>10 (e)</td>
<td>10</td>
</tr>
<tr>
<td>Belgium</td>
<td>Russia</td>
<td>10</td>
<td>10 (e)</td>
<td>0</td>
</tr>
<tr>
<td>Belarus</td>
<td>Russia</td>
<td>15</td>
<td>10 (e)</td>
<td>10</td>
</tr>
<tr>
<td>Belgium</td>
<td>Russia</td>
<td>10</td>
<td>10 (e)</td>
<td>0</td>
</tr>
<tr>
<td>Botswana</td>
<td>Russia</td>
<td>5/10 (n)</td>
<td>10 (e)</td>
<td>10</td>
</tr>
<tr>
<td>Brazil</td>
<td>Russia</td>
<td>10/15 (qq)</td>
<td>15 (e)</td>
<td>15</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Russia</td>
<td>15</td>
<td>15 (e)</td>
<td>15</td>
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<tr>
<td>Canada</td>
<td>Russia</td>
<td>10/15 (f)</td>
<td>10 (e)</td>
<td>0/10 (g)</td>
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<td>China</td>
<td>Russia</td>
<td>10</td>
<td>10 (e)</td>
<td>10</td>
</tr>
<tr>
<td>Croatia</td>
<td>Russia</td>
<td>5/10 (h)</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Cyprus</td>
<td>Russia</td>
<td>5/10 (i)</td>
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<td>0</td>
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<tr>
<td>Czech Republic</td>
<td>Russia</td>
<td>10</td>
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<td>10</td>
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<td>Denmark</td>
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<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Egypt</td>
<td>Russia</td>
<td>10</td>
<td>15 (e)</td>
<td>15</td>
</tr>
<tr>
<td>Finland</td>
<td>Russia</td>
<td>5/12 (j)</td>
<td>0</td>
<td>0</td>
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<td>France</td>
<td>Russia</td>
<td>5/10/15 (k)</td>
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<td>Germany</td>
<td>Russia</td>
<td>5/15 (l)</td>
<td>b0</td>
<td>0</td>
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<tr>
<td>Greece</td>
<td>Russia</td>
<td>5/10 (pp)</td>
<td>7</td>
<td>7</td>
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<tr>
<td>Hungary</td>
<td>Russia</td>
<td>10</td>
<td>0</td>
<td>0</td>
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<table>
<thead>
<tr>
<th>Payee resident in</th>
<th>Signatory</th>
<th>Dividends (%)</th>
<th>Interest (%)</th>
<th>Royalties (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iceland</td>
<td>Russia</td>
<td>5/15 (m)</td>
<td>0</td>
<td>0</td>
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<tr>
<td>India</td>
<td>Russia</td>
<td>10</td>
<td>10 (e)</td>
<td>10</td>
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<td>Indonesia</td>
<td>Russia</td>
<td>15</td>
<td>15 (e)</td>
<td>15</td>
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<tr>
<td>Iran</td>
<td>Russia</td>
<td>5/10 (pp)</td>
<td>7.5 (e)</td>
<td>5</td>
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<tr>
<td>Ireland</td>
<td>Russia</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Israel</td>
<td>Russia</td>
<td>10</td>
<td>10 (e)</td>
<td>10</td>
</tr>
<tr>
<td>Italy</td>
<td>Russia</td>
<td>5/10 (o)</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>Japan</td>
<td>USSR</td>
<td>15</td>
<td>10 (e)</td>
<td>0/10 (p)</td>
</tr>
<tr>
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<td>Russia</td>
<td>10</td>
<td>10 (e)</td>
<td>10</td>
</tr>
<tr>
<td>Kuwait</td>
<td>Russia</td>
<td>0/5 (q)</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>Russia</td>
<td>10</td>
<td>10 (e)</td>
<td>10</td>
</tr>
<tr>
<td>Lebanon</td>
<td>Russia</td>
<td>10</td>
<td>5 (e)</td>
<td>5</td>
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<tr>
<td>Lithuania</td>
<td>Russia</td>
<td>5/10 (r)</td>
<td>10 (e)</td>
<td>5/10 (s)</td>
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<td>Luxembourg</td>
<td>Russia</td>
<td>10/15 (t)</td>
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<td>Macedonia</td>
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<td>10</td>
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<td>USSR</td>
<td>0/15 (vv)</td>
<td>15 (e)</td>
<td>10/15 (w)</td>
</tr>
<tr>
<td>Mali</td>
<td>Russia</td>
<td>10/15 (v)</td>
<td>15 (e)</td>
<td>0</td>
</tr>
<tr>
<td>Mexico</td>
<td>Russia</td>
<td>10</td>
<td>10 (e)</td>
<td>10</td>
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<tr>
<td>Moldova</td>
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<tr>
<td>Mongolia</td>
<td>Russia</td>
<td>10</td>
<td>10 (e)</td>
<td>20 (x)</td>
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<tr>
<td>Montenegro¹</td>
<td>Russia</td>
<td>5/15 (aa)</td>
<td>10</td>
<td>10</td>
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<tr>
<td>Morocco</td>
<td>Russia</td>
<td>5/10 (w)</td>
<td>10</td>
<td>10</td>
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<tr>
<td>Namibia</td>
<td>Russia</td>
<td>5/10 (h)</td>
<td>10 (e)</td>
<td>5</td>
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<tr>
<td>The Netherlands</td>
<td>Russia</td>
<td>5/15 (y)</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Doing Business in the Russian Federation – Appendices 55
### Payee resident in Russia

<table>
<thead>
<tr>
<th>Payee resident in</th>
<th>Signatory</th>
<th>Dividends (%)</th>
<th>Interest (%)</th>
<th>Royalties (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand</td>
<td>Russia</td>
<td>15</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>North Korea (DPRK)</td>
<td>Russia</td>
<td>10</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Norway</td>
<td>Russia</td>
<td>10</td>
<td>10 (e)</td>
<td>0</td>
</tr>
<tr>
<td>Philippines</td>
<td>Russia</td>
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<td>10 (e)</td>
<td>10</td>
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<td>Poland</td>
<td>Russia</td>
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<td>10 (e)</td>
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<td>10/15 (z)</td>
<td>10 (e)</td>
<td>10</td>
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<td>7,5 (e)</td>
<td>7,5</td>
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<td>Slovak Republic</td>
<td>Russia</td>
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<td>10</td>
<td>10</td>
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<td>Russia</td>
<td>10/15 (bb)</td>
<td>10 (e)</td>
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<td>South Korea (ROK)</td>
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<td>5/10 (cc)</td>
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<td>Spain</td>
<td>Russia</td>
<td>5/10/15 (dd)(ee)</td>
<td>0/5 (ff)(ee)</td>
<td>5(ee)</td>
</tr>
</tbody>
</table>

1. Montenegro, as a legal successor of the Federal Republic of Yugoslavia, applies the respective double tax treaty.
2. The Russian - Saudi Arabian double tax treaty entered into force on 1 February 2010 and will become applicable from 1 January 2011.
3. Serbia, as a legal successor of the Federal Republic of Yugoslavia, applies the respective double tax treaty.
(a) The 5% rate to dividends paid to company (excluding a partnership) that is
a beneficial owner and that hold at least 25% of the capital of the payer.

(b) The 5% rate applies if the recipient of the dividends has invested at least
US$40,000 or the equivalent in local currency in the payer's charter capital. The 10% rate applies to other dividends.

(c) The 5% rate applies to dividends paid to companies (other than partner-
ships) that hold at least 10% of the capital of the payer and have invested in
the payer at least AU$700,000 or an equivalent amount in local currency
and if the dividends paid by a Russian company are exempt from tax in
Australia. The 15% rate applies to other dividends.

(d) The 5% rate applies to dividends paid to a company (other than a partner-
ship) that is the beneficial owner of the dividend and holds directly at least
10% of the capital of the payer of the dividends and if the participation
exceeds US$100,000 or the equivalent in other currency. The 15% rate
applies to other dividends.

(e) A 0% rate applies in case the interest is paid to e.g. a state, its political
subdivisions or local authorities thereof, the central bank or credit institu-
tions of a state, or if the loan is guaranteed or otherwise secured by a
state. For each particular case, the respective double tax treaty should be
considered.

(f) The 10% rate applies to dividends paid to a company that is the beneficial
owner of the dividends and owns at least 10% of the voting stock of the
payer or, in the case of a Russian payer that has not issued voting shares, at
least 10% of the statutory capital. The 15% rate applies to other dividends.

(g) The 0% rate applies to royalties for the following: copyrights of cultural
works (excluding films and television rights); the use of computer software
and the use of patents or information concerning industrial, commercial
or scientific experience, if the payer and the beneficiary are not related
persons. The 10% rate applies to other royalties.

(h) The 5% rate applies to dividends paid to companies that hold at least
25% of the capital of the payer and have invested at least US$100,000
or the equivalent amount in local currency. The 10% rate applies to other
dividends.

(i) The 5% rate applies to dividends paid to shareholders that have invested in
the payer at least US$100,000 or the equivalent amount in local currency.
The 10% rate applies to other dividends.

(j) The 5% rate applies to dividends paid to a company (other than a partner-
ship) that is the beneficial owner of the dividend and holds directly at least
30% of the capital of the payer of the dividends and the foreign capital
invested exceeds US$100,000 or its equivalent in the national currency of
the contracting states at the moment when the dividends become due and
payable. The 12% rate applies to other dividends.

(k) The 5% rate applies if the recipient of the dividends has invested in the
payer at least FF 500,000 (€76,224) or the equivalent amount in other
currency (as the value of each investment is appreciated as of the date it is
made) and if the beneficiary of the dividends is a company that is exempt
from tax on dividends in its state of residence. The 10% rate applies if only
one of these conditions is met. The 15% rate applies to other dividends.

(l) The 5% rate applies to dividends paid to companies that hold directly at
least 10% of the capital of the payer and such capital share amounts to at
least DM 160,000 (€80,000) or the equivalent amount in rubles. The 15% rate
applies to other dividends.

(m) The 5% rate applies to dividends paid to companies (other than partner-
ships) that hold directly at least 25% of the capital of the payer, and the
foreign capital invested exceeds US$100,000 or its equivalent in national
currency. The 15% rate applies to other dividends.

(n) The 5% rate applies to dividends paid to corporations that hold at least
25% of the capital of the payer. The 10% rate applies to other dividends.

(o) The 5% rate applies to dividends paid to companies that hold directly at
least 10% of the capital of the payer, whereby this share should be at least
US$100,000 or its equivalent in other currency. The 10% rate applies to
other dividends.

(p) The 0% rate applies for royalties received as a consideration for the use
of, or the right to use, any copyright of literary, artistic or scientific work
including cinematograph films and films or tapes for radio or television
broadcasting. The 10% rate applies to royalties received as a consideration
for the use of, or the right to use, any patent, trade mark, design or model,
plan, secret formula or process, or for the use of, or the right to use, indus-
trial, commercial or scientific equipment, or for information concerning
industrial, commercial or scientific experience.

(q) The 0% rate applies if the recipient of the dividend is the government, a
political subdivision or a local authority of the other contracting state, or
Central Bank or other governmental agencies of the other contracting
state. The 5% rate applies to other dividends.
(r) The 5% rate applies to dividends paid to companies (other than partnerships) that hold directly at least 25% of the capital of the payer, and the capital directly invested by this beneficial owner is not less than US$100,000 or the equivalent amount in the national currency. The 10% rate applies to other dividends.

(s) The 5% rate applies to royalties for the usage of industrial, commercial or scientific equipment. The 10% rate applies to other royalties.

(t) The 10% rate applies if the recipient of the dividend holds directly at least 30% of the capital of the payer and has invested in the payer at least €75,000 or its equivalent in national currency. The 15% rate applies to other dividends.

(u) The 10% rate applies to royalties received as a consideration for the use of, or the right to use, any patent, trade mark, design or model, plan, secret formula or process, or any copyright of scientific work, or for the use of, or the right to use, industrial, commercial, or scientific equipment, or for information concerning industrial, commercial or scientific experience. The 15% rate applies to royalties received for the use of, or the right to use, cinematograph films, or tapes for radio or television broadcasting, any copyright of literary or artistic work.

(v) The 10% rate applies if the recipient of the dividends has invested more than FF 1 million (€152,449) in the payer. The 15% rate applies to other dividends.

(w) The 5% rate applies if the beneficial owner of the dividends owns an interest in the capital of the payer of at least US$500,000. The 10% rate applies to other dividends.

(x) Royalties are subject to tax in the country of the payer in accordance with domestic law (current rate 20%).

(y) The 5% rate applies to dividends paid to companies (other than partnerships) that hold directly at least 25% of the capital of the payer and have invested at least €75,000 or its equivalent in the national currencies. The 15% rate applies to other dividends.

(z) The 10% rate applies if the beneficial owner is a company that, for an uninterrupted period of two years before the payment of the dividends, owned directly at least 25% of the capital of the payer of the dividends. The 15% rate applies to other dividends.

(aa) The 5% rate applies to dividends paid to companies (other than partnerships) that hold directly at least 25% of the capital of the payer and have invested in the payer at least US$100,000 or the equivalent amount in local currency. The 15% rate applies to other dividends.

(bb) The 10% rate applies if the beneficial owner of the dividends owns at least 30% of the charter capital of the payer and has directly invested at least US$100,000 in the charter capital of the payer. The 15% rate applies to other dividends.

(cc) The 5% rate applies to dividends paid to companies (other than partnerships) that hold directly at least 30% of the capital of the payer and have invested not less than US$100,000 or the equivalent amount of local currencies. The 10% rate applies to other dividends.

(dd) The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that has invested at least €100,000 or its equivalent in the charter capital of the payer and if the country of residence of the beneficial owner of the dividends does not impose taxes on the dividends. The 10% rate applies if one of these conditions is met. The 15% rate applies to other dividends.

(ee) The reduced tax rate is not applicable to a company resident in one Contracting State receiving dividends, interest or royalties from sources in the other Contracting State if more than 50% of this company is owned (directly or indirectly) by non-residents. This restriction does not apply if the establishment of the company and its operating activities in other Contracting State are found on sound business reasons other than a mere participation in the capital of the other company.

(ff) The 0% rate applies if the interest is paid on a long-term loan (7 or more years) granted by a bank or other credit institution, which is a resident of the contracting states, or if the beneficial owner of the interest is a company resident in one Contracting State, a political subdivision or a local authority thereof.

(gg) The 10% rate applies if the beneficial owner of the dividends owns at least 25% of the charter capital of the payer. The 15% rate applies to other dividends.

(hh) The 4.5% rate applies to royalties paid to entities for copyrights of cinematographic films, programs, and recordings for radio and television broadcasting. The 13.5% rate applies to royalties paid to entities for copyrights of works of literature, art, or science. The 18% rate applies to royalties paid to entities for patents, trademarks, designs or models, plans, secret formulas or processes and computer software, as well as for information relating to industrial, commercial, or scientific experience.

(ii) The 5% rate applies if the beneficial owner is a company (other than a partnership) that holds directly 100% (at least 30% if the recipient corporation is a part of joint venture) of the payer and the foreign capital invested exceeds US$100,000 or the equivalent amount in local currency. The 15% rate applies to other dividends.
(jj) The 5% rate applies to dividends paid to companies (other than partnerships) that hold directly at least 20% of the capital of the payer and if, at the time the dividends become due, the foreign capital invested exceeds CHF 200,000 or its equivalent in any other currency. The 15% rate applies to other dividends.

(kk) The 0% rate applies to interest (a) in connection with the sale on credit of any industrial, commercial or scientific equipment, or (b) in connection with the sale on credit of any merchandise by one enterprise to another. The 5% rate applies to interest on bank loans. The 10% rate applies to other interest.

(ll) The 5% rate applies to dividends paid to corporations that have invested in the payer at least US$50,000 or the equivalent amount in local currency. The 15% rate applies to other dividends.

(mm) The 5% rate applies to dividends paid to corporations holding at least 10% of the voting shares of the payer or, in the case of a Russian payer that has not issued voting shares, at least 10% of the statutory capital. The 10% rate applies to other dividends.

(nn) The 10% rate applies to dividends paid to shareholders that have invested at least the equivalent of US$10 million in the payer. The 15% rate applies to other dividends.

(oo) The 0/9/15% rates apply to interest on certain types of state and municipal securities; the 20% rate applies to other interest.

(pp) The 5% rate applies if the beneficial owner is a company (other than a partnership) that holds directly at least 25% of the capital of the company paying the dividends. The 10% rate applies in other cases.

(qq) The 10% rate applies if the beneficial owner holds directly at least 20% of the total capital of the company paying the dividends. The 15% rate applies in all other cases.

(rr) The 5% rate applies if the beneficial owner is the government of the other contracting state or is a company that holds directly at least 15% of the capital of the payer company and has invested in it at least US $100,000 or its equivalent in other currencies; the 10% rate applies in other cases.

(ss) The 10% rate applies to dividends paid to a company (other than a partnership) that is the beneficial owner of the dividend and holds directly at least 10% of the capital of the payer of the dividends and if the participation exceeds US$100,000 or the equivalent in other currency. The 15% rate applies to other dividends.

(tt) The 5% rate applies to interest on bank loans. The 10% rate applies to other interest.

(uu) The 10% rate applies to fees for technical assistance.

(vv) The 0% withholding tax rate applies to dividends paid by a company resident in Malaysia to a resident of Russia who is the beneficial owner thereof. Profits of a joint-venture accruing to a participant who is a resident of Malaysia, when transferred from Russia, may be taxed in accordance with the Russian law but the tax so charged shall not exceed 15 per cent of such profits transferred from Russia.

**Pending treaties:**
Argentina, Chile, Estonia, Laos, Malta, Mauritius, Oman.

**Treaties being negotiated:**
Bahrain, Bangladesh, Cuba, Ethiopia, Latvia, Madagascar, Nigeria, Taiwan, Tunisia.
Appendix 5: Blacklist of jurisdictions approved by the Ministry of Finance

The list of states and territories which grant preferential tax treatment and (or) do not require the disclosure and provision of information in relation to financial operations carried out (offshore zones) is as follows:

1. Anguilla
2. Kingdom of Andorra
3. Antigua and Barbuda
4. Aruba
5. Commonwealth of the Bahamas
6. Kingdom of Bahrain
7. Belize
8. Bermuda
9. Brunei-Darussalam
10. Republic of Vanuatu
11. British Virgin Islands
12. Gibraltar
13. Grenada
14. Commonwealth of Dominica
15. Republic of Cyprus
16. People’s Republic of China:
   Hong Kong (Xianggang)
   Special Administration Region
   Macau (Aomen)
   Special Administration Region
17. Union of the Comoros:
   Anjouan Islands
18. Republic of Liberia
19. Principality of Liechtenstein
20. Republic of Mauritius
21. Malaysia:
   Labuan Island
22. Republic of Maldives
23. Republic of Malta
24. Republic of the Marshall Islands
25. Principality of Monaco
26. Montserrat
27. Republic of Nauru
28. Netherlands Antilles
29. Republic of Niue
30. United Arab Emirates
31. Cayman Islands
32. Cook Islands
33. Turks and Caicos Islands
34. Republic of Palau
35. Republic of Panama
36. Republic of Samoa
37. Republic of San Marino
38. Saint Vincent and the Grenadines
39. Saint Kitts and Nevis
40. Saint Lucia
41. Certain administrative units of the United Kingdom of Great Britain and Northern Ireland:
   Isle of Man
   Channel Islands (Islands of Guernsey, Jersey, Sark and Alderney).
42. Republic of Seychelles
Doing Business in the Russian Federation
— Appendices
Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

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**Assurance**
The quality of our audit starts with our 60,000 Assurance professionals, who have the breadth of experience that comes from auditing many of the world’s leading and most dynamic companies, and to whom we provide the best available ongoing personal and professional development. We provide a consistent worldwide audit by assembling the right multidisciplinary teams to address the most complex issues, using a proven global methodology and deploying the latest, high-quality auditing tools and perspectives.

To achieve your potential, you need a tailored service as much as a consistent methodology, and we work to give you the benefit of deep sector knowledge from our subject matter experts and the latest insights from our worldwide experience. It’s how Ernst & Young makes a difference.

Our areas of specialization are:
- External Audit
- Accounting and Financial Reporting
- Financial and Accounting Advisory Services
- Fraud Investigation and Dispute Services
- Climate Change and Sustainability Services.

**Advisory**
Ernst & Young’s Advisory practice comprises over 20,000 professionals with exceptional experience in addressing a broad spectrum of business tasks. Over 300 companies across the CIS trust us to address issues they encounter in doing business.

Our Advisory professionals possess a wealth of experience in bringing performance improvements and business value to our clients, reducing costs, managing
risks, operating state-of-the-art IT systems and successfully accomplishing operational and strategic objectives.

A dedicated team will develop each project based on the specific features of the industry and the client.

Our areas of specialization are:

- Performance Improvement
- Risk
- IT Risk and Assurance
- Advisory for Financial Services
- Academy of Business.

**Tax**

Your business will only achieve its true potential if you build it on strong foundations and grow it in a sustainable way. At Ernst & Young, we believe that managing your tax obligations responsibly and proactively can make a critical difference. Our global teams of talented people bring you technical knowledge, business experience and consistent methodologies, all built on our unwavering commitment to quality service – wherever you are and whatever tax services you need.

In 2010 Ernst & Young’s Russian tax practice won “National Tax Firm of the Year 2010” at the International Tax Review (ITR) annual European Tax Awards. The European Tax Awards celebrate the most innovative tax transactional, structuring, litigation and transfer pricing work done in Europe.

The firm’s main practice areas are:

- Business Tax
- Human Capital
- Indirect Tax
- International Tax
- Transaction Tax
- Law.

**Transactions**

Ernst & Young's Transaction Advisory Services team provides integrated, objective advisory services. We work with you to evaluate opportunities, make your transactions more efficient and achieve your strategic goals. Whatever the size, nature or location of your company – and your deals – we can play a critical role throughout the deal lifecycle.

We can help you determine the true value of an asset, set up the right business and tax structure and execute the deal. We combine proven practices and consistent methodologies with fresh thinking, giving you the advice you need to make informed decisions, mitigate risk and achieve a successful outcome.

With 8,700 transaction professionals worldwide and our experience of thousands of different types of transactions across all markets and industries, we’re ideally placed to bring together the people you need, wherever you need them. It’s how Ernst & Young makes a difference.

Transactions key services are:

- Transaction Tax
- Transaction Support
- Capital Transformation
  - Valuation and Business Modeling
  - Lead Advisory
  - Transaction Integration
  - Restructuring
  - Working Capital Advisory.
Publications

Ernst & Young produces many publications that examine the challenges encountered by companies doing business across borders. The Doing Business in... series is one such traditional publication. In addition, the firm produces a range of other publications that will be of interest to companies doing business in the Russian Federation.

International

Worldwide corporate tax guide assists you in deciding how to structure cross-border investments and whether to establish a new company abroad. The guide summarizes corporate tax rules and treaty withholding tax rates in over 140 countries.

The global executive helps you understand how an assignment in another country or a move abroad may affect your personal tax situation. The guide summarizes the personal tax systems and immigration rules in 150 countries. As a new feature, we have added tables on the taxability of selected income items and sample tax calculations for many countries.

Worldwide VAT, GST and sales tax guide helps you understand how indirect taxes will affect your company abroad. The guide summarizes the value added tax and goods and services tax systems in 81 countries and the European Union.

Transfer pricing global reference guide is a tool designed to enable international tax executives to quickly identify the transfer pricing rules, practices, and approaches that have been adopted by over 40 countries. These various approaches must be understood in order to complete both compliance and planning activities.

Doing business in... series helps you develop business strategies to expand your global presence. Country profiles provide an overview of the government structure, economic climate, investment climate, tax systems, forms of business organization and accounting practices in several countries.

Global oil and gas tax guide summarizes the oil and gas corporate tax regimes in over 50 countries and also provides a directory of oil and gas tax contacts.

Local


Russian Legal Update: a monthly bulletin on the major legislative acts in corporate law, antimonopoly law and business and investment regulation as well as significant court cases.

People Focus: a quarterly newsletter from Human Capital, Global Mobility and the Performance and Reward Team.

HR & Tax Alert: up-to-the-minute information on important developments in labour law, migration regulation and personal taxation.

as well as a variety of alerts on current aspects of doing business in Russia: Tax Alerts, Customs Alerts, International Tax Services Bulletins, Transfer Pricing Alerts, TMT Bulletins.
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