

Russia & CIS Express

Quarterly bulletin from PwC's Russia & CIS Business Centre
Winter 2009/2010

Special Feature – Survey results

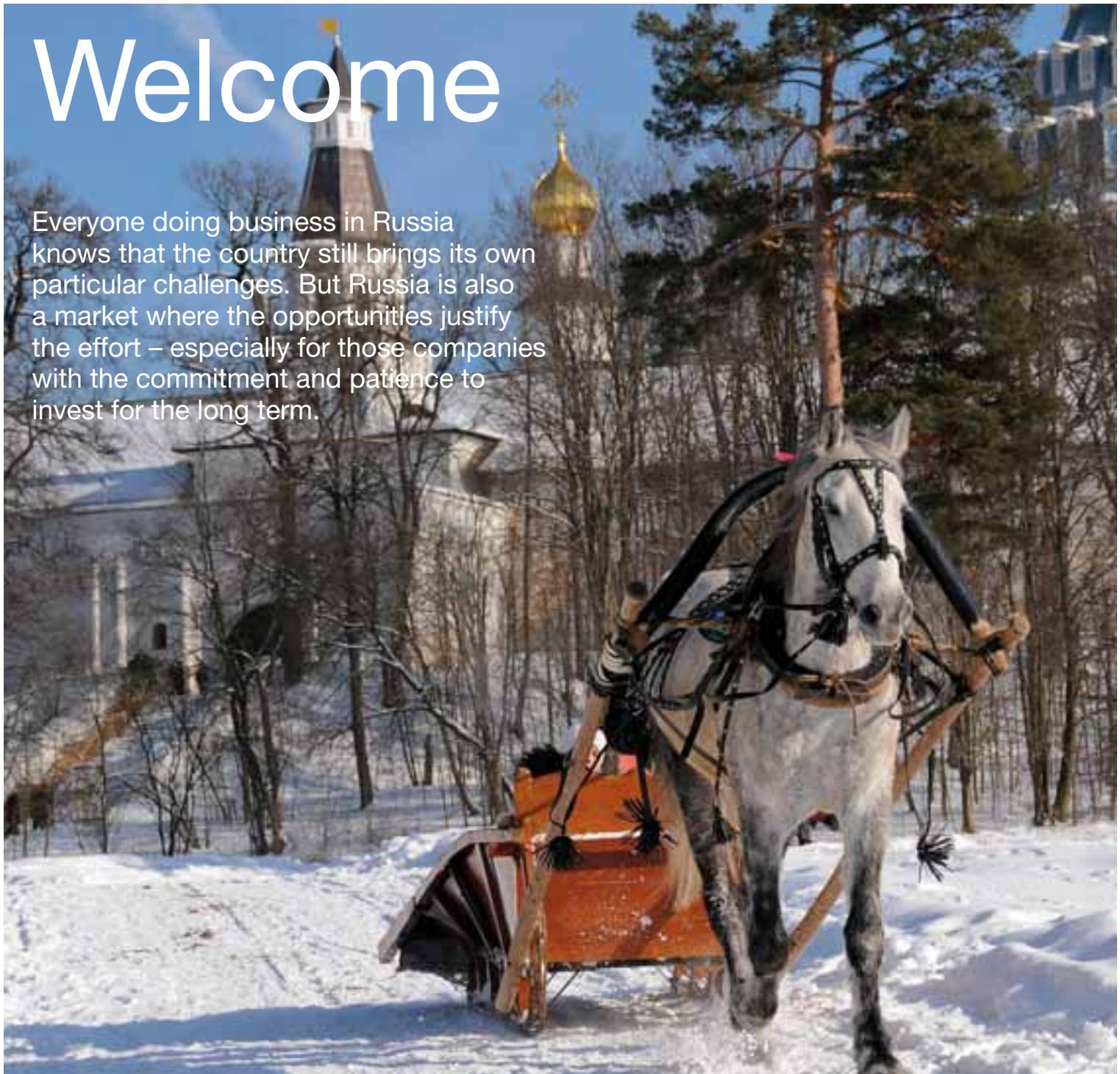
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Welcome

Everyone doing business in Russia knows that the country still brings its own particular challenges. But Russia is also a market where the opportunities justify the effort – especially for those companies with the commitment and patience to invest for the long term.



These messages are underlined by the findings from a recent PwC survey of companies active in Russia, described in detail on page 4. The respondents continue to think it is more difficult to do business in Russia and the CIS than in other large emerging markets worldwide or the rest of Central & Eastern Europe.

But, significantly, a majority of the companies we surveyed point to significant improvements over the past five years in some key business enablers, such as the availability of well-trained English-speaking staff. And well over two-thirds expect their presence in Russia to grow during the next three years.

Vote of confidence

Taken together, such findings represent an encouraging vote of confidence in an economy that has weathered the global economic downturn and financial crisis more resiliently than most of its counterparts in the region, such as Ukraine and Kazakhstan.

Russia's relatively robust performance reflects a number of structural advantages, including its substantial energy reserves, its strong domestic manufacturing base, and the fact that its currency has held up well, limiting the impact on imported goods. A further positive sign is that the

Taking a Europe-wide perspective

To date, *Russia & CIS Express* has focused primarily on UK-Russia business links a role in which it has proved highly successful. Starting from this issue, we are looking to expand and broaden this success by taking a more Europe-wide perspective on investing and operating in Russia. As a result, we will have a wider range of authors contributing to the magazine from across PwC's European network.

Russian government has not felt compelled to announce big tax increases.

It is also worth noting – as the Russian ambassador to the UK pointed out to me recently – that Russia found it had less need to bail out the banking industry than countries such as the US and UK. If you had suggested five years ago that the US government would be more interventionist in financial services than Russia, then people would have laughed. But you would have been right.

Combine this track record with our survey respondents' view that Russia is more open to FDI than it was five years ago, and you get a picture of a gradually improving trend over time. Moreover, our survey respondents have indicated that the Russian tax and legal systems have stabilised.

Independence of mind

A further trend over the past five years is that Russia has clearly been looking to pursue its own distinct and independent path in the world. Its decision not to intervene more actively during the banking crisis may have been one sign of this strong independence of mind.

Another indication is Russia's approach to the global climate change agenda. Many observers worldwide felt the UN Copenhagen Climate Conference in December 2009 was largely a missed opportunity. However, it appeared that Russia's main goal in the negotiations was to monetise the country's 'hot air' – namely the reduction in emissions that occurred when the Russian economy collapsed in the 1990's.

As a result of that decline, a 25% reduction target on Russia's 1990 levels is actually higher than current emissions, giving the country valuable emissions allowances to sell. There are also other important climate change-related opportunities for Russia, whether through increasing the efficiency of its oil and gas operations, reducing leakage from its gas infrastructure, limiting flaring emissions from oil operations, or promoting the role of gas internationally as a lower-carbon transition fuel on the path to low-carbon economies.

The country has already made significant progress on curbing emissions, with Russia having improved the carbon intensity of its economy in the past decade. PwC's Low Carbon Economy report, published in December 2009, examines the relative performance of the G20 countries. The study comments: "Only Russia has reduced its carbon intensity by more since 2000 than the budgeted amount. This reflects rapid improvements in Russian energy intensity over this period rather than any reduction in its dependence on fossil fuels."

Going forward, the government is well aware of the need for a balanced and considered approach to energy. On the one hand, it has looked to stimulate investment in the oil sector by providing tax breaks to Russia's major oil producers. On the other, one of the government's five strategic goals for the modernisation of Russia includes the development of new fuels for use on domestic and international markets.

The road to recovery

Aside from such longer-term issues, a more immediate question for most investors is how quickly Russia will recover from the global downturn. With the World Bank having estimated that Russia's real GDP may have declined by some 7.9 per cent in 2009, there is no doubt that economic activity in the country has been hard hit. But this decline represents only a fraction of the country's gains in recent years, and there is already "light at the end of the tunnel", according to Klaus Rohland, World Bank Director for Russia.

While the external environment for Russia will remain difficult for the next 18 months, the combination of the government's stimulus package, a gradual recovery in oil prices, and lower inflation could see the Russian economy return to modest growth in 2010. Real GDP is expected to return to pre-crisis levels in 2012 – by when our survey respondents expect that their presence in Russia will have grown further.

In the financial markets, perhaps the most concrete sign of the return of confidence is the current resurgence in planned IPO activity, providing more overseas investors the opportunity to gain exposure to Russia's reviving economic momentum, as the country's recovery gathers pace.

As experience shows – and as our survey findings confirm – Russia is still a market that is going places, despite the recent correction. Challenges and pitfalls remain. But the rewards for commitment and a long-term perspective will be significant – and sustainable.

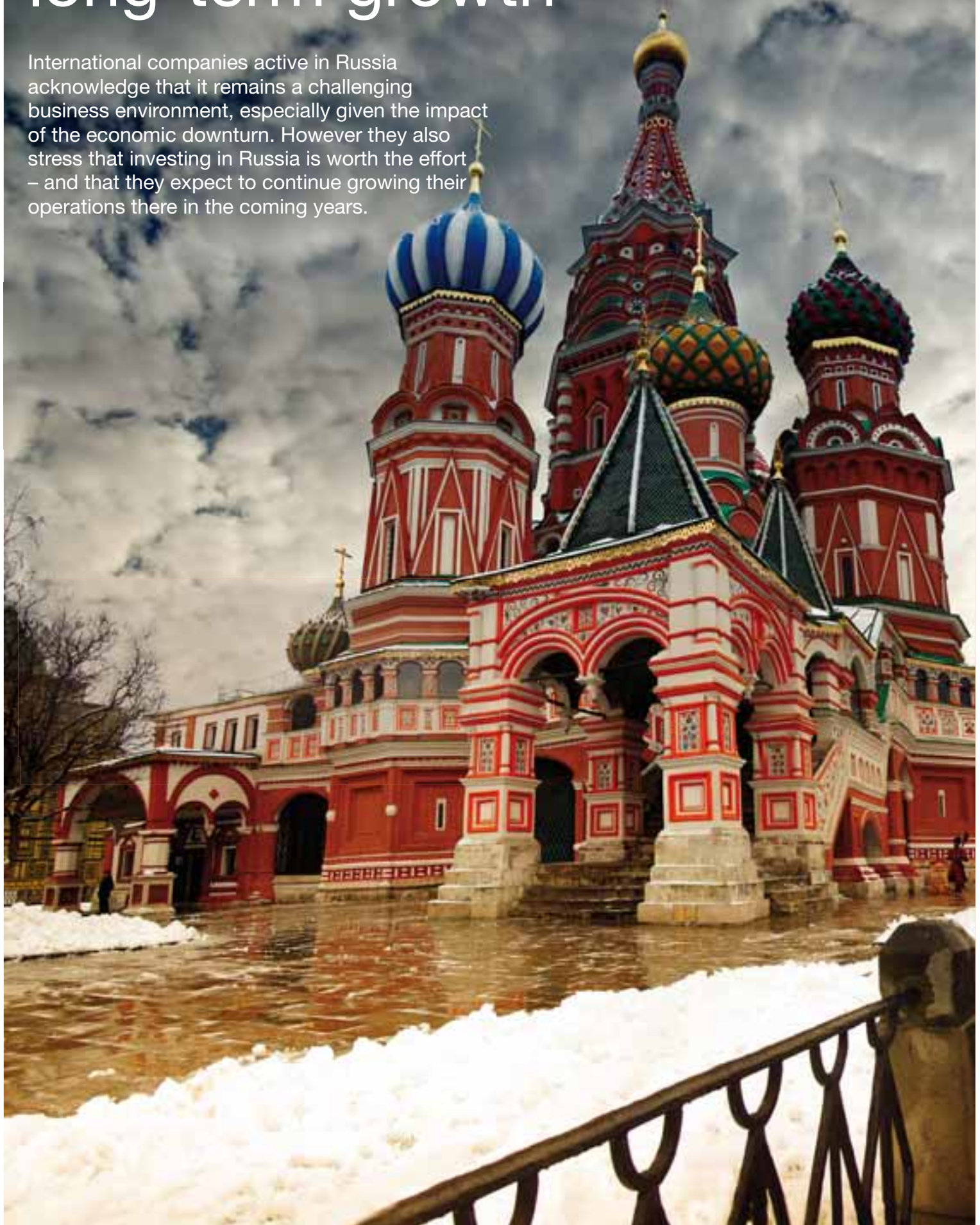
by the editor of Russia & CIS Express



Nick Page
PricewaterhouseCoopers LLP (UK)
nick.r.page@uk.pwc.com

Gearing up for long-term growth

International companies active in Russia acknowledge that it remains a challenging business environment, especially given the impact of the economic downturn. However they also stress that investing in Russia is worth the effort – and that they expect to continue growing their operations there in the coming years.



Methodology

The survey covers 38 international companies based in the UK, Sweden, Germany and Russia. Of these respondent businesses, 28 already operate in Russia, and one is intending to open there within the next twelve months. The companies are drawn from a wide range of sectors, including financial and professional services, construction, manufacturing, technology, retailing, and oil & gas. Most also operate in other international markets, including CEE, China, other CIS countries, India, and Brazil. The respondents are spread across the size range, split between large public companies (29%), mid-market (40%), small private companies (29%), and a handful of not-for-profit organisations. Each respondent completed an online questionnaire focusing on trends, challenges and improvements in the Russian business environment.

These are just some of the findings of a recent online survey by PwC of perceptions and attitudes towards Russia among companies either already doing business in the country or interested in doing so. The survey took place in late 2009, and the methodology we used is described in the accompanying information panel. We at PwC are eager to hear your views on the findings, so please email any thoughts to us at the address at the end of the article.

A challenging environment...

In general terms, our survey participants still regard Russia as a relatively challenging market in which to operate. Some 48 per cent say it is harder to do business there than in other large emerging markets such as China, India and Brazil, against just 13 per cent who think Russia is an easier place to operate than these markets [see Figure 1]. Equally significantly, an overwhelming 68 per cent agree that it is more difficult to do business in Russia than in CEE [see Figure 2].

What is more, the challenges of operating in the country appear to have intensified in the downturn, with 71 per cent of respondents claiming that the economic crisis has affected their plans to invest or grow in Russia [see Figure 3].

“I think Russia has had a ‘good’ crisis, if there is such a thing. The government did not have to get as involved as some others in propping up the banking system. And taxes have not risen much, which is positive for business.”

Richard Munn, CEE Assurance Leader
PricewaterhouseCoopers Russia B.V.

Figure 1: It is more difficult to do business in Russia than in other large emerging market countries (China, India, Brazil)

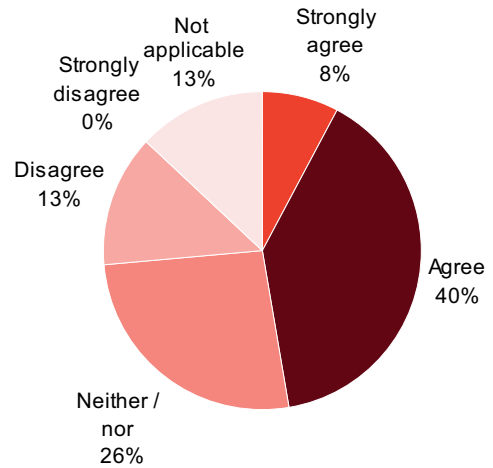


Figure 2: It is more difficult to do business in Russia than in (Central and Eastern Europe) CEE

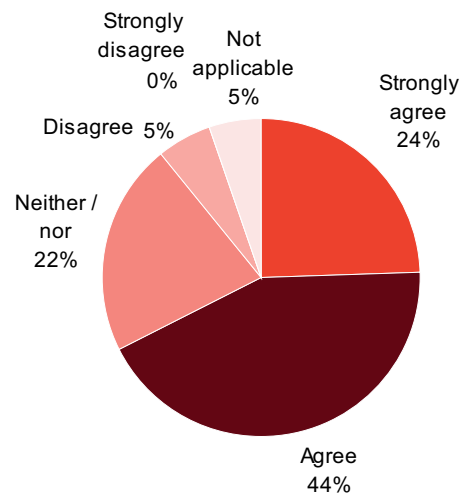
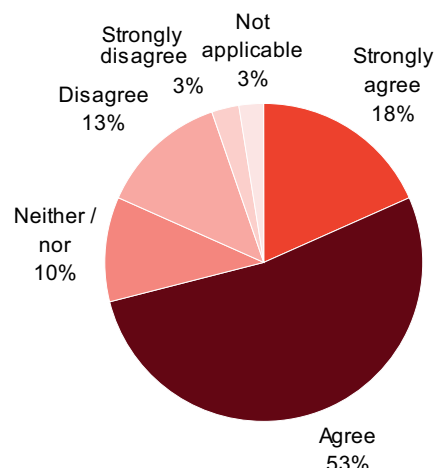


Figure 3: The economic crisis has affected plans to invest/expand our business in Russia



...offering future rewards

However, the temporary setback of the downturn has not deterred our respondent companies from investing in Russia in the longer term. More than two-thirds (69 per cent) believe that their presence in Russia will have grown beyond its current size in three years' time [see Figure 4].

This positive view of the outlook for Russia is underlined by our findings on how the business environment has changed compared to five years ago. On balance, our respondents feel that the investment climate is more positive than in 2004/2005, with 35 per cent agreeing that it has improved, and only 18 per cent thinking it has deteriorated [see Figure 5].

Companies take an even more positive view of advances in the availability of high-quality people, with 55 per cent saying it is now easier than it was five years ago to find competent and well-trained English-speaking staff [see Figure 6]. The development of infrastructure such as transport and logistics has also progressed [see Figure 7]. However, opinions are divided on whether the tax and legal system have improved – suggesting the situation has stabilised, but with no significant steps forward.

Into the upswing

As economic recovery beckons both in Russia and globally, our survey suggests that investors who have stayed the course to date are increasingly positive about the prospects for their operations in the country, anticipating future expansion and development.

To sum up: doing business in Russia is still challenging – but it's getting easier, and offers significant upside potential. Given that the country is only now emerging from a severe downturn, this is a very positive message. If our respondents are right, then the best is yet to come.

Figure 6: It is easier to find competent and well trained English-speaking staff

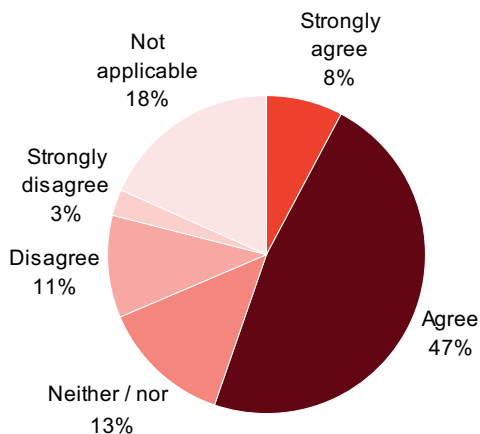


Figure 4: In three years time, our presence in Russia is expected to grow

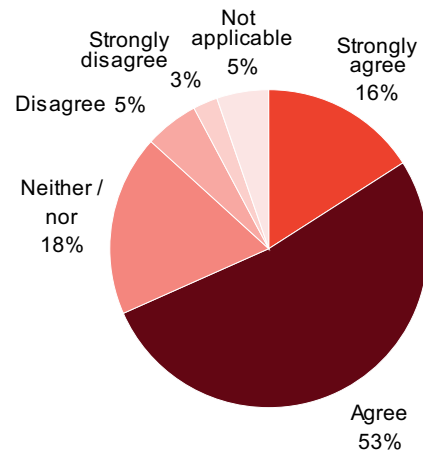


Figure 5: Investment climate is more open towards FDI

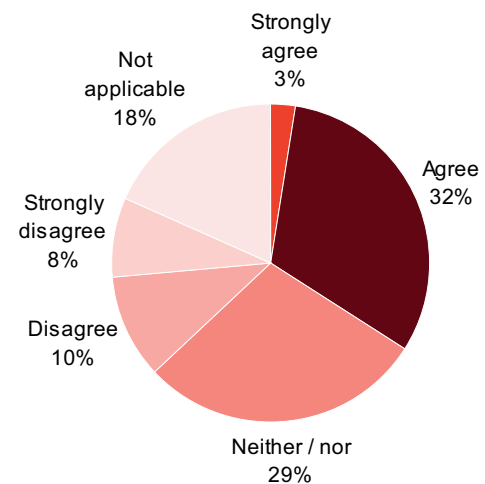
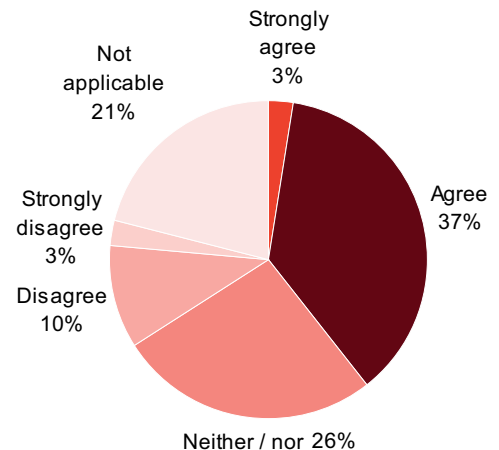


Figure 7: Infrastructure (transport, logistics, etc) is more developed



We'd love to hear your views on this survey and the findings. Please email Nick Page nick.r.page@uk.pwc.com

Switzerland: bringing success to Russian business



Switzerland and Russia have enjoyed a long and fruitful relationship that stretches back through many centuries. This shared history is one reason why Switzerland remains such an interesting location for Russian businesses seeking to expand into markets across Europe and beyond.

In contrast to Russia's often volatile or uncertain business environment, Switzerland offers Russian entrepreneurs a secure and reliable political, economic and legal environment, access to the highly-developed Swiss financial system and capital markets, a stable currency, and a very attractive taxation regime. In this article we will focus on the tax regime and examine the reasons for its enduring appeal.

I. In general

The Swiss tax system mirrors Switzerland's federal structure, consisting of 26 cantons with approximately 2,650 independent municipalities. Under the Swiss constitution, both the federal government and the cantons have the power to tax, with the result that Switzerland has two levels of taxation – the federal level and the cantonal/communal level. Although taxation rules across the Swiss cantons have been significantly harmonised, the cantons/communes retain significant tax autonomy, particularly with respect to determining tax rates. This means the tax burden varies considerably between cantons/communes, placing them in direct tax competition with each other.

Federal level

The Swiss Federation levies corporate income tax at a flat rate of 8.5% on companies' and cooperatives' after-tax profits. Because corporate income tax is a deductible expense, the effective federal income tax rate is 7.83%. For associations, foundations, other legal entities, and investment funds, a flat rate of 4.25% applies. No capital tax is levied at the federal level.

While companies resident in Switzerland are subject to income tax on their worldwide income, a tax exemption is generally granted for income attributable to foreign permanent establishments and foreign immovable property. Non-resident companies are subject to tax only on Swiss source income, defined as income and capital gains derived from Swiss business, permanent establishments or immovable property. As far as taxable income is concerned, there are generally very few differences between statutory profits and taxable profits apart from the participation exemption for dividends and capital gains, certain adjustments required by tax law, and loss carry forwards (up to seven years).

A federal withholding tax is levied at source on various types of income: on the gross amount of dividend distributions by Swiss companies; on income from bonds and similar indebtedness by Swiss issuers; on certain distributions by Swiss investment funds; and on interest payments on deposits held in Swiss banking establishments. A 35% tax rate is applied to dividend distributions including deemed profit distributions, interest payments relating to bonds and bond-like loans, and interest payments made by banks or bank-like institutions to non-banks. There is no withholding tax on interest payments relating to qualifying ordinary company loan agreements. Provided that royalties, licences, services and similar fees payable by Swiss persons are made at arm's length, no withholding tax is levied.

Most treaties provide for a reduction of the normal 35% withholding tax rate. The reduced rate for dividends is usually 15% for portfolio investors and 0%, 5% or 10% for substantial corporate owners. With regard to interests, most treaties allow for a typical reduction to 10%, or in some treaties a full exemption is granted. Based on the Savings Tax Agreement between Switzerland and the EU, dividends, royalty and interest payments between Switzerland and the EU are exempt from withholding tax, provided various conditions such as minimum shareholding and holding period are fulfilled.

Cantonal level

Given the tax harmonization at the cantonal/communal level, most tax rules are identical or very similar to the rules in force at the federal level (eg participation exemption, loss carry forward rules and, in most cases, thin capitalisation rules). In addition to income taxes, cantons levy an annual capital tax on the company's net equity. The capital tax rates vary from canton to canton and depend on the tax status of the company. Contrary to Swiss federal tax law, all cantonal tax laws offer special tax regimes, which may be made available under certain conditions.

a. Holding Company

Holding company tax status is available to Swiss companies (or permanent establishments of a foreign company) whose primary purpose is to hold and manage long-term equity investments in affiliated companies. The company must pass an alternative asset or income test, whereby either two-thirds of the company's assets must consist of substantial shareholdings or participations, or two-thirds of the company's total income must consist of participation income (dividend income or capital gains) from such shareholdings and participations.

A qualifying holding company is exempt from all cantonal/communal income taxes with the exception of income from Swiss real estate which is subject to tax after deduction of typical mortgage expenditures on such real estate. As a matter of principle, the holding company is subject to corporate income tax only at the federal level at the rate of 7.83%. However, even this taxation effectively tends to zero due to the regular participation relief at the federal level for qualifying dividends and capital gains. A reduced capital tax on cantonal/communal tax level applies.

b. Mixed Company

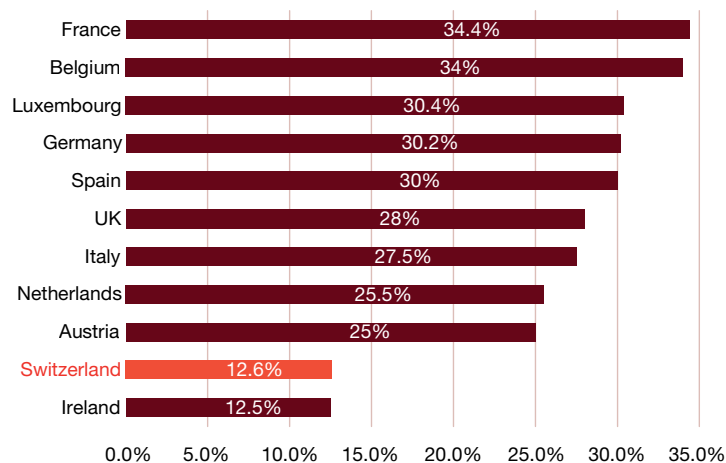
'Mixed company' tax status has been given different names by the various cantons. However, in the international context it is most often referred to as 'mixed company' or 'auxiliary company' tax status. A mixed company may be engaged only in limited commercial business activity in Switzerland. As a general rule, at least 80% of its income from commercial activities must derive from non-Swiss sources (ie a maximum of 20% of income may be linked to Swiss sources). Many cantons additionally require that at least 80% of costs must be related to activities undertaken abroad. Provided that a company fulfils the above criteria, it may apply for the special tax treatment. The portion subject to cantonal/communal income taxes generally varies from 10% to 25% of the foreign source income and may depend on the number of local employees. This means that effective overall tax rates of between 8% and 12% can be achieved.

II. International comparison

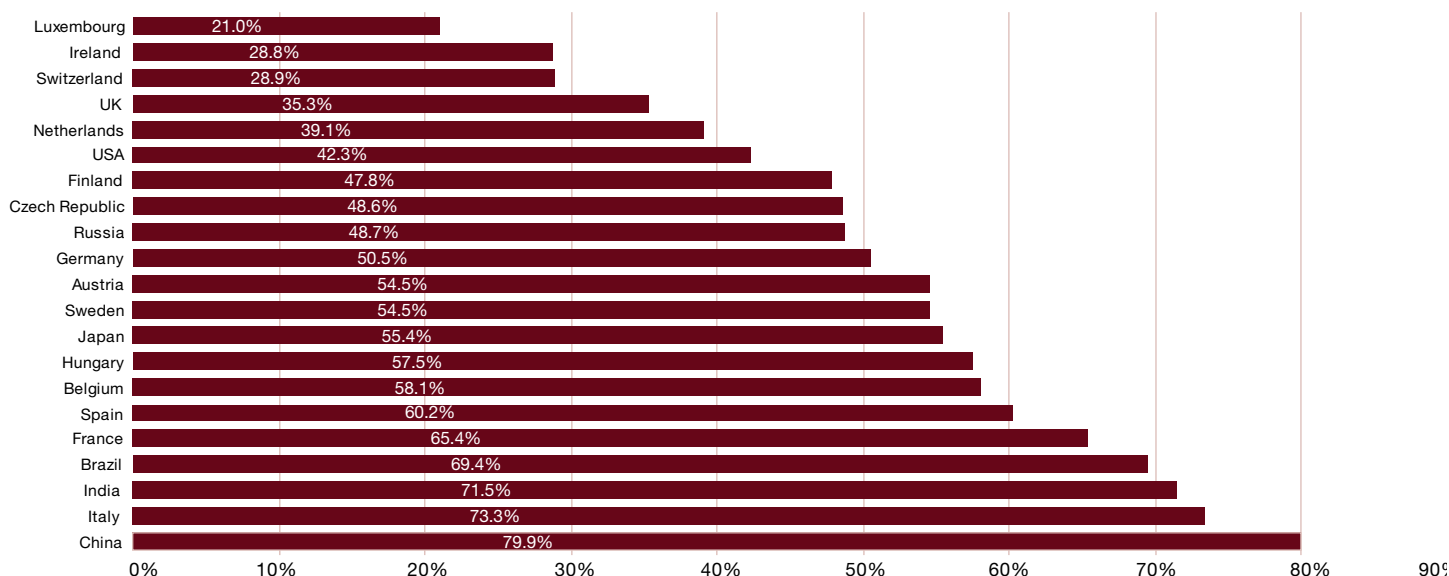
International comparisons demonstrate that Switzerland has a consistently competitive tax system compared to other highly developed industrial countries. The chart below compares the corporate income tax rates in several Western European countries:

The latest available business report for 2009 reflects the 2007 total tax rate, which measures the amount of all taxes and mandatory contributions borne by businesses, and is expressed as a percentage of commercial profits. The total amount of taxes borne is the sum of all the different taxes and contributions payable including profit or corporate income tax, social contributions and labour taxes paid by the employer, property taxes, turnover taxes (eg irrecoverable VAT) and other taxes (such as municipal fees and vehicle and fuel taxes). The graph below illustrates that the TTR for Switzerland is very attractive.

Corporate Income Tax Rates 2008 for selected European Countries



TTR 2007 for selected countries

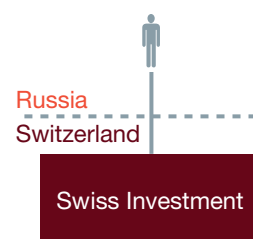


III. How Russian entrepreneurs invest into Switzerland: holding structures

Russian investors investing in Switzerland generally structure their investment in one of the following three ways:

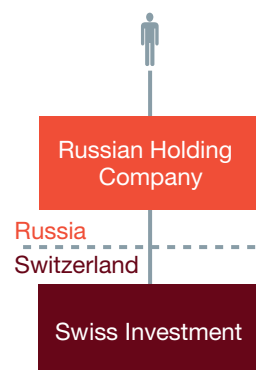
a. Direct holding of the Swiss investment by the Russian individual

Since dividend payments from a Swiss company to a Russian individual shareholder are subject to a non-recoverable Swiss withholding tax of 15% under the Swiss-Russian Double Tax Treaty, this direct holding is not the most tax efficient structure. Even if is based on the Double Tax Treaty under the Russian Tax Code, the residual Swiss withholding tax might be credited (partially) against Russian dividend income tax.



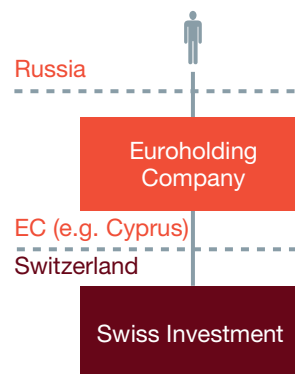
b. Investing in a Swiss company through a Russian holding company

Although that there is no special regime for holding companies in the Russian Federation, a participation exemption (0% on dividend income from domestic as well as foreign shareholdings) may be applied to dividend income at the level of the receiving Russian holding company if certain conditions are met. Additionally, any profits realised by the Swiss company that are repatriated to Russia by way of dividends are generally subject to a 5% Swiss withholding tax (reduced from the original 35% Swiss withholding tax by the Swiss-Russian Double Tax Treaty, if certain conditions are met). However, selling the Swiss investment might trigger Russian income tax at the level of the Russian holding company.



c. Investing in the Swiss company through a holding company located in the EU

Based on the Savings Tax Agreement between Switzerland and the EU it is generally possible to prevent Swiss withholding tax leakage by using a holding company domiciled in the EU. Russian entrepreneurs traditionally use Cyprus, Dutch or Luxembourg holding companies. Since Cyprus does not levy withholding taxes on dividend payments to shareholders, Cyprus might be the preferred holding location to consolidate investments under private wealth management structures. From a Swiss perspective, Swiss withholding tax on dividends will only be reduced to 0% if appropriate substance is placed at the level of the EU holding company.



Open for business

Owing to its location in the heart of Western Europe and its stable and reliable economic and political environment, Switzerland has for many years been one of the preferred locations for Russian businesses to establish parts of their overseas operations. Furthermore, Switzerland's tax laws, together with the extensive double tax treaty network, provide for an excellent investment climate. Also, due to the tax ruling system, certainty with respect to any tax consequences can be obtained not only prior to an investment but also for the future. And, last but not least, Switzerland ranks amongst the world's top destinations with respect to quality of life. This can sometimes be a determining factor when comparing Switzerland to other jurisdictions as a potential location for Russian business operations.

In the next edition, read about trading and financing structures used in Switzerland

Your contacts in Switzerland:

Andri Manatschal, Tax Director


Leader Eastern Europe
Russia and Central Asia Desk
PricewaterhouseCoopers AG
Birchstrasse 160
CH-8050 Zurich

Direct Phone: +41 58 792 43 18
andri.manatschal@ch.pwc.com

Sergey Bezborodov, Tax Manager

Manager Eastern Europe
Russia and Central Asia Desk
PricewaterhouseCoopers AG
Birchstrasse 160
CH-8050 Zurich

Direct Phone: +41 58 792 4348
sergey.bezborodov@ch.pwc.com



Cyprus: an attractive and reputable tax jurisdiction

Sitting at the crossroads of Europe, Africa and Asia in the south-east Mediterranean Sea, the small island of Cyprus, has a well-deserved reputation as a wonderful holiday destination. But that standing is now matched by Cyprus's rising status as a business location, benefiting from a favourable tax regime fully compliant with OECD and EU legislation and Directives.

Cyprus's journey from a dot on the map to the respected business centre that is today has not been easy. The country's success in establishing itself as a reputable and widely-chosen jurisdiction for tax optimisation and financial planning is the result of significant legislative change, political refinement and financial planning.

The journey

The history of Cypriot civilisation stretches back to the prehistoric era, but its evolution into a modern independent country began in 1960. The tax system was originally formulated in the 1970s, with the principal aim of attracting international businesses to the island. To achieve this, the government introduced a package of tax incentives including – among other measures – a low corporate tax rate of 4.25% (as compared to 20% and 25% for local businesses), halving the standard income tax rates for expatriates working in Cyprus, and taxation of foreign income on a remittance basis.

A major turning point in the journey was the decision to pursue a European path. The resulting harmonisation process saw much of Cyprus's legislation amended to bring it into line with the European acquis.

Tax harmonisation

Major reforms to Cyprus's tax legislation were introduced in 2002, and on 1 January 2003 – when the new tax legislation became effective – the 'international business regime' was abolished. Since that date there has been only one type of company in Cyprus, the limited liability company, subject to a common corporate tax rate of 10%. This rate is the lowest in the EU, and Cyprus is the only country in the world offering the benefits and infrastructure associated with the European Union at such a low tax rate within a tax regime fully compliant with EU law and all relevant EU Directives.

Furthermore, Cyprus has adopted the EU Parent Subsidiary Directive but has extended zero withholding taxes to all non-Cyprus residents. Cyprus also enjoys full participation exemption on receipt of dividends from anywhere in the world, under certain (easily met) conditions. The same treatment applies to the Interest and Royalty Directive, as withholding taxes are not applied on interest payments to persons established outside Cyprus or on respective royalty payments when the intellectual property in question is not used in Cyprus.

Another important development has been the introduction of the Exchange of Information legislation. This law, introduced on 25 July 2008, provides for exchange of information on a reciprocal basis with treaty partners. The main provisions of the legislation are:

1. All confidentiality privileges other than legal privilege can be disregarded subject to the satisfaction of the conditions of the law.
2. The requesting state should provide the Cyprus Commissioner of Inland Revenue Department (the Commissioner) with specific details of the reason for the information request and the identity of the person under examination.
3. The information is not provided if the requesting state does not have corresponding enabling provisions for the provision of information in its legislation.
4. If the conditions in paragraph 2 and 3 are satisfied, the Commissioner can obtain information from sources in Cyprus for the purpose of relaying it to the requesting foreign authority.
5. Notwithstanding the provisions or conditions set out above, the powers of the Commissioner are exercised only after the express written consent of the Attorney General has been obtained on a case-by-case basis.

The introduction of the Exchange of Information law led the leaders of the world's strongest economies, meeting at the G20 Summit held in London in April 2009, to classify Cyprus as a financial centre that has substantially implemented the internationally agreed tax standards on the exchange of information. As a result, Cyprus is now included on the OECD's white list.

Cyprus legislation is also frequently amended on an ongoing basis to adopt all ECJ Court Decisions as well as OECD directions.

The OECD's positive endorsement of Cyprus provides the island with clear advantages in competing with other international financial centres. It is proof that the island is a highly regulated and transparent financial centre with clear commitment and compliance to internationally agreed tax standards developed by the OECD. In short, Cyprus offers unrivalled tax benefits within a fully modernised European framework.

Other legislation and incentives

More widely, Cyprus – under the European Union flag – provides international businesses with the political, social and economic stability that they need. The country has an open market economy, is part of the Eurozone, provides for the free movement of capital, and offers lower business set-up and operating costs than other EU countries.

Naturally, Cyprus also offers highly professional legal, accounting and banking services to meet the needs of international organisations using the country as a business centre. Cyprus invests heavily in education and, as a result, has a highly qualified, multilingual labour force with an international and multicultural frame of mind.

Cyprus legislation also meets EU standards in protecting companies and individuals against fraud and other crimes. As an international centre within the EU, the country has fully implemented the EU requirements on Data Protection, Protection of Competition and Anti-Money Laundering. The Processing of Personal Data (Protection of the Individual) Law was amended in 2003 to harmonise Cyprus legislation with the Directive of the European Union (95/46) on the protection of individuals with regard to the processing of personal data.

As far as anti-money laundering is concerned, the current law – which came into force on 1 January 2008 – harmonises Cyprus legislation with the Third European Union Directive on the prevention of the use of the financial systems for the purpose of money laundering and terrorist financing (Directive 2005/60/EC).

The Russia & CIS connection

For many years, Cyprus has been the number one investor in Russia, Ukraine and the CIS in general.

This status is reflected by Cyprus's favourable tax treaty with all these countries. In combination with Cyprus's very favourable tax regime – including a low corporate tax rate, full participation exemption, no withholding taxes on payments to non-residents, and full tax exemption of transactions in shares, bonds and similar titles – this offers an extremely tax-efficient corporate structure.

A recent development, the signing of the new Protocol to the Cyprus–Russia Double Tax Treaty in April 2009, has further enhanced the relationship. The most important development arising from the new protocol is Russia's commitment to remove Cyprus from its black list.

Cyprus and the shipping industry

The combination of tax incentives with Cyprus's economic and the other advantages – including its excellent infrastructure – makes Cyprus the ideal investment choice for ship owners and ship managers. Following Cyprus's accession to the EU, the island has experienced an influx of new investors, particularly from the Nordic countries.

Today, Cyprus has:

- The third-largest shipping fleet in the EU and 10th largest in the world (1,857 vessels with gross tonnage in excess of 21m).
- The largest ship management centre in the EU, and in the top 5 internationally.
- 20% of the world's third-party ship management market.

Cyprus today: A reputable financial centre

Cyprus is now known worldwide as a low tax jurisdiction that favours international investments. As a result of its continued efforts, Cyprus is also acknowledged as a cooperative, transparent and internationally responsible jurisdiction and financial centre of the highest calibre.

The following quote from a speech of Charilaos Stavarakis, the Cyprus Minister of Finance, sums up the progress that Cyprus has made:

“First of all, the tax reform that took place in 2002 is in compliance with the EU Code of Conduct for Business Taxation and the commitment to the Organization for Economic Co-Operation and Development (OECD) for the elimination of harmful tax practices. It is a simple and modern tax system, which applies comparatively low tax rates for corporations and physical persons. It is also friendly to non-residents and businesses, since, for example, it abolished withholding taxes on interest and dividends. Moreover, the government of the Republic of Cyprus intends to expand its current network of bilateral treaties for the avoidance of double taxation”.

The future

Despite Cyprus’s success in recent years, the island is not complacent about its future. The government and local professionals alike recognise the need to maintain its international good standing – an objective that has gained even greater importance in the light of the present economic climate.

With this in mind, it is now of utmost importance that an international financial centre such as Cyprus has effective financial services regulation, anti-money laundering provisions and financial stability at the forefront of its agenda. Charilaos Stavarakis has set out his vision for the future of Cyprus in the following terms:

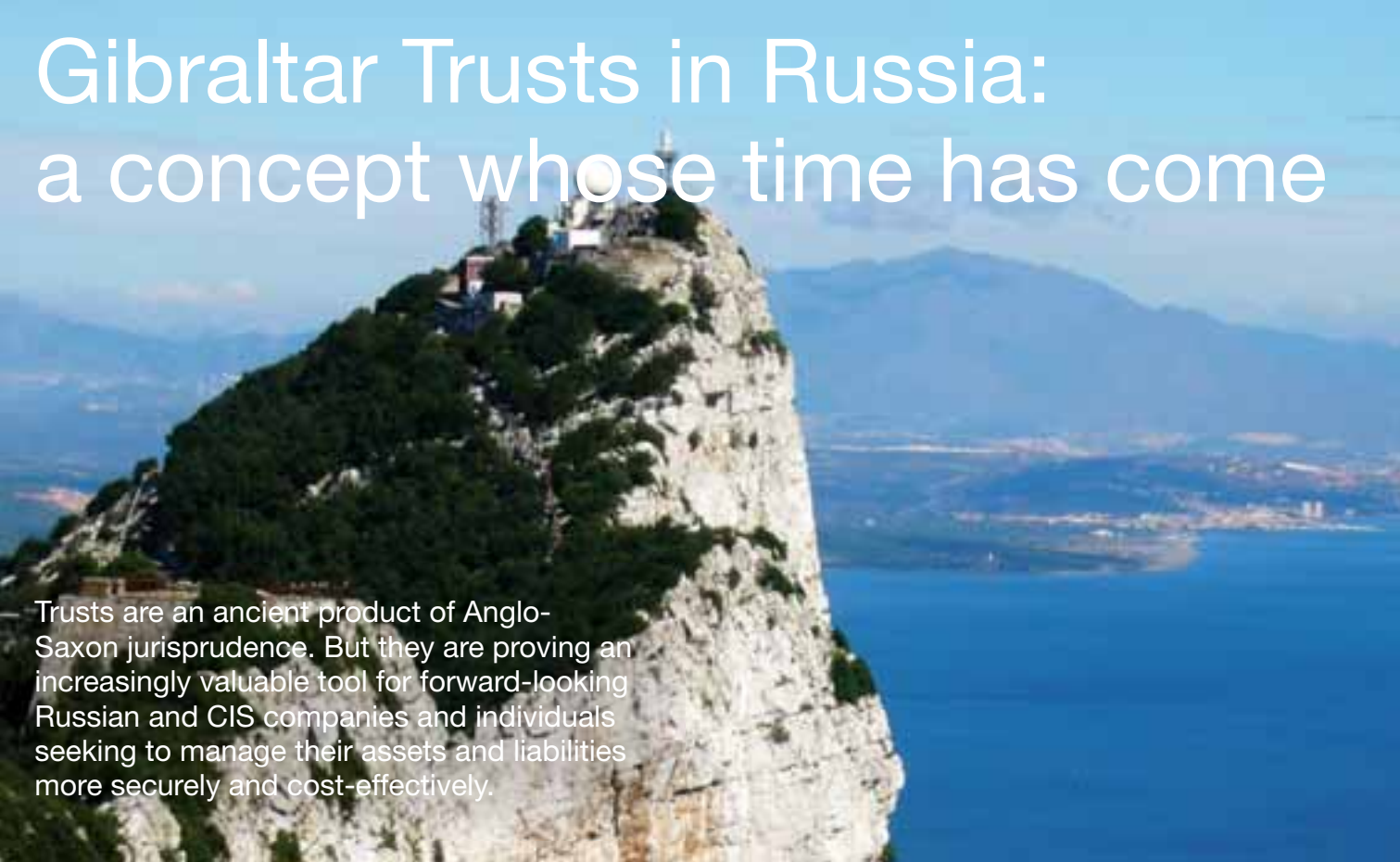
“We want companies from the big emerging markets to think of Cyprus when they want to invest in the European Union. Similarly, when international companies want to invest in these countries, we want them to consider doing it through Cyprus. Ideally, we would like them to have physical presence in Cyprus, to have their regional offices here.”

Following Cyprus’s dramatic progress in recent decades, the country now has all the elements in place to turn this vision into reality.



Cleo Papadopoulou
Tax Partner, PricewaterhouseCoopers Cyprus
cleo.papadopoulou@cy.pwc.com

Gibraltar Trusts in Russia: a concept whose time has come



Trusts are an ancient product of Anglo-Saxon jurisprudence. But they are proving an increasingly valuable tool for forward-looking Russian and CIS companies and individuals seeking to manage their assets and liabilities more securely and cost-effectively.

At first sight, the concept of trusts is often unfamiliar to people in Russia and the CIS. The underlying idea is that the owner surrenders control of the assets in the trust in order to reap a wide range of succession, tax and asset protection benefits.

While surrendering control might initially sound a little alarming, many high-profile Russians have had trust or trust-type arrangements in place for quite some time now. PwC Gibraltar and PwC Russia have been working together closely to advise corporate and private clients on trust and trust-related issues for most of the past decade. Today, despite – and sometimes as a result of – the global economic crisis, interest from potential clients is continuing to grow unabated.

Clients' rising confidence in trusts is reinforced by the stable 500-year track record of the legal concepts and traditions involved. And once clients overcome any initial reservations, trusts can be set up quickly and smoothly using a proven process.

Russian legislation contains no specific provisions regarding trusts, and they are not recognised by the Russian tax authorities. However, it is possible to build robust trust structures in accordance with existing Russian tax laws relating to succession, asset protection and personal financial affairs. To date, no legal cases have been brought in Russia specifically regarding trusts, so it makes sense to take detailed advice from experienced professionals, to ensure that the arrangements will withstand close legal scrutiny.

The form of trust most commonly used by Russian clients is the 'discretionary' trust, which contains standard provisions that provide a high degree of flexibility and adaptability to changing circumstances.

Appropriately, entering a trust arrangement requires real mutual trust between the client and adviser-service provider. This is one of the reasons why PwC's trust advisory and execution teams in Moscow and Gibraltar have been so successful – reflecting clients' trust both in PwC as an organisation and in the individuals concerned, both at the advisory stages in Moscow and in setting up the trusts in Gibraltar. Clients invariably meet the PwC people from both offices, helping them to see who is dealing with their affairs and deepening the trust between them.

In today's uncertain global environment, Russian companies and individuals are increasingly seeking robust protection for their assets across different markets and instruments, and the means to create flexible succession-planning arrangements. Trusts offer all of these benefits. What is more, trusts are completely tax-free in Gibraltar – though these days that component is usually the last item on the shopping list.

All companies and individuals with assets to protect would benefit from taking a look at what trusts can do for them. Clients in Russia have got the message about the benefits of trusts, and word is now spreading across the rest of the CIS. Put simply, trusts are here to stay – and, if you don't yet have any insight into their benefits, they are worth a look!

By Chris Pitaluga, Partner,
PricewaterhouseCoopers Gibraltar
christopher.j.pitaluga@gi.pwc.com

Contact in Moscow:
Andrei Narutsky, Partner, Legal Services
PricewaterhouseCoopers CIS Law Offices B.V.
andrei.narutsky@ru.pwc.com



Doing business in the UK

Doing Business in the UK Guide - latest edition available

PricewaterhouseCoopers
Doing Business and Investing in the UK

An essential guide by PricewaterhouseCoopers for overseas companies and individual investors considering or planning to do business or invest in the UK.

The guide provides insight into the key aspects of undertaking business and investing in the UK, from establishing an entity to dealing with employees. It has been designed so that you can go directly to any section that is of interest to you, or alternatively you can download the complete document. The guide will be updated periodically with the latest version available on this website.

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(Russia/ Belarus) | (Legal/ Taxation) | (Risk/ Assurance) | (Consulting)

The latest edition of “Doing Business and Investing in the UK” guide is now available on investingintheuk.com.

Written for companies and individual investors planning to enter the UK market, it provides useful insight into the key aspects of undertaking business and investing in the UK, from establishing an entity to dealing with employees. It provides answers to the many questions facing the community of overseas investors and is a great starting point for anyone looking to conduct business in the UK.

Published twice a year, the November 2009 edition has a number of updates and additional information including:

- Information on the proposed changes to personal income tax rates from 6 April 2010 and the 2009/10 tax datacard
- Further information on the new “Points-Based” System for immigration
- Updated information in respect of Financial Services entities regulated by the FSA
- Additional information on acquiring property
- An updated Intellectual Property section

UK Economic Outlook, November 2009: Highlights

- In November 2009, UK GDP was estimated in our main scenario to fall by around 4.75% in 2009, with modest average GDP growth of around 0.75% in 2010 projected in our main scenario.
- Also in November consumer spending was estimated to fall by around 3.25% in real terms in 2009 due to the severe squeeze on consumer spending from high debt levels, tighter credit conditions, falling housing wealth and rising unemployment. We expect real consumer spending to fall by a further 0.25% in 2010 as households seek to reduce their debt burdens and return their savings ratios to more normal levels.
- One of the key factors dampening consumer spending growth in our main scenario is a further projected rise in unemployment to a peak of around 3 million in the second half of 2010. All regions are projected to see rising unemployment over this period.
- Business investment growth is also expected to remain weak, although this should gradually reverse during the course of 2010.
- Destocking made a major contribution to the depth of the recession, but should now have a more positive effect on short-term GDP growth as this process goes into reverse. But this will be only a temporary effect and the question is whether growth can be sustained beyond that point.
- Public spending growth will remain positive in 2009 and 2010, but will need to be cut back sharply in the medium term to bring under control a budget deficit that looks likely to be at or above the Treasury's £175 billion projection for 2009/10. Significant tax rises are also likely to be needed from 2011 onwards, over and above what the government has already announced.
- Net exports should provide a boost to growth this year and next as the world economy recovers faster than UK domestic demand, helped by the relative weakness of the pound (compared to typical 1996-2007 levels).
- Risks around growth in our main scenario are more balanced than earlier this year, but are still somewhat weighted to the downside. We therefore recommend that businesses should stress test their plans and valuations against an alternative 'prolonged recession' scenario in which negative growth continues into 2010. But an upside scenario where growth rebounds to above trend levels by the end of 2010 can also not be ruled out.
- Inflation is projected to be volatile in the short term, but should fall back below target by the end of 2010 given continued excess capacity in the economy. However, there are still considerable uncertainties around this relating to the path of global commodity prices, domestic demand growth and sterling.
- The Bank Rate is assumed to be left at 0.5% until mid-2010 in our main scenario and to rise only gradually thereafter. We assume that quantitative easing is not unwound in a significant way until 2011 and beyond.

UK Economic Outlook

November 2009

Special features:

- How can the public finances be fixed?
- UK and regional unemployment prospects
- Which are the largest city economies in the world and how might this change by 2025?



To read the full report, please visit pwc.co.uk

Key facts and figures: Tajikistan

Dushanbe



Geography	The Republic of Tajikistan is a mountainous (93% of the territory), land-locked country with the total area of 143,000 sq km bordering Afghanistan, China, Kyrgyzstan and Uzbekistan. The climate is continental with hot summers and mild winters
Capital	Dushanbe, population 528,600.
Population	7 million (UN, 2009)
Language	Tajik, Uzbek, Russian
Currency	1 Tajik somoni (TJS) = 100 dirams (introduced in 2000) 1 GBP = 7.10 TJS (22 January 2010)
Foreign trade	Largest trading partners are Canada, USA, UK, Korea, Germany, Switzerland, Italy, Hungary and Russia. Main exports are aluminium, electricity, cotton, fruit, and textiles. Imports include oil and gas.
Leading industry sectors	Tajikistan possesses rich natural resources, including hydro-energy (8th in the world), precious metals and stones, poly-metallic ores, coal. The Republic has good opportunities for developing ecological tourism.
Tax rates	Special terms for large investors introduced to attract foreign capital: Any joint venture with no less than 30% share of foreign capital and foreign investments in amount of \$100,000 to \$500,000 are exempt from corporate income tax for 2 years. Exemption extended to 3 years if value of investment is between \$500,000 and \$2m. Exemption extended to 5 years for investments over \$5m*.
Good to know	The science behind the stunning Lake Iskanderkul origins indicates its formation in an ancient glacial valley with moraine deposits from avalanches and landslides at its base. The theory preferred by the locals however is that of Alexander the Great damming the river thereby creating a lake forever entombing the stubborn and freedom-loving defenders of the rich lands of Sogdia.

Source: *Embassy of the Republic of Tajikistan

For further information about doing business in Tajikistan, please contact Alina Listopad at the Russia & CIS Business Centre.



News from the Russia & CIS Business Centre

As the global economy picks up, it's been another busy quarter for our Russia & CIS Business Centre. Here's a round-up of recent developments.

Forum on Increasing the Effectiveness of Russian Boards

On 8 December 2009 the International Business Leaders Forum (IBLF), PricewaterhouseCoopers and the London Stock Exchange carried out a forum for Non-Executive Directors (NEDs) on Russian boards.

Following the financial crisis – and the perception that a failure of corporate governance played a key part in it – it is likely that boards will come under greater scrutiny in the months and years to come, if not from regulators, then certainly from investors. In light of the current need to restore trust in the markets, this initiative is of even more relevance today.

IBLF's CEO Adam Leach said: "Such strong representation by so important gathering of business leaders is testament to the commitment and leadership attached to achieving effective corporate governance in Russia. BRIC countries are making an increasingly significant contribution to global GDP and leadership values in business and government are urgently needed to enable Russia to become more competitive in global markets."

The growing number and significance of Non-executive Directors on the boards of Russian companies is an important sign of Russia's integration into the global economy. This integration would have been inconceivable without the adoption of corporate governance standards that ensure transparency and protect shareholder rights.

The executive forum allowed directors to address the issues of transparency, management culture and the compatibility of business traditions with international standards. These are all crucial factors in contributing to the effectiveness of directors on Russian boards, influencing decision-making,

minimising risks and enhancing reputation for both the company and themselves.

Peter Gerendasi, Managing Partner, PricewaterhouseCoopers Russia said: "We recognise the role of the NED as a potential key driver of change and this event is a part of our desire to develop a dialogue that allows NEDs on Russian boards to share experiences and best practices that they encounter. It is important that NEDs draw from experiences of peers in Russia and other jurisdictions and thus maximise the impact of their own position."

A significant number of Russian companies have not yet recognised international business practices and law, and may be unfamiliar with the tools for effective operations of boards. Other companies may engage in business practices that would normally be unacceptable elsewhere.

Commenting on the interactive panel discussions that took place at the forum, Nick Langford, Head of UK and International Business Development, London Stock Exchange said: "The discussion held at the forum and exchange of opinion helped to add colour and relevant background to the rules and guidelines that we as an exchange espouse. This was the kind of engagement that our principles-based system of regulation aims to support. A better appreciation of the value which NEDs can bring to the board table will only help to engrain corporate governance best practices within the business culture and that was clearly on view in today's gathering."

Stock exchanges, investors, investment banks and funds are now making their expectations regarding corporate governance clearer. In turn, this is having a considerable effect on corporate governance mechanisms in Russia going forward.

New network integrates client service across Europe

European clients doing business in Russia & CIS countries and clients from these countries expanding to Europe will now benefit from an even more joined-up services as, PwC Russia & CIS Business Centres across a number of European countries join forces to form an integrated network.

The network, co-chaired by UK partner Alex Bertolotti and Russian partner Bill Henry, recently met in Prague to discuss and agree objectives and identify which other territories should join the network. Alex says the

members will continue to meet four times a year – twice by conference call and twice in person – to discuss how each territory can support clients most effectively.

"There are great opportunities for us to share knowledge and learn from each other's best practices," comments Alex. "We're also examining how we can work as a network to help PwC Russia support the Russian government with its strategic priorities – such as attracting foreign investment, finding business partners in pharma and high-tech sectors, and diversification of monotowns."

The Russia & CIS Business Centres' network will next meet in Moscow in May 2010.

The UK-Russia Intergovernmental Steering Committee (ISC) meeting 5 November 2009 in London

Co-chaired by Lord Peter Mandelson, First Secretary of State and Secretary of State for Business, Innovation & Skills, and Alexey Kudrin, the Russian Deputy Prime Minister and Minister of Finance, the 2009 ISC focused on Financial Services and five other potential drivers of increased bilateral trade and investment between UK and Russia. Also participating in the meeting was PwC Financial Services (FS) partner Alex Bertolotti, who chairs the working group on FS sector issues, the Financial Services Supervisory Advisory Board (FSSAB). This has now been re-named to the Overseas Promotion Committee (OPC) City UK, Russia Group.

This high-profile event demonstrated the benefits of ongoing interaction at the highest levels of the UK and Russian governments, especially given the challenges currently facing the world economy.

The subjects discussed included:

- Promoting Moscow as an International Financial Centre
- Forming a committee in Russia similar to OPC City UK to share best practices
- The transition to IFRS, increasing financial expertise, changes in solvency rules, and developments in banking products requiring cooperation between banks and regulators
- A proposal for a Memorandum of Understanding between the Financial Service Authority (UK) and the Federal Financial Markets Service (Russia)

Close involvement of the OPC City UK, Russia in all these issues is consistent with our aim of establishing PwC as the clear market leader in Financial Services. The core objectives of the OPC City UK include delivering consistent messages to and from the Russian Federation, improving transparency, and co-ordinating the work of all organisations with an interest in Russia.

Upcoming events:

Law Firms – Doing Business in Russia: 31 March

Russia has been one of the fastest growing economies in the world, and despite the difficult times, there continue to be significant business opportunities in Russia. Sustained growth over several years is an indication of the great potential of the Russian market. Many of the key factors driving this growth will continue to be present when the markets recover. To operate successfully and minimise potential risks, it is very important for a law firm to understand key aspects of doing business in Russia and be aware of the most significant legislative changes.

Tax and legal specialists from PwC in Russia will address the most topical issues one should take into consideration while operating on the Russian market and share their practical experience.

During the seminar the following issues will be covered: business models commonly used by international law firms; recent & upcoming changes in the Russian tax law; personnel issues; compliance with Russian migration and labour law.

A webcast on the Russian retail market

This webcast will be released in March and will provide commentary on the issue from PwC industry specialists.

For details of these events please contact Alina Listopad or e-mail russia@uk.pwc.com

For more information please email russia@uk.pwc.com or contact:



Alex Bertolotti
Russia & CIS Business Centre
Leader
PricewaterhouseCoopers LLP (UK)
020 7213 1253
alex.bertolotti@uk.pwc.com



Alina Listopad
Russia & CIS Business Centre
Manager
PricewaterhouseCoopers LLP (UK)
020 7804 9398
alina.listopad@uk.pwc.com

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IPOs have many advantages; attracting capital boosting company recognition, and opening doors to new opportunities. There are, however, additional obligations and responsibilities, which are integral aspects of public company life.

The PricewaterhouseCoopers Capital Markets Group is a team of experienced professionals who provide a broad range of services to companies and investment banks in relation to capital markets transactions. These include supporting a company's preparation to go public; helping to select the right market and advisory team; reviewing accounting practices and financial reporting procedures; advising on the corporate governance arrangements; and undertaking financial and business due diligence investigations.



To find out more contact one of our experts:

UK

Clifford Tompsett, Partner

Tel. +44 (0) 20 7804 4703
clifford.tompsett@uk.pwc.com

Katya Kuznetsova, Director

Tel. +44 (0) 20 7213 2166
katya.kuznetsova@uk.pwc.com

Russia

Macy Coffey, Partner

Tel. +7 (495) 223-5132
macy.m.coffey@ru.pwc.com

pwc.co.uk/emergingmarkets

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