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Law and Taxes in Russia

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1. Law of the Russian Federation in general

1.1. Transition of Russia from one of the fifteen republics of the Soviet Union to an independent State

Until 1991 Russia was – as the RSFSR (Russian Soviet Federal Socialist Republic) – part of the USSR. After Russia declared itself a sovereign state on 12th June 1990 and the Soviet Union disrupted – legally on 25th December 1991 when Mikhail Gorbachev resigned as its President -, Russia (since 1991 officially also called "Russian Federation") continued to apply Soviet laws and regulations unless they were contrary to Russian laws and regulations. From 1992 onwards major laws dating from Soviet times like the RSFSR Civil Code of 1964 were rapidly revised and numerous new laws (for instance, tax laws, financial market laws) enacted. The disappearance of Soviet rule did therefore not leave a legal vacuum, but Soviet law was gradually replaced by Russian law.[1]

The Commonwealth of Independent States ("CIS") is a loose association of States established by an international treaty of 8th December 1991. It initially included all former Soviet republics (Russian Federation, Belarus, Ukraine, Moldova, Georgia, Armenia, Azerbaijan, Kazakhstan, Kirghizia, Uzbekistan and Tajikistan) except the Baltic States. Since 2005 Turkmenistan is only an associate member, and Georgia left the organization in 2009. In 2014 Ukraine declared its intention to leave the CIS.

Within the CIS Russia and Belarus signed a treaty on the creation of a customs union, which was later joined by Kazakhstan, Kyrgyzstan and Tajikistan and since 2000 is

[1] From a legal perspective Russia continues the legal personality of the Soviet Union and has assumed all its rights and obligations. It is not legally a successor state of the Soviet Union.

referred to as the Eurasian Economic Community ("EurAsEc" or "EAEC"). Moldova, Ukraine and Armenia have observer status. In 2007 it was agreed to implement the customs union ("Customs Union") and common economic space ("CES") only between Russia, Belarus and Kazakhstan. Since mid-2010 the Customs Union – with the European Union as model - is largely in place. There has been gradual further integration towards the CES since. On 29 May 2014 the three countries signed the treaty on the creation of the Eurasian Economic Union ("EEU") to become effective on 1 January 2015. Armenia and Kyrgyzstan are expected to join the treaty in the near future.

Regional integration is increasingly focussed on the Union between Russia, Belarus and Kazakhstan, whereas the CIS has lost much of its significance. The Russian Federation further intensified international economic cooperation by participating in other forums (G-8, BRIC countries, etc.). It has a partnership agreement with the European Union. Free trade negotiations have been engaged with the European Free Trade Association (EFTA). In mid-2012 Russia joined the World Trade Organization. Negotiations to join the OECD were launched (stalled on 12th March 2014). In 2014 Russia's international integration suffered a severe blow as a result of events in Ukraine.

In general Russia has a large network of international treaties on economic matters (investment protection, international arbitration, double taxation, intellectual property, etc.). The precedence of international over domestic law is guaranteed by the Russian Constitution.

1.2. Federal form of government: three levels of authority

Like Switzerland the Russian Federation has three levels of government authority: the federal State, the so-called "subjects of the Federation" (hereafter "**Regions**") and the municipalities (local self-government). The Russian Federation (hereafter "**RF**" or "**Russia**") has 85 Regions (the Crimea and Sevastopol were added on 21st March 2014). The cities of Moscow, Saint Petersburg and Sevastopol as cities of national importance have the status of Regions. Other Regions include Moskovskaya Oblast (Moscow Region), Krasnoyarsky Krai (District of Krasnoyarsk) or the Republic of Tatarstan. While the Regions largely duplicate Soviet territorial divisions, the Russian Constitution – unlike the RSFSR Constitution - grants all Regions equal status. Some Regions (e.g. Tatarstan, Chechnya) reflect Russia's ethnic diversity, others are purely administrative districts. Under the Russian Constitution the ethnic or social origin of a person has no longer legal significance, and the equality of all citizens, their liberty to move within the country and the unity of Russia's economic space are guaranteed.

The Russian Constitution distinguishes between:

- exclusive authority of the Russian Federation;
- shared authority of the Russian Federation and the Regions; and
- exclusive authority of the Regions.

Within the exclusive authority of the federal State are, for instance, monetary politics, foreign affairs and foreign trade, customs, private law (for example the Civil Code),

intellectual property (patents, trademarks, copyrights, industrial designs and utility models) and accounting rules. Examples of shared authority are taxes, education, healthcare, labor, real estate and environmental law. All matters which the Constitution does not explicitly refer to the exclusive authority of the federal State or the shared authority of the federal State and the Regions are of the exclusive authority of the Regions. When enacting laws the Regions must always comply with federal law and, in particular, respect the fundamental rights and freedoms guaranteed by the Constitution (guarantee of private property, freedom of trade, freedom of speech, liberty of the press, free choice of domicile).

Even though Russia has a federal structure like Switzerland, government differs substantially. Between 2005 and 1st June 2012, for instance, the heads of the Regions (in most Regions called governors, in some president or mayor) were elected by the regional parliament, but the parliament could only accept or refuse the candidate nominated by the Russian President, which signified in practice that the head of the Region was chosen by the President. Since then governors are again elected, but substantial restrictions apply to the registration of candidates. Political parties are underdeveloped, referendum and popular initiatives, which characterize Swiss direct democracy, are practically inexistent. Political power is concentrated with the President and Prime Minister of Russia. State government is considerably more centralized than in Switzerland.

1.3. The Federal Assembly: Duma and Federation Council

The federal legislature is bicameral and consists of the State Duma (lower house) and the Federation Council (upper house).

The **State Duma** has 450 deputies elected by popular vote for a term of five years. The current deputies were nominated by political parties on the national level. Political parties are election platforms rather than the parties which we are used to in Switzerland. The leading party is United Russia, followed by the Communist Party, Just Russia and the Liberal Democrats. The next elections are due in 2016, probably under different rules.

The **Federation Council** has 170 members (increased from 166 by two members for each Crimea and Sevastopol), two per Region, one member being nominated by the regional legislature, one member by the regional executive branch. In 2014 it was further decided to increase the number of members by up to 10% appointed directly by the President of the Russian Federation.

The Duma and Federation Council have unequal status. Laws are always discussed and approved first by the Duma, the Federation Council can only veto legislation. The Duma can overrule the Federation Council's veto by a qualified majority. The Federation Council appoints the judges of the Constitutional Court, the Supreme Commercial Court, the Supreme Court and the Attorney General and Deputy Attorneys General whereas the Duma elects the Prime Minister and the Chairman of the Central Bank. The candidates to all these offices are nominated by the President.

1.4. The federal executive: President, Prime Minister and Government

The Russian President is elected by popular vote for a term of six years. Since becoming independent Russia had three Presidents: Boris Yeltsin (1991 - 1999), Vladimir Putin (2000 – 2008) and the current Prime Minister Dmitry Medvedev (2008 – 2012). Vladimir Putin was reelected President in March 2012 until 2018.

The President nominates the Prime Minister (elected by the State Duma) and has the right to decide the structure of the Government and to appoint and dismiss its members (ministers). The role of the Prime Minister is therefore less important than in a traditional parliamentary democracy.

The President can veto laws adopted by the Duma and Federation Council. The Parliament can overrule the presidential veto by a qualified majority.

The President further appoints most judges and attorneys general (public prosecutors).

The Regions have their own constitutions, parliaments and government.

1.5. Legal system

Russian law is based on the continental legal tradition (Roman law), written (codified) laws and a Constitution.

The Russian Constitution was adopted by popular vote on 12th December 1993. While its most fundamental principles can be changed only by a Constitutional Assembly specifically convened for such purpose, all other provisions can be amended by a qualified parliamentary majority (⅔ of Duma, ¾ of Federation Council and ⅔ of all regional parliaments). A major amendment was made in 2008 to extend the term of office of the Duma deputies from four to five and of the President from four to six years. The number of Regions has been reduced from initially 89 to 83 (increased in 2014 to 85). Two further important amendments were approved in 2014 (abolition of Supreme Commercial Court and direct appointment of members of the Federation Council by the President).

At the base of the Russian legal system are federal laws, which are adopted by Parliament. Federal constitutional laws require a qualified majority (⅔ of the Duma and ¾ of the Federation Council). The matters which must be regulated by a federal constitutional law (for instance, the Parliament, the Presidential Office, the Government or the court system) are defined by the Constitution. All other federal laws are adopted by simple majority. The most important laws are called “Codes”. Codes play an important role to systematize and stabilize the law in particular areas (e.g. Civil Code, Criminal Code, Labor Code, Tax Code, etc.).

Other legislation can be adopted by the President (Presidential Decrees) or the Government (Government Resolutions), by Ministries, the Central Bank and other government agencies (regulatory acts). Such subordinate legislation must comply with federal law, which also defines the scope of the regulatory authority. Where subordinate legislation affects the rights and duties of individuals or organizations, it must be registered by the Ministry of Justice. Apart from the Ministry of Justice, the

legality of regulations can be reviewed by the judiciary in a concrete case or abstractly upon the request of an individual or legal entity. Compliance of federal laws with the Constitution can be reviewed only by the Constitutional Court. Individuals and legal entities can apply to the Constitutional Court if their constitutional rights were violated by the application of the relevant law in a concrete situation.

All legislation affecting the rights and duties of individuals and legal entities must be published. Today nearly all legislation is published in Rossiyskaya Gazeta, but there are numerous other official publications including the internet portal www.pravo.gov.ru. There exists no systematic public compilation of Russian law, and most users have recourse to private data bases compiled by commercial companies (Garant, Consultant Plus and others).

The implementation of the Customs Union and Common Economic Space led to a delegation of sovereignty within EurAsEc (after 1st January 2015 Eurasian Economic Union). Supranational legislation can be adopted by international treaty or, where so delegated, by the EurAsEc Interstate Council or Eurasian Economic Commission. Since 1st January 2012 there is also a EurAsEc Court in Minsk.

Finally Russia is a member of the Council of Europe and a party to the European Convention for the Protection of Human Rights and Fundamental Freedoms. As such it accepts the jurisdiction of the European Court of Human Rights in Strasbourg.

1.6. Legal culture

Russia clearly strives to be recognized as a State abiding by the rule of law. The country adheres to fundamental democratic values such as the supremacy of the law, the equality of all citizens and the independence of the judiciary although various events during the last couple of years cast doubt on Russia's understanding and interpretation of these principles.

In general the law has an importance which is often underestimated in the West, which should not, however, surprise in a country with a long autocratic tradition. There is an almost excessive belief in the law, which is seen as an instrument to shape and correct reality, and both the authorities and the public tend to seek the solution of most problems in the enactment of new laws. Unfortunately reality not always follows the law; the result can be overregulation and inability to enforce. As an old saying goes, the "severity of Russian laws is mitigated only by a lack of their enforcement."

As a rule, draft laws are prepared by groups of deputies or within the ministries with limited public discussion and often great speed. There is little standard literature with in-depth and long-term analysis of the law, legal literature is rapidly outdated and the universities do not play a major role apart from their teaching activities. Lobbying groups such as the Russian Union of Industrialists and Entrepreneurs, though important, are far less powerful and independent than their Western counterparts.

The laws change much more frequently than in Switzerland, which affects legal security and stability. This deficiency is partly compensated by a strict adherence to the literal meaning in the interpretation of laws and contracts and the requirement to have all legal processes recorded in written documents. This means that insufficient

legal planning and inaccurate documentation of legal processes must subsequently be corrected, often at considerable expense. However, there are also tendencies to go beyond the literal meaning and to apply a "substance over form" approach, in particular when implementing tax laws.

In comparison with Swiss standards the written motivation of decisions of government authorities or of court rulings (with the exception of the RF Constitutional Court) can be rudimentary. However, during the past decade the career in the public service has become more attractive and the quality of decisions increases rapidly, in particular at higher levels of authority. Considerable efforts are made to streamline and improve judicial and administrative practice. Although there is no precise theory on court or administrative precedents, past rulings can be strong arguments in the defense of a case, and the rulings of the Constitutional Court and the Supreme Commercial Court are, in practice, binding for the lower courts. Courts have increased transparency by making all rulings available on the internet.

Compared to the West court procedures are rapid (in the first instance cases can be settled within three to six months) and still relatively inexpensive, and the courts, though often severely criticized, play a significant role in shaping the law. Russians tend to have recourse to litigation more easily than their Swiss counterparts. They also rarely hesitate to appeal to the court against decisions of government authorities – often successfully.

Companies operating in Russia sometimes endeavor to supply deficiencies of the law and its enforcement by detailed contractual arrangements. Like other jurisdictions Russia has experienced a strong influence of Anglo-American legal practices, in particular in the financial and M&A sector. For the past two decades big multinational companies and law firms were able to attract the best professionals. Important transactions therefore tend to be structured in the Anglo-American manner, often under a foreign law and with international arbitration or foreign jurisdiction. Transactions and assets are "delocalized" by the use of holding and financing companies incorporated in foreign jurisdictions. Over the past couple of years several big disputes related to Russian assets have thus been settled in London or other foreign venues. However, while such solutions can be appropriate for some projects, in most situations it is perfectly possible to use Russian law and to provide for settlement of disputes in Russia. In domestic transactions the use of Russian law is compulsory.

2. Travelling to Russia

Citizens of Schengen countries need a valid passport and visa to enter and leave the country. Visas can be obtained from the competent Russian Consulate, in Switzerland in Berne and Geneva. A Visa Facilitation Agreement between Switzerland and Russia is effective since 1st February 2011, and a similar agreement exists with the European Union. It is relatively easy to obtain tourist visas which require mainly a hotel reservation. Business multi-entry visas are granted based on an invitation for a maximum stay of 90 out of 180 days. Foreigners staying in Russia must register with the competent authority (called "Federal Migration Service", or "FMS") within seven

business days from arrival. Hotels handle such registrations automatically. Migration law should be taken seriously as the fines can be high.

Whereas numerous cities and other areas were closed to foreign travel during Soviet times, there are few travel restrictions for tourists and business persons today.

3. Forms of commercial activity: representative offices and subsidiaries

A foreign corporation can do business in Russia either directly or through establishing a Russian subsidiary. It can obviously also build its own network of distributors or set up a joint venture with a Russian or foreign partner.

Joint ventures were very popular during the last years of Soviet rule when foreign companies were not allowed to establish wholly owned subsidiaries. The relationship between the foreign and Russian partner in these early joint ventures was often difficult, and most of them have since been liquidated or were converted into wholly owned subsidiaries. Today joint ventures exist, in particular, in areas where the foreign investor cannot hold 100% of the equity (e.g. insurance companies, oil industry). A well-known example was TNK-BP (the joint venture company – the holding company of the group - were structured off shore). In 2013 TNK-BP merged with Rosneft.

3.1. Doing business directly: representative offices and branches

A foreign corporation may open one or several representative offices or branches in Russia. The function of a representative office is to represent the interests of the foreign corporation in Russia whereas a branch can conduct all or part of the foreign corporation's business (manufacturing, provision of services). This distinction has a somewhat theoretical character. In practice numerous representative offices have activities which go beyond the simple representation of the foreign corporation's interests in Russia. Opening a representative office is frequently the first step to establishing a full presence in the Russian market. After the first several years a representative office is then replaced or supplemented by a wholly owned subsidiary. Subsidiaries are established, in particular, if it is necessary to have local manufacturing capability or to clear goods through Russian customs and to sell them locally to Russian retail customers against payment in rubles.

Representative offices and branches must be registered with the competent Russian tax authority whether they are permanent establishments within the meaning of tax legislation or not (see below section 9.2). The use of a representative office is obviously most advantageous where operations in Russia do not create a permanent establishment under domestic law or an applicable double tax treaty. In this case representative offices are not liable for corporate profit and asset tax in Russia. Representative offices and branches are also not required to keep their books according to Russian accounting standards (RAS).

Representative offices and branches do not have an equity capital. The foreign corporation operating the representative office or branch is fully liable for the latter's debts. A representative office or branch is managed by a person appointed by the

competent corporate body of the foreign corporation. Such person acts pursuant to a power of attorney issued and regulations approved by headquarters.

3.2. Incorporating a Russian subsidiary

It is generally possible to incorporate wholly owned subsidiaries. Exceptions apply, for instance, in television or radio companies or in other areas where foreign majority participations are prohibited by applicable law. Investment in strategic businesses (e.g. oil industry) is also subject to restrictions.

Subsidiaries are primarily established in the form of limited liability companies (hereafter "**OOO**"). General and limited partnerships, joint stock companies or other types of commercial or non-commercial corporations are more rarely selected. Closed (private) and open (public) joint stock companies (hereafter "**ZAO**", respectively "**OAO**") will finally disappear after 1 September 2014 in favor of a new general distinction between publicly and privately held companies. A joint stock company (hereafter "**AO**") will be considered a publicly held company if it offers its shares to the public or designates itself as public. Limited liability companies will be privately held companies.

Although Russian corporations can be incorporated within a couple of days, it takes, as a rule, up to one month from the moment when the parent company takes the decision to incorporate a subsidiary and issues the necessary documents until the subsidiary is incorporated, has bank accounts and is thus fully operational. In order to start the incorporation process it is necessary to have a general director and an address for the subsidiary. Upon incorporation companies are allocated a state registration number ("**OGRN**") and a tax identification code ("**TIN**"). The TIN is valid for all taxes; there is no special VAT number. Incorporation is witnessed by a certificate of incorporation; basic information on the company is recorded in a public register called the Unified State Register of Legal Entities ("**USRLE**").

3.3. Limited liability company vs. joint stock company

OOOs and AOs have many common features. Both are legal entities. As a rule, the equityholders (hereafter referred to as "shareholders") are therefore not liable for the debts of these companies. The minimal share or statutory capital is 10,000 rubles[2] (except for publicly held companies). There is no upper limit. Contributions to the share or statutory capital can be in cash or in kind (for instance, real estate, equipment, goods, securities and certain IP rights having a monetary value). Contributions in kind must be valued by a recognized independent appraiser.

The highest corporate authority is the general meeting of shareholders. Supervisory boards (also called boards of directors) and executive (management) boards are not compulsory (except for publicly held companies). Supervisory boards are elected by the shareholders meeting, executive boards by the shareholders meeting or by the supervisory board.

[2] 1 Swiss Franc = ca. 38 RUR, 1 United States dollar = ca. 34 RUR, 1 Euro = ca. 46 RUR (July 2014).

The key person in both the OOO and the AO is the general director (chief executive officer)[3], who is appointed by the shareholders or the supervisory board as the company's articles of association provide. The general director is responsible for the day-to-day business and represents the company towards third parties. As a rule only the general director can sign documents without a power of attorney. After 1st September 2014 it will become possible to have several general directors signing jointly or individually. It will also become possible to appoint a corporate director.

The second most important person in a Russian company is traditionally the chief accountant, who reports directly to the general director. In most privately held companies no special qualifications are required. Alternatively the accounting can be outsourced to an independent contractor or accounting firm. The independent contractor must have higher education, several years of professional experience and no criminal record. Accounting firms must employ at least one person answering these criteria. In small firms the accounts can be kept by the general director. In all events the general director is responsible for the organization of the bookkeeping.

An independent audit (by an external auditor) is compulsory if the annual turnover exceeds 400 million rubles or the accounting value of the assets at the end of the financial year (31st December) exceeds 60 million rubles. Normally privately held companies need not publish annual reports and financial statements.

The main differences between OOOs and AOs are the following:

- A joint stock company issues shares in the form of securities. Share issues must be registered with the authority responsible for the supervision of the financial markets (formerly RF Federal Financial Markets Service, today the Central Bank or "**CBR**"). "Issuance of shares" means the creation of shares following the establishment of the company or the increase of its share capital whether there is a public offering or not. If there is a public offering the company must comply with public disclosure requirements. Russian law allows only registered shares. The shareholders are recorded in a shareholders register, which after 1st October 2014 must be kept by an independent registrar. Companies rarely issue share certificates.

  Shares in an OOO are not securities and are therefore not subject to registration with the CBR. Shares in an OOO are transferred by contract, and in most cases the transfer must be certified by notary. The members of an OOO are recorded in the USRLE and in an internal register kept by the company. The shareholding in OOOs is therefore public whereas the register of an AO is confidential.

- After 1st September 2014 at least ¾ of the statutory capital of an OOO must be paid upon registration of the company, the remainder within the first four months. With respect to the AO, half of the share capital must be paid within

[3] The law does not prescribe a specific name. Companies may call the CEO "general director", "director", "president", etc.

the first three months, the other half within the first year. However, the AO may not engage in business before at least half of the share capital is paid.

- An AO must allocate at least 5% of its annual profits to a reserve fund until the reserve fund reaches 5% of the share capital. The reserve fund can be used exclusively to cover losses. The allocation of profits to a reserve fund is not compulsory for the OOO.
- The articles of an OOO can grant shareholders a right of exit allowing the shareholder to request that the company redeem his share at a price calculated on the basis of the net asset value. Shareholders of an AO can divest only through the sale of their shares to a third party. The redemption of shares can be requested only in special circumstances.

There are numerous other distinctions between an OOO and AOs, but such distinctions rarely have any practical impact for wholly owned subsidiaries. A comprehensive analysis of the advantages and disadvantages of both corporate forms is, however, appropriate if the company has more than one shareholder or member. In practice most Russian companies (over 90%) are OOOs.

Amendments to the Civil Code effective from 1st September 2014 will considerably increase the flexibility of regulation for privately held companies. They provide, in particular, for the possibility to regulate shareholder rights and other matters in confidential internal bylaws and/or shareholders' agreements instead of or in addition to the registered articles of association.

Subsidiaries of foreign companies are required to keep their books according to Russian accounting standards (RAS). Russia progressively incorporates International Financial Reporting Standards (IFRS) into the Russian accounting system. Already today many foreign subsidiaries keep their books in parallel according to IAS/IFRS, GAAP or other international standards, in particular for the purpose of the consolidation of group accounts. Certain taxes (e.g. profit tax) require special accounting. Compliance with Russian accounting rules and practice, which also require quarterly financial statements, is administratively burdensome. Supporting documentation is regulated in great detail. To pay rent, for instance, it is not sufficient to sign a lease agreement. The accountant of the lessee further needs a VAT invoice and a protocol (also called "acceptance act") confirming that rental services have effectively been provided by the lessor. This explains why Russian accounting departments are often astonishingly big. It is, however, possible to outsource accounting to a specialized firm. Many, in particular smaller companies, successfully use this possibility.

Recent court decisions have considerably increased the scope of the information which the shareholder of an AO or OOO has the right to obtain from the company management. Theoretically the shareholder of an OOO is entitled to almost any information on the company's business. Restrictions exist for shareholders of AOs.

3.4. Individual businesses

Russian individuals can register as individual businesses (so-called "individual businesspersons") with full liability.

3.5. Other corporate forms

A Russian general partnership can be set up by at least two partners (corporations or individual businesses). The partners are jointly and severally liable for the debts of the partnership.

In a Russian limited partnership at least one partner is fully liable for the partnership's debts and at least one partner bears limited liability, i.e. is not liable beyond his contribution. Only registered companies or individual businesses can be ordinary partners whereas any person can act as limited partner. A limited partner does not have obligations other than to contribute a specific amount of money to the partnership's equity. Limited partnerships are sometimes set up for fiscal reasons. For a non-Russian company it can be interesting to be the limited partner of a partnership in cases where the country of its domicile treats the participation as a Russian permanent establishment. Recent laws have introduced two new forms of partnerships: the investment partnership, which has no legal personality, and the commercial partnership, a rough copy of the limited liability partnership (LLP).

An essential difference between publicly and privately held companies is the absence of restrictions on share transfers in publicly held companies. In privately held companies shareholders have statutory preemption rights on shares sold to third parties. OOOs can provide further restrictions.

Foreign businesses rarely select other corporate forms, which are therefore not discussed in this summary. The large majority of companies (over 90%) are incorporated as OOOs. Large companies (Gazprom, Rosneft, Vneshtorgbank, etc.) are mostly OAOs (after 1st September 2014 publicly held AOs).

4. Authorizations

Many businesses require a government authorization. Examples are banks, insurances, other financial services, pharmaceutics and transport. Some businesses (e.g. auditors, construction business) must be affiliated to a self-regulatory organization.

Even where no government authorization is required, prescriptions of fire-prevention, construction, sanitary and environmental laws play an important role. Unfortunately these prescriptions often differ from Swiss or international standards and can be much more restrictive. The situation improves with the gradual introduction of technical regulations which are largely inspired by international standards (ISO standards and others). Technical regulations exist at both the national and supranational level (Eurasian Economic Union, etc.). After Russia's accession to the WTO technical standards will need to comply with WTO rules.

5. Labor law

Russian labor law is complex and generally favors employees. Contractual freedom is severely restricted. The statutory rights of employees cannot be changed by contract in disfavor of the employee. Employees should not be hired or dismissed without seeking the advice of specialists in employment law. It is important to document all employment processes correctly. Collective employment agreements and trade unions have so far not played an important role except in manufacturing plants. A law regulating the lease of personnel (outstaffing) was approved in 2014, but will become effective only on 1st January 2016.

Each Russian employee has an employment booklet where the employer must record the duration of the employment and the reason for its termination.

During Soviet times companies provided numerous benefits (e.g. internal hairdressers) in addition to salaries. Today Russian employees, in particular in representative offices or subsidiaries of foreign corporations, are treated more and more according to Western principles of human resources management.

Salary levels are comparatively low compared to Switzerland, but this does not apply to all professions. Still purchasing power is relatively high - although Russians also suffered in the aftermath of the financial crisis - as little has so far been spent on housing and insurance. Many Russians were able to privatize their apartments during the nineties of the last century for little money, and public utilities (heating, warm and cold water, etc.) cost less than in Switzerland. Many have no private insurances. The liability insurance for vehicles became compulsory only on 1st July 2003. Personal income tax (see below) is comparatively low.

5.1. Hiring

Employers are free to recruit employees in the open market. Under the law the employer may request only specific information from job applicants and must treat all candidates equally. In practice the law is often not complied with. The decision not to hire a job candidate must be justified in writing upon the candidate's request.

5.2. Trial period

Employer and employees can agree on a trial period (maximum three months; up to six months for general directors, deputy general directors, chief accountants and their deputies and directors of representative offices and branches). During the trial period the employment agreement can be terminated by three days' notice. The employer has to motivate the termination in writing.

5.3. Employment for a definite period

Generally employment agreements must be entered into for an indefinite period. Employment for a definite period or for the duration of a specific job is permitted only in those cases where the limited duration is implied by the specific nature of the employment (e.g. harvest, production of a film, replacement of an employee during

maternity leave, etc.). Employment for a definite period is further possible with general directors, chief accountants and foreign citizens requiring a work permit.

5.4. Termination of employment

5.4.1. Resignation by the employee

The employee can resign upon two weeks' notice (one month for the general director). This is a very short notice period, in particular in cases where the employer invested into the training of the employee. The employer can, however, agree with the employee that training costs must be reimbursed if the employee resigns without good reasons prior to the expiry of an agreed time period. The employee is not bound by his decision to resign until the employment has effectively been terminated. If both parties agree, the notice period can be waived.

5.4.2. Dismissal by the employer

The employer can terminate the employment only for one of the reasons exhaustively listed by the law. Causes for termination are the liquidation of the company, reduction of its staff, inability to work witnessed by a medical certificate, drunkenness or drug intoxication during work, repeated or gross negligence of employment duties, and unauthorized disclosure of confidential information. All causes must be proven. Some causes require that the employee be offered other open positions within the company.

In the case of a dismissal pursuant to the liquidation of the company or a staff reduction a notice period of two months must be observed. Additionally the employer must continue to pay a salary after termination until the employee finds a new job, but no longer than two (maximum three) months. Special provisions apply to mass dismissals.

In most other cases the employment terminates immediately, without any notice period. However, the employer must often collect evidence or follow certain procedures (e.g. prior warning) to ensure that termination is effective and cannot be challenged in court. In practice some time may therefore lapse until termination can be notified.

As concerns the general director and other members of the executive board causes for termination can be agreed in the contract. In addition employment terminates if the general director is not reelected or is dismissed by the shareholders, respectively the board of directors. In such event a compensation of at least three average monthly salaries must be paid.

If the employee goes to court and the court deems the cause for termination not valid, the court can annul the dismissal, in which case the employment continues, unless obviously the employee has accepted another job in the meantime. If the dismissal is annulled, the employer must find another reason to terminate the employment or reach an agreement on termination with the employee. Employers therefore often endeavor to reach an agreement from the beginning. Even so termination agreements are sometimes challenged in court on the ground that the agreement was signed under pressure from the employer.

5.4.3. Other employment conditions

Employees normally work 40 hours per week. They are entitled to 28 calendar days paid vacation. Whereas salaries are normally paid at the end of the month (in theory the law requires that salaries be paid twice monthly, but not all companies comply with this rule), the salary for the vacation period must be paid three days before the vacation begins. The duration of maternity leave is 140 to 180 calendar days. Parents and grandparents are entitled to a leave for child-care until the child is three years old. During maternity and child-care leave the employee is not entitled to a salary, but receives a social welfare allowance. Except in the event of a liquidation of the company an employee cannot be dismissed by the employer during maternity or child-care leave.

If the employee is unable to work for reasons inherent to his health, he is not – unless his contract provides otherwise - entitled to a salary, but only to the social welfare allowance, which amounts to a per diem of a maximum of 1,479.45 RUR (512,000 RUR + 568,000 RUR[4] divided by 730 days). As a rule the social welfare allowance is paid by the employer and deducted from the payments to the Social Insurance Fund. Since 1st January 2011 the allowance must be financed by the employer during the first three days of the illness.

5.4.4. Work and residence permits

Employers need a government authorization to hire foreigners. Most authorizations are granted within annual quotas. A foreigner needs a work permit or a residence permit to work in Russia. It has become a problem for companies to hire foreign labor without planning well in advance, and obtaining work permits causes considerable administrative work and requires time. Regulations change permanently. Supplying vacancies in the short term is very difficult. As from 1st January 2015 foreigners will need to prove that they know the language, history and legal principles of the country.

In order to increase the attractiveness of the Russian job market, a special procedure was introduced for highly qualified specialists. As a rule, highly qualified specialists must earn a minimum salary of 2,000,000 RUR per year (ca. 60,000 CHF). Most restrictions (e.g. quota, language requirement, etc.) do not apply. The permit for highly qualified specialists is valid for three years. No separate authorization to hire is required. The permit can be obtained relatively easily by Russian companies as well as branches and, after 1st January 2015, representative offices of foreign companies.

6. Exchange control rules

In the West we are used to opening bank accounts or making payments abroad, respectively receiving payments from abroad without statutory restrictions. In Russia there are still numerous restrictions and controls in this area, and Russian exchange control (and increasingly also anti-money laundering) regulations are often the origin of complex negotiations with Russian partners.

[4] These amounts are adjusted annually.

As a rule payments between Russian companies and Russian individuals in Russia must be made in rubles. It is, however, possible and still common to agree prices in United States dollars and more and more frequently in Euro (or in so-called "conventional units") with payment in rubles, generally at the exchange rate of the Central Bank ("**CBR**") at the date of payment (sometimes the exchange rate is increased by several percentage points). Apart from interventions of the CBR the exchange rate is determined by the market and has been relatively stable over the last years. There is no black market rate any more. Inflation is below 10% per year, mainly because of the CBR selling rubles to avoid an appreciation of the local currency as a result of foreign currency inflows from the export of oil, gas, metals and other natural resources. The Central Bank has, however, declared its intent to cease intervening on the domestic currency market except to avoid excessive exchange rate fluctuations.

Payments abroad and from abroad must be monitored by the Russian bank where the Russian company maintains its accounts. The bank must control compliance with Russian exchange control regulations. Import-export transactions and loans require a so-called "transaction passport". The bank opens the transaction passport based on the contract terms and closes it when the transaction is completed.

Restrictions applicable to so-called capital transactions (use of special accounts, requirement to make interest-free deposits) have been abolished as of 1st January 2007.

Until 15th June 2005 Russian companies needed special CBR authorization to open accounts abroad. These authorizations were almost never granted. Today it is possible for companies to maintain foreign accounts, and there are banks in Western Europe offering accounts in rubles. Russian individuals can open accounts abroad, but must notify those accounts to their tax inspection.

A Russian exporter must ensure payment of export proceeds to its Russian bank accounts. Since 7th May 2006 such proceeds do no longer need to be converted into rubles (0% rate for mandatory conversion until 31st December 2006, abrogated completely after that date).

Russian banks must determine the maximum amount of cash (banknotes, coins) made available to their corporate clients. The client may not withdraw cash exceeding such amount and must pay excess cash to its bank account. Compliance with this rule must be monitored by the bank. As a rule, payments in excess of 100,000 RUR between legal entities must be made by bank transfer.

Individuals can take up to the equivalent of 10,000 USD (in cash, traveler cheques, etc.) into and out of the country, respectively Customs Union, higher cash amounts and all non-cash money must be declared to the customs authorities.

7. Contracts

Russians are often tough negotiators. Misunderstandings sometimes result from insufficient knowledge of the legal framework within which the partner operates. Such misunderstandings are frequently a source of distrust and increase the complexity of negotiations. Many foreigners have difficulties understanding the concerns of Russian

partners with exchange control and similar administrative regulations. On the other hand Russians often do not understand the decision making processes in Western companies as they are used to the general director (and the general director only) deciding everything.

When drafting contracts it is important to know that there are no legal provisions on the enforcement of rulings of foreign courts in the absence of an international treaty although courts have found it possible to enforce rulings even in the absence of a treaty. It is therefore still often appropriate to agree on arbitration clauses (e.g. under the Arbitration Rules of the Swiss Chambers of Commerce, ICC Rules, LCIA Rules, Rules of the Arbitration Institute of the Stockholm Chamber of Commerce, UNCITRAL Rules, Rules of the International Commercial Arbitration Court of the RF Chamber of Commerce and Industry). The Russian Federation has ratified the 1958 New York Convention on the Recognition and Enforcement of International Arbitral Awards.

Contracts between a Russian and a foreign corporation (so-called foreign trade agreements) must be made (and amended or completed) in writing, but since 1st September 2013 the failure to respect the written form no longer automatically means that the contract is null and void. Both Russia and Switzerland are parties to the United Nations Convention on the International Sale of Goods, but Russia has made a reserve with respect to the written form of contracts.

The register of Russian companies (USRLE, see above) is kept by the RF Federal Tax Service and is public. The register indicates, for instance, the name and domicile of the company and the identity of the general director. Since July 2013 a person relying in good faith on the information published in the register enjoys legal protection. For important transactions it is still advisable and usual to exchange and verify corporate documents (articles of association, etc.). The general director is the sole person authorized by statute to represent the company without a power of attorney. Other persons must be granted special authority by a written power of attorney.

Transactions exceeding a certain value can be made by the general director only following approval by the supervisory board or the general meeting of shareholders. Transactions subject to special corporate approval are voidable if the approval was not obtained. As a rule, approval must be obtained if the value of a transaction (several inter-related transactions) exceeds 25% of the aggregate balance sheet value of the assets of the company. Transactions are sales and purchases, loans and guarantees and other contracts. The rule does not apply to transactions within the ordinary course of business, but it is not always clear which transactions are in the ordinary course of business. In cases of doubt it is important to insist on the approval.

Special corporate approval is further required for transactions which imply a conflict of interest ("related party transactions"). The legal provisions defining related party transactions are broad and complex. It is often impossible, in particular for outsiders, to recognize conflicts of interest. Related party transactions must be approved by the supervisory board or the general meeting of shareholders. In the absence of such approval the transaction is voidable.

The provisions on special corporate approval are a considerable source of legal uncertainty. Although recent legislation and court practice have mitigated these rules,

actions for invalidation on these grounds are still frequent. Such actions can be filed by the company or its shareholders (after 1st September 2014 also by members of the supervisory board). The shareholders are not bound by jurisdiction or arbitration clauses contained in the disputed contract.

Transactions can further be voided if they have been made by a representative or other person acting in the name of the company in breach of its interests and this was or should have been obvious to the other party to the transaction, or in cases of collusion between the persons acting for the company and the other party.

It is further advisable to stipulate explicitly in contracts between foreign and Russian parties that payments from Russia are made net of Russian withholding taxes (under the RF Tax Code both corporate profit tax and VAT, if applicable, must be withheld at the source of payment).

8. Customs

Import and export regulations are complex. "Gray" imports are frequent, and the Government does not fully control Customs. Certificates of conformity, which are required for many goods, are also a source of difficulties. It is advisable to have imports and exports handled by an experienced Russian customs broker or customs specialist. As a rule only Russian companies (including the subsidiaries of foreign companies) may declare goods for import or export.

The RF Customs Code was replaced in 2010 by the Customs Code of the Customs Union between Russia, Belarus and Kazakhstan. Customs controls at the borders between the three countries have been abolished, and there has been significant progress in harmonizing trade relevant legislation (technical regulations, import restrictions, etc.).

9. Taxes

The Russian tax system has been thoroughly reformed from 2001 onwards. There are a number of federal, regional and local taxes.

9.1. Value added tax

The ordinary rate of value added tax ("VAT") is 18% (since 1st January 2004). A reduced rate of 10% applies to certain nutritional products, children's clothing, medical drugs, medical equipment,newspapers and domestic animals. Some goods and services are exempt (e.g. specific medicine, healthcare, kindergarten, schools, bank and insurance services).

Small businesses can opt out if their quarterly turnover during the three months preceding the opting-out did not exceed 2,000,000 RUR. The opting-out remains valid only as long as quarterly turnovers remain below this amount. In general the exemption is interesting only for small retail business selling to individuals. Businesses operating under the so-called "simplified tax regime" are also exempt from VAT.

Upon import of goods to Russia from outside the Customs Union VAT is paid to Russian Customs. If goods and services are purchased from foreign companies which

are not registered as VAT payers and VAT is not paid to Customs upon import (delivery within Russia), the purchaser must withhold VAT and pay the amount withheld on behalf of the foreign seller to the Russian tax authorities (so-called “reverse charge”). Special rules apply for deliveries within the Customs Union.

Businesses subject to VAT can deduct VAT paid to their suppliers (“input VAT”). Input VAT can not be deducted for services which are outside the scope of Russian VAT, i.e. services which are considered rendered outside of Russia (e.g. most consultancy services if the purchaser does not have a presence in Russia).

Input VAT on exports is reimbursed to the exporter. As a result of numerous abuses and lacking trust between the tax and customs authorities such VAT reimbursements are made only reluctantly and after thorough investigation.

VAT is paid on accrual basis. The tax is calculated quarterly.

9.2. Corporate profit tax

A Russian corporation pays corporate profit tax on its worldwide profits.

As from 1st January 2015 foreign companies effectively managed from Russia will be treated as Russian tax residents and taxed like Russian companies (limited to corporate profit tax). In all other cases a foreign corporation pays Russian corporate profit tax on the profit of its permanent establishment(s) in Russia and/or its revenues from Russian sources (e.g. dividends, interest, royalties, license fees, etc.). A foreign corporation doing business in the territory of the Russian Federation through an office or other fixed place of business must register with the competent Russian tax authority whether its activity constitutes a permanent establishment or not. The existence of a permanent establishment is determined based on the relevant provisions of the RF Tax Code and the applicable double tax treaty (if any).

The rate of corporate profit tax is 20% (2% to the federal and 18% to the regional budget). The Regions have the right to reduce their share to 13.5%. Lower rates apply to companies registered in special economic zones, for regional investment projects and in some other cases. Dividends paid to foreign corporations are taxed at 15%, interest and license fees at 20%. These rates may be reduced under applicable double tax treaties and domestic law.

Fixed assets are assets with an estimated useful life of twelve months or more. Fixed assets are subject to depreciation if their initial value exceeds 40,000 RUR (ca. 1,200 CHF). Capital assets are divided into 10 classes with depreciation periods from 1 to 2 years (class 1) up to thirty years and more (class 10). The depreciation period for cars is three to ten years (depending on the size of the engine), for computers two to three years. Companies can choose between the straight-line method and the declining balance method. Under the straight-line method the depreciation is written off in equal monthly amounts over the depreciation period. Under the declining balance method the monthly depreciation allowance is calculated by multiplying the remaining cost of the assets of a specific class by a uniform rate defined by the Tax Code for the respective class. Buildings and certain installations can be depreciated only under the straight-line method.

Exchange rate gains and losses are taxable, respectively deductible.

Costs for advertising on television, radio, in the press and on billboards, for participation in exhibitions, for catalogues and brochures and for the design of showrooms are deductible. Other advertising cost, for instance the cost of free samples, can be deducted up to an amount equivalent to 1% of sales proceeds during the relevant reporting period.

Inventories can be accounted for based on LIFO, FIFO, average cost or specific cost.

Reserves can be made for bad debt. Unsecured debt which is overdue 45 calendar days or more may be reserved up to 50% of the amount overdue. The reserve is deductible up to 50% of the bad debt. If the debt is overdue 90 calendar days and more, a reserve of up to 100% is allowed. The aggregate reserves may not exceed 10% of the turnover of the reporting period.

There exist thin capitalization rules. Loans from a foreign company holding directly or indirectly 20% or more of the equity of the Russian borrower or from its affiliates should not exceed the amount of equity (net assets) multiplied by three, excess interest being treated as dividend. In general the interest rate must reflect market conditions. The RF Tax Code allows up to 80% of the CBR refinancing rate per annum (currently 6.6%, the refinancing rate being 8.25%) on loans in foreign currency and 180% of the refinancing rate (14.85%) on loans in Russian rubles.

Fines (including tax and other administrative fines), contractual penalties and late payment interest are not deductible.

Losses can be carried forward during ten years.

Russian companies may set up representative offices and branches, which must be registered with the competent tax authority. The profit of these establishments is not calculated under the direct method, but taxable profits are split between headquarters and each of the establishments under an indirect method based on the number of employees (the amount of salary payments) and the balance sheet value of capital assets after depreciation. The taxpayer chooses between the number of employees and the salary amount. The regional portion of profit tax calculated under this method must be paid to the regional tax authorities at the place where the headquarters, respectively establishments are located. This rule applies to establishments within Russia, not to permanent establishments of Russian companies abroad.

Small businesses with a quarterly turnover not exceeding 1,000,000 RUR (ca. 30,000 CHF) can calculate profits under the cash method, all other business must apply the accrual method.

Profit tax must be paid on 28th March of each calendar year. The Russian financial year corresponds to the calendar year. Small businesses (quarterly turnover less than 10,000,000 RUR) and permanent establishments of foreign companies must make quarterly payments based on their quarterly financial results, other businesses monthly advance payments based on the profit of the preceding quarter or the actual aggregate profit since the beginning of the financial year.

Until 2002 taxable profit was calculated based on quarterly and annual financial statements. Since 1st January 2002 statutory and tax accounting regulations differ significantly. The RF Tax Code does not specifically regulate tax accounting, but requires that tax records allow the accurate calculation and verification of taxable profit. The general director and chief accountant of the taxpaying company are responsible for the concrete implementation. Businesses keep profit tax books either as separate books or adjust their statutory records accordingly. In practice businesses seem to prefer the first method.

Since 1st January 2012 it is possible to form a consolidated group of taxpayers for corporate profit tax purposes, and special rules on transfer pricing have been introduced including documentation and reporting requirements.

9.3. Corporate asset tax

Corporate asset tax is calculated on the book value after depreciation of capital assets. Since 1 January 2014 the tax on commercial real estate is calculated on the basis of the cadastre value. Payments must be made quarterly. The tax rate is set by local law, but may not exceed 2.2% per year (the rate is lower for real estate, but with a maximum rate of 2% from 2016).

9.4. Stamp duties

Stamp duties must be paid for specific services rendered by government authorities, for instance for the registration of companies or real estate property rights. The duties have been significantly increased starting 1stJanuary 2010.

10. Social welfare payments

10.1. Pension Fund, Compulsory Medical Insurance, Social Insurance (payroll taxes)

Starting 1st January 2010, the "Unified Social Tax" ("UST") has been replaced by payments to the respective social security funds directly (Medical Funds, Social Insurance Fund and Pension Fund). The payments are calculated based on the annual salary of each employee. A flat rate applies, but the salary is taxed only up to a specific amount (indexed from year to year, in 2014 624,000 RUR), with the exception of a so-called solidarity contribution to the Pension Fund introduced in 2012.

Annual salary per calendar year	Rate	Social Insurance
up to 624,000 RUR	22%	Pension Fund
	2,9%	Social Insurance Fund
	5,1%	Federal Fund Compulsory Medical Insurance
TOTAL	30%	
above 624,000 RUR	10%	Solidarity contribution Pension Fund

Social welfare payments are paid only by the employer, the employee does not contribute to social welfare. The payments finance the Pension Fund (retirement and invalidity), the Social Insurance Fund (allowances during maternity and child-care leave, illness and unemployment) and the Compulsory Medical Insurance Fund (healthcare). During maternity, child-care leave and illness the employer pays an allowance instead of the salary and deducts this payment from his contribution to the Social Insurance Fund.

The contributions of employees to the Pension Fund are split between an insurance premium and, for employees born in 1967 and afterwards, an individual savings account. The employee may choose whether his compulsory pension savings are managed by the State Pension Fund, a private asset manager or a private pension fund. However, to date few Russians have used this right and most pension savings are still managed by the State Pension Fund. The pension system lacks transparency and is difficult to understand even for professionals.

Between 1st January 2010 and 31st December 2011 social welfare payments had to be paid on the salaries of Russian citizens only, payments to foreign citizens without residence permits were exempt (foreigners without residence permit are also not entitled to benefits). However, as from 1st January 2012 the contributions to the Pension Fund are also due for foreigners (except highly qualified specialists) if they work in Russia for an indefinite period or for a definite period exceeding six months. Russia has concluded practically no treaties on social welfare with foreign countries. Contributions paid to foreign welfare institutions are not deductible from personal income tax in Russia.

There is further a compulsory insurance against professional accidents and illnesses. The premiums must be paid by the employer and are within the range of 0.2% and 8.5% of the aggregate salaries depending on risk categories. The 0.2% rate normally applies to office workers.

10.2. Personal income tax

Personal income tax is raised on the revenues of individuals. Resident taxpayers pay tax on their worldwide revenues. A person is deemed resident in Russia if such person lives in Russia for 183 calendar days or more per year (as from 1st January 2007 twelve consecutive months and not the calendar year). The Russian tax authorities count the days when the person is actually present in Russia (the days can be counted, for instance, based on the entry and exit stamps in the passport); however, as from 1st January 2006 short absences for medical treatment or training (up to six months) do no longer interrupt the period of the stay in Russia. Deductions are possible for the purchase of residential real estate, healthcare and education. The tax rate is 13% and is not progressive. Dividends paid by Russian companies to residents are taxed at 9%. Capital gains are tax-free if real estate was owned for three years or more. A similar exemption was introduced for shares in Russian companies, but the minimum holding period will normally be five years (starting from 1st January 2011).

Persons who are not resident in Russia pay Russian income tax on income from Russian sources (e.g. salaries related to employment in Russia, dividends paid by Russian companies, etc.). The tax rate is 30% (13% for highly qualified specialists). It is therefore often advantageous for foreigners working in Russia to stay beyond 183 days and pay tax at 13% instead of 30%. Income may be exempt from Russian tax under applicable double tax treaties.

In most cases income tax is withheld at the source of payment. Individuals can register as "businesspersons" (see above) if they carry on business without being employed. Businesspersons can apply for special tax regimes which are outside the scope of this summary. They declare and pay personal income tax directly.

In 2015 Russia will introduce legislation on controlled foreign companies and structures (trusts, collective investment schemes, etc.). The retained profit of CFCs will be included in the taxable income or profit of Russian resident taxpayers and taxed at the rates of 13% for individuals, respectively 20% for companies.

10.3. Other taxes

Examples of other taxes are excise tax on alcohol, petrol and some other products, land tax, inheritance and donation tax (abolished as from 1st January 2006) and duties on motor vehicles, ship and aircraft.

Tax applies to specific elements of personal fortune (e.g. real estate), but is often negligible (the tax is calculated on historical prices, at least for the time being).

10.4. Double tax treaties

Switzerland and the Russian Federation signed a double tax treaty ("**DTT**") on 15th November 1995. Under this DTT dividends may be taxed at a rate not exceeding 15%. If the beneficiary of the dividend holds at least 20% of the equity of the corporation distributing the dividends and the nominal value of the participation at the time of payment of the dividends exceeds 200,000 CHF ("participation exemption"), the withholding tax rate is reduced to 5%. The DTT also exempts royalties and license fees from withholding tax.

A Protocol to the DDT became effective on 9th November 2012. The Protocol reduced the withholding tax rate on loan interest to 0% and allows the exchange of tax information between Swiss and Russian authorities.

The DTT is also of interest for payments to Russian beneficiaries which are subject to the 35% Swiss withholding tax. The excess Swiss withholding tax can generally be recovered if the income is declared in Russia.

Russia has an extensive DTT network.

11. Privatization and real estate

Since 1992 over 100,000 State owned companies have been privatized.

There is a market for real estate property which can be purchased by both Russian and foreign corporations and individuals. The city of Moscow very seldom sells land, but

other Regions are more liberal. Many owners of buildings do not own the land, but have a long-term lease (up to 49 years) with the State owner. Agricultural land can not be owned by foreigners.

The acquisition of real estate requires a complex and burdensome due diligence investigation of the rights of the seller. There is a government register of rights to immovable property, but a purchaser in good faith is not protected by the register to the same extent he would be in Switzerland. Many real estate transactions are made through the sale of the shares of companies owning the real estate directly or indirectly.

12. Antitrust legislation

Although Russian antitrust legislation is strongly influenced by the laws of the European Union, it is still rather underdeveloped. In practice foreign corporations have been mainly affected by the requirement to obtain antitrust approval for the acquisition of participations in Russian companies.

Under the antitrust law as amended on 6th December 2011 pre-approval of the Federal Antitrust Service("**FAS**") is required if the purchaser(s) of shares or assets of the target company and the target company have aggregate assets with a value exceeding 7 billion rubles, or an aggregate annual turnover exceeding 10 billion rubles provided the asset value of the target company exceeds 250 million rubles, or either the purchaser or the target company is in the register of companies having a market share of over 35% for a specific product or service. The pre-approval is required if the purchaser acquires over 25, 50 or 75% of the shares of a joint stock company or 1/3, 1/2 or 2/3 of the shares in a limited liability company. The relevant values (asset value/turnover) are calculated based on the group to which the purchaser belongs.

There are provisions prohibiting agreements restricting competition, the misuse of a dominant market position and unfair competition. Vertical agreements between corporations having less than a 20% market share and franchising agreements are allowed. A company is assumed having a dominant position if it holds more than 50% of the market share.

13. Intangible rights

The Russian laws on patents, trademarks, computer software, copyrights and domain names are rather up-to-date. Russia is a party to numerous international treaties on intellectual property. Counterfeit goods (CD, DVD, cosmetics, clothes, medicine) and other breaches of the law on intellectual property are nevertheless frequent mainly as a consequence of insufficient government action.

The person first registering a trademark in Russia enjoys priority. Priority may also be claimed based on the provisions of an international treaty. It frequently happens that foreign corporations neglect the protection of their trademarks in Russia and find out too late that a third party has already registered their trademark. In many cases trademarks are thus lost or must be purchased at high cost.

The same applies to Russian domain names (latin .ru, or cyrillic .рф). A registered trademark grants only a limited priority right to the domain name.

It is often also not noted that license agreements for patents or trademarks are not valid in Russia unless registered with the competent Russian authority.

Basic provisions on intellectual property are included in the fourth part of the Civil Code.

Lack of efficient enforcement of intellectual property rights remains a major issue for many businesses.

14. Banks and financial services

On 1st June 2014 there were 1,059 banks in Russia, whereof 888 were active, 869 participated in the deposit insurance system allowing private clients to get a refund of up to RUR 700.000 on bank deposits in case the bank loses its license, and 265 had a general license. There are 78 fully-owned Russian subsidiaries of foreign banks.

As a result of banking, money laundering and exchange control legislation it is administratively difficult to open accounts and make payments (including electronic payments). Russia does not use International Bank Account Numbers (IBANs).

Foreign corporations can open accounts in foreign and local currency after having notified the competent tax authority. Special forms must be used for payment instructions. It is difficult to obtain long-term financing, and interest rates available even to first class borrowers are several percentage points above LIBOR/EURIBOR. Some banks have set up leasing operations. Leasing is interesting because it allows accelerated depreciation of capital assets for profit tax purposes.

Since the disappearance of the Soviet Union financial markets have developed very rapidly. Banks and brokers negotiate shares and bonds of numerous Russian companies. Daily trading volumes remain relatively small compared to financial centers such as London, New York or even Zurich. Many securities traded on the Russian stock exchange lack liquidity. This notwithstanding, the diversity of financial products and level of development of the Russian financial market is astonishing.

In any event investments into the Russian financial market should be made only by professionals. Insider deals and market manipulations are frequent and rarely lead to prosecution. Other investors should, if at all, invest in Russian shares and bonds only through a trustworthy and professional mutual fund.

15. Court system

There exist ordinary courts and commercial courts. Ordinary courts are competent for criminal cases as well as for civil law disputes between individuals, respectively individuals and companies or government authorities. Commercial courts are competent for disputes between businesses, businesses and government authorities and for bankruptcy proceedings. There are no administrative courts. Administrative disputes (for instance complaints against decisions of the tax authorities) are heard by the ordinary courts if the plaintiff is an individual and by the commercial courts if the

plaintiff is a company or businessperson. Normally it is possible to appeal the decision of the courts of first instance and to bring an appeal for cassation against the decisions of the courts of the second instance. Commercial court proceedings are relatively rapid. A final decision can normally be obtained within less than one year after filing the case with the court of first instance.

The RF Constitutional Court verifies that laws comply with the provisions of the RF Constitution.

Russia recognizes commercial arbitration and alternative dispute resolution methods.

Rulings of foreign courts are normally not enforceable in Russia. Foreign arbitral awards can be enforced under the 1958 New York Convention.

The commercial court is called "Arbitrazhny sud" in Russian, which is often falsely translated as arbitration court. Commercial courts are State courts. An inaccurate translation often induces foreign parties to Russian contracts to the belief that they have agreed to an arbitration clause.

In 2014 the Supreme Court and the Supreme Commercial Court were merged, which means that the Supreme Court will be the highest instance for both ordinary and commercial courts.

16. Concluding remarks

If we place ourselves back in 1992 we cannot help feeling overwhelmed by the positive developments in Russia. Without major bloodshed the rule of the Communist Party disappeared and was replaced by an emerging market economy. History could have gone otherwise. Today shops are full. Russian culture is not dead as foreign media often claim. Museums, libraries and theatres are full. The value of the ruble is more or less stable and inflation is, compared to the nineties, largely under control. Obviously Russia is still far from paradise, and backslides occur from time to time. Russian courts and State attorneys are not as independent as their Western colleagues. The experience of public officials in their areas of competence has significantly increased in recent years, but they still lack professionalism. The construction of the "vertical of power" (enforcement of central government authority) has led to growth of corruption at all levels of government.

Russia is still trying to find its proper place in the world economy and world politics. We believe, however, that Russia remains a European country and will appear in European statistics as such still in our generation. Recent years have seen the birth and rapid growth of a confident and open-minded middle class used to free travel all over the world. Many professionals have been educated in Western Universities or made a successful career in Western corporations. The Russian masses have learnt to appreciate Western consumer goods. Russian businesses have started to make important investments outside the country. All these elements will force the country to further integrate in the global business community.

This document is a summary and cannot reflect all nuances. It should therefore not be used as a basis for taking legally relevant decisions. Legal terminology is translated from the Russian language. Russian and English legal terms are not always equivalent.