Business-guide of Ryazan region

You may download electronic version of this business-guide at this web-site

www.rrcd.ru
## Content

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greetings of the Governor of Ryazan region, Oleg Kovalev</td>
<td>3</td>
</tr>
<tr>
<td>Investment potential of Ryazan region. Numbers and facts</td>
<td>4</td>
</tr>
<tr>
<td>Specific features of business regulation in Ryazan region</td>
<td>12</td>
</tr>
</tbody>
</table>
Dear colleagues and partners!

Ryazan soil – is a territory with rich history and dynamically developing economics. The region has all conditions for starting business: convenient geographic location, raw resources, developed transport infrastructure, modern energy supply system, availability of free production capacities, significant technical and intellectual potential. Forming of high-tech industrial parks and sites of complex territory developing, along with mass construction of modern living and social-cultural objects are a serious prerequisite for investment projects promotion.

Our region has significant opportunities for allocation of new effective manufactures and implementation of investment projects of any direction and scale. Successful entrepreneurship is promoted by modern and constantly developing legislative framework, which provides beneficial conditions for investors. We are willing to provide our partners with maximally detailed information, to create necessary transparency and to minimize risks of participation in an investment process, to provide support on all stages of project implementation.

I am sure that on Ryazan soil, representatives of Russian and foreign business community will gain new reliable partners in business. I wish success for all, who is going to invest in the real sector of Ryazan economy with mutual benefit and profit.
Numbers and Facts

General Facts
Ryazan region is situated in heart of the European part of Russia 147 km to the south east from Moscow. The population is 1.14 million people, of which 71.1% lives in cities and 28.9% in the country. The population density is 28.8 people per km² (8.4 is Russia’s average). The region’s capital – Ryazan is 180 km away from Moscow and has a population of 530 thousand people.

Ryazan is a big industrial region with a developed agriculture. Gross regional product (GRP) grew by 38% in 2005-2012. The biggest share is held by industry, trade, agriculture, transport and telecom. In 2005-2013 (excluding 2009) there was a positive dynamic in the construction industry. Its growth rate demonstrated by Ryazan is the highest in the Central Federal District of Russia. In 2005-2013 the value of foreign trade grew 3.2 times, exports – 2.5 times and imports – 3.8 times. The volume of foreign trade of the Ryazan region in 2013 was $1.17 billion.

Energy
The generating capacities of the region include 3 power plants with a total installed capacity of turbo-generators equal to 3.623 MW. The Ryazan regional power station in the town of Novomichurinsk is one of the biggest in Europe. Its installed power capacity is 3070 MW. The energy capacities of the whole region allow generating 14 billion kWh, while the actual consumption is now only 45% of the potential output. There are also no technical limitations in connecting the consumers to power supply in Ryazan.

Labor Resources
There are 27 colleges and 38 technical schools. Income levels provide considerable competitive advantages over neighboring regions, particularly Moscow and the Moscow region.

Natural Resources
Ryazan region is abundant with mineral resources: limestone, loam, building sand, glass sand, molding sand, cement materials, peat, sapropel, phosphorite, brown coal, mineral paint. Building sand fields are present almost everywhere in the region. The natural resources fulfill the demands of the local industry and the rest is exported. The total area of forests is 875 ha with over 320 ha of coniferous forests. There are big opportunities in wood production, annual cut in the region is 1,356 m³.
**Fig. 1**

[Map of Russia showing Ryazan and Moscow with connections indicated.]

**Fig. 2**

**Foreign partners for Ryazan exports**

- 28% Ukraine
- 9% Hong Kong
- 7% Romania
- 5% Spain
- >5% other countries

35% Belorussia

**Foreign partners for Ryazan imports**

- 30% Germany
- 11% Belorussia
- 11% USA
- 10% France
- 8% Italy
- 8% China
- 6% Poland
- 5% Ukraine
- >5% other countries
Industry

Industry is one of the key elements of the region’s economy which contributes to over a third of the GRP. The main spheres of the region’s industrial sector are oil refining, energy, construction materials, food industry, machine building and metal-working.

Some of the enterprises are of great pertinence not only to the region, but to the whole Russian economy.

- Ryazan Oil Refining Company — is the biggest refinery belonging to Rosneft with a capacity of 17 million tons of oil annually. It produces gasoline of high standards, diesel fuel, jet fuel, black oil and bitumen.
• Russian Leather is an enterprise producing about 35% of leather items in Russia. About 48% of its products are exported abroad to Europe and Asia. The region’s defense industry complex acts as a strong base for R&D which allows developing new advanced technology products: radar equipment, gas lasers, solar power plants, plasma monitors, and so on. The building materials industry is especially important for the region’s economy. Between 2005 and 2013 the production of other non-metallic mineral products increased by 77%. One of Europe’s largest factories producing flat glass with the float technology – “Guardian Glass Ryazan” operates in Ryazan since 2009. This American investment has a capacity of producing 310,000 tons of glass per year. Andrey Stolniy, CEO of Guardian Glass Ryazan: “We chose Ryazan and we are very happy with the result. Firstly, it is located close to Moscow – our main market. We also appreciate that there are good labor resources here. At the same time our transportation contractors who provide the delivery of fragile material – glass, enjoy the fact that the trucks do not crack our product due to good road infrastructure.” A great role in the region’s industry is played by auto parts manufacturers, which, owing to the convenient geographical position successfully deliver their products to factories across the country. (Fig. 5)

Agriculture
Agriculture also plays a crucial role in the Ryazan region and is a significant export item, although its share in the GRP is only 9%. Livestock breeding specializes on milk, meat and eggs production. Crop farming is focused on grain, vegetables (potatoes and sugar beet) and livestock feed. Agricultural production in 2013 reached $1 billion. The total area of agricultural land of companies and private owners is 2,556 th. ha including 2,328 th. ha of farmland, 1,470 th. ha of arable land, and 813 th. ha of forage lands. Grain production is highly import-

![Auto Parts Manufacturing](image-url)
GOVERNMENT OF RYAZAN REGION

Forbes
2013 «Forbes »
24 rank
in rating «Best regions for doing business—2013»

Ministry of regional development of the Russian Federation
13 rank
on summary index of investment attractiveness

RAEX
National rating agency «Expert RA»
3rd rank
on dynamics of reduction of investment risks

FitchRatings
International Rating Agency «Fitch Ratings»
B+
long-term ratings in foreign and local currency
B
short-term foreign currency rating
A(rus)
national long-term rating

Fig. 6

Ryazan Region and International Ratings
(Fig. 6)

Investment Climate
By the end of 2012 Ryazan region ranked first in the Central Federal District and a leading position in Russia as a whole on the dynamics of investment in fixed capital (Ryazan region – 121.2%, Russia – 106.8%). There are about 200 investment projects with a total of $6.5 billion. In 2013, the region’s economy received $1.84 billion of investment in fixed assets. In 2012, the economy of the region attracted 14 times more foreign investment than in 2005. The investment in industry in 2005-2014 grew by 32.2% and mainly the increase was in the manufacturing sector – 21.5%.

Some of the Foreign Investors in Ryazan
(Fig. 7)

Favorable investment climate is supported by regional legislation providing those companies which invest more than 50 million rubles in the region with subsidies and tax incentives. (Fig. 8)

Cluster-Based Policy of the Ryazan Region
(Fig. 9)

ant for the region’s economy. In the past 5 years half of the cultivated area on average was used for it. It is the main source of the income from agriculture and contributes to 68.7% of farming products.

In the sphere of livestock breeding from 2005 to 2012 the number of pigs grew 2.2 times, sheep and goats – 1.5 times.

The Ryazan region is traditionally a major producer of milk. (356 tons in 2013). Local dairy cattle breeding fulfills the demands of the region and supplies big milk and cheese producers outside of Ryazan.

The Ryazan region is traditionally a major producer of milk. (356 tons in 2013). Local dairy cattle breeding fulfills the demands of the region and supplies big milk and cheese producers outside of Ryazan.
Subsidies and Tax Incentives for Business

- Subsidies: 20%, 18%, 15.5%
- Project administration: 2.2%, 1.1%, 0%
- Transport tax exemption: 100%, 50%, 0%
Development of Infrastructure for Investment

There is a number of accelerated growth territories in the Ryazan region.

- Industrial special economic zone “Ryazan” in the Pronsk area of the region (there are 10 agreements concerning the plans to build projects in the SEZ with $230 million of investment)
- Industrial innovation park “Varskie” (over 900 ha of land with innovative production and a housing area supplied with developed social and economic infrastructure)
- Industrial parks Rybnoe-1 and Rybnoe-2 next to the border with Moscow region (the first resident of the park — BERVEL GmbH is to start production later in 2014 and is planning another investment project in the park in 2015)
- Industrial and logistics park “Gorodishe” (currently negotiating a project with an Austrian producer of complicated metal structures)
- Business-incubator of the Ryazan Radio Engineering University (18 small innovative companies, a laboratory of D-Link — a well-known network and communication devices producer)
- Innovation industrial park “Innograd” based on an auto parts factory — “Gerkon-Auto”

Industrial Special Economic Zone “Ryazan” (Fig. 10)

Industrial Innovation Park “Varskie” (Fig. 11)

Ryazan Region Corporation of Development – this “one stop shop” plays the lead role in working with investment projects. It was created in 2012 by the Government of the Ryazan region to attract and support investors. Its activities include consulting services, land plot selection, assistance in provision of required resources and infrastructure. Its employees support the investor at every stage of a project and help solving all the related issues.
Specific Features of Business Regulation in Ryazan Region

Setting up a New Business. Joint Ventures
In this section we would like to focus your attention on information concerning the basic legal aspects of business organization in Russia, establishing branches and representative offices of foreign companies on its territory and setting up new companies (organizations/legal entities).

Legal Forms
Under the civil legislation of the Russian Federation there are two main possibilities for a legally capable person who wishes to engage in business: either to conduct business without forming a legal entity (unincorporated) after registration as an individual entrepreneur, or to incorporate a company in a legal form determined by law (partnership or company, production or consumer cooperative, institution, fund, etc.)

A new business in Russia shall be set up in accordance with the applicable civil legislation, the federal laws on the legal forms of entities that carry out entrepreneurial activity, federal laws on nonprofit-making organizations and other regulations relating to some aspects of the incorporation and operation of organizations.

In setting up a new company it is necessary to choose its legal form in compliance with the RF Civil Code. The simplest way of organizing a business is to become an individual entrepreneur. A citizen may carry out entrepreneurial activity without establishing a legal entity from the moment of his/her state registration as an individual entrepreneur.

Despite simple registration (liquidation) procedure, simplified procedure for income and expense accounting, absence of obligation to maintain accounts and favorable tax rates this type of business can’t be regarded as preferable due to the high level of responsibility of the entrepreneur and the impossibility of conducting joint business.

Branches and Representative Offices of Foreign Organizations
A possible form of business in Russia is the establishment by a foreign company of economically autonomous subdivisions (branches and representative offices).

The provisions of the RF Civil Code regulating business also apply to foreign nationals and legal entities; therefore foreign companies acting in Russia in the form of a branch or representative office enjoy the national regime, i.e. they have the same rights and obligations as Russian organizations, except in cases expressly stipulated by law.

In order to establish a branch or a representative office of a foreign organization in Russia it is necessary to go through an accreditation procedure and obtain a special permit. Subsequently, the branch or representative office may be registered with the tax authorities, open a bank account and start its operations.

Accreditation of employees to a branch or a representative office of a foreign organization shall be carried out by the accreditation body that issued the permission to establish the representative office within the permitted number of employees.

An undoubted advantage for a foreign organization carrying out business through a branch is the availability of various benefits (benefits for renting premises, various customs benefits for specific types of commodities in the course of their transfer across the Russian border). Such benefits will be also applied to representative offices from 1 January 2015, according to the recent amendments to the Federal Law «On Foreign Investments in the Russian Federation».

The maximum term of accreditation for a representative office is 3 years (5 years for a branch). The term of accreditation term may be extended. In accordance with the abovementioned amendments a permit for opening a branch / representative office will be issued without any validity period limitations since 2015.

One more advantage to be mentioned is that unlike a legal entity, its economically autonomous subdivisions (branches and representative offices) exercise a sim-
plified maintenance of accounts. On the other hand, branches and representative offices do not enjoy the rights of a legal entity and the foreign legal entity is responsible for their activity. In many cases this results in the rejection of this course in favor of the creation of a new company.

**Legal Forms of Legal Entities**

When choosing a legal form for a legal entity one should be guided by the line and scope of the proposed business, the number of participants (co-founders) and the specific character of the market activity of the future enterprise. Legal entities can only be created in one of the legal forms provided for by the RF Civil Code. In accordance with the RF Civil Code, all legal entities shall be divided into two types: profit-making organizations and nonprofit-making organizations.

**Profit-making organizations** are legal entities whose main purpose is the generation of profits and their distribution among its participants. Such organizations may be established in the following legal forms: business partnerships, business entities, economic partnerships and other forms stipulated by the RF Civil Code.

**Nonprofit-making organizations** may be established only in the forms directly named in the RF Civil Code.

The second classification of legal entities stipulated by the RF Civil Code divides them into **corporate legal entities** (corporations), which founders (participants) have the «right of participation (membership)», and **unitary entities**, which founders (participants) have no such right and do not become their members. For corporate and unitary entities the RF Civil Code provides for different special rules on management as well as exercising the rights of participants, etc. Profit-making corporate organizations whose charter (share) capital is divided into shares (contributions) of their founders are deemed to be business partnerships and business entities. Charter (share) capital means the part of a company’s capital intended to guarantee the rights of creditors. The size of the charter (share) capital shall be specified in the company’s charter. Charter (share) capital and property acquired in the course of activity is owned by the business partnership or business entity.

**Business partnerships** may be established in the form of a general partnership or a special partnership (limited partnership). The activity of partnerships is regulated by Part I of the RF Civil Code.

**Business entities** may be founded in the form of joint stock companies or companies with limited liability. The activity of these entities is governed by Part I of the RF Civil Code, Federal Law No. 208-FZ “On Joint Stock Companies” of 26 December 1995, and Federal Law No. 14-FZ “On Limited Liability Companies” of 8 February 1998.

**Business Partnerships**

A partnership is deemed general if its participants (partners) conduct business activity on behalf of the partnership in accordance with an agreement entered into between them and bear liability for the obligations of the partnership by the property they own.

In a **limited partnership (special partnership)**, along with the participants conducting business on behalf of the partnership and bearing liability for the obligations of the partnership by their property, there are one or more limited partners (participants) who bear the risk of losses associated with the activity of the partnership within the limits of their contributions and do not participate in the business activity of the partnership. General partners bear unlimited liability for the obligations of the partnership and the specific form of management in the partnership stipulated by law may slow down the decision-making process, that’s why such partnerships are much more attractive for creditors than for the partners thereof. Such forms of business are quite rarely chosen.

**Business Entities**

The most widespread form for the organization of small and medium businesses in Russia is a **limited liability company** (LLC). A limited liability company is a business entity incorporated by one or more persons whose charter capital is divided into interests; the size of the charter capital shall be specified in the foundation documents. The company’s participants (their number may not exceed 50) are not liable for the obligations of the company and bear risk of losses associated with the company’s activity within the limit of the value of their contributions. An LLC is the most suitable form for small and medium businesses and the minimum size of its charter capital is not great (10,000 rubles). Information relating to the members of an LLC is reflected in the Unified State Register of Legal Entities.
A change in participants requires registration in the said register. Unlike other legal entities, an LLC may consist of one person (individual). If an entrepreneur becomes the sole participant and the general director, he/she may totally control his/her business. The supreme management body of an LLC is a general meeting of its participants. Day-to-day management is conducted by the sole executive body (president, general director, etc.). Charter of LLC as well as foundation documents of other types of corporations may provide several persons acting jointly execute the powers of the sole executive body, or may contain provisions about several sole executive bodies acting independently. A board of directors and a collegial management body (directorate, management board, etc.) may be established if required. A company’s charter may provide for the establishment of an internal audit commission (election of internal auditor) of a company.

The number of votes of each participant of the company at the general meeting is equal to the size of his/her interests in the charter capital. The actual value of the interest of each participant of an LLC corresponds to the portion of the company’s assets pro rata the size of his/her interest. A company may distribute profits between its participants on a quarterly, half-yearly or annual basis. One of the disadvantages of LLCs is that they are unattractive for creditors, as LLC participants bear restricted liability for the obligations of the LLC within the value of the participatory interests that belong to them.

As a general rule a participant of a business entity is not liable for the entity’s obligations and bears the risks of losses incurred as a result of the entity’s activity within the value of the participatory interests (shares) belonging to him/her. However, the law may provide otherwise. For example, the provisions of the Federal Law “On Insolvency (Bankruptcy)” No. 127-FZ of 26 October 2002 (see Bankruptcy Law below) stipulate cases when participants and a director of a business entity shall bear subsidiary liability for the obligations of such business entity.

A joint-stock company (JSC) is a profit-making organization whose charter capital is divided into a specific number of shares. Joint-stock companies are divided into public and nonpublic ones. Securities of a public joint-stock company are publicly placed (by means of public offering) or publicly listed subject to the terms and conditions set out by the securities laws. Other joint-stock companies are recognized non-public. The Civil Code provides a number of special rules in relation to public joint stock companies. Please find below a comparative analysis of such legal forms as LLC, JSC and Economic Partnerships in compliance with the RF corporate law as of 15 September 2014.

Table 1
### Table 1

<table>
<thead>
<tr>
<th>Property contributed as a contribution to the charter capital</th>
<th>LLC</th>
<th>JSC</th>
<th>Economic Partnerships</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monies, items, shares in charter (share) capital of other business entities and partnerships, state and municipal bonds. The exclusive and other intellectual rights and right under the license agreements subject to monetary valuation can also be such a contribution. The company charter or law may impose restrictions.</td>
<td>Monies, items or other property interests or other rights having monetary value. Securities may not be contributed to the share capital, with the exception of the business entities' bonds determined by the authorized executive authority in the area of the financial markets. The partnership management agreement may set out other restrictions.</td>
<td>Medium. Information on the participants is contained in the list of participants (maintained by the company) and in the Unified State Register of Legal Entities (EGRUL)</td>
<td>Comparatively high. Information on the shareholders is contained only in the shareholders register (maintained by the company or by a special registrar, who provides information only upon the request of state bodies). Information on the initial shareholders (founders) is contained in the Unified State Register of Legal Entities (EGRUL)</td>
</tr>
<tr>
<td>Property contributed as a contribution to the charter capital</td>
<td>Monies, items, shares in charter (share) capital of other business entities and partnerships, state and municipal bonds. The exclusive and other intellectual rights and right under the license agreements subject to monetary valuation can also be such a contribution. The company charter or law may impose restrictions.</td>
<td>10,000 rubles</td>
<td>100,000 rubles</td>
</tr>
<tr>
<td>Property contributed as a contribution to the charter capital</td>
<td>Amendments to the foundation documents must be registered</td>
<td>— Amendments to the foundation documents must be registered; — issuance of shares must be registered; — an issuance statement must be registered.</td>
<td>Amendments to the foundation documents must be registered</td>
</tr>
<tr>
<td>Change of participants</td>
<td>Subject to registration of changes in EGRUL without amendment of the charter</td>
<td>Reflected only in the shareholders register</td>
<td>Information on the partners is subject to registration in EGRUL without amendment of the charter</td>
</tr>
<tr>
<td>------------------------</td>
<td>--------------------------------------------------------------------------------</td>
<td>-------------------------------------------</td>
<td>----------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Right to purchase interests and shares + consent</td>
<td>Participants have a preemptive right to the purchase of interests in the event of their alienation in favor of third persons. The charter may provide for the preemptive right to the purchase of interest by the company if the other participants of the company did not exercise their preemptive right. The participant of a company shall not require the prior consent of other participants of the company or the company itself to alienate his/her interests, unless otherwise stipulated in the company’s charter. A participatory interest may be alienated in favor of third persons, unless prohibited by the company charter.</td>
<td>Shareholders may freely alienate their shares in favor of third persons without prior offer to other shareholders as well as without their prior consent.</td>
<td>Unless otherwise provided by the partnership management agreement, a partner shall be entitled to alienate his/her share in share capital in favor of another partner, the partnership or a third party. The partners and the partnership shall enjoy the preemptive right to purchase a share in the share capital over the rights of third parties, unless otherwise stipulated in the partnership management agreement. The partnership management agreement may provide for various procedures regulating obtaining consent of the partners to the transfer of a share in the share capital to third parties depending on such transfer or other circumstances.</td>
</tr>
<tr>
<td>Withdrawing from a company</td>
<td>A participant may withdraw from a company at any time if it is provided for in the company’s charter. The actual price for his/her interest shall be paid to the participant or the participant shall be given property whose value corresponds to such price in kind. (The participant is entitled to withdraw from the company regardless whether or not the other participants of the company or the company itself give their/its consent).</td>
<td>Withdrawal is possible only by means of the sale of shares without right to the company’s assets. The company may buy out shares only in a limited number of cases</td>
<td>As a general rule the partners are prohibited from withdrawing from the partnership, unless otherwise stipulated in the partnership management agreement.</td>
</tr>
<tr>
<td>Management structure</td>
<td>As a rule it consists of two levels: a general meeting of the participants and an executive body (either collegial or sole)</td>
<td>As a rule it consists of three levels: a general meeting of shareholders, a board of directors and an executive body, but it is possible to transfer the authority of the board of directors to another commercial organization or individual entrepreneur (upon a decision of the general meeting).</td>
<td>The system, structure, and scope of authority of the management bodies of the company, the procedure for conducting activity and termination thereof shall be set out in the partnership management agreement. However, the partnership may not operate without a properly elected sole executive body.</td>
</tr>
<tr>
<td>Interest (share) pledge</td>
<td>A decision on a pledge of interest of a participant in favor of another participant or, unless prohibited by the charter, to a third party, shall be made by a general meeting of the participants.</td>
<td>A shareholder does not require the consent of the company for a share pledge</td>
<td>A partner is not entitled to pledge his/her share in the share capital of the partnership.</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Decisions of general meetings</td>
<td>Decisions by a general meeting of participants shall be made by the proportion of the total number of votes determined by law or in the charter (each participant has a number of votes proportionate to his/her contribution to the charter capital). There is no concept of a quorum.</td>
<td>Decisions by a general meeting of shareholders shall be made by the proportion of the total number of votes determined by law or in the charter (1 vote equals 1 share). The concept of a quorum applies. In a public JSC the maximum number of votes granted to one shareholder cannot be restricted.</td>
<td>The procedure for decision making shall be determined in the partnership management agreement. On issues related to the amendment of the partnership management agreement each partner thereto shall have one vote, regardless of the size of his/her share in the share capital of the partnership.</td>
</tr>
<tr>
<td>Requirement of unanimous decisions of the general meeting</td>
<td>Resolutions on matters relating to restructuring or liquidation and certain other issues shall be adopted unanimously at the general meeting of participants.</td>
<td>No matters requiring unanimous decisions fall within the authority of the general meeting of shareholders, with the exception of the company’s transformation into a nonprofit partnership.</td>
<td>Acceptance of new partners, exclusion of some partners, approval of the monetary value of objects of the civil law rights contributed to the share capital, election of the sole executive body, reorganization in the form of transformation, etc.</td>
</tr>
<tr>
<td>Authority of management bodies</td>
<td>The charter may invest the board of directors with greater powers than those granted by law.</td>
<td>The powers of the management bodies of the partnership are set out in the partnership management agreement. The obligations of the sole executive body are determined by law.</td>
<td>The nature and the scope of authorities of the sole executive body and other management bodies of the partnership relating to the conducting and/or approval of some or other steps or transactions is regulated by the partnership management agreement.</td>
</tr>
<tr>
<td>Restriction of transactions</td>
<td>There are statutory limits for major transactions and related party transactions that can be made by director. It is also possible to impose additional restrictions by the general meeting of shareholders and the board of directors (if any) to those and other transactions by director.</td>
<td></td>
<td>The nature and the scope of authorities of the sole executive body and other management bodies of the partnership relating to the conducting and/or approval of some or other steps or transactions is regulated by the partnership management agreement.</td>
</tr>
<tr>
<td>Possibility of excluding a participant</td>
<td>By a court decision in certain circumstances (for example, if actions (or inaction) of a participant has caused substantial damage to the company, etc.)</td>
<td>A partner can be excluded by a court decision if a partner fails to observe his/her obligation to make a contribution into the share capital, subject to the unanimous decision of all the other partners.</td>
<td></td>
</tr>
<tr>
<td>Possibility of levying execution on interests (shares)</td>
<td>By a court decision, only in the event that no other property is available.</td>
<td>Mainly by a court decision or after levying execution on liquid property.</td>
<td>Permitted only by a court decision if the partner’s property is insufficient to repay the debts.</td>
</tr>
</tbody>
</table>
Corporate agreement
All or some of the participants / shareholders of a business entity may enter into an agreement on the exercising of their corporate rights also called «rights of membership» (corporate agreement), under which they undertake to exercise their rights and/or refrain from exercising such rights in a specified manner, including voting in a certain way at the general meeting of the participants of the company, agreeing a form of voting with other participants (shareholders), selling an interest or part thereof (acquiring or alienating shares) at a price determined in such an agreement and/or under certain circumstances refraining from the alienation of interest (share) or a part thereof until certain circumstances occur. Such an agreement shall be executed in writing by means of drawing up a single document to be signed by the parties thereto.

Economic Partnership
From 1 July 2012 in the Russian Federation it will be permitted to form an economic partnership, a new type of profit-making organization (See Federal Law “On Economic Partnerships” No. 380-FZ of 3 December 2011).
An economic partnership may be established by two or more members. However, the number of members may not exceed fifty. Both individuals and legal entities may become members of the partnership.
As a general rule, the partners are prohibited to withdraw from the partnership unless otherwise provided for in the partnership management agreement. New members may be accepted into the partnership only subject to the consent of all other members. The preemptive right to purchase a share in the share capital is also provided for. The law sets out certain restrictions in respect of the operations of a partnership (for example, an economic partnership may not issue bonds and other equity securities, advertise its activity, establish legal entities or participate in them, except for unions and associations). In addition to the charter the partnership management agreement plays a significant role in regulating the operations of an economic partnership. However, the partnership agreement is an internal document and, as a general rule, third parties are not aware of the content thereof.
Legislators have introduced specific measures for the protection of partnership property that are not established for other legal forms. Rights to the results of intellectual activity owned by the partnership shall be specially protected.
The principal characteristic of economic partnership management is that only the General Director may act as its sole executive body. It is not permitted to form collegial executive bodies.

Branches and Representative Offices
Under RF civil legislation a legal entity may open branches and representative offices. A representative office is an economically autonomous subdivision of a legal entity situated outside the place of the legal entity’s location, which represents and protects the interests of the legal entity. A branch is also an economically autonomous subdivision, but it is established in order to perform the functions of the legal entity in whole or in part, including the functions of a representative office. It should be noted that neither representative offices nor branches are legal entities. They are invested with property by the legal entities that establish them and operate on the basis of a power of attorney.

State Registration
State registration is a necessary stage in the incorporation of legal entities and individual entrepreneurs. It requires a single application by a person to the registration authority, after that the information is to be put to the unified state register and simultaneous tax registration is to be done. On the basis of information in the unified state registers received by bodies of state non-budgetary funds from registration authorities, the registration of legal entities and individual entrepreneurs as insured persons (without direct application to those funds) is carried out. State registration of the incorporation of a legal entity shall be carried out at the location of such legal entity with the territorial tax authorities, with departments carrying out registration and keeping records on taxpayers, with the exception of some tax inspectorates.
Russian Federation legislation governing state registration includes the Civil Code of the Russian Federation, the Federal Law “On the State Registration of Legal Entities and Individual Entrepreneurs” and other legal acts of the Russian Federation issued in accordance with them. These acts, provides for the registration procedure and the list of grounds for refusal of registration body to register a company. A legal entity shall be deemed established from the moment of...
the entry of the relevant record in the Unified State Register of Legal Entities.

In accordance with law No. 294-FZ "On the Protection of the Rights of Legal Entities and Individual Entrepreneurs in the Course of the Exercising of State Control (Supervision) and Municipal Control" of 26 December 2008, legal entities and individual entrepreneurs are obliged to notify a federal executive body duly authorized by the Government of the Russian Federation of the commencement of certain types of business.

**Business Location. Special Economic Zones**

Special Economic Zones (SEZs) may be created across the Russian Federation in order to support the development of the manufacturing sector, high technology industries and other economic sectors. According to Federal Law No. 116-FZ "On Special Economic Zones in the Russian Federation" of 22 July 2005 (hereinafter, the SEZ Law), a SEZ is a geographical region within the Russian Federation, defined by the Russian Federation Government, wherein special conditions of entrepreneurial activity are established, and the customs procedure applicable to free trade zones may be applied.

Depending on the purpose, SEZ types are as follows: industrial/developmental zones; technical/innovational zones; tourist zones; port zones.

In addition to special conditions of entrepreneurial activity, SEZs are characterized by specific procedures for their creation and management, as well as for overseeing the business activity of its residents.

Special conditions of entrepreneurial activity inside a SEZ include a more favorable environment for entrepreneurial activity, which allows for lower business expenses (according to data provided by Special Economic Zones, by 30%).

SEZ residents are thus entitled to:
- tax incentives, such as land tax exemption and transport tax exemption;
- preferences, such as incentive rates for the lease of premises and favorable utility connection terms;
- lower administrative burden (the "one-stop" principle);
- infrastructure for developing their own business;
- reduced insurance rates.

SEZs are created by the decision of the Russian Federation Government, based on criteria for the creation of a SEZ for forty-nine years. The rules regulating entrepreneurial activity, as well as activity types within a SEZ, vary for different SEZ types.

Either an individual entrepreneur or a profit-making organization (except for unitary enterprises) may be a resident of a technical/innovational zone or a tourist and recreational zone. Only a profit-making organization (except for unitary enterprises) may be a resident of an industrial/developmental zone or port zone.

Such entities shall be registered in the municipal unit territory within which the special economic zone is created and shall sign an agreement with the authorized federal executive body and a management company. According to this agreement, the management company for instance undertakes to create infrastructure facilities within the zone. The resident also undertakes various obligations.

A resident of a special economic zone ceases to be one only in cases stipulated by law and only subject to judicial procedure.

A resident of a special economic zone may neither establish branches or representative offices outside the special economic zone, nor assign its rights and obligations under the agreement on conducting business activity to any third parties.

The agreement on conducting business activity may be terminated by mutual agreement of the parties or by a party’s request in case of a material breach by the other party, material changes in circumstances or on other grounds provided for by the Federal Law.

In the event of the agreement on conducting business activity being terminated, the person shall cease to be a resident of the special economic zone.

Please visit the Special Economic Zones’ website: www.russez.ru.

**Joint Ventures**

The Russian term “joint venture” traditionally encompasses a specific form of business cooperation between a Russian organization or individual with a foreigner, which assumes the formation of joint assets of the partners to be used for the purposes of the functioning of a business. As a rule, a joint venture implies joint corporate participation (joint share holding) of partners in a separate, third organization and joint management by that third party.

It should be noted that the term “joint venture” is not used in Russian legislation. In the Federal Law "On Foreign Investment in the
Russian Federation” No. 160-FZ of 9 July 1999 the term “commercial organization with foreign investment” is used instead. A Russian commercial organization acquires the status of a commercial organization with foreign investment from the date when a foreign investor joins the organization.

As a general rule, the legal regime regulating the activity of foreign investors and the allocation of profit from investments may not be less favorable than the legal regime regulating the activity of Russian investors, with the exceptions provided for by federal laws. It can therefore be said that the regime regulating the activity of foreign investors and joint ventures organized by them in Russia is absolutely the same as the regime regulating the activity of national investors.

Both joint ventures and foreign investors themselves enjoy special guarantees and concessions in Russia, including customs concessions, guarantees of legal protection, provision of proper dispute resolution, availability of various forms of investment, transfer of the rights and obligations of a foreign investor to another person, guarantee of compensation in the event of nationalization and seizure of property, guarantees against an unfavorable (for a foreign investor and joint ventures organized by them in Russia) situation described, simpler mechanisms assuming the conclusion of distribution and dealer agreements between Russian and foreign partners may not fully regulate the investment relations of the parties or provide them with sufficiently wide-ranging guarantees and controlling authority.

Among the most common forms of commercial joint ventures in Russia are business entities with joint participation (limited liability companies or joint-stock companies) or ordinary partnerships (a form of joint activity without the incorporation of a legal entity). Thus, the partners have to choose between contract and corporate cooperation models.

The first one, the contract cooperation model, involves the parties entering into a so-called “ordinary partnership agreement” (“joint activity agreement”). Issues relating to the execution, performance and termination of an ordinary partnership agreement are touched upon in Article 55 of the RF Civil Code. Under an ordinary partnership agreement two or more persons (partners) undertake to combine their contributions and act jointly, without forming a legal entity for the purposes of gaining profit or achieving any other goal permitted by law.

Funds, other assets, professional or other knowledge, experience, skills, business reputation and business contacts may be contributed. Contributed assets that were owned by the partners on grounds other than property rights shall be used for the benefit of all the partners and constitute the joint property of the partners together with property owned by them jointly.

In the course of conducting joint affairs, each partner may act on behalf of all the partners, unless the ordinary partnership agreement specifies that affairs are to be conducted by certain parties to the ordinary partnership agreement or by all parties thereto jointly.

In relations with third parties the authority of a partner to perform transactions on behalf of all the partners shall be confirmed by a power of attorney or by an ordinary partnership agreement executed in writing.

A specific feature of ordinary partnerships organized in order to conduct business activity jointly is the fact that the partners are jointly liable for all their joint obligations, regardless of how they arise. Each partner is liable for all his/her assets, which naturally does not contribute to the popularity of this form of joint activity.

It is therefore advisable to choose the ordinary partnership model, where the partners do not wish to bind themselves by additional formalities related to the registration and maintenance of a Russian legal entity, and where there is no need to be represented in the market as a single company and to incur the expenses associated with it. In addition, an ordinary partnership does not have strict requirements relating to the form of contribution and its evaluation, the procedure of management and the distribution of profits among the partners.

Nevertheless, if the activity of the
partners involves significant financial risks, an ordinary partnership is less favorable than an LLC or JSC, whose participants (shareholders) are liable for the company’s obligations only to the extent of the value of their contribution (shares held by them).

The corporate cooperation model requires the establishment of a business partnership or company, the most appropriate and effective legal forms of which are a joint-stock company and a limited liability company. In this case, a foreign investor has another choice to make – whether to invest funds in an existing company and become its rightful participant (shareholder), or to form a new joint venture (by means of incorporation or reorganization, including by means of consolidation or acquisition).

Real Estate & Construction

Definition of Real Estate

There are two types of immovable objects in Russia:
• objects that are immovable by their nature;
• objects that are immovable by virtue of the law.

According to Clause 1 of Article 130 of the RF Civil Code the following objects are considered to be immovable (immovable property, real estate): plots of land, subsoil plots and everything that is inseparable from the land – in other words, objects that are impossible to move without causing incommensurate damage to their designated purpose, including buildings and objects of unfinished construction (immovable by their nature). The following objects are also regarded as being immovable: aircraft and space objects that are subject to state registration (immovable by virtue of the law). Other property may also be declared by law to be immovable objects.

Real Estate Rights

In Russia rights to real estate are traditionally divided into rights in rem and rights of obligation. The following rights are considered to be rights in rem: right of ownership, right of economic management, right of operational management, right of lifetime inheritable possession, right of permanent (indefinite) use, easements. The following rights are considered as rights of obligation: leasing rights, right of free use for a definite period, mortgages.

Right of ownership

means the legally secured possibility to possess, use and dispose of property at the owner’s discretion for the owner’s benefit by means of conducting in respect of such property any actions that do not conflict with the law and do not breach the rights and legally protected interests of other persons, and also the possibility to eliminate interference by third persons in the said sphere of possession, use and disposal.

Private property is divided into the personal property of citizens and the property of legal entities; state property is divided into federal property (owned by the Russian Federation) and property belonging to constituent territories of the Russian Federation (republics, territories, regions, cities with federal status, autonomous regions and autonomous districts). Urban and rural settlements and other municipalities act as subjects of municipal property.

Other rights in rem in fact are “limited” one way or another over the right of ownership.

Real estate leasing

means the granting of some property by its owner to another person for temporary possession or temporary use on a remuneration basis. The lessee is obliged to possess and use the leased property in accordance with the terms and conditions of the lease agreement and, if such terms and conditions are not specified in the agreement, he/she must possess and use the leased property in accordance with its designated purpose.

Free property use

means the temporary use of property by the borrower without the payment of remuneration to the lender. Only one restriction related to the structure of borrowers is stipulated by law: a commercial organization may not grant property for free use to its founder, participant, executive officer or member of its management or control bodies.

A mortgage

is a pledge on real estate. Two kinds of mortgage are established by Russian Federation legislation: a mortgage by virtue of the law and a mortgage by virtue of an agreement (see below). The main regulations governing mortgages in Russia are the RF Civil Code, the RF Law “On Pledges” of 29 May 1992, the Federal Law “On Mortgages (Real Estate Pledges)” of 16 July 1998, the RF Housing Code, and Federal Law No. 122-FZ “On the State Registration of the Rights to Real Estate and Transactions Therewith” of 21 July 1997.
Acquisition of Real Estate Title

It is customary in Russia to distinguish between primary and derivative methods of property rights. Primary methods do not depend on the rights of the previous owner; in accordance with derivative methods a title may be transferred to a subsequent owner from his/her predecessor.

The following methods are the primary methods of acquiring real estate title: creation (construction or complete reconstruction) of a new object, unauthorized construction, acquisition of title to ownerless real estate and acquisitive prescription. Succession is the main distinguishing mark of the derivative methods of acquisition of real estate title. They include: acquisition of real estate under agreements, as a legacy or as a result of the restructuring of a legal entity.

State Registration of Real Estate Rights and Transactions

Emerging, transfer, restriction and termination of ownership and all other rights in rem to real estate in Russia take place in accordance with specific procedure that requires observance of the written form of transaction and mandatory state registration of such legal facts.

In special cases stipulated by law the agreement itself is subject to the state registration as well. At the moment the following agreements shall be registered: building and structures (its premises) lease agreement concluded for a period of not less than one year, land plot lease and land term free property use agreements concluded for a period of more than one year, other types of real estate lease agreements regardless of their term as well as mortgage agreement and shared construction participation agreement.

According to paragraph 1 of article 164 of the RF Civil Code in case the law provides state registration for agreements the legal consequences of an agreement occur only following the registration. At the same time an agreement consisting of change of conditions of a registered agreement is also subject to state registration.

State registration of real estate rights and transactions therewith in Russia is regulated by a special law (see Federal Law No. 122-FZ “On the State Registration of Real Estate Rights and Transactions Therewith” of 21 July, 1997).

Purchase of Real Estate by Foreign Nationals

Foreign nationals may acquire title to or lease real estate, taking into account some restrictions imposed by Russian legislation.

In general foreign nationals and legal entities enjoy a national regime in Russia and may acquire, own, use and dispose real estate on the same terms as Russian individuals and legal entities. Any exceptions to this rule shall be expressly established by federal law. Thus, in accordance with the RF Land Code, foreign nationals, stateless persons and foreign legal entities shall not own plots of land in border territories.

Construction in Russia

Construction (and complete reconstruction) is one of the primary methods of acquisition of a right to real estate. Constructed object shall be considered as an object of real estate right only upon special procedures of commissioning, technical and cadastral registration. Prior to that, the newly constructed real estate does not exist in law. Moreover in most cases for introduction of constructed object into civil circulation mandatory state registration of rights shall be passed (See State Registration of Real Estate Rights and Transactions).

For state registration of a newly constructed object it is required to submit documents confirming construction of the object and the rights to the plot of land on which it has been constructed (and documents confirming the rights to the object used as a basis for complete reconstruction if applicable). The owner of a plot of land shall obtain title to a building or other real estate constructed or created on that plot of land only subject to the observation of the requirements of the law and other legislative acts, including construction standards and rules.

The principal form of contract relating to construction in Russia is construction contract stipulated by the RF Civil Code (see Article 37 of the RF Civil Code). Under construction contract a contractor undertakes to construct a specific object or carry out other construction works pursuant to the client’s orders within the terms of the contract, and the client undertakes to create the conditions necessary for the contractor to carry out the work, accept the result of the work and pay the stipulated price.

In order to carry out construction work in (as well as design and engineering survey) field an organization or individual entre-
entrepreneur shall be a member of a self-regulating organization (SRO) in construction/design/engineering surveys and have a certificate of competence relating to specific type of work.

Sale and Purchase of Real Estate
Sale and purchase of real estate is the most common method to acquire an ownership to real estate in Russia. Under real estate sale and purchase agreement, the seller undertakes to transfer the title to a plot of land, building, apartment or other real estate to the buyer. Real estate sale and purchase agreement shall be executed in writing by drawing up a single document to be signed by the parties thereto. It shall contain information precisely describing the transferred real estate and its price. According to the legal determination given by the RF Supreme Commercial Court, indication of real estate object cadastral number is sufficient for individualization of real estate sale and purchase agreement subject, which does not exclude the possibility of individualization of object by specifying other information in the absence of cadastral number. It should be noted that only the land plot passed cadastral registration can be a subject of sale and purchase agreement.

Agreements for sale and purchase of real estate which will be created or acquired by the seller in the future have become widespread in Russia in recent years. In particular, such agreements may settle relationships between investor and developer. The transfer of ownership to real estate object created can be registered only after registration of ownership of the seller. Such agreements are directly provided by the RF Civil Code and are regulated by the general rules applicable to real estate sale and purchase agreements.

Privatization of Real Estate
In accordance with RF legislation, privatization means the compensatory alienation of state property (property of the Russian Federation or constituent territories of the Russian Federation) or municipal property (property of municipalities) to the ownership of individuals and (or) legal entities. Not all types of state and municipal property may be privatized. Some categories of plots of land, natural resources and real estate belonging to state nature reserves may not be privatized.

The privatization of property in Russia is effectuated in accordance with the Federal Law “On the Privatization of State and Municipal Property” of 21 December 2001, except for matters related to the provision of land plots for the construction and operation of real estate and some other special types of privatization.

Protection of Objects of Cultural Heritage
The legal regulation of relations connected with the protection of objects of cultural heritage is based on the RF Constitution, the RF Civil Code, the Basic Legislative Principles of the Russian Federation Related to Culture, the Federal Law “On Objects of Cultural Heritage (Historical and Cultural Monuments) of Peoples of the Russian Federation”, as well as the laws of constituent territories of the Russian Federation relating to state protection of objects of cultural heritage within the scope of their authority.

A holder of title to an object of cultural heritage undertakes to preserve it. Such obligations act as restrictions (encumbrances) of the property right to the object and shall be specified in a preservation order of the holder of title to an
object of cultural heritage. In accordance with article 55 of the Federal Law preservation order mentioned above is also a prerequisite to enter into a lease agreement of a cultural heritage.

**Federal and Regional Taxation**

The Tax System and the Procedure for Discharging Tax Obligations

In accordance with the Constitution of the Russian Federation, each person shall be obliged to pay legally established taxes and duties. The following taxes are currently established and payable in the Russian Federation:

A. **Federal Taxes:**
- value added tax;
- excises;
- individual income tax;
- corporate profits tax;
- severance tax;
- water tax.

B. **Regional Taxes:**
- corporate property tax;
- gambling industry tax;
- transport tax.

C. **Local Taxes:**
- land tax;
- individual property tax.

The main difference between the above types of taxes consists in the level of authority imposing the taxes and the territory on which they are payable. Federal taxes are payable on the entire territory of the Russian Federation and are imposed by the RF Tax Code. Regional taxes are imposed by the RF Tax Code and by the laws of constituent territories of the Russian Federation, and are payable on the territory of the respective constituent territory of the Russian Federation. Local taxes are imposed by the RF Tax Code and by acts issued by the representative body of the local government, and are payable on the territory of the respective municipality. It should be taken into account that, owing to the specific structure of local government in Moscow and St. Petersburg, local taxes in those cities are imposed and introduced at the level of a constituent territory of the Russian Federation. Therefore, in determining a tax burden it is necessary to take into account not only the federal level regulation set forth mostly in the RF Tax Code, but also the legal acts of constituent territories of the Russian Federation and municipalities.

Federal, regional and local taxes are payable within the framework of a so-called “general taxation regime”. At the same time, the RF Tax Code provides for special tax regimes under which several taxes are replaced by a single payment. Generally such taxes as corporate profits tax, VAT and corporate property tax are subject to the replacement. The application of special tax regimes in some case is a right, in other cases the taxpayer’s obligation.

The RF Tax Code currently provides for five special tax regimes:
1. a taxation system for producers of agricultural products (unified agricultural tax);
2. a simplified taxation system;
3. a taxation system in the form of a unified tax for imputed income for certain types of activity;
4. a taxation system in the context of performance of production sharing agreements;
5. a patent taxation system.

In accordance with the RF Tax Code, those legal entities and individuals who are liable to pay any given tax are considered to be taxpayers in the Russian Federation. Two types of legal entities are distinguished: Russian legal entities and foreign legal entities: Russian organizations are legal entities incorporated in accordance with RF legislation; foreign corporations are foreign legal entities, companies and other corporate entities with a civil legal capacity, incorporated in accordance with the legislation of a foreign state; international organizations, branches and representative offices of the said foreign entities, and international organizations established in Russia. As a rule, special regulations relating to the determination of an object of taxation and the procedure for payment of tax are established for foreign organizations. As a general rule, organizations shall calculate and pay taxes independently, although those individuals that are not individual entrepreneurs pay taxes either via tax agents (as a rule, employing companies act as tax agents) or on the basis of a notification received from a tax authority. It should be also noted that at observance of the conditions established the Russian organizations have opportunity to establish a consolidated group of taxpayers, which is a voluntary association of tax profit payers based on the agreement on the establishment of a consolidated group for the purpose of calculation and payment of corporate income tax, taking into account the total financial result of economic activity respective taxpayers. Members of consolidated group of taxpayers set special rules for many tax issues. The RF Tax Code applies a differential approach towards the regulation of the obligation to pay taxes...
imposed on foreign organizations: firstly, special rules differing from those applicable to Russian organizations are in force, and secondly, regulation of the tax payment procedure for foreign organizations operating in Russia via their permanent representative offices differs from that applicable to foreign organizations not operating in the Russian Federation via permanent representative offices. As a rule, if an organization operates in the Russian Federation through a permanent representative office, it performs its duty to pay taxes independently. In the absence of a permanent representative office, the duty to calculate, deduct and transfer the tax amount to the budget falls on the Russian contractors of the foreign organization, who acquire the status of tax agent. As a rule, a tax shall be payable on the results of the tax period, which may constitute a calendar month, quarter or year, depending on the different types of taxes. In most cases taxpaying organizations are obliged to file a tax return. In most cases the filing of a tax return based on the results of the tax period to a tax authority constitutes a right for an individual and this right is related to the use of certain tax benefits. For some taxes (for example, corporate profits tax) special accounting periods are determined, and on the basis of the results of such periods advance payments shall be made and accounts shall be filed.

**General and Special Anti-Avoidance Rules**

General anti-avoidance rules (GAAR) is not fixed legislatively in Russia and the concept of the limits of permissible tax optimization mostly rests upon application of legal views of the Supreme Arbitration Court of the Russian Federation set out in the ordinance of the Plenum of the Supreme Arbitration Court “On Arbitration Courts’ Assessing whether Tax Benefits Received by Taxpayers are Justified” No. 53 of 12 October 2006. In the said ordinance the Court agreed that a taxpayer is entitled to reduce his tax burden by any lawful means, having specified that the possibility to achieve the same economic result with less tax benefit obtained by a taxpayer by performing other operations either provided or not prohibited by law shall not serve as grounds for recognizing tax benefit as unjustified and made an attempt to determine criteria for recognizing tax benefit as unjustified. The main criterion for recognizing tax benefit as justifiable is to obtain it in the course of performing actual entrepreneurial or other economic activity. Therefore, tax benefit received not in connection with conducting actual entrepreneurial or other economic activity may not be recognized as justified: tax benefit may not be considered as an independent business goal. If profits are gained solely or mostly at the expense of tax benefit without intention to carry out real economic activity, it shall serve as the grounds for recognizing tax benefit as unjustified.

As for the special anti-avoidance rules the Russian legislation sets out only the basic ones of the SAARs spread in foreign countries, in particular, transfer pricing rules and thin capitalization rules. Draft amendments to the RF are currently actively discussed. The amendments are proposed in the framework of the policy of the Russian economy deoffshorization including the introduction of special tax rules of controlled foreign companies.

**Corporate Profits Tax**

Russian organizations and foreign organizations operating in Russia through their permanent representative offices or receiving revenues from sources in Russia are liable to pay corporate profits tax. The profit gained by a taxpayer shall be considered to be a tax object. However, the concept of profits is different for Russian and foreign organizations. For Russian organizations “profits” mean earned revenue less the amount of expenses incurred. For foreign organizations the definition of “profits” depends on whether the foreign organization operates in Russia through its permanent representative office or merely receives revenue from sources in Russia. If a foreign organization operates in Russia via its permanent representative office, its profits shall mean revenue received via such permanent representative offices less the amount of expenses incurred by such representative offices. In the absence of a representative office in Russia, revenue received from sources in Russia shall constitute the profits of a foreign organization. Special rules for determining of tax object are also set out for organizations – members of consolidated group of taxpayers. Corporate profits tax shall be imposed both on profits gained as a result of sales (i.e. proceeds from the sale of goods, works, services either produced/performed/rendered by the organization or purchased by it earlier, the proceeds from the sale of property rights expressed in monetary form or in kind) and non-sale profits.
Economically justified and documented costs and losses incurred by a taxpayer and expressed in monetary form shall be regarded as expenses. An important condition should be observed for costs to be recognized as expenses: the expenses must be incurred in the performance of activities aimed at receiving income. For the purposes of corporate profits tax, expenses relating to production and sale (cost of materials, payroll expenses, amounts of amortization charged etc.) and non-sale expenses shall be taken into account.

As a general rule, a tax rate of 20% is imposed. Various types of profit are subject to tax rates of 0%, 9%, 10%, 15% and 30%.

The tax period constitutes one calendar year. Along with the tax period, on the expiration of which a payment of the total tax amount shall be made and a tax return filed, two types of accounting periods are established, each of them depending on the procedure for calculation of the tax amount: 1) first quarter, half-year and nine-month periods of a calendar year and 2) each month of a calendar year. Taxpayers shall pay advance payments and file accounts to the tax authorities based on the results of the accounting periods.

As a general rule, a taxpayer shall independently calculate the amount of advance payments and taxes to be paid. An exception is made for foreign organizations receiving revenues from sources in Russia that are not connected to a permanent representative office. An organization operating in Russia and paying revenue to the taxpayer shall be liable to pay profits tax imposed on the foregoing profits, to calculate the related tax amount, to deduct it from the revenues of the taxpayer and transfer the amount to the budget.

Value Added Tax (VAT)

Individual entrepreneurs, legal entities and persons recognized as VAT taxpayers in connection with the transfer of goods across the customs border of the Customs Union shall be regarded as VAT payers.

The following operations shall be subject to VAT:
- the sale of goods, works and services in Russia and the transfer of property rights to such goods, works and services;
- the transfer of goods, works and services in Russia for one’s own needs, which are not subject to the deduction of profits tax;
- the performance of construction and installation works for one’s own needs;
- the importation of goods into the customs territory of the Russian Federation;
- the importation of goods into the territory of the Russian Federation or other territories under its jurisdiction.

The RF Tax Code contains an extensive list of operations not subject to VAT and operations exempt from VAT.

Other Taxes Payable by Organizations

Excises

Legal entities and individual entrepreneurs performing operations regarded as tax objects as well as persons recognized as taxpayers in connection with the transfer of goods across the customs border of the Customs Union shall be considered as excise payers. A fairly extensive list of operations is liable to this tax, the main one being the sale of excisable goods (for example, ethyl alcohol) in Russia. The tax period constitutes one month. Rates are determined for each type of excisable goods.
Corporate Property Tax

All Russian and foreign organizations owning immovable property regarded as tax object are regarded as corporate property tax payers. Different objects of taxation are defined for different categories of taxpayers. As an example, for foreign organizations operating in Russia through their permanent representative offices, movable and immovable property relating to fixed assets as well as property received under concession agreements is subject to corporate property tax, while for foreign organizations not operating via their permanent representative offices only immovable property located in the territory of the Russian Federation and belonging to them by right of ownership or received under the concession agreement shall be subject to corporate property tax.

The RF Tax Code provides list of assets that shall be subject to taxation, in particular, land plots and other nature management facilities (water objects and other natural resources), objects recognized as federal cultural heritage objects (monuments of history and culture) of the peoples of the Russian Federation, ships registered in the Russian International Register of Vessels, icebreakers, nuclear power vessels and atomic and technology service vessels, space crafts and some other property. The tax period constitutes a calendar year. The first quarter, six months and nine months of a calendar year are deemed accounting periods. At the same time legislative body of Ryazan region is entitled not to set periods. The tax rate shall be determined by Ryazan region of the Russian Federation, but may not exceed 2.2% as a general rule. In Ryazan region the rate is 2.2% currently.

Transport Tax

Individuals or legal entities to whom vehicles regarded as tax objects are registered shall be considered as liable to transport tax. "Vehicles" are cars, motorcycles, buses, other self-propelled vehicles, pneumatic and tracked mechanisms, water craft and aircraft, excluding those expressly listed in the RF Tax Code. The tax period constitutes a calendar year. The first quarter, six months and nine months of a calendar year are deemed accounting periods. At the same time legislative body of Ryazan region is entitled not to set periods. The tax rate shall be determined by Ryazan region taking the RF Tax Code provision into account and on the basis of the engine capacity, jet thrust or gross tonnage of the vehicle.


Other Issues of Public Regulation

The following forms of the state regulation of entrepreneurial activity are of particular importance in setting up and conducting a business in Russia:

- state registration of legal entities and individual entrepreneurs (see the Setting up a new business. Joint ventures section);
- licensing;
- participation in self-regulating organizations;
- accreditation;
- notification-based and authorization-based procedure for conducting specific activities;
- certification;
- customs regulation;
- tax regulation (see the Federal and regional taxation section);
- foreign trade regulation;
- customs control;
- export control;
- antimonopoly control;
- trade regulation.

In the RF it is required to obtain a license to carry out some types of activity, in accordance with the Federal Law “On the Licensing of Certain Types of Activity” no. 99-FZ of 8 May 2011. Licensable types of activity are types of activity which may cause harm to the rights, lawful interests and health of citizens, the defense and security of the state or the cultural heritage of peoples of the Russian Federation, and which may not be regulated in any other way but by licensing. Including the operation of fire and explosion dangerous and chemically hazardous production facilities, drug manufacture, carriage of passengers by inland water, sea, air and rail transport, activity related to the organization and carrying out of gambling in betting offices and pari-mutuel, private detective and security activity, rendering of communication services, pharmaceutical activities and others (according to the foregoing law as of 1 September 2014 there are 50 licensable activities all in all).

Membership-based nonprofit-making organizations that unite entities carrying out entrepreneurial activity due to their common field of production of commodities (works, services) or market of produced commodities (works, services) or combining entities that carry out professional activity of a certain type are deemed to be self-regulating organizations.
The main objective for establishing **self-regulating** organizations is to shift functions involving control and supervision over activity of entities in a specific sphere from the state unto market participants themselves.

In a wide number of cases federal laws provide mandatory participation of entities that carry out specific entrepreneurial and professional activity in self-regulating organizations for example, design, construction, audit, appraisal, activity of bankruptcy administrators, etc.

There are some activities where self-regulation is provided by law, however membership in a self-regulating organization is not a must for conducting such an activity (for example, advertising).

Laws governing specific activities can set out a procedure for mandatory or voluntary accreditation. In particular, **accreditation** is provided for:
- representative offices and branches of foreign legal entities;
- healthcare organizations for the clinical trial of drugs intended for medical use;
- organizations dealing with the administration of rights on a collective basis;
- sport federations;
- educational establishments;
- certification bodies and testing laboratories (centers).

When individual entrepreneurs and legal entities carry out specific activities (for example, hotel services, wholesale and retail, some kinds of transportation, activity, production of specific products, etc.) in Russia, they should **notify** the territorial subdivisions of the authorized federal executive body. For further details please see the Setting up a new business section.

In accordance with Federal Law “On Technical Regulation” (No. 184-FZ of 27 December 2002) (hereinafter referred to as “Law 184-FZ”), **certification** is the form of confirmation by a certification body of the compliance of objects with the requirements of technical regulations, provisions of standards, sets of rules or terms of agreements. In the context of a free market economy, certification is the principal means of guaranteeing the compliance of products with the requirements of legal documentation.

Certification can be either mandatory or voluntary. In compliance with Decree of the Government of the Russian Federation “On Approval of the Uniform List of Products Subject to Mandatory Certification and the Uniform List of Products the Conformity of Which Is to Be Confirmed in the Form of Adoption of a Declaration of Conformity” No 982 of 1 December 2009 the following products are subject to mandatory certification: weapons, radiation generating systems, electric energy in public electric grids, railroad rails, railroad equipment and rolling stock, pipes for gas pipelines, etc. Those products in respect of which it is obligatory to issue a declaration of conformity are not subject to mandatory certification.

Voluntary **confirmation of conformity** shall be initiated by an applicant on the basis of an agreement between the applicant and the certification body. Voluntary confirmation of conformity can be made with respect to: products, processes of production, operation, storage, transportation, sale and disposal of a work or service as well as other things subject to specific requirements established by standards, voluntary certification systems and agreements.

State **regulation of foreign trade** is carried out in compliance with the international treaties of the Russian Federation, Federal Law “On the Fundamentals of Foreign Trade Regulation” No. 164-FZ of 8 December 2003 (hereinafter referred to as “Law 164-FZ”) and other regulations of the Russian Federation using the following methods:
- customs and tariffs regulation;
- non-tariff regulation;
- bans and restrictions of foreign trade in services and IPs;
- economic and administrative measures facilitating foreign trade development.

**Currency control** is also a kind of state foreign trade control exercised in order to protect the public interests of Russia.

Currency control focuses on verifying currency regulation compliance by residents and non-residents, checking reliability of record-keeping and accounts under currency operations.

**Export control** is a comprehensive set of measures ensuring the implementation of the foreign trade procedure in respect of goods, information, works, services, results of intellectual activity (rights thereto) which may be used in the course of creating weapons of mass destruction, the means of their delivery, other weapons or military equipment or in the preparation for and carrying out of terrorist acts.

Goods which are subject to export control include, in particular: telecommunication equipment, pyrotechnical products, integrated microcircuits, etc.

The principal law regulating trade in Russia is Federal Law “On the Principles of State Regulation of Trade in the Russian Federation” No. 381-FZ of 28 December 2009. The trade in food products is the most comprehensively regulated in the law.

**Trade with consumers**, i.e. with individuals who purchase products for purposes not related to the conducting of entrepreneurial activity is regulated by RF law “On the Protection of Consumer Rights” No. 2300-1 of 7 February 1992. It defines consumer rights relating, in particular, to obtaining information about commodities, shortages of commodities, exchange of good quality commodities, exchange of goods which are subject to export control include, in particular: telecommunication equipment, pyrotechnical products, integrated microcircuits, etc.

The principal law regulating trade in Russia is Federal Law “On the Principles of State Regulation of Trade in the Russian Federation” No. 381-FZ of 28 December 2009. The trade in food products is the most comprehensively regulated in the law.

Definition of a contract

A. The Civil Code contains general rules of contract formation. To enter into a contract, a person or a legal entity must be legally capable.

(1) Individuals have general legal capacity after the age of eighteen (but if a minor under eighteen years of age is married, he or she has full capacity to conclude a contract).

Juveniles and children are recognized respectively partially capable and incapable. The legal capacity of persons can be also annulled or limited by the decision of a court in the cases stipulated by law.

(2) The capacity of legal entities to enter into a contract originates from the moment of their state registration and is terminated upon liquidation procedures. If a particular type of activity requires a license or permit, the legal entity obtains legal capacity to undertake such activity and form a contract on receipt of the special license or permit. Corporations and other legal entities may have general or special legal capacity. Special capacity restricts the scope of contracts permitted to the entity. In general, a contract on behalf of a legal entity can be formed by their officers, acting in accordance with constituent documents and legal regulations.

B. In order to form a contract the parties must agree on all substantial terms of the contract in the required form. The substantial terms of a contract are its subject matter and also other terms which are described by the law as substantial or are required for contracts of a certain type.

A contract is deemed to have been formed at the time when the person who has made an offer receives full and unconditional acceptance. A conditional or partial acceptance is deemed to be a counter-offer and is not sufficient to form a contract. For certain types of contracts the law requires not merely consent to the terms of the contract in the required form, but also the physical transfer of a property into the possession of another party. In such a case, the contract is formed at the time of the transfer. A contract that requires mandatory state registration becomes effective after registration, unless otherwise stipulated by law.

**Contract Law Issues**

A contract is a universal instrument of commercial relations. In this regard, any foreigner wishing to do business in Russia should be aware of the main statutory provisions relating to contract law. Under Russian law a contract is an agreement between two or more parties that establishes, modifies, or terminates private rights and obligations. As opposed to countries that use the Anglo-Saxon legal system, in Russian system contract provisions in Russia are mainly stipulated by law, in particular by the Civil Code of the Russian Federation in four parts. General rules on contracts are established in Part 1 of the Civil Code (1994, as amended), and certain types of contracts are stipulated in Part 2 of the Civil Code (1996, as amended).

The main principle on which Russian contract law is based is freedom of contract, i.e. any person may enter into any contract that is stipulated or not expressly provided for by law. Agreements that include elements of different contracts specified by law (so-called mixed contracts) are also possible. Moreover, the parties may determine any terms and conditions in the contract by their own choice, except in cases where the substance of certain contracts is specified by law.

Formation of a contract

A. The Civil Code contains general rules of contract formation. To enter into a contract, a person or a legal entity must be legally capable.

(1) Individuals have general legal capacity after the age of eighteen (but if a minor under eighteen years of age is married, he or she has full capacity to conclude a contract).

Juveniles and children are recognized respectively partially capable and incapable. The legal capacity of persons can be also annulled or limited by the decision of a court in the cases stipulated by law.
An offer sets out the required details of the proposed contract and expresses the intention of the offeror to enter into contract with the person who accepts the offer on the terms provided therein. An offer must specify the substantial terms of the contract. An offer binds an offeror from the time the offeree receives the offer. An advertisement or other general notification addressed to an indefinite number of persons not known to the offeror is deemed to be an invitation to make offers and is not an offer in itself, unless the advertisement/notification expressly states otherwise. An offer which includes all the essential terms of the future contract and the intention of the offeror to enter into contract under such terms with any person that accepts it is a public offer.

Acceptance means expressing one's consent to accept the offer and to enter into a contract. It should be noted that silence, i.e. failure to take action or make a statement on the basis of an offer, is normally not treated as acceptance. The law or customs or usual course of business may override this default rule. Acceptance may also be expressed by rendering a performance (such as a transfer of funds or provision of services), which eliminates the need of a formal notice of acceptance.

C. Form of Contracts. Contracts may be concluded in verbal or written form. Verbal contracts are permitted if the law does not specifically prescribe another form. All contracts that are performed at the moment of their formation can be made verbally unless otherwise agreed by the parties or otherwise required by law.

A written form is required (i) for all contracts that include at least one legal entity as a party, (ii) for contracts between individuals for a value of over ten minimal statutory monthly wages and (iii) in other cases prescribed by law, irrespective of the amount. Under Russian law, non-compliance with a written form of a contract normally entails the impossibility of relying on witness testimony as a means of proving the contract as well as its terms and conditions, but not the invalidity of a contract. In such a situation the contract may be proven by other evidence. In cases specifically provided for by law or agreed between the parties, non-compliance with the written form renders the contract null and void.

For some contracts mentioned by the law, certification by a notary (notarial form) is required. It is also required in cases when the parties have reached an agreement about notary form of the contract. The contract shall be null and void if such certification is not obtained. Compliance with a special procedure of state registration of contract is another condition of validity for certain contracts. In particular, state registration is required for some contracts involving title to land or other real estate objects, including some lease contracts (see Real Estate and Construction section).

D. A contract as a transaction may be deemed invalid on grounds set out in the RF Civil Code by virtue of its being adjudged invalid by a court (voidable transaction) or irrespective of such an adjudication (void transaction). It should be taken into account that an invalid contract does not entail legal consequences except for those related to its invalidity and is invalid from the time of its conclusion. A court is entitled to refrain from the enforcement of the implications of invalidated transactions if their enforcement contravenes fundamental principles of public order and morality.

General rules in respect of the invalidity of transactions are listed in Part I of RF Civil Code. If a contract is invalid, each of the parties thereunto undertakes to return to the other party all articles received pursuant to the contract, and if it is impossible to return such articles in kind, it undertakes to compensate their value in monies, unless other circumstances are provided for by law. The law contains an exhaustive list of grounds on which transactions may be deemed invalid.

Performance of a Contract

The Parties shall perform their contractual obligations with due diligence and in accordance with the terms and conditions of the contracts, rules of law and regulations, and, in the absence of such terms and conditions, rules or regulations, in accordance with the customs and/or other normal standards of action. A creditor is entitled not to accept partial performance unless the parties specifically agree otherwise or performance in part is allowed by customs or by the rules of law.

The performance of a contract is incumbent upon the creditor under the contract or to a person designated by the creditor. A party rendering performance must verify that he is offering the performance to the proper person. An obligor may commit any third party to render performance to a creditor,
unless the obligation is such as to require performance in person. The beneficiary has to accept proper performance rendered by a third party. Any third party that is in danger of losing his/her right to property, if the beneficiary seeks enforcement against this property, may tender performance to the beneficiary without the consent of the obligor.

The period for performance may be fixed in the contract as the date or period of time when the performance must be rendered. If a contract does not contain a reference to a particular date or period of time, it must be performed within a reasonable time. A contract that is not performed within a reasonable time or a contract that must be performed on demand must be performed within seven days after request of performance made by the obligee, unless the law, rules, regulations, customs or terms and conditions of the contract provide otherwise.

The law generally prohibits the unilateral repudiation or modification of a contract, but provides for certain cases when this is admissible (such as a serious breach by the other party). The parties to a commercial contract are entitled to agree upon additional grounds that justify the unilateral repudiation or alteration of their obligations.

**Contract Remedies**

The general remedy for failure to perform a contract is *compensation for damages*. In Russian law damages include direct losses (real damages, i.e. expenses incurred and/or to be incurred as a result of the breach, deterioration or loss of property) and lost profits (consequential damages). The person whose rights are infringed is entitled to recover as "special damages" all income realized by the debtor as a result of the breach. Compensation for damages caused by improper performance does not release the party in breach from rendering a performance that is still outstanding. However, by paying damages to a creditor for a failure to perform, the party in breach is released from rendering performance.

**Penalties** are another common remedy that applies if provided for by law or in a contract. Penalties do not necessarily prevent compensation of damages. The default rule is that where a penalty is payable for breach of contract, any losses may be recovered only in the part that exceeds the amount of penalty (set-off penalty). However, a punitive penalty (recoverable on top of damages), an alternative penalty (where the creditor has an option to recover either penalty or losses) and a liquidated penalty (only the penalty but not losses are paid in case of the breach) are legal as well. The court has discretion to reduce the amount of a penalty that is disproportionate to the damage caused by a breach.

**Special liability** is provided by the law for the violation of a monetary obligation. If a person fails to return or pay money under a contract, the other party is entitled to recover interest accrued on the amount during the period of default. The interest rate on obligations expressed in rubles is normally defined by reference to the interest rate set by the Central Bank of Russia. As opposed to Anglo-Saxon legal system countries, *specific performance* is one of the main remedies in Russian system. To award a remedy the court establishes all conditions of liability, such as: infringement of civil law, unfavorable consequences to the rights of third parties caused by the infringement and, in certain cases, the fault of an offender. An element of fault is found where an offender has acted deliberately or negligently. Unlike in criminal proceedings, guilt is presumed in civil cases. To be exonerated from liability, an offender has to prove that he was not guilty of the breach.

Entrepreneurs are absolved from liability only where the breach is caused by force-majeure. For certain categories of transactions the law provides for limited liability. A clause on limitation of liability may also be included in the contract.

**Amendment and Termination of Contracts**

Amendment or termination of a contract is possible only by agreement between the parties, unless otherwise is stipulated by law. On the demand of one of the parties the contract may be amended or terminated by the decision of a court in the case of an essential violation of the contract by the other party. An essential violation is deemed to be a violation of the contract by one of the parties that entails losses for the other party, depriving that party to a considerable extent of what it could have counted upon when concluding the contract.
Investors Support in Ryazan Region

Reception of Governor of Ryazan region, Oleg Kovalev
tel.: +7 4912 290 404

Ministry of economic development and trade of Ryazan region
Minister, Vitaliy Larin
tel.: +7 4912 296 324
kmf@mineconom.rzn.ru

Ryazan region Corporation of development
General director, Vladimir Shapovalov
tel.: +7 4912 777 717, +7 495 967 79 54
office@rrcd.ru