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INVESTMENT IN RUSSIA:
LEGAL AND TAX MATTERS TO CONSIDER

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info@beone-tr.com

BeOne Team

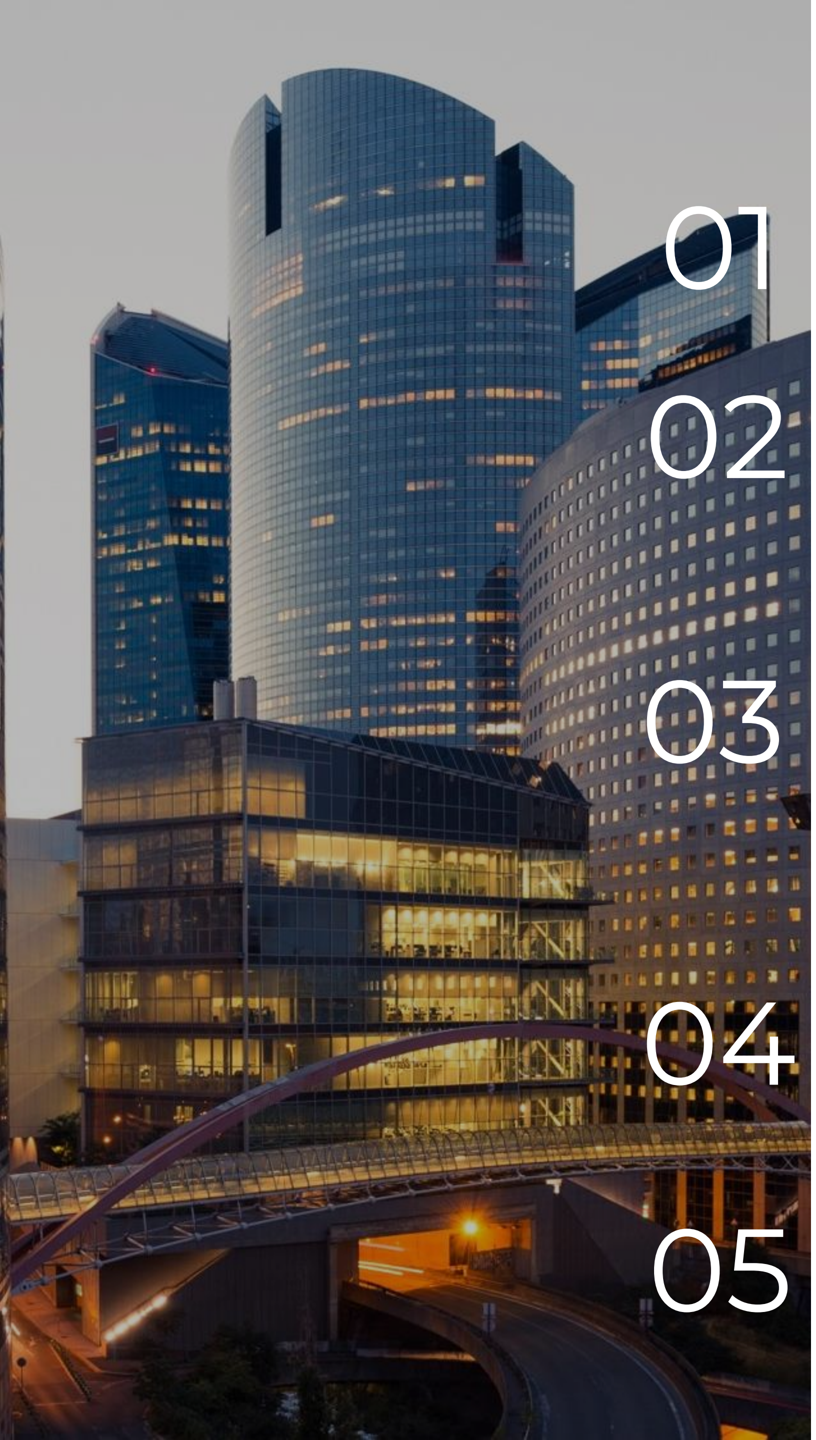
Irina Bykhovskaya, Partner
Irina.Bykhovskaya@b1.ru
+7 985 764 19 97

Arzu Akcura, Partner
Arzu.Akcura@beone-tr.com
+90 533 297 14 91

Andrei Sulin, Partner
Andrei.Sulin@beone-tr.com
+7 916 592 88 67

BeOne-tr.com

LinkedIn



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1 MACROECONOMIC SNAPSHOT

MANUFACTURING REMAINS THE KEY DRIVER OF RUSSIA'S ECONOMIC GROWTH

A sector-by-sector look at Russia's GDP in 2022, 2023 and through November 2024, YoY change

Sector	2022	2023					2024				
		Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	11m	
Industrial production	0.7%	-0.7%	6.0%	6.2%	4.9%	4.1%	5.7%	4.4%	3.1%	4.3%	
Extraction	1.5%	-3.4%	0.2%	-1.4%	-0.7%	-1.3%	0.8%	-1.3%	-1.3%	-0.8%	7
Manufacturing, incl.	0.3%	1.5%	11.3%	12.3%	9.0%	8.6%	9.5%	8.5%	6.0%	8.0%	1
Machinery	**-5.9%**	**6.6%**	**35.5%**	**43.1%**	**23.4%**	**24.3%**	**27.4%**	**18.0%**	**16.7%**	**20.0%**	
Metals	2.7%	6.6%	14.4%	10.5%	5.9%	9.1%	10.0%	10.6%	3.2%	7.4%	
Construction	7.5%	10.0%	9.1%	7.5%	6.6%	7.9%	3.5%	4.1%	0.2%	2.0%	5
Freight transport	-2.3%	-1.6%	-2.5%	0.0%	1.9%	-0.6%	0.9%	-0.6%	0.6%	0.1%	6
Agriculture	11.3%	1.6%	1.1%	2.4%	-5.7%	-0.3%	1.2%	0.7%	-5.5%	-2.6%	8
Retail trade	-6.5%	-5.5%	11.2%	14.0%	11.7%	8.0%	10.4%	7.5%	6.1%	7.4%	2
Wholesale trade	-16.2%	-12.8%	11.7%	21.9%	16.1%	8.9%	12.6%	9.1%	2.8%	7.2%	3
Paid services	5.0%	5.2%	7.6%	7.9%	6.7%	6.9%	3.6%	4.2%	2.6%	3.4%	
Food services	7.6%	13.9%	19.9%	12.4%	10.5%	13.9%	5.3%	9.3%	10.8%	8.8%	4
Total GDP	**-1.2%**	**-1.6%**	**5.1%**	**5.7%**	**4.9%**	**3.6%**	**5.4%**	**4.1%**	**3.1%**	**4.0%**	9

Source: Ministry of Economic Development of the Russian Federation

9 Signs of an economic slowdown became more pronounced in Q2–Q3 2024, but over the first 11 months, GDP still grew by **4% YoY**.

Key drivers of the Russian economy:

1. **Manufacturing:** Expansion is fueled by strong performance in the machinery sector.
2. **Retail trade:** Growth is slowing as consumer demand softens amid a higher key interest rate.
3. **Wholesale trade:** Rebounding, buoyed by the recovery of gas exports from the lows of 2023.
4. **Food services:** Supported by rising household incomes.
5. **Construction:** Sustained by infrastructure projects, new housing supply and the end of preferential mortgage programs.

Other sectors:

6. **Freight transport:** Reduced cargo volumes due to export restrictions.
7. **Extraction:** Lower output amid ongoing sanctions-related constraints.
8. **Agriculture:** Declining as a result of lower crop yields.

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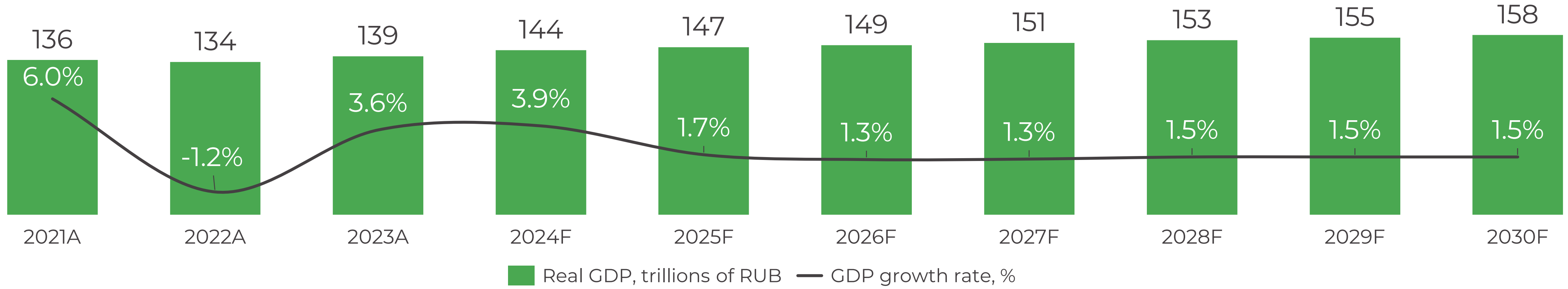
2025 TO SEE A SHARP SLOWDOWN IN ECONOMIC GROWTH AMID TIGHT MONETARY POLICY

Real GDP growth and volume (in 2021 prices)



GDP forecasts: 31.12.2024 vs. 30.09.2024

Real GDP growth	2023A	2024F	2025F	2026F	2027F	2028F
31.12.2024	**3.6%**	**3.9%**	**1.7%**	**1.3%**	**1.3%**	**1.5%**
30.09.2024	**3.6%**	**3.7%**	**1.7%**	**1.7%**	**1.7%**	**1.5%**
Deviation	*0.0%*	*0.2%*	*-0.1%*	*-0.4%*	*-0.4%*	*0.0%*

Reason for revision:

- Slower-than-expected key interest rate cuts are putting a drag on GDP growth.

Analysts	Date	2025F	2026F	2027F
EIU	06.12.24	1.4%	1.3%	1.2%
Oxford Economics	17.12.24	1.6%	-0.5%	-0.4%
Center for Macroeconomic Analysis and Short-Term Forecasting	20.12.24	1.7%	1.7%	2.1%
Investment bankers	09.01.25	1.5%	1.4%	
IHS Markit	15.12.24	2.6%	2.4%	2.3%
Eurasian Development Bank	05.12.24	2.4%	1.7%	1.5%
OECD	04.12.24	1.1%	0.9%	
Sberbank	06.12.24	1.3%		
UN	10.01.25	1.5%	1.5%	

MID-TERM GDP GROWTH WILL BE DRIVEN BY INCREASED CONSUMPTION AND INVESTMENT

Real GDP growth by component, 2023–2027

% YoY	2023A	2024F	2025F	2026F	2027F
Household consumption 1	6.5%	5.4%	2.2%	1.7%	1.7%
Government consumption 2	7.0%	12.3%	2.5%	1.1%	1.0%
Investment in fixed capital 3	15.8%	8.6%	2.9%	3.1%	3.6%
Exports 4	-8.2%	0.9%	0.9%	1.1%	0.8%
Imports 4	16.9%	0.6%	-0.4%	1.2%	-0.4%
Total GDP 5	**3.6%**	**3.9%**	**1.7%**	**1.3%**	**1.3%**

Source: Б1 analysis

1. Despite tight monetary policy, in 2024, households continued to increase consumption while boosting savings, driven by higher real wages and growing retail lending.

% YoY	2022	2023	11m 2024
Real wages	0.3%	8.2%	8.9%
Unemployment	4.0%	3.2%	2.5%

2. The primary driver of GDP growth in 2024 was the ramp-up in government spending, particularly on defense procurement. Analysts predict that government spending will continue to rise in real terms in 2025.

3. Investment activity surged in 2024 and is expected to continue, fueled by the rollout of import substitution programs. Meanwhile, the effects of tax reform may prompt a shift from private to public investment.

4. Imports are expected to drop in 2025 due to the high exchange rate.

5. Preliminary estimates suggest that tax reform will have a largely neutral impact on GDP growth.

THE KEY INTEREST RATE IS SET TO STAY AT 21% THROUGH THE END OF 2025

Key rate forecasts: 31.12.2024 vs. 30.09.2024

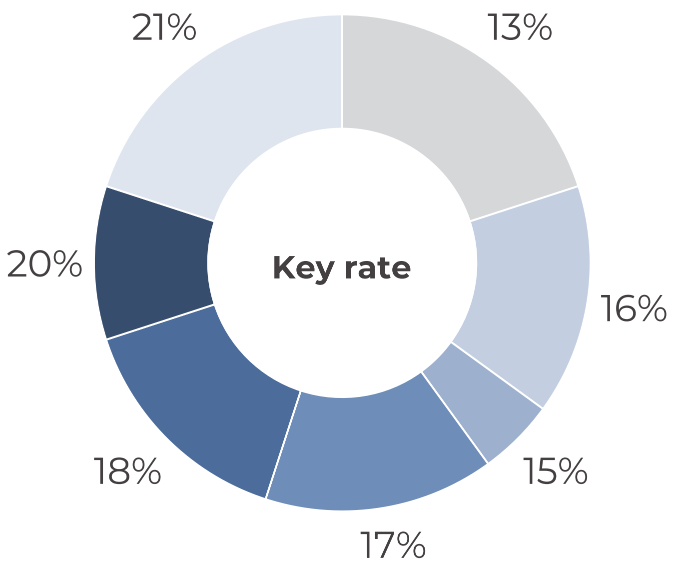
Key rate (annual average)	2023A	2024A	2025F	2026F	2027F	2028F	2029F	2030F
31.12.2024	10.0%	17.7%	21.0%	19.0%	15.0%	11.5%	9.0%	8.0%
30.09.2024	10.0%	17.3%	17.0%	12.0%	10.0%	8.0%	8.0%	8.0%
Deviation	*0.0%*	*0.3%*	*4.0%*	*7.0%*	*5.0%*	*3.5%*	*1.0%*	*0.0%*

Quarterly forecast by investment bankers for 2025

Investment bankers	2025			
	Q1	Q2	Q3	Q4
Barclays PLC	23%	22%	20%	17%
Capital Economics Ltd	23%	23%	22%	18%
Deutsche Bank AG	24%	24%		20%
Frontier Strategy Group LLC	23%			
Goldman Sachs & Co LLC	21%	21%	20%	17%
ING Groep NV	24%	24%	22%	20%
Intesa Sanpaolo SpA	20%	18%	16%	14%
JPMorgan Chase & Co	22%	19%	16%	14%
MUFG Bank Ltd	21%	21%	19%	17%
OTP Bank Romania SA	23%	21%	19%	17%
Region Investment Co	24%	24%	23%	21%
Renaissance Capital Holdings Ltd/Bermuda	24%	22%	19%	17%
S&P Global Inc	23%	19%	15%	13%
TD Securities Ltd	21%	20%	17%	15%
Average	**23%**	**21%**	**19%**	**17%**

Source: B1 analysis

RBC consensus forecast for 2025



The survey included 20 experts.

1. Experts from VTB Bank and Sovcombank forecast that the rate will remain flat throughout 2025.
2. By contrast, analysts from OTP, Ricom-Trust and Renaissance Capital expect a rate cut in Q2 2025.

AVERAGE ANNUAL INFLATION IN 2025 IS EXPECTED TO EXCEED 10%

CPI inflation forecasts: 31.12.2024 vs. 30.09.2024

CPI inflation rate in Russia (annual average)	2023A	2024A	2025F	2026F	2027F	2028F	2029F	2030F
31.12.2024	5.9%	8.4%	10.5%	8.9%	7.5%	6.5%	5.5%	5.0%
30.09.2024	5.9%	8.1%	5.7%	4.7%	4.2%	4.0%	4.0%	4.0%
Deviation	*0.0%*	*0.4%*	*4.9%*	*4.2%*	*3.2%*	*2.5%*	*1.5%*	*1.0%*

Year-end inflation forecast

CPI inflation rate in Russia (Dec-over-Dec)	2023A	2024A	2025F	2026F	2027F	2028F	2029F	2030F
31.12.2024	7.4%	9.7%	10.0%	8.0%	7.0%	6.0%	5.0%	5.0%

Source: B1 analysis

1. Key pro-inflationary factors:
   - Higher government spending
   - Continued growth in consumer demand
   - Labor shortages

2. The inflation outlook for 2025 has been revised upward, driven by mounting inflationary pressures (such as double-digit tariff hikes and a weakening ruble), coupled with an expansionary fiscal plan.

3. Long-term CPI expectations remain anchored, supported by breakeven inflation rates implied by yields on traded bonds.

Analysts	Date	2025F	2026F	2027F	2028F
EIU	06.12	6.9%	4.2%	4.2%	4.0%
Oxford Economics	17.12	3.7%	3.8%	3.8%	
Center for Macroeconomic Analysis and Short-Term Forecasting	20.12	7.9%	5.3%	4.8%	
IHS Markit	15.12	7.0%	5.0%	4.8%	4.4%
Investment bankers (consensus)	09.01	9.0%	5.3%		
OECD	04.12	7.0%	5.2%		
Eurasian Development Bank	05.12	7.5%	6.0%		

CREDIT INTEREST RATES IN THE RUSSIAN MARKET

Weighted average interest rates on ruble-denominated loans extended by credit institutions to non-financial organizations

Month	All loans >3 years	Loans to SMEs >3 years
January 2024	13.03%	13.84%
February 2024	13.79%	14.46%
March 2024	14.55%	16.05%
April 2024	15.06%	16.68%
May 2024	14.43%	15.45%
June 2024	14.57%	15.09%
July 2024	15.84%	16.62%
August 2024	15.90%	16.72%
September 2024	17.58%	18.20%
October 2024	17.17%	17.82%

Source: Bank of Russia

Selected corporate bonds issued in December 2024

	Bond	Issuer rating	Indicative yield	Redemption date
Highest rating	Positive Technologies, 001P-02	ruAA	24.54%	17.12.2026
	Magnit, BO-004P-05	ruAAA	21.82%	13.11.2029
	RusHydro, BO-002P-04	ruAAA	19.17%	28.06.2026
	RESO-Leasing, BO-P-23	ruAA-	20.07%	04.11.2034
Medium rating	ID Collect, 07	ruBB+	26.77%	20.05.2027
	TGK-14, 001P-03	ruB	21.03%	01.06.2028

Source: Cbonds

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MODERATE RUBLE DEPRECIATION IS EXPECTED IN THE MEDIUM TERM

Exchange rate and oil price forecasts: 31.12.2024 vs. 30.09.2024

Indicator	2023A	2024A	2025F	2026F	2027F	2028F
RUB/USD exchange rate						
31.12.2024	85.8	92.7	102.5	106.4	109.3	114.0
30.09.2024	85.8	91.5	94.5	97.0	99.9	101.8
Deviation	*0.0%*	*1.2%*	*8.4%*	*9.7%*	*9.4%*	*12.0%*
Urals oil price, RUB/bbl						
31.12.2024	5,405	6,287	6,022	6,337	6,233	6,670
30.09.2024	5,405	6,288	6,208	6,096	6,076	6,345
Deviation	*0.0%*	*0.0%*	*-3.1%*	*4.0%*	*2.6%*	*5.1%*

Factors putting pressure on the ruble exchange rate in the medium term:

- Persistent budget deficit
- Inflationary risks
- Rising geopolitical risks

Despite these challenges, the ruble's depreciation will be capped by tight monetary policy.

In the long term, sanctions on the Moscow Exchange and the suspension of dollar and euro trading will intensify currency risks.

Moreover, declining oil prices will further fuel the risk of ruble devaluation.

Analysts' projections for GDP growth: 2025–2027

Analysts	Date	2025F	2026F	2027F
EIU	06.12.24	98.3	100.2	102.2
Center for Macroeconomic Analysis and Short-Term Forecasting	20.12.24	102.0	108.4	116.6
Investment bankers	09.01.25	105.8	110.9	
Eurasian Development Bank	05.12.24	104.0	106.0	109.0

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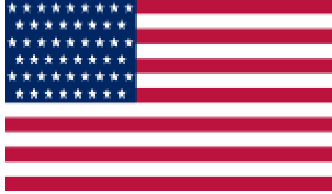
IMPACT OF EU/US SANCTIONS ON DOING BUSINESS IN RUSSIA

1. OVERVIEW OF KEY EU/US SANCTIONS IMPLICATIONS TO NEW INVESTMENTS AND BUSINESS ACQUISITIONS IN RUSSIA

OVERVIEW OF KEY US SANCTIONS IMPLICATIONS TO NEW INVESTMENTS AND BUSINESS ACQUISITIONS IN RUSSIA



US blocking sanctions (1/2)

Blocking US sanctions (Inclusion in SDN list - Specially Designated Nationals and Blocked Persons List) apply to any actions (including the transactions related to the transfer, payment, export, receipt) in relation to property, property interest and share in property of sanctioned persons

Prohibition on transaction with SDN listed persons
«Prohibited transaction» include trade or financial transactions and any other transactions in which persons can not engage without the OFAC permission (license) or legal direct exception

SDN

→ implication of «**50 Percent Rule**» ←

Where one/several SDN listed persons hold a company for a total of 50% or more → such company will be deemed as being under blocking sanctions, whether SDN listed or not.

50%

SDN listed person asset freeze

Examples of restrictions in respect of the SDN listed persons

- US persons (individuals and legal entities) and any persons under US jurisdiction cannot enter into transactions with SDNs
- SDN listed person asset freeze within the United States
- Inability to make settlements in dollars due to blocking of correspondent accounts in US banks
- Prohibition for US persons on opening an account in SDN listed financial institution, participation in any financial operations where such bank can act as an intermediary, payment service provider, etc.

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OVERVIEW OF KEY US SANCTIONS IMPLICATIONS TO NEW INVESTMENTS AND BUSINESS ACQUISITIONS IN RUSSIA

US blocking sanctions (2/2)

SDN-listed Companies:

- Major banks (PJSC Sberbank, PJSC Alfabank, PJSC VTB)
- Gold mining companies (Highland Gold Mining Limited, PJSC GV Gold)
- Electric cars manufacturers (Motorinvest LLC)
- Major plants (Izhorskiye zavody PJSC, MZ Mayak PJSC, PJSC Kalinovski khimicheski zavod, Novovyatski mekhanicheski zavod, PJSC Zvezda, JSC Russian machines, Uralvagonzavod)
- Radio-electronic companies (PJSC Russian electronics, JSC Concern radio electronic technologies, JSC Concern Sozvezdie)
- Agricultural companies (Agroholding Kuban)
- Other

SDN-listed Individuals:

- Krasnov I.V. (Prosecutor General)
- Nabiullina E.S. (Chairman of the Bank of Rusia)
- Miller A.B. (CEO of PJSC Gazprom)
- Gref G.O. (CEO of Sberbank)
- Bogdanov V.L. (CEO of PJSC Surgutneftegaz)
- Chemezov S.V. (CEO of Rostec)
- Vaino A.E. (Head of the Presidential Administration)
- Rogozin D.O. (Federation Council member)
- Shulginov N.G. (Minister of Energy)
- Other

OFAC license

License is an OFAC authorization for transaction and operation (involving persons on the SDN list or involving blocked assets of such persons) otherwise banned by US restriction measures. There are two types of license general license and special license

General Licence

– a general authorisation that enables certain transactions and operations to be carried out by persons on the SDN list without the need

to apply for a special license individually

- There are currently over 50 general licenses in force for SDN-listed persons associated with the Russian Federation.
- As a general rule, general licenses in force for specific persons are issued at the same time as the listing of such persons on the SDN list.
- In particular, through general licenses, OFAC may authorize certain persons named in the license to engage in transactions in certain areas of the economy (e.g., energy transactions1). Some licenses authorize transactions necessary to complete the activities of the persons named in the license or transactions related to the performance of certain debt obligations of such persons

Special Licence

– a special authorization issued by OFAC at the request of a specific person or entity, enabling that person to carry out a specific transaction involving a person on the SDN list

- As a general rule, a request for a special license shall be submitted only in relation to a single transaction with a single counterparty. When submitting the request, a detailed description of the proposed transaction must be provided, including the names and addresses of all persons/companies involved..
- OFAC's refusal to issue a special license is final and there is no appeal process. A resubmission of a request for a similar transaction involving the same persons is possible in the event of a change in circumstances or other additional information on the transaction that may affect OFAC's final conclusions

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OVERVIEW OF KEY US SANCTIONS IMPLICATIONS TO NEW INVESTMENTS AND BUSINESS ACQUISITIONS IN RUSSIA

US sectoral sanctions (under EO 13662)

SSI – list of persons from selected sectors of the economy

The implications of SSI inclusion:

- limited access to US capital markets
- restrictions on transactions with debt instruments

Directive 1

Finance Industry

- Prohibition of all transactions with debt instruments of Russian persons issued on or after **28.11.2017** and maturing in **more than 14 days**

Directive 2

Energy Industry

- Prohibition of all transactions with debt instruments of Russian persons issued on or after **28.11.2017** and maturing in **more than 60 days**

Directive 3

Defence Industry

- Prohibited all transactions, provision of financing and other operations with debt obligations of Russian persons and maturing in **more than 30 days**

Directive 4

Energy Industry

- Prohibited from supplying, exporting, re-exporting goods, services (exception: financial services) or technology in support of exploration or production for deep water, Arctic offshore or shale projects with potential for oil production in the Russian Federation and its territorial waters

Crimea restrictions: ban on new investments and trade

- New investment in the Crimea by a U.S. person, wherever located;
- The importation into the US, directly or indirectly, of any goods, services, or technology from the Crimea;
- The exportation, reexportation, sale, or supply, directly or indirectly, from the US, or by a U.S. person, wherever located, of any goods, services, or technology to the Crimea; and
- Any approval, financing, facilitation, or guarantee by a U.S. person, wherever located, of a transaction by a foreign person where the transaction by that foreign person would be prohibited if performed by a U.S. person or within the US.

SSI-listed Companies:

- JSC Sberbank
- PJSC Bank VTB
- OJSC Chaika
- JSC Credit Ural bank
- JSC Eximbank of Russia
- PJSC Gazpromban
- PJSC Khomyakovski khladokombinat
- PJSC Krylovski elevator
- PJSC Ladozhski elevator
- LLC 'Shervud premer'
- OJSC 'GIPROTRUBOPROVOD'
- JSC 'Vertolety ROSSII'

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OVERVIEW OF KEY EU SANCTIONS IMPLICATIONS

EU blocking sanctions

Prohibition on provision of funds, other economic resources

Regulation EU № 269/2014

Blocking of assets

Additional rules may be established in the territory of a particular EU state. Sanctions apply if the ownership criteria ("**50 Percent Rule**") and the control criteria ("**8 Part test**") are met, even if the person is not on the sanctions list. Core document: Regulation No. 269/2014.

1. The person has the formal or de facto right to appoint / discharge the majority of the members of the administrative, management or supervisory body of the company
2. A person, on the basis of an agreement concluded with the company or on the basis of the company's articles of association, has the ability to exert dominant influence over the company
3. The person solely (using his/her voting power) appointed or discharged a majority of the members of the company's administrative, management or supervisory body in the current or previous financial year
4. A person is able to exert dominant influence over the company in the absence of legal grounds (agreement with the company or the company's articles of association)
5. A person is jointly and severally liable for or guarantees the financial obligations of the company
6. A person may solely (on the basis of a corporate agreement with the shareholders / members of the company) control the majority of votes in the company
7. A person managing the business activities of a company on a joint and several basis (e.g., a group of companies for which consolidated financial statements of the group are maintained).
8. A person has the right to dispose of all or part of the company's assets

EU Sanctions List Companies:

- Major banks (PJSC Sberbank, PJSC Alfabank, PJSC VTB)
- Major plants (JSC Automobile Plant URAL, JSC Ulan-Ude Aviation Plant, JSC Votkinsk Machine Building Plant)
- Radio-electronic companies (JSC Concern Radio-Electronic Technologies, OJSC Radioavionika)
- Media agencies (Patriot Media Group, Rossiya Segodnya)

EU Sanctions List Individuals:

- Kostin A.L. (Chairman of VTB)
- Shuvalov I.I. (Chairman of VEB.RF)
- .Savelyev V.G. (Minister of Transport)
- Fradkov P.M. (Chairman of PJSC Promsvyazbank)
- Sobyanine S.S. (Mayor of Moscow)
- Members of the State Duma who voted in favour of the recognition of the Donetsk People’s Republic and the Luhansk People’s Republic’

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OVERVIEW OF KEY EU SANCTIONS IMPLICATIONS

EU sectoral sanctions

Examples of prohibitions *Regulation № 833/2014*

- Prohibition to sell, supply, transfer or export luxury goods. dual-use goods, goods and technology which might contribute to Russia's military and technological enhancement, firearms, their parts and essential components and ammunition
- Prohibition for operators to broadcast or to enable, facilitate or otherwise contribute to broadcast, any content by Rossiya 1, Russia Today, NTV, REN TV, etc.
- Prohibition to sell, supply, transfer, or export goods and technology suited for use in oil refining and liquefaction of natural gas
- Prohibition to sell, supply, transfer or export goods and technology suited for use in aviation or the space industry, maritime navigation goods and technology
- Prohibition to provide access to ports and to locks in the territory of the EU to any vessel registered under the flag of Russia
- Prohibition to import iron, steel, gold, diamonds and products incorporating diamonds, crude oil or petroleum products from Russia or originate in Russia
- Prohibition to purchase, sell, provide investment services for or assistance in the issuance of, or otherwise deal with transferable securities and money-market instruments
- Prohibition to provide access to ports and to locks in the territory of the EU to any vessel registered under the flag of Russia
- Prohibition to provide technical assistance, brokering services or financing related to the trading, brokering or transport, including through ship-to-ship transfers, to third countries of crude oil or petroleum products
- Prohibition to register, provide a registered office, business or administrative address as well as management services to, a trust
- Prohibition to accept deposits from Russians

The following services have been restricted by the EU:

legal services, audit services, accounting services, credit rating agency services, consulting services (business consulting, tax consulting, PR consulting, IT), engineering and architectural services, legal services, advertising services, market research services, opinion polling services, product testing and technical inspection services

HOWEVER:

- legal advice on sanctions issues is prohibited, except in cases of legal recourse to the courts

RUSSIAN BANKS INCLUDED IN THE US, UK AND EU SANCTIONS LISTS

Name of the Bank	US sanctions	UK sanctions	EU sanctions
Sberbank			
VTB			
Gazprombank			
Alfabank			
Otkritie Bank			
Industrial Savings Bank			
Moscow Credit Bank			
Rosselkhozbank			
Sovcombank			
Russian regional development bank			
Tinkoff Bank			
Bank Saint-Petersburg			
Bank Uralsib			
AK BARS Bank			
Bank Rossiya			
Post Bank			
Home credit bank			
Novikombank			
MTS Bank			
Russian Standard Bank			
Absolut Bank			
Bank ZENIT			
Ural Bank for Reconstruction and Development			
LOCKO-Bank			
Solidarnost			
Metallinvestbank			
Far Eastern Bank			
Promsvyazbank			
VEB.RF			
Rosbank			

The Bank subject to blocking/ similar sanctions

The Bank under US sectoral sanctions (Non-SDN)

The Bank not yet subject to sanctions*

Banks that are not subject to sanctions

- Raiffeisenbank
- UniCredit Bank
- Citibank
- Bank Peresvet
- OTP Bank
- CB Renaissance Credit
- Tavrichesky Bank
- Asia-Pacific Bank
- Credit Europe Bank,
- etc.

*as of 9 February 2024

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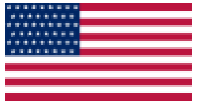
SANCTIONS RESTRICTIONS ON FOREIGN JURISDICTIONS IN TERMS OF NEW INVESTMENTS IN RUSSIA



- **Prohibiting any "new investments in the Russian Federation" in any sector of the Russian Federation economy as may be determined (investing capital or other assets for profit)** *(Executive Order 14068 of March 11, 2022, Section 1. (a) (iii))*, **and:**
  - concluding an agreement requiring the raising of capital or other assets to establish or expand projects or operations in the Russian Federation, including the establishment of joint ventures or other legal entities in the Russian Federation;
  - concluding an agreement providing for participation in royalties or permanent profits in the Russian Federation;
  - acquiring an interest in an enterprise located in the Russian Federation, etc. *(FAQ 1049).*
- **Prohibiting any "new investment in the energy sector in the Russian Federation" (investing capital or other assets for profit)** *(Executive Order 14066 of March 8, 2022, Section 1. (a) (ii))*

- **Prohibitions in the energy and mining and quarrying sectors in Russia** *(article 3a of EU Regulation No. 833/2014):*
  - prohibiting the acquisition or expansion of participation in any organization registered in Russia or a third country that operates in these sectors;
  - prohibiting the provision of any new loan/credit or other financial support to any organization registered in Russia or any other third country operating in these sectors;
  - prohibiting the establishment of any new joint venture with any organization registered in Russia or any other third country operating in these sectors;
  - prohibiting the provision of investment services in these areas;
- **Prohibiting the provision of government funding or other financial support for trade with or investment in Russia** *(article 2e of EU Regulation No. 833/2014)*
- **Prohibiting investments and participation in projects co-financed by the Russian Direct Investment Fund** *(article 2e of EU Regulation No. 833/2014)*

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RECENT DEVELOPMENTS: US SECONDARY SANCTIONS FOR FFI (1/2)

Executive Order 14114, 22 December 2023, amending Executive Order 14024, brought additional restrictions for **foreign financial institutions (FFI) that risk having secondary sanctions imposed on them when conducting or facilitating significant transactions**

- with sanctioned persons or on behalf of any person operating or having operated in the **technology, defense and related materiel, construction, aerospace, or manufacturing sectors** of the Russian Federation economy as may be determined to support Russia's military-industrial base (the list of such sectors may be expanded) (sec. 11 (a) (i)); or
- with persons involved in the provision of service, supply, or transfer, directly or indirectly, of **a certain item or class of items** to persons related to Russia's military-industrial base (sec. 11 (a) (ii))

"foreign financial institution" (FFI):

any foreign entity that is engaged in the business of accepting deposits; making, granting, transferring, holding, or brokering loans or credits; purchasing or selling foreign exchange, securities, futures or options; or procuring purchasers and sellers thereof, as principal or agent. Thus, foreign financial organizations may include not only credit institutions directly, but also operators of credit card systems, trust companies, brokers, exchanges and other organizations providing financial services.

- ✓ **increase risks for banks and other FFIs of "friendly" countries** (new restrictions establish the possibility of applying restrictive measures even in situations where the relevant transactions are made in any currency, and not only in U.S. dollars)
- ✓ restrictions for transactions involving specified items **do not require sanctioned status from the FFI party under such a transaction**
- ✓ **broad criteria for determining the significance of a transaction**: the frequency of transactions, the nature of the transactions, and the level of awareness of management of the nature of the transactions. This allows a broad qualification of specific transactions and their significance for the purpose of imposing sanctions.

OFAC recommendations: apply enhanced customer due diligence procedures:

- reviewing the institution's customer base to determine exposure to involvement in the specified sectors of the Russian economy;
- informing clients that they may not use their accounts to do business with designated persons operating in the specified sectors conducting any activity involving Russia's military-industrial base;
- implementing enhanced trade finance controls

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SANCTIONS IMPLICATIONS TO CONSIDER WHEN ACQUIRING A BUSINESS IN RUSSIAN FEDERATION

Buyer	Acquisition target	Seller
▸ Nexus with EU, US, UK	▸ Sanctions status: ▸ Legal entity incl. 50% rule ▸ Operations ▸ Goods/ stock	▸ Sanctions status, incl. 50% rule
▸ Approvals/ licenses if necessary	▸ Current litigation, state inspections, amount due to tax and other state authorities	▸ Payment structure, banks and currency
▸ Transaction structure (shares/ assets/ JV)	▸ Sanctions compliance issues (own, procurement)	

2. OVERVIEW OF KEY RUSSIAN RETALIATORY COUNTER-SANCTIONS, APPLICATION PRACTICE AND RISKS OF NON-COMPLIANCE

REQUIREMENTS TO OBTAIN APPROVALS FROM THE RUSSIAN STATE AUTHORITIES FOR TRANSACTIONS AND OPERATIONS WITH ‘UNFRIENDLY’ INVESTORS

Approval of the Government Commission of the Russian Federation

- JSC and LLC share transactions
- real estate transactions
- loans to nonresidents
- transfer of dividends/profits from Russian legal entities to foreign accounts by residents
- transactions on establishment, change or termination of ownership rights in a Russian entity (incorporation, liquidation)
- transfers of funds without opening a bank account using electronic means of payment provided by foreign payment service providers

Approval of the Bank of Russia

for financial institutions:

- payment of capital contribution by residents in a non-resident
- arranging of other procedure for dividend payments/profit distribution,
- payment of real estate,
- payment of liquidation payments
- payment of bankruptcy payments
- payment of amounts payable in case of reduction of authorized capital

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- Payments related to distribution of profits:
  - loan repayments
  - borrowing repayments
  - profit distribution in LLCs
  - dividend payment in JSC
  - liquidation payments
  - bankruptcy payments
  - other payments on financial instruments
- exceeding 10 million rubles per month (or the equivalent in foreign currency) are paid to Account C in rubles.
- Account C is not used if the aggregate amount of all liabilities of the debtor to all foreign creditors in a calendar month does not exceed 10 million rubles

Approval of the President of the Russian Federation

- transactions and operations with participation interests and shares of ‘unfriendly’ persons in Russian companies in certain sectors:
  - credit institutions
  - strategic companies
  - energy, mining companies
  - various suppliers and service providers for energy sector

Approval of the Ministry of Finance of the Russian Federation

for other organizations (except financial institutions):

- dividend payment/profit distribution
- real estate payment
- liquidation payments
- bankruptcy payments
- payments upon reduction of authorized capital

RUSSIAN KEY COUNTER-SANCTIONS IMPLICATIONS FOR M&A TRANSACTIONS AND OPERATIONS INVOLVING 'UNFRIENDLY' INVESTORS (1/2)

Distribution of dividends from subsidiary in the Russian Federation

The procedure for payment of dividends/profits differs depending on their amount:

- if exceeding 10 million rubles per calendar month (the equivalent of this amount in foreign currency), it is executed to account "C" in rubles (otherwise - with the permission of the Ministry of Finance)
- less than 10 million rubles per calendar month are paid as usual.

The Ministry of Finance's approval criteria for the payment of profits (dividends):

- An amount not exceeding 50% of the previous year's net income shall be distributed;
- The payment is in line with the previous dividend policy;
- Foreign owners are ready to continue working in the Russian Federation;
- Consideration of the position of the relevant department and the Bank of Russia on the importance of the organization;
- KPI fulfillment confirmed by the Bank of Russia;
- Dividends may be paid quarterly if fulfillment of KPIs is achieved.

Permission may be granted without taking these criteria into account if the amount of dividends to be received does not exceed the amount of investments in the Russian economy made by the foreign shareholder after April 1, 2023 (e.g., development of new technologies).

Establishment of a subsidiary in the Russian Federation

- **Permissions of the Government Commission are required** for transactions that directly or indirectly result in the establishment, change or termination of rights to own, use and dispose of shares in the authorized capital of Russian companies (including with respect to liquidation).

Liquidation of a subsidiary in the Russian Federation

- **Permission of the Government Commission is required** for transactions that directly or indirectly result in the establishment, change or termination of rights to own, use and dispose of shares in the authorized capital of Russian companies (including with respect to liquidation).
- **In paying liquidation payments, the procedure is applied**, according to which payments of more than 10 million rubles per month are made to account C in rubles. When payments of less than RUB 10 million per month are made, the special procedure is not applied.
- If it is necessary to make payments of more than 10 million roubles per month in another currency/to another account, it is necessary to obtain permission from the Bank of Russia (for financial organizations) or the Ministry of Finance (for other organizations).
- If it is planned to liquidate a company that is included in the relevant lists in accordance with Decree No. 520, the liquidation of such a company requires a special decision of the President of the Russian Federation.

RUSSIAN KEY COUNTER-SANCTIONS IMPLICATIONS FOR M&A TRANSACTIONS AND OPERATIONS INVOLVING ‘UNFRIENDLY’ INVESTORS (2/2)

Sale of shares/participation interests of a subsidiary in the Russian Federation

The **requirements are similar to those applicable to the purchase of shares** in a Russian company

Conditions for obtaining a Permission from the Government Commission:
- an independent appraisal of the market value of the assets;
- sale of assets with the discount in the amount of at least 50% of the market value of the respective assets specified in the independent appraisal report;
- transferring into the federal budget funds in the amount of at least 15% of half of the market value of the relevant assets;
- setting key performance indicators for new shareholders.

Purchase of shares/participation in a Russian company

For unfriendly nonresidents:
- Permission is required for a transaction between (1) unfriendly nonresidents, (2) a resident and an unfriendly nonresident, (3) unfriendly and friendly nonresidents with shares of Russian LLCs.

Exceptions (when permission of the Government Commission is not required):
- Purchase of additional shares provided that the unfriendly resident does not hold more than 25% of the shares as a result
- Purchase of additional shares does not require permission of the Government Commission, provided that the unfriendly members are included in the group with Russian persons and paid in rubles
- Issuers of securities that are residents and are under the control of unfriendly persons are allowed to carry out transactions with residents for the purchase of placed ("own") securities.

For friendly nonresidents:
- Requires permission from the Government Commission for a securities transaction if acquired from persons in "unfriendly" jurisdictions after February 22, 2022

Financing of subsidiary in Russia

Fulfillment by residents of obligations to unfriendly nonresidents under loan (credit) agreements:

- Obligations under loans and borrowings are discharged to account C in rubles (in case of payments exceeding 10 million rubles per month).
- The aggregate amount of a resident debtor's liabilities to all foreign creditors is taken into account: if the amount of payments is less than 10 million rubles, the special procedure does not apply.
- A different procedure for payments is possible with the permission of the Bank of Russia (for financial organizations) or the Ministry of Finance (for other organizations).

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3 RUSSIAN LEGAL AND TAX ENVIRONMENT

1. ESTABLISHING A LEGAL PRESENCE IN RUSSIA

TYPES OF BUSINESS PRESENCE IN RUSSIA

<table>
<tr><th rowspan="2"></th><th colspan="3">Russian subsidiary</th><th rowspan="2">Branch of a foreign company</th></tr>
<tr><th>LLC</th><th>JSC</th><th>PJSC</th></tr>
<tr><td>Legal status</td><td colspan="3">Separate legal entity</td><td>Not a separate legal entity</td></tr>
<tr><td>Limitation of Activities</td><td colspan="3">Any type of activity (subject to licensing requirements)</td><td>All or part of the functions of its foreign head office, including commercial activities</td></tr>
<tr><td>Number of shareholders/ participants</td><td>From 1 to 50</td><td>Unlimited</td><td>Unlimited</td><td>NA</td></tr>
<tr><td>Liability of shareholders/participants</td><td colspan="3">Limited to the value of shares/participatory interests (unless it can be demonstrated that their binding instructions to the company/partnership led to its insolvency)</td><td>Full liability of the foreign company</td></tr>
<tr><td>Minimum charter capital</td><td>RUB 10,000</td><td>RUB 10,000</td><td>RUB 100,000</td><td>NA</td></tr>
<tr><td>Subscription for shares</td><td>NA</td><td>Closed subscription</td><td>▸ Closed subscription
▸ Public subscription</td><td>NA</td></tr>
<tr><td>Financing</td><td colspan="3">• Capital increase (share or additional capital)
• Debt financing
• Grant financing</td><td>Bank transfers from the foreign company</td></tr>
<tr><td>Managing bodies</td><td>• General participants’ meeting
• Sole executive body (one or several general directors)
• Collective management body (optional)
• Collective executive body (optional)</td><td>• General shareholders’ meeting
• Sole executive body (one or several general directors)
• Collective management body (optional)
• Collective executive body (optional)</td><td>• General shareholders’ meeting
• Sole executive body (one or several general directors)
• Collective management body
• Collective executive body</td><td>• Director / head of branch</td></tr>
</table>

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2. TAXATION AND TAX-RELATED SUPPORT MEASURES

TAXATION AND TAX-RELATED SUPPORT MEASURES

Tax	Rate	
Corporate income tax	**25%** (preferential rate for certain categories of companies and activities is possible)	
VAT	• **20%** - for most goods and services • **10%** - medical goods, goods for children, etc. • **0%** - export goods, international transport services, etc. • **No VAT** - certain groups of goods and services, including construction services under shared-equity construction agreements	
Capital gains tax (disposal of shares/ participatory interest by Russian companies)	**25%/0%** (depending on the size of the share and period of ownership)	
Property tax	Up to **2.2%**	
Land tax	Up to **1.5%**	
Transport tax	From **1** to **200 RUB** per HP	
Tax on dividends received by Russian companies	**13%/0%** - for resident legal entities (depending on the size of the share and period of ownership)	
Withholding tax	**Without DTT**	**DTT with Turkey**
Dividends	**15%**	**10%**
Interest	**25%**	**10%**
Royalties	**25%**	**10%**
Intragroup services	**15%**	Exemption is potentially applicable

- Tax legislation provides a range of tax-related support measures providing for reduced tax rates.
- The majority of such tax incentives are based on the principle of **"reliefs in exchange for investments"** and offer tax reliefs for companies that carry out investment projects involving investments in fixed assets and the creation of new production facilities.

SPECIAL INVESTMENT CONTRACT (SPIC)

SPECIAL ADMINISTRATIVE REGIONS (SARs)

REGIONAL INVESTMENT PROJECTS (RIPs)

INVESTMENT PROTECTION AND PROMOTION AGREEMENTS (IPPAs)

INCENTIVES FOR IT COMPANIES

PRIORITY DEVELOPMENT AREAS (PDAs)

SPECIAL ECONOMIC ZONES (SEZs)

VLADIVOSTOK FREE PORT (VFP)

Arctic zone

GENERAL TAX INCENTIVES

Federal investment tax deduction **(FITD) –** a mechanism allowing to reduce the amount of CIT (not the tax base) paid to the federal budget for investment expenses on fixed assets and intangible assets.

FITD is applied to **expenses** on fixed assets and depreciable intangible assets (**PPE and IA**)

FITD is applicable for taxpayers which carry out **following types of activities**:

- Extraction of materials;
- Processing, manufacturing industries;
- Electricity, gas and steam supply; air conditioning;
- Hotels and catering enterprises;
- Scientific research and development.

FITD is applicable to certain objects:
machines and equipment which belong to depreciation groups from 3 to 10 (usage period exceeds 3 years)
(there are exceptions)

3% The amount of payable tax **shall not be less then the amount of tax if it was calculated on 2% rate** (3% in 2025-2030 tax periods)

The tax amount paid to federal budget is reduced in the tax (reporting) period during which the objects are put into operation and (or) their initial value is changed

- It is possible to **transfer part of FITD** which was not used to future periods.
- FITD may also **be transferred to related parties** if certain conditions are met.

Regional investment tax deduction **(RITD) –** a mechanism allowing to reduce the amount of CIT(not the tax base) paid to the federal and regional budgets by investment expenses on fixed assets and fixed and non-material assets

RITD is applied to **expenses** on fixed assets and depreciable intangible assets (**PPE and IA**) such as:

- expenses on acquisition or modernization of PPE of 3-10 depreciation groups;
- expenses on capital investments under agreements on the implementation of investment projects from respective government registers with state financial support;
- expenditures for the construction of infrastructure facilities under an agreement on the integrated development of the territory for the construction of housing;
- donations to state and municipal cultural institutions;
- expenditures on research and development with certain exceptions;
- expenses on works and services related to software listed in respective register of Russian programes.

If RITD is applied to a certain PPE, such **PPE is not a subject to depreciation and depreciation bonus cannot be applied**.

5% If RITD is applied, the amount of tax payable to regional budget **shall not be less then the amount of tax if it was calculated on 5% rate.**

0% the amount of tax payable to federal budget **may be reduced to 0%.**

The amount of RITD and minimum tax payable to the regional and federal budgets depends on the region which taxpayer registered in.

FITD and RITD may not be applied to same object at the same time

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TAX-RELATED SUPPORT MEASURES

TAX INCENTIVES

<table>
<tr><th></th><th>PDAs</th><th>VFP</th><th>Arctic zone</th><th>RIPs</th><th>SEZs</th><th>IPPAs</th><th>SPICs</th></tr>
<tr><td>Corporate income tax</td><td>• 5% – <i>1-5 years</i>
• No less than 10% – 6-10 years</td><td>• 0% – 1-5 years
• No less than 10% – 6-10 years</td><td>• 0% – 10 years from the date of generating profit
• Regional law may determine applicable rates for regional budgets</td><td>• Up to 0% – 1-5 years;
• No less than 10% – 6-10 years.</td><td>• Up to 2% (if regional law provides for a reduced rate which needs to be <13,5%)</td><td rowspan="2">Tax credit</td><td>• Up to 0% (if regional law provides for a reduced rate)</td></tr>
<tr><td>Property tax</td><td colspan="4">Up to 0% if respective regional law provides a reduced rate</td><td>0% for 10 years</td><td>Up to 0% if respective regional law provides a reduced rate</td></tr>
<tr><td>Mineral extraction tax</td><td>Preferential coefficient from 0 to 1</td><td>-</td><td>0,5% of applicable rate</td><td>Preferential coefficient from 0 to 0,8</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Social security contributions</td><td>7,6% - 10 years</td><td>7,6% - 12 years</td><td>75% of contributions are reimbursed</td><td>-</td><td>-</td><td>-</td><td>7,6% until the date of SPIC expiration</td></tr>
</table>

We should point out that all the above regimes have a set of rules and criteria governing when they start and cease to apply, which may vary according to the type of relief, the region in which a project is carried out and the nature of the project itself, which would require detailed analysis

TAX-RELATED SUPPORT MEASURES

GENERAL OVERVIEW OF SPIC 1.0 / SPIC 2.0 / IPPAs (1/2)

	SPIC 1.0	SPIC 2.0	IPPAs
Aim of the contract	Launching or modernization and (or) development of industrial production	Implementation or development and implementation of technologies included in a government-approved list of advanced technologies for the purpose of launching the mass production of industrial products	Implementation of a new investment project in a Russian economic sector (excluding certain sectors and activities) and protection against the worsening of tax conditions
Status	✓	✓	✓
Governing authority	Ministry of Industry and Trade (for some Ministry of Energy) and Industrial Development Fund	Ministry of Industry and Trade (for some Ministry of Energy) and Industrial Development Fund	Ministry of Economic Development and VEB
Entering into contract	Application-based procedure	Competition-based procedure	Application-based procedure (private initiative)
Parties to the contract	Investor + federal and (or) regional authority	Investor + federal, regional and municipal authorities (obligatory)	Investor + regional authority (federal or municipal authorities' involvement is optional)
Time limit for contract conclusion	NA	Until 31.12.2030	NA
Estimated time for contract conclusion	3 months	2-3 months	2-3 months
Contract duration	10 years, may be extended for additional 2 years	Depending on the amount of the investment: • ≤ 50 billion - up to 10 years • > 50 billion - up to 20 years	Depending on the amount of the investment and industry: from 6 years (for extractive industries) / 10 years (processing industries) up to 20 years

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TAX-RELATED SUPPORT MEASURES
GENERAL OVERVIEW OF SPIC 1.0 / SPIC 2.0 / IPPAs (2/2)

	SPIC 1.0	SPIC 2.0	IPPAs
Minimum investment amount	• from RUB 750 million • from RUB 3 billion (for a single supplier)	N/A	• from 10 billion (for extractive industries) • from 4.5 (processing industries)
Benefits	• Tax reliefs • Localization of industrial products • Access to state orders on a single supplier basis • Other support measures	• Tax reliefs • Localization of industrial products • Access to state orders on a single supplier basis • Other support measures	Reimbursement of expenses (through subsidies/tax credit) depending on the infrastructure: up to 50 % of the expenses related to supporting infrastructure and up to 100% - to ancillary infrastructure
Benefits limits	The amount of benefits cannot exceed 50% of the amount of capital investments		May not exceed mandatory payments calculated by the organization implementing the project
Tax monitoring regime	Not Required		Required

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TARIFF EXEMPTION FOR INVESTMENT PROJECTS

What are the benefits?

The exemption allows for duty-free import of raw materials, materials, equipment, components and spare parts to the territory of the Russian Federation for the purposes of implementing investment projects.

Is there a list of equipment and raw materials to which the exemption applies?

The list of goods is prepared by the applicant based on the needs of the investment project. The goods must not be produced in the EAEU or must be produced in insufficient amounts.

What is an investment project?

A set of activities aimed at the construction or modernization of existing industrial, transport and (or) engineering infrastructure facilities.

Who is eligible to apply the exemption?

The investors are organizations implementing an investment project. Both investors and their contractors may apply the benefit.

There are no minimum and maximum amounts of the benefit defined.

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TARIFF EXEMPTION FOR INVESTMENT PROJECTS

REQUIREMENTS FOR OBTAINING THE EXEMPTION FOR INVESTMENT PROJECTS

Requirements for the investment projects

- The amount of capital investments is at least 250 million rubles
- The project is related to the priority sector of the economy (70+ sectors)
- The investment project is included in the List of the Government of the Russian Federation

Requirements for the imported goods

- Not produced in the EAEU or produced in insufficient amounts
- Imported under the customs procedure of release for domestic consumption
- Used in accordance with the designated purpose solely for the implementation of an investment project

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TARIFF EXEMPTION FOR INVESTMENT PROJECTS

PRIORITY SECTORS OF THE ECONOMY

Agriculture, forestry, hunting, fishing and fish farming
[Ministry of Agriculture]

Mining
[Ministry of Energy or Ministry of Industry and Trade]

Manufacturing and Processing
[Ministry of Agriculture or Ministry of Industry and Trade]

Provision of electricity, gas and steam; air conditioning
[Ministry of Energy]

Construction
[Ministry of Construction or Ministry of Natural Resources]

Information and communication
[Ministry of Digitization]

Professional, scientific and technological activities
[Ministry of Natural Resources Ministry of Education and Science]

Water supply, water disposal, waste collection and disposal, pollution elimination activities
[Ministry of Natural Resources]

Transportation and storage
[Ministry of Transport]

3. CURRENT TRENDS IN INTERNATIONAL TAXATION

CURRENT TRENDS IN INTERNATIONAL TAXATION

EXPANSION OF THE "OFFSHORE" ZONES LIST

- On July 1st, 2023 the "offshore" zones list have been extended to include "unfriendly" foreign states and territories. The list includes **91** states and territories (instead of 41 provided for by the previous list). The new list includes EU countries, Switzerland, USA, UK, Australia, Singapore, Japan and some others.
- The list is applicable from January 1st, 2024 (with respect to "new" offshore zones). Among others, **key tax implications include:**

Dividends and capital gains received from "offshore" zone jurisdictions are disqualified from participation exemptions (i.e. taxable at basic rates of 13% and 25% respectively)

Obtaining free of charge property and property rights **between shareholder entity and its subsidiaries is disqualified** from tax exemptions (i.e. taxable at basic rates of 25%)

Transactions with residents of "offshore" zone jurisdictions **are subject to TP control** if their annual value exceeds 120 m. rubles (appr. US$1.5 m.) **regardless whether the parties are considered as related or not**.

- Additionally, a new special "offshore" zones list for 2024-2026 is currently being developed. The list will allow to certain states from the current list continue to apply some benefits.
- **Turkey is not included in the "offshore" zones list, therefore, the above-mentioned restrictions are not applicable to Turkish entities**

DOUBLE TAX TREATIES SUSPENSION & NEGOTIATIONS

- On August 8th, 2023 Russia **suspended** key provisions of tax treaties with **38** countries, including the U.S., UK, Switzerland, the EU and other "unfriendly" jurisdictions.
- Among others, **key tax implications include**:

15%
Tax rate on dividends

25%
Tax rate on other types of income

Double taxation
Of income derived from Russia

- Reduced tax rates continue to apply to several types of income until the end of 2025.

DTT ratified	DTT agreed	DTT under negotiations
Oman	**UAE**	**Malaysia**
• Dividends – **15%/10%**	• Dividends – **10%**	• Dividends – **being negotiated**
• Interest – **10%**	• Interest – **10%**	• Interest – **being negotiated**
• Royalty – **10%**	• Royalty – **10%**	• Royalty – **being negotiated**

WHT ON INTRAGROUP SERVICES

- From January 1st, 2024, a **15%** WHT is applied to intragroup services fees.
- **For payments to Turkey exemptions under DTT may potentially apply.**

CURRENT TRENDS IN INTERNATIONAL TAXATION
CHANGES TO THE TRANSFER PRICING RULES

01	**EXTENSION OF THE CRITERIA** USED TO DEFINE RELATED PARTIES / CONTROLLED TRANSACTIONS
02	SECONDARY ADJUSTMENT MECHANISM IS APPLIED VIA CHARGING **15% WHT ON THE ADJUSTMENT AMOUNTS** (ADJUSTED AMOUNTS ARE TREATED AS DIVIDENDS)
03	INTRODUCTION OF THE CONCEPT OF THE **MEDIAN VALUE** OF THE MARKET PRICE/PROFIT MARGIN RANGE: IF CUP METHOD IS APPLIED THE ADJUSTMENT IS CALCULATED BASED ON THE MEDIAN VALUE OF THE MARKET INTERVAL
04	AMMENDED **APPROACH TO THE CALCULATION OF** THE MARKET PRICE / PROFIT MARGIN **RANGE** AND **INFORMATION SOURCES**
05	CHANGES TO THE PROVISIONS REGARDING THE **RECOGNITION** OF A SET OF ORGANISATIONS **AS A MULTINATIONAL ENTERPRISE GROUP** (MNE GROUP)
06	SUBSTANTIAL **EXTENSION OF DISCLOSURE REQUIREMENTS**
07	CHANGES IN THE **PROCESS OF THE CONCLUSION OF ADVANCE PRICING AGREEMENTS** (APAS)
08	**NEW SANCTIONS** FOR TP VIOLATIONS AND **INCREASES TO EXISTING SANCTIONS** (FOR EXAMPLE, TAX PENALTIES IN CASE OF TP VIOLATIONS RELATED TO CROSS-BORDER CONTROLLED TRANSACTIONS ARE INCREASED FROM 40% TO 100% OF THE UNDERPAID TAX AMOUNT
09	**OTHER CHANGES**: TP AUDIT PERIOD IS SET AS A PERIOD NOT EXCEEDING 3 CALENDAR YEARS PRECEDING THE YEAR IN WHICH THE DECISION TO CONDUCT THE AUDIT IS MADE; PARTICIPATION OF LOCAL TAX AUTHORITIES IN TP AUDITS

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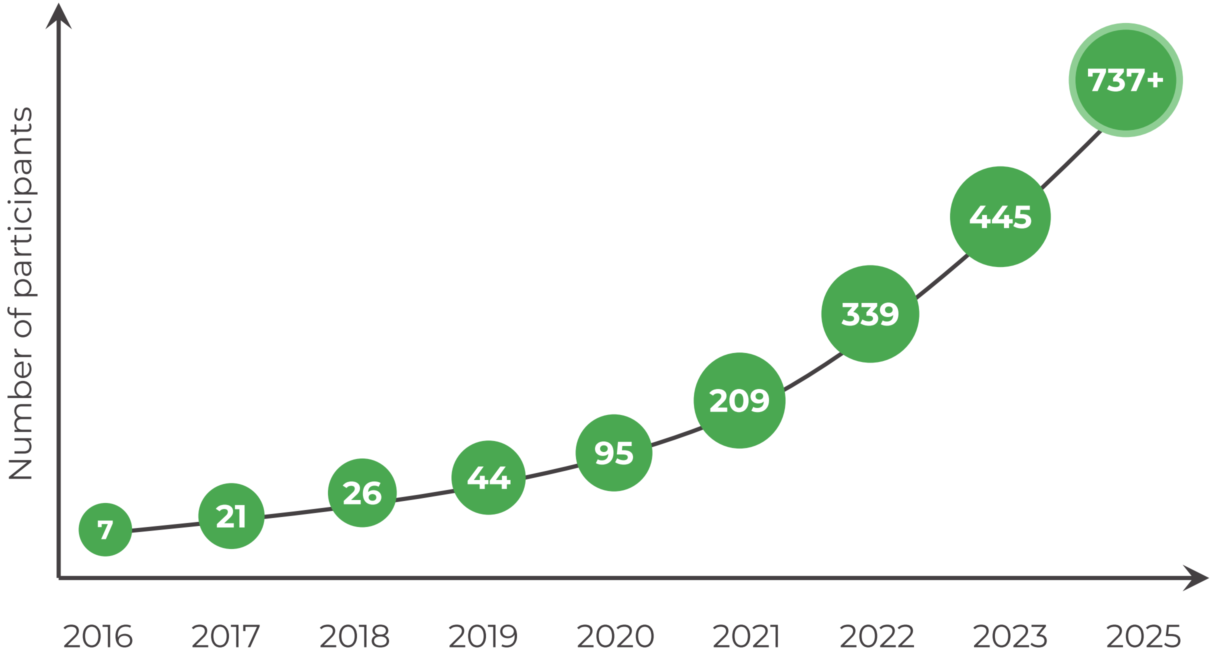
4.COOPERATIVE TAX COMPLIANCE ("TAX MONITORING")

DIGITALIZATION OF TAX GOVERNANCE

CHANGES IN THE NUMBER OF TAX MONITORING PARTICIPANTS



The Russian FTS envisages that in the foreseeable future, all major taxpayers will join tax monitoring regime

Over the years of tax monitoring implementation, tax authorities issued reasoned opinions (rulings) for the amount of **300+ bn** rubles.

In 2025, **737** companies from **20** sectors of the Russian economy will participate in tax monitoring regime.

The number of participants is to be increased by **176** companies joining tax monitoring in 2025.

The Russian FTS is proposing to **lower the thresholds** for joining tax monitoring in order to make it more accessible: revenue and assets - not less than **800 million rubles**, the amount of taxes paid - not less than **80 million rubles**. We expect that this initiative will lead to an increase in the number of taxpayers who will decide to join the regime.

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5. EXITING RUSSIA

EXIT ASPECTS

Capital gains	• **0% CIT** – on capital gains from disposal of shares / participatory interest by Russian resident shareholders provided that the following conditions are met:
	  • the taxpayer held the shares / participatory interest for 5 years uninterruptedly prior to the date of the sale;
	  • the company is not considered as “property-rich”.
	• **25% CIT** – on capital gains from disposal of shares / participatory interest by Russian resident shareholders in other cases;
	• **25% WHT** – on capital gains from disposal of “property-rich” Russian companies by foreign shareholder (DTT benefits may potentially apply)

“Exit tax” and other implications	• As a general rule, there is **no exit tax** in Russia;
	• Disposal of shares / participatory interests in Russian companies by **persons from “unfriendly states” or persons controlled by them** triggers the need to obtain an **approval from the Government Commission**.
	• Requirements to obtain the approval:
	  • **Market value report**. Provision of an independent market value report of the Russian company.
	  • **Discount**. Sale of the assets with a discount of at least **60%** of the market price of the assets indicated in the report.
	  • **KPIs.** Imposition of the key performance indicators for the new shareholders / owners;
	  • **Installment payments.** Payment of “voluntary” contribution in the amount of at least **35%** of the total market to the Russian state budget within one month of closing of the transaction.
	  • **Option**. Any associated option agreements must include provisions in relation to price and duration of validity of the clearance for the exercise of such option agreements.
	  • **Other regulatory clearances**. All other Russian regulatory clearances must be received prior to the approval.

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4 TAX TRENDS AND DEVELOPMENTS IN TURKEY

1. TAX TRENDS AND DEVELOPMENTS: TURKEY

INVESTING FROM TURKEY TO RUSSIA – ISSUES TO CONSIDER

Topic	Details
Foreign Participation Exemption (100%)	• The foreign company must be a limited or joint stock company. • The Turkish company must have owned at least 10% of the paid-in capital of the foreign company for an uninterrupted period of at least one year as of the date of receiving the dividend. • The foreign company must be subject to corporate tax at an effective rate of at least 15% (in some cases 30%) • · The dividends must be transferred to Turkey by the due date of filing of the annual CIT return
Partial Foreign Participation Exemption (50%)	• At least 50% of the paid-in capital of the foreign company is held, • The dividends are transferred to Turkey by the due date of filing of the annual CIT return
Special Foreign Participation Exemption (100%)	• Apply to companies established in foreign countries whose principal purpose is construction, repair, assembly and technical services. (if under the laws of a foreign country, the establishment of a Corporation is necessary to undertake these activities, dividends repatriated by the foreign subsidiary to the Turkish parent company qualify • for the participation exemption, regardless of the satisfaction of the aforementioned conditions.)
Exemption on Profits repatriated from Foreign PEs	• The PE or permanent representative is subject to CIT at an effective rate of at least 15% in the country where the PE or permanent representative is located. % (in some cases 30%) • Income derived from foreign PEs must be transferred to Turkey by the due date of filing of the annual CIT return.
Capital Gains Derived from Disposal of Foreign Participations (50%)	• The participation is held for at least 2 years, • The exempt gains are kept in a special fund account for 5 years following the year of sale, • The consideration for the sale is collected in 2 years following the year of sale, • The participations are not held for the ordinary business of trading of shares

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INVESTING FROM TURKEY TO RUSSIA – ISSUES TO CONSIDER

Topic	Details
Capital Gains Derived from Disposal of Foreign Participations – Turkish Holding Company (100%)	• If the Turkish International HoldCo maintains the position for at least 1 year at the time the capital gains is derived; 1) At least 75% of the noncash assets consists of foreign participations, 2) Foreign participations are in the form of limited or joint stock company with a shareholding of at least 10%, • The shares disposed are held for at least 2 years
Local WHT rates on payments to non-residents	• 20% on professional services, • 20% rental income from immovables • 20% on royalty payments • 15% on dividend payouts • 0-10% on interest payments
Elimination of Double Taxation	• FTC (subject to conditions and limitations)
Turkey-Russia Tax Treaty	• Article 5- PE : 18 months for construction, maintenance and assembly, projects • Article 7- Business Profits- Force of Attraction / Independent party • Article 9 • Article 10- Dividends – Beneficial ownership/ 10% • Article 11- Interests- 10% • Article 12- Royalty Payments 10% • Article 13- Capital Gains 1 year holding period • Article 14- Professional Services - Real persons • Article 22- Elimination of Double Taxation - FTC
Turkey-Russia Tax Treaty	• Rulings- Highlights

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APPLICABILITY OF RUSSIA TAX TREATY: NEW TRENDS

- Turkey-Russia Tax Treaty has been in effect since 31 December 1999
- Based on OECD Model but there are specific provisions such as permanent establishment (Article 5) and dependent activities
- Turkey is in the White list of Russia which means tax treaty is fully applicable
- Problems with international investment structure of Turkish Groups to Russia
- No tax treaty between Russia and Netherlands and other important jurisdictions
- New trend: disposal of Russian subsidiaries by Dutch intermediary holding company
- Direct investments from Turkey to Russia including through parent company in Turkey
- Acquisitions by Turkish groups requires good structuring, by considering recent tax developments in Russia
- Turkey-Russia tax treaty and domestic tax incentives could provide advantages for Russian entrepreneurs. Could Turkey be new holding jurisdiction for Russian multinationals?

2. PILLAR 2 AND ITS IMPLEMENTATION

GLOBE PRACTICES BY COUNTRIES

Country	Current Status	GloBE Rules
Japan	Final legislation	IIR
South Korea	Final legislation	IIR, (UTPR 2025)
United Kingdom	Final legislation	QDMTT, IIR, (UTPR 2025)
Vietnam	Final legislation	QDMTT, IIR
Denmark	Final legislation	QDMTT, IIR, (UTPR 2025)
Czech Republic	Final legislation	QDMTT, IIR, (UTPR 2025)
Belgium	Final legislation	QDMTT, IIR, (UTPR 2025)
Austria	Final legislation	QDMTT, IIR, (UTPR 2025)
Netherlands	Final legislation	QDMTT, IIR, (UTPR 2025)
Sweden	Final legislation	QDMTT, IIR, (UTPR 2025)
Switzerland	Final legislation	QDMTT, (IIR 2025)
France	Final legislation	QDMTT, IIR, (UTPR 2025)
Germany	Final legislation	QDMTT, IIR, (UTPR 2025)
Romania	Final legislation	QDMTT, IIR, (UTPR 2025)
Ireland	Final legislation	QDMTT, IIR, (UTPR 2025)
Italy	Final legislation	QDMTT, IIR, (UTPR 2025)
Bulgaria	Final legislation	QDMTT, IIR, (UTPR 2025)
Croatia	Final legislation	QDMTT, IIR, (UTPR 2025)
South Cyprus	Final legislation	IIR, (QDMTT, UTPR 2025)
Canada	Final legislation	QDMTT, IIR, (UTPR 2025)

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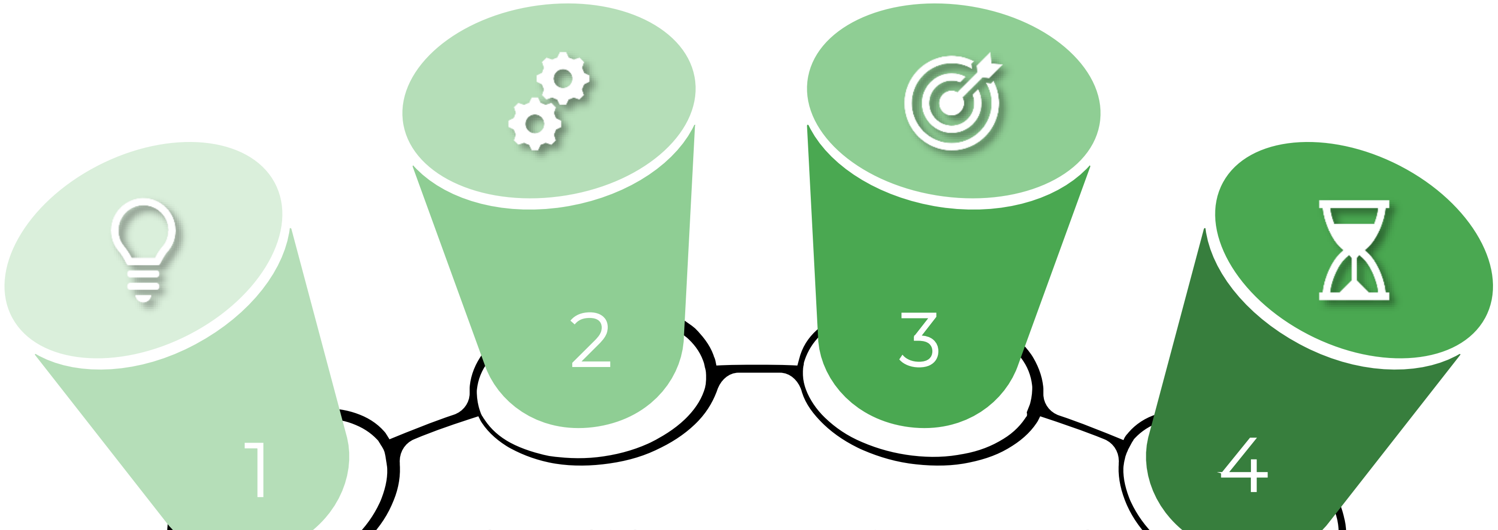
PILLAR 2 AND TURKEY



1. As an OECD country, Turkey is a signatory to the Inclusive Framework. Therefore, it has committed to Pillar 2 implementation.

2. The Turkish Tax Authorities implemented a Law on Pillar 2.

3. IIR was implemented and is enacted since 01.01.2024, while UTPR is enacted since 01.01.2025. QDMTT is paid in respect of income generated after 01.01.2025.

4. Following enactment, GloBE Income Declarations and the disclosure obligation for the ultimate parent organisation are to be fulfilled until 30.06.2026.

PILLAR 2 APPLICATION ORDER

Subject to Tax Rule (STTR) ⟵ Minimum tax application ⟶ **GloBE Rules**

Subject to Tax Rule (STTR)

- Annual transaction based
- Indicated in bilateral treaties
- A right to collect, not an obligation
- Easy to apply and easy to collect
- Applied in a withholding manner, more traditional application
- Applied based on nominal tax rate of 9%

GloBE Rules

- Annual Net Income based
- Obligatory in practice
- Hard to apply, high compliance cost
- Applied in whole MNE Group
- Applied on effective tax rate of 15%

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ORDER OF PILLAR 2 RULES

STTR vs QDMTT

- Firstly, the amount of taxes covered is increased by applying the "Subject to Tax Rule (STTR)" to transactions between related parties on a country basis.
- If it is determined after GloBE calculations that the relevant entities in a specific country pays low tax, the deficient tax is collected through QDMTT (Qualified Domestic Top-up Tax) in countries where it is applied.

Other Top-Up Tax Implementation Rules

- Income Inclusion Rule (IIR) has an application priority. IIR is applied first.
- In cases where IIR cannot be applied or where more than one party is a shareholder, the Under Tax Payment Rule (UTPR) is applied.

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3. IMPACT OF PILLAR 2 AND MLI ON TURKISH INVESTMENTS IN RUSSIA

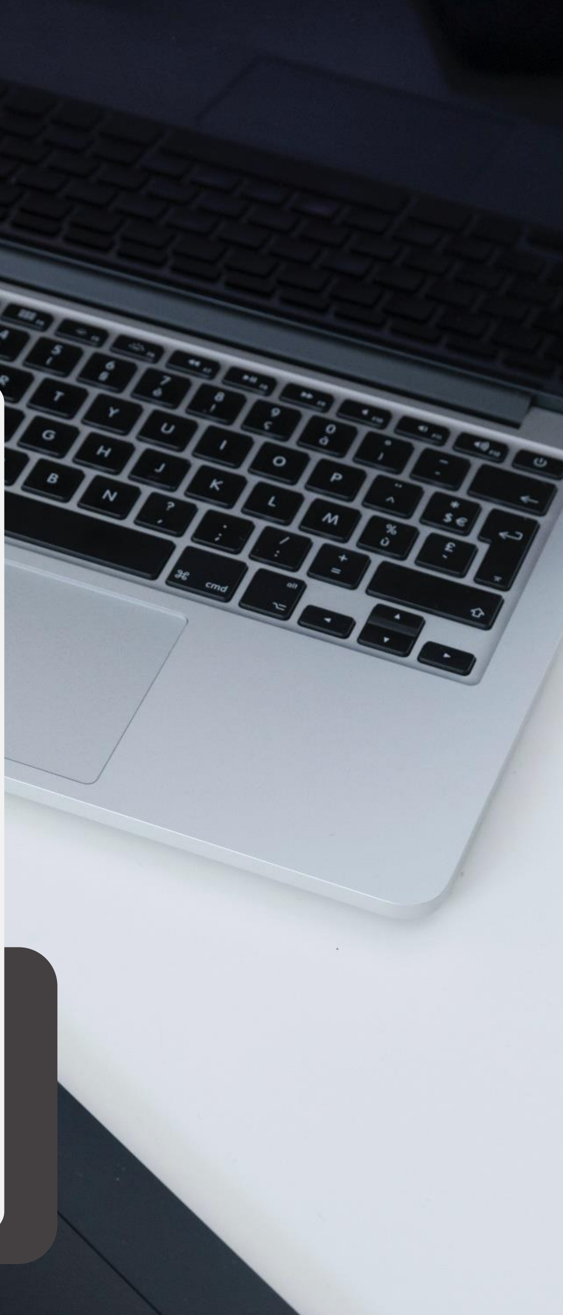
IMPACT OF PILLAR 2 AND MLI ON RUSSIAN INVESMENTS

PILLAR 2

- Increase in ETR of Turkish MNEs
- Incentives provided by Russia will loose their impact for Turkish Group
- Less complex GloBE rules in Russia whereas more complex one in Turkey
- Reporting obligations for Turkish MNEs including Russian entities
- Still possible to eliminate or reduce new tax burden under GloBE rules
- It is advisable to initiate impact analysis of GloBE implementations

MULTILATERAL INSTRUMENT

- Still not implemented but draft law in Turkey
- Ratified by Russia and expected to be approved in 2025 by Turkey
- End of treaty shopping and substanceless structures
- Requires restructuring of current international investments of Turkish MNEs, especially the one made through Dutch holding companies
- Newly introduced participation exemption and Russian investments



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TAX ASPECTS OF M&A DEALS

1. TAX DUE DILIGENCE

TAX DUE DILIGENCE: GENERAL

- Objectives of DD
  - Tax deal breakers
  - Tax risks and their impact on deal terms and structure
  - Key modeling considerations
  - Identifying value drivers
- Buy-Side DD vs. Vendor DD
- Scope of procedures: full vs. limited
- Dealing with non-Russian scope
  - Engaging external advisers
  - Cost and value of advisory support
  - Operational details

AX DUE DILIGENCE: COMMON TAX RISKS IN RUSSIA

- Application of the unjustified tax benefit concept (abuse of law)
- Deductibility of interest expenses (including thin capitalization rules and reclassification of debt as equity)
- Use of the beneficial ownership concept
- Lack of economic justification for service fees
- Non-arm’s length nature of related party transactions and transfer pricing rules
- Dealings with non-compliant taxpayers (tax evaders)
- Failure to qualify for tax relief
- Unusual compensation arrangements

2. TAX IN TRANSACTION DOCUMENTATION

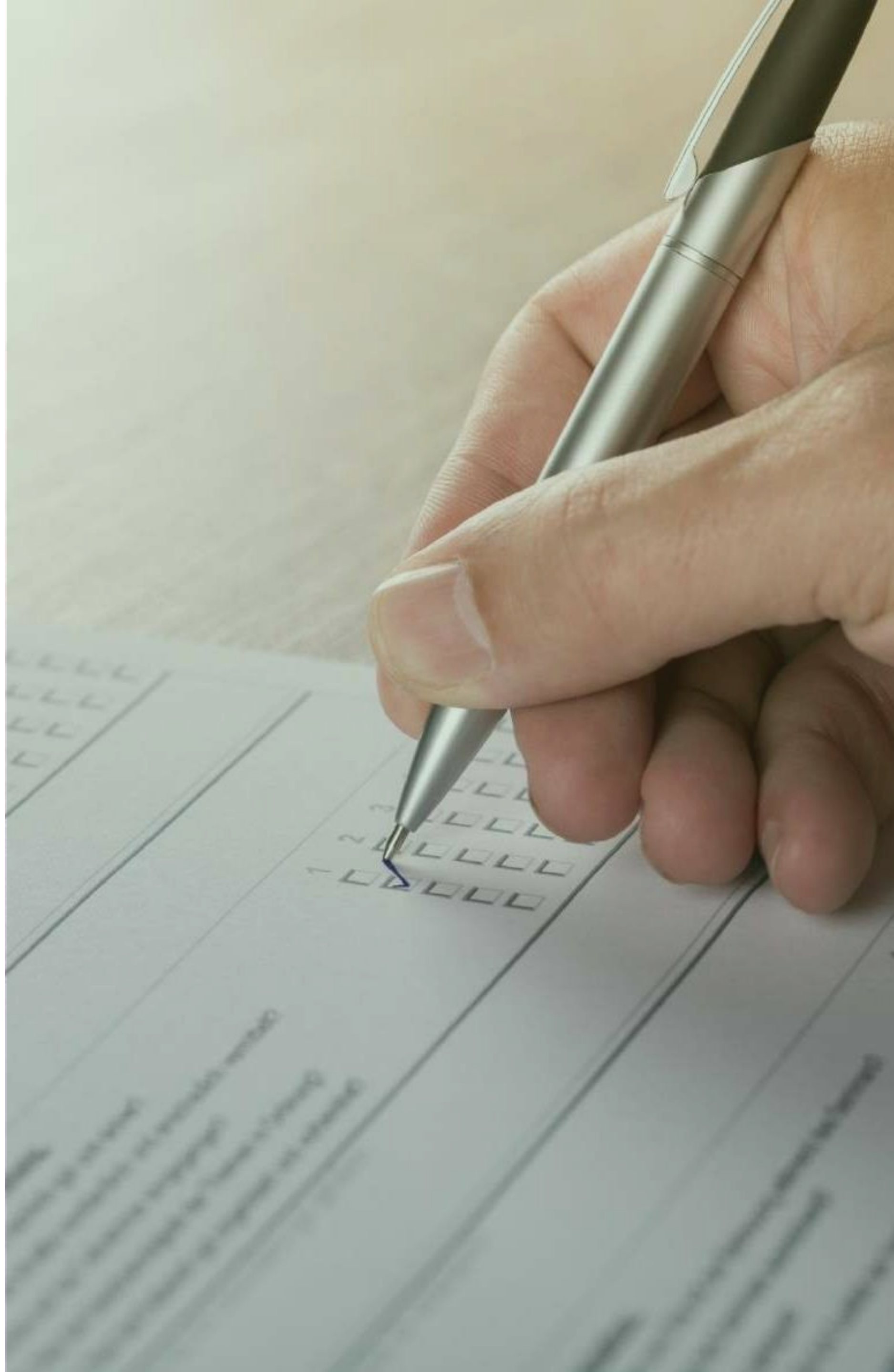
TAX CONTENT: SPA

- Definitions
- Consideration
- Gross-Up Provision
- Conditions Precedent
- Tax Indemnity, Tax Covenant, Tax Deed
- Tax Warranties
- Disclosure Letter
- Limitations
- Conduct of Claims
- Closing Mechanism
- Miscellaneous

DUE DILIGENCE COMPLETE: WHAT'S NEXT?

Ways to manage tax risks

- Accept and move on
- Try to 'fix' the issues
- Secure protection through tax warranties
- Secure protection through tax indemnity/tax covenant/tax deed
- Factor into the deal price (e.g., through net debt adjustment)



TAX WARRANTIES AND TAX INDEMNITIES

Tax warranties

(Article 431.2 of the Civil Code)

- Generally cover all potential areas of risk
- Limited to disclosure of relevant information
- A claim of inaccuracy requires proof
- Simplified example:

“The Seller warrants that the Company has conducted its business in compliance with tax legislation and has fulfilled all its tax obligations as of the Closing Date.”

Tax indemnities

(Article 406.1 of the Civil Code)

- Typically cover specific risks
- Represent an obligation of the indemnifying party (no need for proof)
- Not limited to disclosure
- Simplified example:

“Should the tax authorities assess additional tax liabilities on the Company due to transfer pricing violations, the Seller shall indemnify the Buyer for the resulting losses.”

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TAX WARRANTIES AND TAX INDEMNITIES: STANDARD COVERAGE*

Tax warranties

- Accuracy and completeness of tax records and filings
- Timely submission of tax returns and payment of taxes
- Availability of required source documents (e.g., for income tax and VAT)
- No unregistered presence outside Russia
- Recoverability of tax assets (e.g., VAT receivable, tax loss carryforwards)

Tax indemnities

- Material medium and high risks identified during tax due diligence
- Transfer pricing risks
- Risks related to tax optimization schemes
- Industry-specific risks
- Risks associated with non-Russian group entities

* The specific scope is tailored to each deal and agreed between the parties.

DISCLOSURE LETTER: HOW IT WORKS

WHEREAS

WARRANTY

"The Seller warrants that during the period open to field tax audits, the Company has complied with applicable tax legislation."

DISCLOSURE

"The Company has made purchases from suppliers that exhibit certain characteristics of bad faith."

If such a disclosure is made and the risk related to suppliers (as per Article 54.1 of the Tax Code) materializes, the Buyer will be unable to seek indemnification from the Seller under the warranty. The disclosure effectively carves out the risk from the scope of the warranty.

3. TRANSACTION TAX STRUCTURING

DEAL STRUCTURING: BALANCING THE INTERESTS OF BOTH PARTIES

Seller's objectives

- Defining the deal perimeter
- Reducing the tax impact of the deal
- Ensuring the financial outcome of the deal is distributed and utilized effectively

Buyer's objectives

- Reducing tax costs
- Securing optimal financing for the deal
- Selecting the right SPV based on the Buyer's long-term strategy

Effective collaboration between the Buyer and the Seller on the deal structure should begin as early as possible.

DEAL STRUCTURING: AREAS OF FOCUS

- Pre-sale restructuring
- Clearing outstanding debts
- Repatriating profits

Deal

- Asset deal vs. Share deal
- Tax treatment of the deal
- Financing considerations

- Integrating the Target into the Buyer's structure
- Tax implications of exiting the deal

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ASSET DEAL VS. SHARE DEAL

Asset deal

Selling individual assets

- Income tax and VAT
- Historical risks stay with the Seller, **BUT…**
- Practical challenges in executing and documenting the deal

Asset + Share deal

Transferring the business/assets to a new company and then selling

- Income tax, **BUT…**
- Historical risks stay with the Seller, **BUT…**
- Pre-sale restructuring is needed

Share deal

Selling shares/equity interests in the Company

- Income tax
- Historical risks are transferred to the Buyer
- Greater flexibility in structuring the deal

INTERNATIONAL TAXATION: KEY CONSIDERATIONS

When does withholding tax arise?

When passive income is paid to a non-resident from Russian sources

Who is subject to the tax?

Non-residents receiving passive income from Russian sources

Who is responsible for paying the tax?

The resident making the payment of passive income to the non-resident

Where are the withholding tax rates set?

The rates are set by local statutes, but they can be reduced under a Double Tax Treaty (DTT)

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TAX ON SALE OF SHARES AND EQUITY INTERESTS

Requirements to qualify for

0%

income tax on sale of shares/equity interests

The tax relief applies if the shares/equity interests have been continuously held by the Seller for **more than 5 years** at the time of the transaction.

Redomiciliation, change of tax residency or corporate reorganization does not interrupt the 5-year holding period

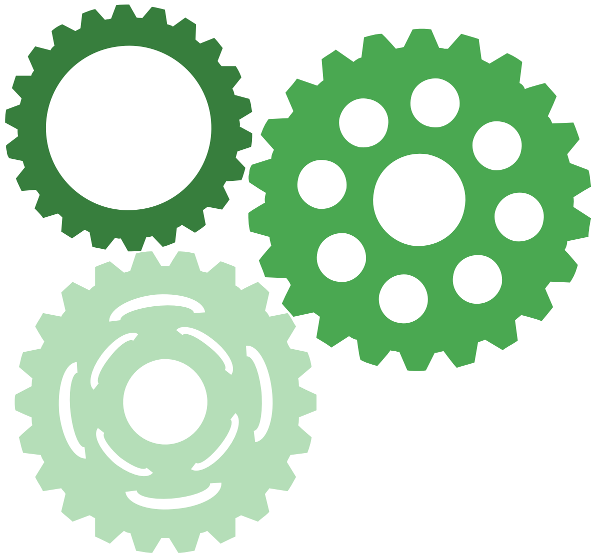
The relief is available only for the sale of shares/equity interests in **companies that are not property-rich**, except for publicly traded tech stocks.

The tax relief also applies to the sale of shares/equity interests in **foreign companies**, provided they are not on the Ministry of Finance's blacklist.

DEAL FINANCING

Thin capitalization rules

Reclassification of interest on loans from foreign shareholders as dividends for tax purposes, where the amount of debt significantly exceeds the Company's equity.



Unjustified tax benefit

(Article 54.1 of the Russian Tax Code)

Recharacterization of transactions by the tax authorities

- Debt push-down mechanism
- Reclassification of a loan as an equity investment

Transfer pricing

Restrictions on interest deductibility for loans from related parties if interest rates are not at arm's length

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