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1. The Russian Federation. Country Profile.

1.1. Introduction.

The Russian Federation is the largest country in the world by area (17,098.2 thousand square kilometers). It occupies most of Eastern Europe and Northern Asia. Its length in the meridional direction is from 2.5 to 4.0 thousand kilometers, in the latitudinal direction - 9 thousand kilometers. The territory of the Russian Federation passes through 9 time zones (for International numbering zones).

Russia is distinguished by a heterogeneous climate and a wide variety of landscapes and natural areas.

Russia takes the first place in the world in explored reserves of natural gas, iron ore, coal, asbestos, zinc and other minerals.

Russia borders with 18 countries (the largest rate in the world). By land - with Norway, Finland, Estonia, Latvia, Lithuania, Poland, Belarus, Ukraine, Abkhazia, South Ossetia, Azerbaijan, Kazakhstan, China, Mongolia and North Korea, on the sea - with Japan and the USA, while having the longest in the world length of the border that is about 60,000 km.

Russia is a country with a federal structure. In the Russian Federation, there are 85 equal federal subjects, including 22 republics, 9 territories, 46 regions, 3 federal cities, 1 autonomous region, 4 autonomous districts.

Moscow is the capital of Russia with a population of over 11 million inhabitants. St. Petersburg, the second largest city in Russia, is also called "the northern capital", has a population of about 5 million people.



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Other 10 largest Russian cities of Russia which population exceeds 1 million inhabitants are Novosibirsk, Yekaterinburg, Nizhniy Novgorod, Samara, Omsk, Kazan, Chelyabinsk, Rostov-on-Don, Ufa and Volgograd.

In the federal subjects, the system of bodies of state power is determined by the general principles established by the federation. In each region, there is a legislative (representative) body (parliament, legislative assembly) and an executive body (government). In many, there is also post to the Principal Officer (president, governor) which is empowered by the legislative authorities of such federal subject as advised by the President of Russia, and may hold office for an unlimited time.

Russia is also divided into 9 federal districts, in each of which works Presidential Plenipotentiary Envoy.

Subjects of the federation have their administrative-territorial division. As a rule, the basic administrative territorial unit within a federal subject are areas and cities of regional (republican, regional, district) value.

Population: 143.6 million people (Rosstat (the Federal State Statistics Service) estimates as of December 1, 2013).

The official language of the Russian Federation is Russian.

The Russian Federation is a permanent member of the UN Security Council, and a member of international organizations: the Commonwealth of Independent States, the Eurasian Economic Union, the Collective Security Treaty Organization and the Shanghai Cooperation Organization, the World Trade Organization, the Asia-Pacific Economic Cooperation, and others.



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1.2. State structure.

The Russian Federation –is a democratic federal law-governed state with the republican form of government. It consists of republics, territories, regions, federal cities, an autonomous region, autonomous areas – all equal subjects of the Russian Federation.

In Russia, an ideological and political diversity is recognized, and a multi-party system is introduced. No ideology may be established as state or obligatory.

The Russian Federation is a secular state. No religion may be established as a state or obligatory. Religious associations are separated from the state and equal before the law.

The state language of the Russian Federation on its entire territory is Russian. Republic has the right to establish their own state languages.

The basic law of Russia is the Constitution. It has supreme legal force and direct effect and is applied throughout the state. Laws and other regulations adopted in the Russian Federation must not contradict the Constitution.

The subjects of the Russian Federation have their own constitution or bylaws, as well as legislation. Outside of the jurisdiction of the Russian Federation and its powers to the joint jurisdiction over Russia and its subjects, the subjects of the Russian Federation possess full state power.

State power in the Russian Federation is based on separation of legislative, executive and judicial branches. The legislative, executive and judicial powers are independent.

The Head of State is the President of the Russian Federation which provides a coordinated functioning and interaction of all bodies of state power.



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The supreme legislative body of the country is the Federal Assembly of the Russian Federation.

Executive power is exercised by the Government of the Russian Federation.

Judicial power in the Russian Federation is represented by the courts.

PRESIDENT OF RUSSIA

The President of the Russian Federation is the guarantor of the Constitution, rights and freedoms of a human and individual. It defines the main directions of domestic and foreign policies, and as the head of state represents the Russian Federation within the country and in international relations.

The Russian president is elected for six years by universal, equal and direct suffrage by secret ballot.

The main powers of the President of Russia include:

Appointment with the consent of the State Duma of the Chairman, Vice-Chairman and the other members of the federal government, as well as the adoption of a decision on his resignation;

Representation to the Federation Council of candidates for appointment as judges of the Constitutional Court, Supreme Court of the Russian Federation, as well as the Prosecutor General of Russia's candidacy, making proposals to the Council of the Federation on dismissal of the Prosecutor General of the Russian Federation;

Appointment of judges of other federal courts;

Appointment and dismissal of the Presidential Plenipotentiary Representative;

Formation and guidance of the Security Council of the Russian Federation;



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Approval of the military doctrine of the country;

Appointment and dismissal of the High Command of the Armed Forces of the Russian Federation, as their Supreme Commander;

The appointment of the State Duma elections and its dissolution in cases and in the manner prescribed by the Constitution;

Introducing bills to the State Duma;

Signing and publication of federal laws;

Issues of citizenship of the Russian Federation and the granting of political asylum;

Exercise clemency.

FEDERAL ASSEMBLY OF THE RUSSIAN FEDERATION

The Federal Assembly, the parliament of the Russian Federation, is the supreme representative and legislative body of the country. The Federal Assembly consists of two chambers - the Federation Council (upper house) and the State Duma (lower house). The Federation Council and State Duma hold separate sittings.

Adraft federal law is first introduced to the State Duma. A federal law adopted by the State Duma is then submitted to the Federation Council. After its approval by the Federation Council, such federal law is considered to be finally adopted.

THE COUNCIL OF FEDERATION OF THE FEDERAL ASSEMBLY OF THE RUSSIAN FEDERATION

The Federation Council is composed of two representatives from each subject of the Russian Federation - one from the representative and executive bodies of state power.



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The jurisdictions of the Federation Council are as follows:

Approval of changes of borders between the subjects of the Russian Federation;

Approval of a decree of the President of the Russian Federation to impose the martial law;

Approval of a decree of the President of the Russian Federation to impose a state of emergency;

Deciding on the possibility of using Russian Armed Forces outside the territory of the Russian Federation;

Appointment of presidential elections;

Dismissal from office of the President of the Russian Federation;

Appointment of judges of the Constitutional Court, Supreme Court of the Russian Federation;

Appointment and dismissal of the Prosecutor General of the Russian Federation.

THE STATE DUMA OF THE FEDERAL ASSEMBLY OF RUSSIAN FEDERATION

The State Duma consists of 450 deputies. State Duma deputies are elected from various political parties, social movements or as independent candidates for 4 years and work on a permanent professional basis.

The jurisdictions of the State Duma include as follows:

Granting consent to the President of Russia to appoint the Prime Minister of the country;

The question of confidence in the Government of the Russian Federation;



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Appointment and dismissal of the Chairman of the Central Bank;

Appointment and dismissal of the Plenipotentiary on Human Rights in the Russian Federation;

Granting of amnesty;

Bringing charges against the President of the Russian Federation for his impeachment.

GOVERNMENT OF THE RUSSIAN FEDERATION

The Government of the Russian Federation in its defined limits heads a unified system of the executive power in the country, formed by the federal executive authorities and executive bodies of subjects of the Russian Federation.

The Government consists of the Prime Minister, Deputy Prime Minister and the Federal Ministers.

The jurisdictions of the Government of the Russian Federation:

to develop and submit to the State Duma the federal budget and to report on its implementation;

to ensure the implementation of a uniform financial, credit and monetary policy as well as a unified state policy in the field of culture, science, education, health, social welfare, environment;

to manage federal property;

to carry out measures to ensure the country's defense, state security, implementation of foreign policy of the Russian Federation;



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to implement measures to ensure the legality, rights and freedoms of citizens, protect property and public order, fight against crime and so on.

JUDICIAL AUTHORITY

The supreme judicial bodies in Russia are the Constitutional Court, and the Supreme Court. The judges of superior courts are appointed by the Federation Council on the recommendation of the President of the Russian Federation. The Supreme Court has the supreme judicial authority over civil matters, resolution of economic disputes, criminal, administrative and other cases within courts jurisdiction, is formed in accordance with the federal constitutional law, and exercises, in the line with federal laws, procedural and judicial supervision over activities of these courts and provides explanations on issues of judicial practice. Supreme and their subordinate courts constitute a system of federal courts. Subjects of the Federation have their constitutional or statutory courts that are not included in the federal system. Magistrate courts are not considered to be part of the federal court system too.

The constitutional provisions on judicial powers also relate to the Prosecutor's Office of the Russian Federation. However, prosecutors are not part of the judicial system and are independent from all branches of government. The system of the Prosecutor's Offices is headed by the General Prosecutor's Office of the Russian Federation for which the General Prosecutor is in charge. He is appointed by the Federation Council upon advice of the President.

LOCAL GOVERNMENT

Chapter 8 of the Constitution determines that the local government in the Russian Federation has independent decision-making authority over issues related to ownership, use and disposal of municipal property. It is implemented by citizens through a



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referendum, elections and other forms of direct expression, through elected and other bodies of local self-government.

Local governments independently manage municipal property, form, adopt and implement a local budget, establish local taxes and fees, maintain public order and resolve other issues of local importance. They may be vested by law with certain state powers and receive materials and financial resources necessary for their implementation. In this case, the implementation of the delegated powers is under the control of the State.

1.3. The population

Following the results of a nationwide census conducted in October 2010, Russia's population was 142,905,200 people. Russia, therefore, is the most populous country in Europe, and ranks ninth in the world in the number of inhabitants.

The average population density is (from the calculation according to the 2010 census) about 8.36 persons per sq km, and the population is distributed very unevenly, with 78% of Russians living in the European part of Russia, which is less than 25% of its territory. Among the subjects of the Federation, the highest population density is registered in Moscow - more than 4626 people per sq km, the lowest - in the Chukotka Autonomous District - less than 0.07 people per sq km.

The urban population in 2010 was 73%. As of 1 January 2013, 166 cities had a population of over 100 thousand people. 15 cities of these had a population of over one million people.

Russian peoples speak more than 100 languages and dialects belonging to the Indo-European, Altaic and Uralic language families, Caucasian and Paleo-Asiatic language groups. The most widely spoken languages include Russian, Ukrainian, Belarusian, Armenian, Ossetian and German (Indo-European language family), Tatar,



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Bashkir and Chuvash (Altaic language family), Udmurt, Mari and Erzya (Ural language family), a Chechen, Avar and Dargin (Northeast Caucasian languages), Kabardino-Cherkess (Abkhaz-Adyghe language family). Russian is a native language for approximately 130 million citizens of Russia (92% of the population of Russia).

The most common language in Russia is Russian. He is also the official language of the Russian Federation in accordance with Article 68 of the Constitution. The number of carriers of eight other languages in Russia exceeds one million people. Republics in its composition have the right to establish their own state languages and, as a rule, use this right: for example, in the Karachay-Cherkess Republic, in addition to Russian, the status of state has Abaza, Karachai, Nogai, and Circassian languages.

1.4. Economic Review

Russia ranks as the sixth economy among the world countries in terms of GDP at purchasing power parity (PPP) (2012). According to the nominal volume of GDP for the year 2011, Russia occupies the 9th place.

Nominal GDP in Russia in 2010 amounted to 44.5 trillion rubles, the GDP at PPPs - 2.23 trillion dollars.

Nominal GDP per capita in 2010 Russia occupies 54th place according to the International Monetary Fund.

According to data on 2012, the share of the Russian economy in the world economy is 4.1%.

The Economic Structure

Russia's economy is dominated by the service sector (trade, transport, restaurants, hotels, communications, financial services, real estate, public administration, security,



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education, health and other services) - 56.7% more than the structure of value added in 2007 (GDP - 48.6%).

In addition, there is also manufacturing (food processing, textile and clothing manufacturing, leather products, footwear manufacturing, wood processing, production of wood, pulp and paper production, publishing, printing and production of coke and refined petroleum, chemical industry, manufacture of rubber and plastic products, manufacture of other non-metallic mineral products, metallurgical industry, machinery and equipment, electrical equipment, manufacture of electrical and optical equipment, manufacture of transport equipment, other manufacturing) - 19.1% of the structure of value added (16.4 % of GDP), mining accounts for - only 10.4% of value added structure (9.0% of GDP). Construction is only 5.9% of the structure of value added (5.1% of GDP); Agriculture, forestry and fishing add up to 4.5% of the structure of value added (4.5% of Russia's GDP). The smallest share in the structure of value added generation and distribution of electricity, gas and water - 3.1% (2.7% of GDP). Net taxes imposed on products accounted for 14.2% of GDP.

Among all industries in Russia, the most powerful, relative to 1991, appear to be: manufacture of electrical and optical equipment, chemical production, manufacturing, production of energy minerals; pulp and paper industry (forest resources of Russia are the largest in the world); publishing and printing; metallurgical production and fabricated metal products; production and distribution of electricity, gas and water supply (according to 2006 data).

The economic division

Currently is not applied. Only the administrative division of the federal districts is enshrined in law. The Soviet Russia was divided into eleven major economic regions: North West, North, Central, Volga-Vyatka, Central Black Earth, Volga, North



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Caucasus, Urals, Western Siberia, Eastern Siberia and the Far East. Currently, federal and regional authorities and businesses are creating industry clusters.

Oil and gas extraction is concentrated in Western Siberia, hydroelectric power, non-ferrous metals and forestry - in Eastern Siberia. The Far East stands out by production of gold, diamonds, fish and seafood. In the Northern district, the major industries include coal, oil, gas, apatite, nickel and other metals, as well as logging and production of fish. Northwest, Central, Volga-Vyatka, Volga and Ural regions distinguish by developed machine building, chemical, light industry, food industry, energy and service sectors. The Central Black Earth region and the North Caucasus have developed agriculture and food industry.

2. Business Environment

2.1. Business Climate

The Russian Federation has significantly improved its position in the international ranking of World Bank's Doing Business and rose from 112 to 92 in the rankings. On the ease of doing business, the country takes place between the island nation of Barbados (91 place) and Serbia (93 place). In general, Russia has improved business conditions by five of the 10 indicators analyzed in the study, and the results of a new report for the country were the best ever recorded. Nevertheless, ahead of Russia in the ranking are still almost all economically developed countries.

The best situation of all the criteria by which the Russian economy can be judged is with enforcement of contracts. This indicator reflects the effective enforcement measures implemented to make businesses comply with contractual terms. According to this criterion, the country ranks 10th in the world. Thus, consideration of commercial disputes in Russian court takes on average 270 days, which is much faster than in many



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developed countries, the number of required procedures (36) and the cost of legal expenses (13.4% of claim) is also significantly lower than the global average indicators.

Key indicators of the Russian Federation are as follows. In terms of ease of business registration, the country ranks 88th in the world. In terms of ease of registering property rights – 17th place. According to the level of credit - 109 place. According to the level of investor protection - 115 place. According to the level of taxation - 56 place. In terms of ease of doing international trade - 157 place. In terms of ease of liquidation – 55 place. In terms of ease of connection to electricity - 117 place. In terms of ease of obtaining building permits – 178th place.

Russia continues to implement reforms in various areas of legal regulation of business. It should be noted that in May 2012, Russian President Vladimir Putin signed a decree "On the long-term national economic policy", which referred to the need to adopt measures aimed at improving Russia's position in the ranking of "Doing Business" to 50th place in 2015 and to 20th in 2018.

2.2. Special Economic Zones

Under Russian laws, a Special Economic Zone (SEZ) is a part of the territory of Russia determined by the Government of the Russian Federation where a special mode of doing business and customs formalities typical of free customs zone may be applied.

In early 2014, in Russia 28 special economic zones were created under the control of JSC "SEZ", of which 14 are associated with tourism and recreation, 6 - industrial production, 5 - technical innovation and 3 – port industry. All of them offer their residents customs preferences (without payment of customs duties and taxes and without application of non-tariff regulation), tax benefits (income, value added tax, land, transport, etc.), as well as the existing infrastructure.



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At the same time tax benefits are granted in relation to the property which is created or acquired, and is actually used in the SEZ.

Dynamics of investment in SEZs in the years 2007-2013 was positive, in October 2013 78.5 billion rubles of private investments were recorded and 55.6 billion rubles were invested from the federal budget. It is important to note that since 2010 the amount of private investment began to exceed the amount of the state aimed at infrastructure development, indicating the qualitative development of the SEZ. So, by the middle of May 2014, in the SEZ 379 residents were recorded, and every fifth company is a foreign one. More than half of investors is concentrated in industrial SEZs which are the most desirable one to investors.-.

By mid-May 2014, the total volume of investments declared, according to the management company JSC "SEZ", made 456 billion rubles. According to analysts of Intesco Research Group, investors have already invested about a quarter of all the reported investments.

2.3. Investments

Foreign direct investment (FDI) in Russia over the past year has increased by 84% and amounted to 94 billion dollars. Thus, for the first time in the global rankings of FDI inflows, Russia took the third place. This is stated in the report of the UN Conference on Trade and Development (UNCTAD).

Investments specifically in the Russian economy amounted to exactly 75% of IDUs in the country with a so-called "economies in transition" (the former socialist states in transition from a planned to a market economy). Total FDI inflows to these countries for 2013 amounted to 126 billion dollars - an increase of 45% year on year.

It is worth noting that in 2012, Russia was only in the ninth place in terms of FDI (51 billion dollars). The most significant contribution to the growth rate in the past year



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has made a deal on purchase of 18.5% of shares owned by British BP by Rosneft as part of an agreement on the merger of Rosneft with TNK-BP in March 2013.

Analysts of UNCTAD noted that in 2014 the rate of FDI inflows in Russia is likely to remain high. The reason is the active work of the Fund of direct investments (RFPI) with foreign investors. As an example, the report provides RFPI agreement with the investment company Mubadala of UAE on investing in Russian infrastructure. In June 2013 it was reported on the establishment of a joint fund of 2 billion dollars. But in September, the Department of Finance, Abu Dhabi (UAE), has announced its readiness to invest in this project further 5 billion dollars.

3. Financial system

3.1. Monetary System

The monetary system of the Russian Federation is based on money inconvertible in gold, that is, has a paper money character. The legal foundation of the monetary system of Russia is the Federal Law of July 10, 2002 № 86-FZ "On the Central Bank of the Russian Federation (Bank of Russia)". The official currency is the ruble divided into 100 kopeks. The monopoly to issue and withdraw cash from circulation is owned by the Bank of Russia.

In the area of monetary circulation, the Central Bank of Russia performs several important functions:

It forecasts and organizes the production, transportation and storage of banknotes and coins, establish a reserve fund of notes and coins;

Establishes the rules of storage, transportation and collection of cash;

Defines the rules of cash transactions for credit institutions;



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Installs signs of solvency of banknotes and coins, the order of destruction and replacement of damaged banknotes and coins on the valid ones.

In the cash circulation channels there are currently two types of currency, which are unconditional obligation of the Bank of Russia and must be accepted in all types of settlements and payments - banknotes (bank notes) and coins. Banknotes of 10, 50, 100, 500, 1000 and 5000 rubles and coins of 1, 2, 5, 10 rubles, 1, 5, 10, 50 cents are currently in circulation.

Banknotes are manufactured at factories of Goznak. The Central Bank of Russia designs banknotes: each banknote has a unique theme and the predominant color pattern, and the entire series of banknotes of one release contains common design elements. The first step in the creation of banknotes of is to perform large-scale drawings using computer technology; then engraving executed on metal, which is converted into the metallic plate with multiple recurrent in real scale pattern. Printing banknotes is produced with clichés. When manufacturing of banknotes consistently three types of printing are used: offset, gravure (metallographic) and high (typographic).

3.2. Banking system

The banking system of the Russian Federation is a set of interrelated elements which includes the Central Bank, credit institutions consisting of commercial banks and other credit and settlement institutions, sometimes combined within holdings and banking infrastructure and banking legislation. The Federal Law of December 2, 1990 "On Banks and Banking Activity" defines the banking system as follows: the banking system of the Russian Federation includes the Bank of Russia, credit institutions, as well as branches and representative offices of foreign banks.

The Russian banking system has a two-tier structure. The first level is represented by the Central Bank of the Russian Federation. The second level includes banks and



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non-bank credit organizations, as well as branches and representative offices of foreign banks.

The first level includes the Central Bank of the Russian Federation, a genus of functions and powers of which distinguishes it from other banks. First of all, this is establishment and methodical provision of the rules for accounting and banking operations, the release of cash (emission), the organization of payment transactions, licensing of banking activities and supervision of all credit institutions, the regulation of banks and other credit institutions through the account, backup policies and for establishing to them prudential regulations. Due to its functional purpose, the Central Bank holds a special place in the banking system.

The second level of the banking system includes credit institutions. They include: the bank and non-bank credit institution, the Russian banks with foreign capital or foreign bank branches. The main purpose of these credit institutions is conducting banking operations, credit, cash management and deposit customer service and entities of economic relations.

A credit institution is a legal entity which operates for profit as the main objective of its activities on the basis of a special permit (license) by the Central Bank of the Russian Federation (Bank of Russia) and has the right to conduct banking operations stipulated by the Law on Banks.

A bank - a credit institution which has the exclusive right to conduct the following banking operations: attracting deposits from individuals and legal entities, place these funds on its own behalf and at own expense on the terms of repayment, urgency, opening and maintaining bank accounts of individuals and legal entities.

A non-bank credit organization (NCO) isa credit institution authorized to carry out certain banking operations. Permitted combinations of banking operations for non-bank



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credit institutions are stated by the Bank of Russia. NCOs can implement current, deposit, credit operations, as well as collection of cash, bills, payment and settlement documents.

A banking group is an association of credit institutions, in which one (parent) credit institution has, directly or indirectly (through a third party) a significant impact on the decisions taken by the management of the other (s) of credit institutions.

A bank holding company is the union of legal entities with the participation of credit institutions in which the legal entity that is not a credit institution (the parent organization of the bank holding company), has the ability, directly or indirectly, to influence significantly over the decisions taken by the management of the credit institution.

The procedure for establishment and activities of branches and representative offices of foreign banks in the Russian Federation is regulated by special laws. The Bank of Russia sets restrictions on banking operations for branches and representative offices of foreign banks.

Russian banks are not isolated from the external environment. To perform its economic functions, they demand a number of important services provided by the banking infrastructure. In recent years the importance of banking infrastructure has been growing. It is understood as a set of institutions that form the necessary conditions for the implementation of banking activities and facilitate the establishment and bringing banking services to their customers. These include:

The deposit insurance system that provides assurance of safety of citizens' deposits in banks within the prescribed limits, which is carried out by a specially created State Deposit Insurance Agency (DIA);



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Independent payment systems, those assist in the implementation of settlements between organizations and banks, such as SWIFT, and payment transactions with plastic cards, such as Visa, MasterCard, American Express;

Auditing organizations that provide independent audit activities of both commercial banks and the Central Bank of the Russian Federation and confirmation of their financial statements;

Consulting and legal organizations, helping banks to expand their businesses, representing the interests of banks in the interaction with clients and authorities;

Organizations - suppliers of informational and technology solutions, providing and designing modern banking technologies aimed at automating banking business processes and achieving a high level of safety;

Educational organizations engaged in the training and retraining of banking specialists who conduct various seminars and training courses, without which in terms of complexity of modern banking is impossible to imagine the normal functioning of the bank.

The sources of the banking legislation of the Russian Federation are: the Constitution of the Russian Federation; norms of international banking law and international treaties of the Russian Federation; decisions of the Constitutional Court of the Russian Federation; Civil Code (CC) of the Russian Federation; Federal Law "On Banks and Banking Activity"; Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)"; subordinate legal acts (instructions, regulations, circulars, etc.).



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3.2. Opposition to Legalization of Proceeds from Criminal Activity

Significant development of activities on countering legalization of proceeds from illegal means occurred after the adoption of the Federal Law «On Combating Legalization (Laundering) of the Proceeds of Criminal Activity and Terrorist Financing» № 115-FZ of August 7, 2001. A year later, on 30 October 2002 the President of the Russian Federation signed the Federal Law № 131-FZ "On Amendments and Additions to the Federal Law" On Combating Legalization (Laundering) of the Proceeds of Criminal Activity", which aims at eliminating certain shortcomings, inaccuracies and gaps identified in the application of the rules of the Federal Law "On Combating Legalization (Laundering) of the Proceeds of Criminal Activity". In addition, there new rules of law were introduced involving the use of appropriate legal mechanisms for combating terrorist financing .

For the purposes of this Act, proceeds of criminal activity means cash or other property received as a result of committing a crime. Legalization (laundering) of incomes means ownership, use, disposal of money or other property derived from committing a crime.

Significantly expanded is the list of organizations performing operations with money or other assets, which are listed in Article 5 of the Act. So, under the law on countering the legalization of proceeds from crime, organizations performing operations with money or other property include credit institutions; professional participants of the securities market; insurance and leasing companies; organization of the federal postal service; pawn shops; organizations engaged in the purchase and sale of precious metals and stones, jewelry from them and scrap of such articles; organizations comprising totes and bookmakers, and conducting lotteries and other games in which the organizer plays prize money between the parties, including in electronic form; organizations managing investment funds and private pension funds. It is not by chance that credit institutions



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are mentioned first in the list, as a substantial amount of transactions with cash which are subject to mandatory control is carried out through credit institutions, primarily through commercial banks.

The Customs System

4.1. Customs Authorities

The Federal Customs Service (FCS of Russia) is a federal executive body which, pursuant to Russian laws, carries out functions of control and supervision in the field of customs, as well functions as a currency control agent, and performs special functions to combat smuggling, other crimes and administrative offenses.

On May 11, 2006, by the decree of the President of the Russian Federation, the Federal Customs Service was transferred under the jurisdiction of the Government of the Russian Federation. Earlier, the Russian FCS subordinated to the Ministry of Economic Development and Trade.

The Resolution of the Russian Federation Government of 26 July 2006 № 459 granted the following main functions to the FCS:

Maintenance of registers of individuals, organizations and property included in the field of customs (customs brokers, intellectual property, etc.);

Issuance of licenses and permits for certain activities in the field of customs;

Determining the order and direct implementation of customs clearance and control;

Classification of goods in accordance with the Commodity nomenclature of foreign economic activity, identification of the country of origin and customs value across the customs border of the Russian Federation of goods and vehicles;



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Law enforcement - combating crime in the area of customs;

Consultancy services provided free of charge to participants of foreign economic activity.

Its specially allocated function is collection of customs duties and fees. Along with internal taxes and revenues obtained from management of state property, customs fees are one of the main types of federal revenues. Thus, in August 2011 the customs authorities transferred to the federal budget revenues totaling 529.72 billion rubles, and for eight months of 2011 the amount of federal budget revenues administered by the customs authorities amounted to 3.64233 trillion rubles, and for the full year 2010 are listed 4329.88 billion rubles.

The territorial structure of the FCS of Russia:

Regional customs control (corresponding federal districts of the Russian Federation);

Regional Customs (often, but not always correspond to the subjects of the Russian Federation);

Customs posts;

Customs under central authority (for example, customs of Moscow airports, Central Excise Custom and others).

4.2. Export and Import

Exports of goods and services from Russia in 2013 amounted to 597 billion dollars, 88% of this volume relates to goods, 12% - to services.

Exports of goods in 2013 amounted to 526 billion dollars, of which 86% was directed to non-CIS countries, and 14% to the CIS countries -. By the volume of exports



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of goods, Russia occupies the 9th place among the countries of the world, its share of world exports of goods makes 2.8% (as of 2013).

Services exports in 2013 amounted to 70 billion dollars.

In Russia, in contrast to most countries in the world, export duties are widely applied. They are imposed on oil, oil products, natural gas, ores of single metals (ferrous, polymetallic, rare and precious), concentrates of such ores, certain types of mineral raw materials (sulfur, graphite, sand, quartz, asbestos, mica, fluorite, etc.), fish, fish products and seafood, some herbal products (soybeans and soy beans, rapeseed and sunflower) and ethyl alcohol, except vodka and liqueurs, timber, waste and scrap of ferrous metals. Export duty rates are set sufficiently high, with the majority of them being case specific, that is, depending on the amount of exported goods.

Duty rates on energy vary depending on conditions in the world oil market. As of March 1, 2014, the export duty on crude oil was 384 dollars per ton. Preferential rate of duty on oil in Eastern Siberia, the Caspian fields was 189 dollars. The duty on heavy oil (equal to 10% of the duty on oil) - 38.4 dollars. The duty on diesel fuel was 250 dollars, for gasoline (equal to 90% of the duty on oil) - 346 dollars, on other petroleum products - 254 dollars. The duty on liquefied petroleum gas was 169 dollars.

Since 2014 Russia has been implementing a tax maneuver, which involves the gradual increase of the severance tax on oil while reducing export duties on light oil products and oil.

In 2013, imports of goods to Russia amounted to 343 billion dollars, according to this indicator, Russia ranked 15th among the countries of the world. Russia's share in world imports of goods made 1.8%.



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Imports of services in 2013 amounted to 123 billion dollars, according to this indicator, Russia took the 9th place among the countries of the world. Russia's share in global imports of services amounted to 2.8%.

4.3. Customs Duties

The system of tariff classification of the Customs Union which is currently used in Russia is based on internationally recognized Harmonized Commodity Description and Coding System.

Import duties are applied to most goods. Most customs duty rates in Russia are ad valorem (i.e., estimated as a percentage of the customs value of goods).

There are also specific duties on certain types of imported goods calculated in terms of volume, weight or quantity. Some duties account for both approaches, thus, the tax base can vary.

Russia adopted a free trade agreement with the countries of the Commonwealth of Independent States (CIS), as well as with several other countries (Serbia, Montenegro).

Goods originating from these countries (for example, from Ukraine) are exempt from customs duties on the import into Russia (under certain conditions). In addition, Russia, Belarus and Kazakhstan have formed the Customs Union and movement of goods within and between these countries, as a rule, are not subject to customs formalities.

Certain categories of goods are subject to excise tax on import to Russia (for example, alcoholic beverages, cigarettes, etc.). Excise tax rates are usually case specific (i.e., based on volume, weight and other characteristics).

A number of special economic zones (SEZs) in Russia are exempted from payment of customs duties. For such exemption to apply, foreign goods must be imported and



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used within the SEZ. In case of these goods move further into the territory of Russia, import duties and VAT must be paid.

4.4. Required Documentation

There is no established procedure for registering importers and exporters with the customs authorities. However, in practice, certain documents may be required by the customs authorities prior to import (charter documents, tax registration certificates, etc.). The list of such documents often varies depending on the type of goods which are exported/imported.

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

5. Legal Entities in Russia

5.1. Types and Legal Regulation of Business Entities in the Russian Federation

The fundamental document that covers primary aspects of business entities in Russia is the Russian Civil Code. It establishes characteristics, forms of activity, peculiarities of work of branches and separate divisions, the requirements for constituent documents, the procedure for reorganization and liquidation of legal entities. This document serves as the basis for special laws which provide details of how legal entities are regulated, formed and liquidated, activities of organizations depending on



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their legal format, and other issues (such as the Federal Law "On State Registration of Legal Entities", "On Limited Liability Company").

5.2. Decision on Choosing the Business Format

Foreign investors have the right to choose how to organize business in Russia from a wide list of legal forms – from branches and representative offices of foreign companies to Russian legal entities, LLCs, Joint stock companies, partnerships. Considering that forming branches and representative offices leads to a number of restrictions of activity, for example, acquiring property rights, we recommend using a Russian legal entity.

5.3. Types of Business Entities

The following forms of legal entities (commercial) may be incorporated in Russia by foreign investors:

- Full partnership;
- Limited partnership (Kommandite);
- Public Joint Stock Company;
- Non-public Joint Stock Company;
- Limited Liability Company.

From those mentioned above, the most similar to corporations are Joint Stock Companies. However, limited partnerships, as well as Limited Liability Companies limit the liabilities of shareholders (participants).

5.4. Joint Stock Company



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In accordance with the Civil Code, a joint stock company is a commercial organization, the charter capital of which is divided into a certain number of shares certifying obligatory rights of company members (shareholders) in relation to company. The activities of a joint stock company in the Russian Federation are regulated by the Federal Law "On Joint Stock Companies". Only joint stock companies are entitled to the issue securities, subject to state registration. In accordance with Russian legislation, joint stock companies are divided into two types - public and non-public (private). This division is equivalent to the European type of organization of entities. Public joint stock companies are required to publish annually financial statements and disclose separate information about their activities. A public joint stock company is a company whose shares and securities which are convertible into shares are publicly posted (by public subscription) or publicly traded on the conditions established by the securities laws. Other joint stock companies are recognized as non-public.

A company can be established as a new entity, and as a result of reorganization (in various forms) of existing entities. A joint-stock company's share capital is composed of the nominal amount of shares acquired by the shareholders. The minimum charter (share) capital for open and closed joint-stock companies is 1,000 and 100 times the minimum monthly wage, respectively.

The supreme governing body of a joint stock company is the general meeting of shareholders. The company must hold an annual general meeting of shareholders. The Board of Directors (Supervisory Board) is responsible for general management of the company, except for issues referred to the competence of the general meeting of shareholders. The establishment of the Board of Directors is mandatory, if the number of shareholders of the company is more than 50 persons.

A company may be voluntarily liquidated in accordance with the procedure established by the Russian Civil Code, subject to the requirements of Russian



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legislation and the Company Charter. A company may be liquidated based on a court order on the grounds stipulated by the Russian Civil Code. Liquidation of a company entails its termination without transfer of rights and duties in succession to other persons.

5.5. Limited Liability Company

A limited liability company (standard abbreviations - LLC) is formed by one or several legal entities and / or individuals and is a business entity whose charter capital is divided into shares. Participants of the Company are not liable for its obligations and bear the risk of losses associated with the company's activities in the value of their shares in the authorized capital of the company.

Presently, a limited liability company is the most popular format of doing business in Russia.

At the same time a limited liability company is characterized by the fact that the current (operational) management of the company (unlike partnerships) is transferred to the executive body appointed by the founding members or from them or from among other persons. Company members possess the rights to strategically manage the company which are exercised through regular general meetings of members. Unlike joint stock companies, the competences of the general meeting of a limited liability company may be extended at the discretion of its members; also, individual participants can be granted additional rights.

Unlike joint stock companies, profits of a limited liability company may be divided between the participants of company not only proportionally to their shares in the charter capital of the company, but otherwise in accordance with the Charter of the Company (unless a different procedure stipulated by the Charter).



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Unlike members of Joint Stock Company (shareholders) of the participant of a limited liability company can not only sell (or otherwise to dispose of) its share in the charter capital of the company, but also to withdraw from the company, demanding the payment of the cost of the property corresponding to its share in the charter capital of the company, if it is stipulated by the company charter. Participants in a limited liability company, as well as the company itself have a preferential right to purchase a share of one of the participants in the event of his intention to sell his share to third parties. Also company's charter may provide for the prohibition on alienation the shares of participants to third parties.

Russian legislation imposes much less procedural requirements for activities of a limited liability company (including with regard to the convening of general meetings, disclosure, etc.) than to the activities of the joint stock company. This is due to the fact that the company does not place its shares on the public capital markets and to the fact that the number of participants in an LLC cannot be too large (no more than fifty people in accordance with the Law "On Limited Liability Companies", otherwise it shall transformed into a joint stock company). Minimum charter capital of a limited liability company is 10 000 rubles.

Current legislation provides for the possibility (but not necessarily) the following structure of Company:

General meeting of participants of company. This corporate body is mandatory in the LLC. Statutory competence of General meeting of participants may be expanded in any limits established by the founders / participants in the charter of the LLC.

The Board of Directors (Supervisory Board). In LLC, this management body is not mandatory under any circumstances. Powers of the Board of Directors, provided for by legislation, are recommended for this management body and can also be extended to any limits established by the founding members/ participants in the charter of the LLC.



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Executive bodies of Company:

- *The collegial executive body* (board, management and others.). In LLC this management body is not mandatory under any circumstances, and manages the current activity of LLC together with the sole executive body.

- *The sole executive body* (CEO, President, etc.). This corporate body is mandatory in the LLC and responsible for daily operation LLC. In respect of the sole executive body, the principle of residual jurisdiction is used which implies the broadest scope of the powers only limited by competence prescribed for other management bodies LLC (i.e., has the right to do anything that is not provided for the other bodies).

- *Audit Commission (Auditor)*. This body of LLC is mandatory, only if the LLC has more than 15 founding members/ participants. An Audit Commission has the following rights and duties: it has the right at any time to conduct an audit of financial and economic activity; it is entitled to have access to all documentation relating to activities; it is entitled to demand from all members of management and employees of LLC to give necessary explanations verbally or in writing; it is obliged to inspect annual reports and balance sheets of the Company.

5.6. Partnerships (Full and Limited)

Full partnership is a kind of business partnership whose members (partners) are in accordance with the signed founding contract engaged in business activities on behalf of the partnership. Partners bear joint and several subsidiary liability for the obligations of the partnership with all their property. At present this legal format is almost never used.

Management of a full partnership is carried out by mutual agreement of all participants. The founding contract of the partnership may provide for cases where the decision is taken by the majority of participants.



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Each participant in a full partnership is entitled to act on behalf of the partnership, if the memorandum of association establishes that all participants do business together, or doing business is entrusted to individual participants.

Limited Partnership (Kommandite Partnership) is a commercial entity founded on partnership capital where there are two categories of members: general partners and limited partners-investors. General partners carry out business activities on behalf of the partnership and are liable for the partnership's obligations with all its assets. Depositors-limited partners are responsible only for their contribution. At present this legal format is also almost never used.

Management of a limited partnership is carried out by full partners. Investors may not participate in the management and conduct of the business of a limited partnership, to act on its behalf, except based on a power of attorney. They do not have the right to challenge the actions of the general partners in relation to the management and conduct of business of the partnership.

The supreme governing body is the assembly of general partners. At the meeting, each general partner has one vote, if founding contract does not specify otherwise, and decisions are taken unanimously (if founding contract does not specify otherwise).

Each general partner is entitled to act on behalf of the partnership, if the memorandum of association provides for that all general partners are doing business together or doing business is entrusted to individual participants.

If the conduct of business of the partnership instructed its members to one or some of them, the other members in order to complete transactions on behalf of the partnership must have a power of attorney from participant (s) who is responsible for conduct of business of the partnership.



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5.7. Representative office

Representative office is a separate subdivision of a legal entity without legal personality, located outside the location of the main legal entity that represents the interests of the legal entity.

Representative offices are endowed with property of a legal entity and act on the basis approved by legal entity provisions.

Heads of representative offices are appointed by the legal entity and act on the basis of a power of attorney. Information about the representative offices must be specified in the constituent documents of their legal entity.

Representative office, in general, can not engage in activities directly aimed at gaining profit. Representation functions are limited by law to representing the interests of the main organization, negotiation, maintenance work with contractors. For example, a bank representative office cannot provide banking services, but may enter into contracts.

In the English language a word combination Permanent Establishment or Representative Office is used to describe this concept. If the representative office provides services or performs work not related to the internal functioning of the major enterprises, it should be called a branch office.

Representative offices of foreign legal entities are accredited for a period of one to three years. They are accredited according to the scope of activities in the following authorities:

- *The Bank of Russia* issues a permit for the establishment of banks with foreign capital, and also carries out accreditation of representative offices of foreign credit institutions in Russia;



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- *The Ministry of Foreign Affairs of the Russian Federation* issues a permit to open representative offices of foreign media, unless otherwise provided for by a treaty of the Russian Federation;

- *The Ministry of Justice* issues a permit to open representative offices of foreign religious organizations;

- *Federal Air Transport Agency of the Russian Federation* issues a permit to open representative offices of foreign airlines;

- *The Chamber of Commerce of the Russian Federation* issues permits: for the opening representative offices of foreign chambers of commerce, mixed chambers of commerce, federations, associations and unions of entrepreneurs; foreign companies and organizations, in cooperation with which are interested members of chambers of commerce;

- *State Registration Chamber under the Ministry of Justice* accredits representative offices of foreign companies in Russia. In addition to state accreditation, SRC provides personal accreditation and visa support to accredited employees of representative offices of foreign legal entities.

Accreditation bodies charge a processing fee ranging from RUB 35,000 (approx. USD 1,000) to RUB 80,000 (approx. USD 2,200) for the accreditation of a representative office, depending on the period of accreditation (from one year to three years, respectively).

5.8. Branch Offices/Branches

A branch office is a separate subdivision of a legal entity located outside its location and performing all its functions, or their part, including the function of representation. The branch office has the right to conduct business independently.



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The branch of a foreign legal entity is created to implement activities carried out by a foreign entity (the parent organization) outside Russia, and wound up by a decision of the legal entity.

It operates on behalf of the main entity under the provisions of a branch approved by parent organization.

The branch has the right to engage in business activities in the territory of the Russian Federation upon its accreditation and terminates its activities from the date when its accreditation is cancelled.

The activities of the branch of a foreign entity are much wider than the activities of representative offices and include the functions of representing and protecting the interests of the parent organization, and direct production and economic activity;

Accreditation of branches of foreign legal entities is carried out by a single body - the *State Registration Chamber under the Ministry of Justice*.

The state duty for branch accreditation is RUB 120,000 (approx. USD 3,500). In addition, the accreditation authorities charge a processing fee of between RUB 20,000 (approx. USD 500) and RUB 60,000 (USD 1,800), depending on the period of accreditation (from one to five years, respectively).

6. Tax System

6.1. The system of tax authorities

The tax authorities of the Russian Federation - is a centralized system of control over observance of the legislation on taxes and duties.

The structure of the tax authorities consists of three units: the federal level (the Federal Tax Service, the central unit), the level of subjects of the Russian Federation



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(Federal Tax Service Departments of the subjects of the Russian Federation), inter-regional tax offices and municipalities, as well as inspection at the inter-district level.

The main objectives of the Federal Tax Service:

- Control and supervision over the observance of the legislation on taxes and charges, the accuracy of calculation, completeness and timeliness of payment of taxes and charges, other mandatory payments;
- Implementation of currency controls in accordance with the law on currency regulation and currency control within the competence of the tax authorities;
- Control over production and trafficking of ethyl alcohol, alcohol and tobacco products;

The Federal Tax Service as an authorized executive authority carries out state registration of legal entities and individuals as entrepreneurs by filing information on the establishment, reorganization and liquidation of legal entities, registration of individuals and termination of their activities as individual entrepreneurs in the Public Register.

6.2. Tax Regulation for Foreign Entities

The peculiarity of the tax status of foreign legal entities is that the powers of the Russian Federation to charge taxes are regulated by international tax treaties for the avoidance of double taxation with several countries. These agreements define only the order of differentiation of the rights of each of the states in the area of taxation of organizations with the object of taxation in the other State. Methods of implementing the provisions of these agreements (the procedure of calculation and payment of tax, levy of taxes not paid on time, as well as bringing to responsibility for violations committed by the taxpayer) determine the domestic rules of tax law.



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In the absence of a treaty on avoidance of double taxation, the tax status of a foreign legal entity is determined on the basis of the provisions of the Russian legislation on taxes and charges. Permanent representation of the foreign organization, any separate division or other place of activity of the organization through which the organization regularly carries out entrepreneurial activity on the territory of the Russian Federation related to:

- Subsoil use and (or) the use of other natural resources;
- Conduct of contractual work on construction, installation, assembly, commissioning, operation and maintenance of equipment, including slot machines;
- Sale of goods located in the territory of the Russian Federation and owned by the organization;
- Implementation of other works and services, conduct other activities, other than activities preparatory and auxiliary.
- The absence of even one of these conditions means that the activities of the foreign organization do not lead to a permanent establishment.

6.3. System of Taxes and Duties

The system of taxes and duties charged in the Russian Federation is determined by the Tax Code of the Russian Federation (the Tax Code). In the Russian Federation, the following types of taxes and fees exist:

- Federal taxes;
- Taxes of the Russian Federation (regional tax);
- Local (municipal) taxes.



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6.4. Federal Taxes

Federal taxes and duties are established by the legislative acts of the Russian Federation and are levied on its entire territory.

For a variety of taxes, regional authorities have the right to change the rates of federal taxes in the amounts payable to the regional budget. Federal tax incentives are established only federal legal acts. For some federal taxes regional authorities shall have the right to change the tax rate (as, for example, in the case of the corporate profit tax).

6.4.1. Corporate Profit Tax

For foreign companies profit recognized as income earned through a permanent establishment, reduced by the amount of those missions expenses that are economically justified. At the same time revenues include income from the sale of goods (works, services) and property rights and non-operating income from participations in other companies as a positive (negative) exchange differences generated due to the deviation of the course of sale (purchase) of foreign currency from the official rate set by the Central Bank effective on the date of transfer of ownership for foreign currency, from property lease (sublease), in the form of interest earned on the loan agreements, credit, in the form of positive exchange rate differences arising from the revaluation of property in the form of currency values, and others.

The object of taxation is the income received by the taxpayer calculated in accordance with the provisions of the Tax Code.

In general, the tax rate is set at 20%, with:

- The amount of tax calculated at a tax rate of 2% shall be credited to the federal budget;



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- The amount of tax calculated at a tax rate of 18% payable to the budget of subjects of Russian Federation.

The tax rate to be credited to the budgets of subjects of the Russian Federation may be reduced for certain categories of taxpayers based on the laws of subjects of the Russian Federation. However, the tax rate cannot be lower than 13.5%.

The tax period: a calendar year.

The reporting period: first quarter, six months and nine months of the calendar year.

Tax calculation and advance payments: for each reporting (tax) period, unless otherwise provided for, taxpayers calculate the amount of the advance payment, based on the tax rate and the taxable profit calculated on an accrual basis from the beginning of the tax period to the end of the reporting (tax) period.

Terms of payment of tax and the tax in the form of advance payments: 28th day of the month following the reporting period.

The deadline for payment of the tax for the year - until March 28 of the year following the tax period.

In accordance with the Tax Code of the Russian Federation, foreign organizations operating in the Russian Federation through a permanent establishment (which is recognized by payers of income tax in the Russian Federation), submit to the tax authority at the location of a permanent establishment of the organization a tax declaration for the tax (reporting) period in order and in the terms established by the Tax Code. The document is completed and submitted by all foreign entities, regardless of the tax status and financial performance.



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If the foreign company has no permanent representation, but it carries a certain activity that brings to it income from sources in the Russian Federation, the tax revenues maintains fiscal agent (Russian or foreign organization), which also serves a tax return. The tax is paid simultaneously with the transfer of income.

6.4.2. Value Added Tax

Taxpayers - organizations and individual entrepreneurs; persons recognized as tax payers of value added tax in connection with the movement of goods across the customs border of the Russian Federation, determined in accordance with the Customs Code of the Russian Federation.

Organizations and individual entrepreneurs are entitled to exemption from the duties of a taxpayer relating to the calculation and payment of tax, if the previous three consecutive calendar months the amount of revenue from sale of goods (works, services) of these organizations or individual entrepreneurs without the tax does not exceed in the aggregate two million rubles.

Foreign organizations engaged in the sale of goods (works, services) through permanent offices on the territory of the Russian Federation are the payers of value added tax on the same basis as for a Russian organization. In accordance with the Tax Code of the Russian Federation, they calculate and pay VAT to the budget, as well as report to tax authorities on a general basis.

The object of taxation is the sale of goods, services and works in Russia. Monitoring the correctness of calculation of VAT and timeliness of its payment to the budget is ensured by tax authorities depending on the location of the organization. A declaration is filed with the tax authority at the place of location of the organization.

Foreign organizations with no permanent establishment in the Russian Federation are VAT taxpayers, even if they are not registered for tax accounting purposes.



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Calculation, withholding and remittance of VAT are implemented by a tax agent - the counterparty to a foreign organization subject to tax accounting in the Russian Federation.

The objects of taxation are the following:

- Compensatory transfer (sale) of goods, onerous provision of works and services;
- Gratuitous transfer of goods, works and services, and the tax is calculated on the basis of market value;
- Performance of construction and assembly works for own consumption;
- Import of goods into the customs territory of the Russian Federation.

However, the following operations are not subject to VAT or exempted from taxation:

- Implementation of the operations connected with the circulation of Russian or foreign currency; provision of financial services to extend credit in cash;
- Transfer of property, which bears an investment character (contributions to the share capital, the transfer of the property to carry out joint activities); transfer of property upon return of investment within the originally transmitted contribution;
- Transactions of sale of land and / or shares in it;
- The transfer of property and (or) property rights under the concession agreement in accordance with the legislation of the Russian Federation;
- And other transactions in accordance with the Tax Code.

Tax base: Revenue from sale of goods (works, services), transfer of property rights is determined based on all the income of the taxpayer involved in the calculations for



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payment of goods (works, services), property rights, received in cash and (or) natural forms, including payment for securities.

When importing goods from abroad, the tax base includes:

- Tax cost;
- Customs duties;
- Excise.

Tax rates for different categories range from 0 to 18%.

The tax period: a quarter.

Terms of tax payment are not later than the 20th of the month following the tax period.

The order of calculation and payment of VAT deduction: As a general rule, the VAT payable to the budget is calculated as VAT on the taxable turnover, less the amount of deductible VAT. VAT collected from customers in this case is called "outbound" or «output VAT», and VAT deductible - "incoming" or «input VAT." In the case where the input VAT exceeds the outbound, the difference is usually refundable (return) to the taxpayer from the budget.

6.4.3. Excise taxes

Taxpayers: persons recognized by taxpayers in connection with the movement of goods across the customs border of the Customs Union, determined in accordance with the customs legislation of the Customs Union and the Russian Federation legislation on customs.



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Excisable goods:

- Ethyl alcohol of all kinds of raw materials and alcohol products with the volume of ethyl alcohol of more than 9%;
- Alcoholic beverages (alcohol drinking, vodka, liquors, brandy, wine, beer, beverages, manufactured on the basis of the beer, and other beverages with the volume of ethyl alcohol of more than 1.5%;
- Tobacco products;
- Passenger cars, motorcycles with engine capacity exceeding 112.5 kW (150 hp);
- Gasoline, diesel fuel;
- And the other, in accordance with the Tax Code.

Object of taxation: sale in the Russian Federation of manufactured excisable goods.

The amount of excise duty on excisable goods (including the importation into the territory of the Russian Federation), in respect of which fixed (specific) tax rate, is calculated as the product of the corresponding tax rate and the tax base.

The amount of excise duty on excisable goods (including imported into the territory of the Russian Federation), in respect of which there are ad valorem (percentage) tax rates, is calculated as the corresponding tax rate percentage of the tax base.

The amount of excise duty on excisable goods (including imported into the territory of the Russian Federation), in respect of which there are combined tax rates (consisting of fixed (specific) and ad valorem (percentage) tax rates), is calculated as the amount obtained by adding together the amounts of excise duty, calculated as the



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product of a firm (specific) tax rate and the volume sold (transferred, imported) excisable goods in kind and the corresponding ad valorem (percentage) tax rate percentage of the maximum retail price of such goods.

The tax period: a month.

6.4.4. Water Tax

Taxpayers: Organizations and individuals engaged in the special and (or) specific water use in accordance with the legislation of the Russian Federation.

Object of taxation: use of water bodies:

- Withdrawal of water from water bodies;
- The use of water areas, with the exception of timber floating in rafts;
- The use of water bodies without water abstraction for hydropower;
- The use of water bodies for the purposes of the alloy timber in rafts.

Tax rates:

The tax rates are set by the basins of rivers, lakes, seas and economic zones in accordance with the Tax Code.

When water is taken in excess of the established quarterly (annual) water use limits, the tax rates in the part of such excess are established by five times of tax rates.

Water tax rate when taking water from water bodies for water supply are set at RUB 70 (approx. USD 2, 00) per thousand cubic meters of water diverted from the water body.

Tax calculation and advance payments: The amount of tax at the end of each tax period is calculated as the product of the tax base and the corresponding tax rate.



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The payer independently calculates the amount of tax, file a tax declaration with the tax authority at the location of the object of taxation within the period fixed for payment of the tax.

A tax period: a quarter.

Terms of payment of tax and the tax in the form of advance payments: 20th day of the month following the tax period.

6.4.5. Tax on Mineral Extraction

Taxpayers are organizations and individual entrepreneurs recognized as subsoil users.

The object of taxation:

- Minerals extracted from the bowels of the Russian Federation in the subsoil provided to the taxpayer for use;
- Minerals extracted from waste (losses) of mining production, if such recovery is subject to separate licensing;
- Minerals extracted from the subsoil outside the territory of the Russian Federation, if the extraction is carried out in the territories under the jurisdiction of the Russian Federation.

The tax base: the value of extracted minerals except coal, oil, dehydrated, desalted and stabilized, the associated gas and flammable natural gas from all types of hydrocarbon deposits.

The tax base for the extraction of coal, oil, dehydrated, desalted and stabilized, the associated gas and flammable natural gas from all types of hydrocarbon deposits is defined as the amount of extracted minerals in kind.



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The procedure of calculation and tax rates are determined by the Tax Code.

The tax period: a calendar month.

The tax is to be paid not later than by the 25th of the month following the tax period inclusively.

6.4.6. State fee

State fees are fees charged to organizations and individuals in case of their appeal to state authorities, local authorities, other bodies and (or) to the officials for performance in respect of these entities legally significant actions under the Tax Code.

A state fee is determined by the Tax Code according to the type of public services provided.

6.5. Regional Taxes and Fees

6.5.1 Transport Tax

Taxpayers: Individuals and legal entities who own vehicles that are subject to taxation.

The object of taxation: cars, motorcycles, scooters, buses, and other self-propelled machines and mechanisms for pneumatic and crawlers, airplanes, helicopters, boats, yachts, sailboats, boats, snowmobiles, snowmobile, motor boats, jet skis, not self-propelled (towed craft) other water and air vehicles, duly registered under the laws of the Russian Federation.

The tax period: a calendar year.

Tax calculation and advance payments: a taxpaying organization make advance payments for the transportation tax during the tax period to the budget at the location of vehicles.



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6.5.2. Property Tax

In accordance with the Tax Code of the Russian Federation, taxpayers of the property tax are organizations in the ownership of which the property is recognized as subject to taxation under the law.

For foreign organizations operating on the Russian Federation through a permanent establishment, the taxable property will be immovable and movable property related to fixed assets, and property received under the concession agreement. For foreign organizations not having a permanent establishment, the taxable property will be immovable and movable property which is related to the company's assets and belonging to them by the right of ownership, and real property received under the concession agreement.

The tax base of property tax is determined as the average annual value of the property subject to taxation, investee recorded under its residual value, formed in accordance with established accounting regulations in the accounting policies.

The tax period is a year.

The accounting periods are recognized as quarter, six and nine months.

The tax rate is 2.2%.

In accordance with the Tax Code of the Russian Federation, real property owned by foreign companies which do not operate in the Russia through a permanent establishment, as well as real property unrelated to the activities of such companies in the Russia, which is included in the calculation of their tax base, is recognized at the inventory value of such property as assessed by technical inventory authorities (BTI). Information on the inventory value of each such property located in a relevant subject of the Russian Federation, competent authorities and specialized agencies engaged in



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registration and technical inventory of real property is required to be reported to the tax authority at the location of these properties.

Foreign entities which are taxpayers of property tax are obliged after the tax (reporting) period to submit to the tax authorities at the location of its permanent representative offices, as well as on the location of real property not related to their activities in the Russian Federation through a permanent establishment, a tax declaration on the property.

6.6. Local (Municipal) Taxes

6.6.1. Land Tax

Taxpayers: Organizations and individuals possessing lands recognized as subject to taxation, based on the right of ownership, the right of permanent (perpetual) use or right of lifetime inheritable possession.

The object of taxation: land plots located within the municipality.

Tax base: the cadastral value of land recognized as subject to taxation.

Tax rates are established by regulatory legal acts of the representative bodies of municipalities and may not exceed:

- 0.3% percent for agricultural land plots occupied by housing property and communal services, plots allocated for housing construction, horticulture;

- 1.5% for all other land plots.

The tax base is determined for each plot and even for each share separately - on the cadastral value of 1 January of the year, which is the tax period.

The tax period is a calendar year. The reporting period - the first, second and third quarter of the calendar year.



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6.7. Tax Litigations

Tax disputes are, without exaggeration, one of the most numerous and complex categories of cases in the Russian Federation.

Tax dispute is a dispute that arises from tax relations, namely:

- The establishment of relations, introduction and collection of taxes and duties on the territory of the Russian Federation;

- from the relations arising in the course of exercising fiscal control, including the appeal associated with the control acts of tax authorities, actions (inaction) of their officials;

- From relations related to bringing taxpayers liable for tax violations to responsibility.

Analysis of judicial practice allows to differentiate today's tax disputes into three main categories:

- 1) Disputes on matters of law. These are disputes which have arisen between taxpayers and tax authorities in disagreements associated with different interpretations and (or) the application of certain rules of substantive law (tax, civil and other legislation);

- 2) Disputes on matters of fact. These are disputes which have arisen between taxpayers and tax authorities in disagreements associated with different estimation of the actual circumstances of the case, directly or indirectly related to the taxable activity of the taxpayer (for example, regarding the content, nature and parameters of transactions committed by the taxpayer affecting the calculation of the tax base of various taxable property, concerning the reliability of the documents submitted by the taxpayer in support of the right of use of tax incentives, etc.);



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3) Procedural disputes are disputes in which the taxpayer refers to violations committed by the tax authority in the statutory procedures for tax control measures and (or) the proceedings on tax offenses.

7. Employment Relations

7.1. Employment Law

Regulation of employment relations in the Russian Federation is carried out by the employment legislation, including legislation on employment protection.

Russian employment laws consist of the Russian Employment Code (adopted on 30 December 2001), federal laws and laws of subjects of the Russian Federation containing norms of employment law.

Employment relations are regulated by other regulatory legal acts containing norms of employment law, such as:

- Decrees of the President of the Russian Federation;
- Regulations of the Government of the Russian Federation;
- Normative legal acts of the federal executive bodies;
- Normative legal acts of the executive authorities of subjects of the Russian Federation;
- Normative legal acts of local self-government;
- Collective agreements, contracts and local regulations.

A collective agreement is a legal act to which workers and employers acting through their representatives are parties.



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The collective agreement regulates social and employment relations in the organization (as a whole, in its branches, representative offices and other structural units) or individual entrepreneur.

The collective agreement regulates social and employment relations in the organization (or individual entrepreneur).

The content and structure of the collective agreement are determined in Article 41 of the Employment Code, and include the following:

- Forms, systems and wage;
- Allowances, compensations;
- Mechanism of regulation of wages to the price increase, inflation performance indicators defined by the collective agreement;
- Employment, retraining;
- Working time and rest periods, including the provision and duration of leave;
- Improvement of employment conditions and protection of workers;
- The interests of workers in the privatization of state and municipal property;
- Environmental safety and health of workers at work;
- Guarantees and benefits to employees combining work and study;
- Rehabilitation and recreation workers and their families;
- Partial or full payment of the power of workers;
- Control over the implementation of the collective agreement, the procedure for making amendments and additions to the responsibility of the parties, providing normal



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conditions, the activity of representatives of workers, how to inform employees about the implementation of the collective agreement;

- Refusal to strike under corresponding conditions of the collective agreement;

Other issues identified by the parties.

It is important to remember that the content and structure of the collective agreement are determined by agreement of the parties (the agreement reached between the employer and employee representatives).

7.2. Working Conditions

7.2.1. Salary Requirements

Salaries must be paid in Russian rubles at least once every two weeks. Salaries should not be less than the minimum monthly salary as established by Russian law. The minimum wage is regularly adjusted. As of 1 January 2014, the statutory minimum monthly wage (including for foreign nationals) was RUB 5,554 per month (approx. USD 150).

Individual Russian Federation constituent regions may set their own minimum wage at a higher level. For example, the City of Moscow's minimum wage is periodically set by a relevant regional agreement, and in 2014 it is RUB 12,850 per month (approximately USD 378).

7.2.2. Employment Contract

An employment contract is a contract between the employee and the employer and establishes their mutual rights and obligations. It is an agreement between the employee and the employer, in accordance with which the employee agrees to perform work



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personally on certain positions corresponding to his qualifications. The employer shall provide the employee with a job, working conditions, timely payment of wages.

In the Russian Federation, under the employment contract, the employee undertakes to perform work within the framework of official duties on certain specialty, according to his/her qualification and (or) position according to the internal employment regulations, and the employer provides appropriate working conditions according to the norms of employment legislation, the rules of the internal employment regulations and collective bargaining agreement.

Compliance with internal employment regulations is one of the main features which characterize the employment contract separating it from various civil contracts (agreements, services, etc.).

Official duties and other features of the work at a certain position are regulated by duty regulations with which the employee is obliged to familiarize when signing the contract, if they were not listed in the employment contract.

Before the conclusion of an employment contract the employer has an obligation to familiarize the employee with other local regulatory documents

Mandatory standards of the employment contract, mainly governed by the Employment Code and other legal acts of employment legislation, and for individual organizations or sectors of the economy of administrative-territorial units can also be established by collective bargaining agreements.

The employment contract consists of data and conditions. The data ascertain the facts which have substantial legal significance. For example, with the date of conclusion by the parties of the employment contract the law relates the time of its entry into force. According to the Employment Code, the employment contract shall specify:



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- Surname, first name of the employee and the employer's name (last name, first name of the employer - natural person) who have concluded an employment contract;
- Information on the identity documents of the employee;
- Taxpayer identification number;
- Information about the employer's representative, signed an employment contract, and the base, by virtue of which he is authorized with appropriate powers;
- Place and date of conclusion of the employment contract.

The following conditions have to be included in the employment contract:

- Place of work, and in the case when employee is hired to work in the branches, representative offices or other separate structural subdivisions of organizations located in other areas with the employer indicating the separate structural division and its location;
- Work function (work ex officio in accordance with the staffing level, profession, specialty indicating qualifications, the specific form of the work assigned to the employee).
- Date of commencement of work, and in the case of fixed-term contracts - also its duration and circumstances (reason) which serves as the basis for the conclusion of the fixed-term employment contract in accordance with the Employment Code or other federal law;
- Wage conditions (including the amount of the tariff rate or salary of employee, bonuses, allowances and incentive payments);
- Working hours and rest periods (if they differ in relation to the employee as compared to the general rules applicable with such employer);



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- Compensation for hard work and work in harmful and (or) hazardous working conditions, if the employee is employed in appropriate circumstances, indicating the characteristics of the working conditions at the workplace;
- Conditions determining where necessary the nature of work (mobile, traveling, in a way, another kind of work);
- Condition of mandatory social insurance for employees in accordance with the Employment Code and other federal laws;
- Other conditions in the cases stipulated by labor legislation and other standard legal acts containing norms of employment law.

If at the conclusion of the employment contract any information was omitted and (or) any mandatory conditions were not included, it does not serve as the grounds for recognizing the employment contract as not entered into or terminated. The employment contract must be supplemented by the missing information and (or) conditions. In this case the missing information is incorporated directly in the text of the employment contract, and the missing conditions determined by reference to the employment contract or a separate agreement of the parties, must be in writing and forms an integral part of the employment contract.

7.2.3. Working Hours

Working time is the time during which the employee in accordance with the internal employment regulations and the terms of the employment contract must perform job duties, as well as other periods of time, which, in accordance with the norms of employment law apply to working time.

Normal working hours may not exceed 40 hours per week.

Reduced working time is set:



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- For employees under the age of 16 years - not more than 24 hours a week;
- For workers aged 16 to 18 years - not more than 35 hours a week;
- For employees who are disabled group I or II - not more than 35 hours a week;
- For employees engaged in work with harmful and (or) hazardous working conditions - not more than 36 hours a week in order.

Working hours must include the duration of a working week (five day with two days off, six-day with one day off, work week with provision of days off work under the sliding schedule), work with irregular working hours for certain categories of workers, duration of daily work, start and end time of work, duration of breaks at work, the number of shifts per day, alternating working and non-working days which are established by internal employment regulations in accordance with the provisions of employment law, collective bargaining agreement, contracts, employment contracts.

All employees are provided a weekend - a weekly uninterrupted rest. The weekly rest period may not be less than 42 hours.

Non-working holidays in the Russian Federation are as follows:

- 1, 2, 3, 4 and 5 January - New Year's holiday;
- January 7 - Christmas;
- February 23 - Day of Defender of the Fatherland;
- March 8 - International Women's Day;
- May 1 - Spring and Labour Day;
- May 9 - Victory Day;
- June 12 - Day of Russia;



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- November 4 - National Unity Day.

Employees are granted annual leave from work and average earnings for 28 calendar days.

7.2.4. Social Guarantees

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

In addition, employees exempt from payment of any fees associated with employment. The law imposes this duty on the employer.

These payments include:

Obligatory Social Insurance Contributions (SIC). A ceiling was set for the assessment and payment of insurance contributions in relation to an individual's income. The rates are flat. SIC is payable on income up to RUB 568,000 at the rate of 30%. If payments are made in favour of foreign nationals temporarily staying in Russia (except highly qualified professionals or employees who have concluded employment contract for a period of less than six months in a calendar year), a rate of 22% is applied. For income exceeding RUB 568,000, SIC is calculated at the rate of 10%.

Obligatory Accident Insurance Contributions (OAIC) are made against work-related accidents. Rates vary between 0.2% and 8.5% depending on the level of professional risk associated with the employer's activity. Some key points to consider: payments or other allowances paid under civil law contracts with foreign nationals temporarily residing in Russia are exempt from SIC; payments or other allowances made by Russian organizations to foreign nationals working or doing business abroad are exempt from SIC; income paid to contractors is exempt from the Social Fund part of the Obligatory Social Insurance Contributions, which effectively reduces the total SIC



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payable; Obligatory Accident Insurance Contributions (OAIC) are not payable, if the relevant civil contract does not stipulate accident insurance coverage; payments or other allowances paid under employment contracts with highly qualified professionals or employees with contracts for a period less than 6 months in a calendar year are exempt from SIC.

Personal Income Tax (PIT) is paid by the employer for the employee by deducting the tax from the total wages earned by the employee. The standard tax rate is 13%. Depending on the special status of the employee (resident, non-resident, and others) the rate may vary from 9% to 30%. The amount of tax calculated by the employer cumulates from the beginning of the tax period to the end of each month in relation to all income which accrues to the taxpayer for such reporting period, by offsetting the amount of tax assessed in the preceding months of the current reporting period. Tax period for the calculation of personal income tax is a calendar year.

7.3. Foreign Employees

Employment activity of a foreign citizen means work of a foreign citizen in the Russian Federation on the basis of an employment contract or a civil contract for works (services).

The employer can be individual or legal entity that obtained permission in the prescribed manner to attract and use foreign workers and employ foreign workers on the basis of their employment contracts. An employer can also be a foreign citizen registered as an individual entrepreneur. Importantly, in all cases, the employer must have a special permit. The permission to hire foreign workers in the Russian Federation is a document confirming the right of the corresponding employer.



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As for the foreign citizens, they have the right to work only based on a work permit. The above procedure does not apply for some categories of foreign citizens (for example, members of diplomatic missions, employees of consular offices, etc.).

7.3.1. Highly Qualified Specialists

Highly qualified specialists are recognized as foreign citizen with experience, skills and achievements in a particular field of activity, if the conditions to engage him/her to work in the Russian Federation involve the receipt of wages (remuneration):

1) in the amount not less than one million rubles per annum (365 days) - for highly skilled professionals who are scientists or teachers, if the invitation is to get engaged in a research or teaching in state-accredited institutions of higher education, public academies of sciences or their regional offices, national research centers or public research centers;

2) without regard to the requirements as to the amount of wages - for foreign nationals involved in the project "Skolkovo" in accordance with the Federal Law "On the Innovation Center" Skolkovo";

3) in the amount of not less than two million rubles per annum (365 days) - for other foreign nationals.

Employers of highly qualified specialists can only be:

- Russian commercial organizations;
- Russian scientific organizations, educational institutions, professional education (with the exception of institutions of professional religious education (religious educational institutions));



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- Health agencies, and other organizations engaged in scientific, technical and innovative activity, experimental development, testing, and training in accordance with national priority areas of science, technology and engineering of the Russian Federation, if they have in the cases stipulated by the legislation of the Russian Federation, the state accreditation;

- Branches of foreign legal entities duly accredited in the Russian Federation.

Features:

- The work permit is issued for a term of the employment (civil law) contract, but no more than 3 years. The validity of the work permit may be repeatedly extended for the duration of employment (civil law) contract, but for no more than three years for each such extension.

- For work performed in several regions, the work permit may be issued for several subjects of the Russian Federation;

- Work permit and an invitation to enter the Russian Federation issued to a highly qualified specialist, excluding quotas.

8. PraeLegal in Russia

BMS Advisory Law Firm

BMS Advisory is a Russia based legal consulting firm providing a full range of legal services to domestic and foreign businesses across all regions of the Russian Federation and the CIS countries.

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arbitration; legal support of bankruptcy and restructuring proceedings; corporate fraud management and internal investigations; regulation of land, real estate, building and construction related matters; registration and protection of intellectual property rights; legal support of M&A procedures; services in the area of corporate law; tax consulting and resolution of disputes involving tax authorities; services in the field of antitrust law and antitrust disputes resolution; legal support of complicated criminal cases; services in the sphere of bank law and corporate finance; services in the area of labor migration law.

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