

Company Formation in Russia

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1. Types of company with limited liability and applicable legislation

The most commonly used forms of companies with limited liability in Russia are the joint stock company and the limited liability company. Russian law also provides for companies with additional liability, but this form is rarely encountered in practice.

Limited liability companies do not issue share certificates; instead, the share percentages are stated in the foundation documents. Where numerous shareholders are anticipated, the joint stock company is the preferred form, since large numbers of shareholders can be more easily accommodated through the use of share certificates. Joint stock companies can be either open or closed. In open joint stock companies, shares may be bought and sold without limitation, while in closed joint stock companies, shares may be freely bought and sold only among existing shareholders or a predetermined group of persons who enjoy a right of first refusal when shares are sold by a shareholder.

The fundamentals of the legal regulation of limited liability companies and joint stock companies can be found in the Civil Code of the Russian Federation (Part One) No 51–FZ, dated November 30 1994 (as amended). These basic rules are fleshed out in regard to limited liability companies in the Federal Law on Limited Liability Companies No 14–FZ, dated February 8 1998 (as amended), and in regard to joint stock companies in the Federal Law on Joint Stock Companies No 208–FZ, dated December 26 1995 (as amended). There are also some specialised laws and enactments detailing certain related issues, such as the Federal Law on State Registration of Legal Entities and Individual Entrepreneurs, the Federal Law on Foreign Investments in the Russian Federation and the Federal Law on Insolvency (Bankruptcy). In addition to laws passed by the legislative chambers, Russian legal materials include governmental enactments, presidential orders and other obligatory documents of various state bodies (e.g. the Central Bank, the Federal Service on Financial Markets and the Federal Anti-monopoly Service) as well as court practice which, while not an official source of law, guides the interpretation of all legal materials.

2. Incorporation procedure

The procedures for incorporating limited liability companies and joint stock companies are similar; the chief difference is the requirement for joint stock companies to register the issuance of share certificates, which does not apply to limited liability companies. The state body responsible for registering legal persons such as limited liability companies and joint stock companies is the Russian Federation Tax Service, with incorporation taking place at the local Tax Service office of the place where the company is located. The State Register of Legal Entities is a public record and all information contained therein is open for examination by third parties, except for passport data of physical persons and information on the bank accounts of a legal entity or an individual entrepreneur. Information is provided upon written request and payment of a state fee of approximately \$8.

A company's registered office is generally the place where the main executive body is located.

The first step in registering a company is the adoption of a joint resolution by the founders, which is executed in the form of minutes of the founding meeting (or a decision of the sole founder, where the company has only one founder). The founders also draft a charter (bylaws) and execute a foundation agreement (if there are several founders). In case of a limited liability company the foundation agreement is considered as a founding document and should be submitted to the Tax Service at the moment of registration of the company.¹ But in the case of a joint stock company, the foundation agreement is not a founding document; it is simply considered to be an internal document of the company, which should be kept in the company's files.

The founders are free to choose any company name they desire, but use of the words 'Russia' and 'Russian Federation' and derivative phrases is restricted. This requirement is established by a newly adopted Part IV of Russian Civil Code and came into legal force in 2008. According to this new requirement the use of the word 'Russia' and derivatives may be allowed only under individual permission of the Government and if more than 75% of equity of the company is owned by the Russian Federation.

According to current legislation no declaration of foreign investment is required where the company is established by foreign founders. However in some cases involving "strategic" industries preliminary approvals will be required. Also, where the company has a foreign founder, no foreign tax number or special tax registration is required under the general registration procedures.

For the purposes of registration of a company with limited liability the following documents must be submitted to the Tax Service:

- the application for registration. The applicant must be either the founder (if the founder is an individual) or the founder's general director (if the founder is a legal entity). The applicant's signature should be witnessed by a Russian notary public (or at a Russian consulate abroad). The application should contain a list of the main activities which the company plans to perform;
- the minutes of the meeting of the founders (or decision of the sole founder) expressing a decision on registration of the company;
- the company's foundation documents;
- where the founder is a legal entity, its certificate of incorporation or similar document (eg extract from the Trade Register);² and
- a receipt confirming payment of the applicable state registration fee, which is currently set at Rb2,000 (approximately \$80).

2.1 Charter

The sole foundation document of a joint stock company is its charter. The foundation documents of limited liability companies with two or more founders are the foundation agreement and the charter;³ limited liability companies with a single founder require only a charter. The charter is a private document of the company and there is no need to certify it with a notary public.

¹ It should be noted, however, that on July 1, 2009 new amendments to the legislation on Limited Liability Companies are going to come into legal force. According to these amendments, the Foundation Agreement will no longer be a foundation document of a Limited Liability Company but will serve simply as an internal document of the company.

² In case the founder is a foreign legal entity, this document should be duly apostilled or legalised to be valid in Russia. The choice among the two mentioned procedures depends on whether the country of the company's origin is a party to the Hague Convention of 1961 on Waiver of Requirement for Legalisation of Foreign Official Documents.

³ See footnote 1.

The charter of a limited liability company must include the following information, at a minimum:

- the object and purposes of incorporation;
- the full and short trade name of the company;
- information on the company's location;
- the structure and competence of the governing bodies;
- a list of issues falling within the exclusive jurisdiction of the general meeting of shareholders;
- a list of issues that must be adopted unanimously or by a qualified majority of the shareholders;
- information on the procedures for the adoption of resolutions by the executive bodies;
- the amount of the charter capital;
- the amount and nominal value of each share;
- the rights and obligations of the shareholders;
- the terms and conditions for withdrawing from the company, and the consequences of withdrawal;
- the terms and conditions for the transfer of shares;
- rules on the storage of company documents and information, and the provision of such information to company shareholders;
- the procedure for conducting the general meeting of shareholders that will adopt the annual reports;
- the powers of the general director;
- procedures governing the general director's activities and decision-making powers; and
- the number of members of the audit committee and their powers.

The foundation agreement of a limited liability company should contain:

- the founders' obligation to incorporate the company;
- the terms of joint cooperation regarding incorporation;
- the amount of charter capital;
- the amount and composition of each founder's contribution;
- the nature of the founders' contributions;
- the terms of the founders' contribution;
- the founders' liability for failure to make agreed contributions;
- the structure of the governing bodies;
- the conditions of the founders' participation in company activities;
- the terms and conditions for the distribution of profits and losses;
- corporate governance procedures; and
- the terms and conditions governing withdrawal from the company.

In addition to these required provisions, the Law on Limited Liability Companies contains optional provisions that may be established in the charter. The founders may agree to include other provisions in the charter that do not contradict the provisions of the law or other current legislation.

The bylaws of a joint stock company must include the following information, at a minimum:

- the full and short trade name;
- information on the company's location;
- the type of joint stock company (closed or open);
- the quantity, nominal value and type (ordinary or preferred) of distributed shares;

- the rights of holders of each type of shares;
- the amount of charter capital;
- the structure and competence of the governing bodies, and procedures for the adoption of resolutions;
- procedures for convening and conducting the general shareholders' meeting, along with a list of issues which should be adopted unanimously or by two-thirds qualified majority vote;
- information on branch and representative offices;
- information on the rights of the Russian Federation or municipality to participate in the management of the company; and
- other clauses provided by law.

The company's tax number is issued by the registration body (ie the local Tax Service office) during registration, together with the company number (ie the unified state registration number).

The Tax Service should complete registration of the company within five days of receipt of the required documents, along with proof of payment of the applicable state fee. The Tax Service was designated as the registration authority in order to act as a 'one-stop shop'; as a result, upon registration with the Tax Service, a company is also registered with all applicable state pension funds, social and medical insurance funds. After this, the company should register itself with the state statistics committee. Upon registration, no further declaration of commencement of activities or other tax declaration is required. Moreover, no legalisation of the official books is required.

3. Number of shareholders

Limited liability companies may have between one and 50 shareholders, whether natural or legal persons. However, a limited liability company may not have as its sole shareholder another legal entity that itself has only one shareholder. Like limited liability companies, closed joint stock companies may have between one and 50 shareholders. Open joint stock companies may have an unlimited number of shareholders.

4. Corporate name – limitations

Companies may adopt any name the founders want. The company may not include the words 'Russia', 'Russian Federation' and derivative phrases in its corporate name, unless the Russian Federation owns more than 75% of the equity in the company. In this case the company must also receive a special approval from the Russian government.

The full official name of a company consists of an indication of its corporate form – OJSC (OAO in Russian), CJSC (ZAO) or LLC (OOO), followed by the company's name.

5. Corporate domicile

A company's domicile is the place where its general director (chief executive officer) is located, which should be indicated in the charter and in the application for registration. If the company changes its officially registered domicile, it must register the change with the Tax Service. In practice, many Russian companies use nominal addresses for registration with state bodies and then rent their main office in a different area, which is permitted.

6. Corporate object

Although there is no legal requirement to include the company's goals, purposes and types of activities in the charter, this information is commonly included. Since such information could be construed as limiting the company's activities to those listed, the phrase "and any other types of activities which are not prohibited by law" is often included at the end of any such list. Some types of activity may be performed only if the company has obtained a licence issued by an authorised state body (each body specialises in issuing licenses in its field), or a special permission for performing some type of activity (eg permission for construction, permission for using radio frequencies, etc.).

7. Capital stock

The minimum charter capital for both limited liability companies and closed joint stock companies is Rb10,000 (approximately \$400), while for open joint stock companies it is Rb100,000.

7.1 Nature of contributions

Cash, assets, rights and other property or property rights with monetary value may be contributed to the charter capital of a limited liability company. In the case of in-kind contributions, the general meeting of shareholders must determine the value of the property; where the in-kind contribution is valued at over Rb20,000 (approximately \$800), an independent appraisal is required.

Shares in a newly incorporated joint stock company must be fully distributed among the initial shareholders before registration.

7.2 Partial payments

Partial contributions of the initial capital are allowed for both limited liability companies and joint stock companies. For limited liability companies, at least 50% of the charter capital must be contributed prior to registration, with the remainder being contributed within one year of state registration unless a shorter term is required under the foundation agreement. For joint stock companies, at least 50% of the charter capital must be paid in within three months of registration and the remainder within one year of state registration. Shares that are not fully paid cannot be voted on at the general shareholders' meeting.

7.3 Representation of shares

Limited liability companies do not issue share certificates or other similar documents. Joint stock companies issue shares, which are always registered. Shares may be only non-certificated (ie exist only as entries in a special shareholder register).

The shares of a joint stock company may be ordinary or preferred, but preferred shares may not comprise over 25% of the company's charter capital. Ordinary stock may be of only one type, but various types of preferred share may be issued, with varying rights including defined dividends and liquidation preferences, as set out in the charter. Preferred shares carry no voting rights as long as defined dividends are timely paid.

7.4 Transfer of shares

(a) Restrictions

Shares in joint stock companies and limited liability companies may be sold only to the extent that they are fully paid.

Shareholders in joint stock companies may transfer their shares without limitation, except that closed joint stock company shareholders enjoy a right of first refusal in the case of a sale of shares by another shareholder.

Similarly, limited liability company shareholders may transfer their shares without limitation, unless such limitations are set out in the charter, including a prohibition against sales to third parties.⁴ In addition, limited liability company shareholders enjoy a right of first refusal in the case of a sale of shares by another shareholder.

A closed joint stock company or limited liability company shareholder who is selling his shares may not vary the substantive terms (especially including price) in the event of a failure of the other shareholders to exercise their right of first refusal.

Rights of first refusal for both limited liability companies and closed joint stock companies arise only in connection with sales. In other words, the transfer of shares by will, intestate succession or successorship in interest by operation of law does not trigger rights of first refusal, although the charter may provide otherwise.

Limited liability company shareholders may encumber their stock or shares with liens (unless the charter provides otherwise), subject to the approval of the general meeting.

(b) Formalities

The transfer of shares in a limited liability company requires the corresponding amendment of the charter. The transfer itself should be executed in a written document.⁵ The transfer of shares in a joint stock company is effected by making a corresponding entry in the shareholder register.

8. Equity

8.1 Equity-capital ratio

Joint stock companies are required to maintain a reserve fund, which is established by contributing at least 5% of the net profits to the fund until it reaches the level specified in the charter.

If, by the end of the second year following incorporation or thereafter, the net assets of a joint stock company are less than its charter capital, the company must undergo a reduction in charter

⁴ According to new amendments to legislation on Limited Liability companies which will come into legal force on July 1, 2009, the described rule will change to the opposite. Shareholders of a Limited Liability Company will not be allowed to sell their shares to a third party unless such right is directly set out in the company's Charter.

⁵ A new rule will come into legal force on July 1, 2009 which will oblige the shareholder of a Limited Liability Company to notarize a Share Purchase Agreement when selling his share. Moreover, the obligation to provide the documents for registration of change of the shareholder to the Russian Federation Tax Service will be imposed on the notary, but not on the shareholder himself as currently required.

capital to the amount of net assets (but not less than the minimal capital requirement established by law).

Limited liability companies may form reserve funds at their own discretion, as set out in the charter.

8.2 Convertible bonds

Limited liability companies may, with the approval of the general meeting, issue bonds to an amount not exceeding the charter capital. Joint stock companies may, with the approval of the board of directors (unless otherwise provided in the charter), issue bonds that are convertible into shares.

9. Administration

9.1 General shareholders' meeting

A detailed procedure for making decisions is required for the general shareholders' meeting. Each shareholder in a limited liability company and shareholders of a joint stock company having at least 2% of shares has the right to propose matters for inclusion on the agenda for the meeting and to vote on all matters. This can sometimes be a limitation. For example, a provision in a charter entitling one shareholder to nominate the general director will be void and unenforceable as unlawfully limiting the rights of other shareholders. The other bodies of the company are usually determined by the general shareholders' meeting.

For limited liability companies, most decisions are adopted by the general shareholders' meeting by a simple majority of votes of all shareholders of the limited liability company (not of attendees). However, the charter may require qualified votes for some decisions. According to the Law on Limited Liability Companies, resolutions on changes to the foundation agreement and on liquidation or reorganisation must be adopted unanimously. Resolutions to change the charter or charter capital must be adopted by at least a two-thirds majority. The charter cannot reduce these qualified votes. The quorum for attendance at the meeting is not specified in the Law on Limited Liability Companies, but should be at least a majority of shareholders in order to meet the simple majority rule.

The following issues fall within the sole competence of the general shareholders' meeting:

- determination of the company's main areas of operations, decisions on the company's participation in associations and other unions of commercial entities;
- approval of amendments and additions to the charter, and increases in the charter capital;
- approval of amendments to the foundation agreement;
- formation of the executive bodies of the company and termination of their powers, approval of the transfer of powers vested in the executive body to a commercial entity or to an individual entrepreneur (manager), approval of the manager and the terms and conditions of his powers;
- election of the members of the audit committee and the members of the board of directors, and their dismissal prior to the expiry of their terms of office;
- approval of annual reports and annual accounting balance sheets;
- approval of distribution of net profits;
- approval of documents governing company operations (internal regulations);
- approval of bonds and other securities issuance;

- instruction to conduct an audit, approval of the auditor and determination of the amount of remuneration;
- approval of reorganisation or liquidation of the company;
- appointment of the members of the liquidation committee, and adoption of liquidation balances; and
- resolution of other matters specified in the charter and the Law on Limited Liability Companies.

The general shareholders' meeting should be convened at least once a year between two and four months after the end of the fiscal year. The annual meeting approves the financial results for the year. It is possible to hold meetings by survey, provided that all shareholders record their votes in writing. The use of an authorised representative at the meeting acting pursuant to a proper power of attorney is permitted.

In joint stock companies, the shareholders' meeting should be held at least once a year between two and six months after the end of the fiscal year. The following matters should be resolved at the meeting:

- election of the members of the board of directors and the audit committee (or comptroller);
- nomination of company auditor;
- approval of the financial results of the year;
- distribution of dividends; and
- other matters which should be resolved by the ordinary annual shareholders' meeting according to the charter.

The following matters fall within the exclusive competence of the shareholders of joint stock companies:

- amendments and additions to the charter;
- reorganisation;
- liquidation, appointment of the members of the liquidation committee and adoption of liquidation balances;
- determination of the number of members of the board of directors, their election and dismissal prior to the expiry of their terms of office;
- determination of the quantity, nominal value and types of shares and the rights attaching to such shares;
- any increase and reduction in charter capital;
- the formation of executive bodies and their termination prior to expiry of their term of office (if this does not fall within the competence of the board of directors according to the charter);
- election of audit committee members;
- approval of the company auditor;
- distribution of dividends;
- approval of the annual report and accounting balance sheets;
- approval of the procedure for holding shareholders' meetings;
- approval of the members of the electoral commission;
- approval of stock splits and consolidations;
- approval of transactions with interested parties;
- approval of major transactions;
- share repurchases by the company;
- participation in financial and industry groups, associations and other unions of commercial organisations;

- approval of documents governing company operations (internal regulations); and
- other matters regulated by the Law on Joint Stock Companies.

(a) Challenging resolutions

A decision adopted by limited liability company shareholders which violates legal requirements or the charter, or which otherwise infringes the rights and interests of a shareholder, may be nullified through court action at the request of a shareholder who did not participate in the meeting or voted against such decision. This request must be filed within two months of the date on which the shareholder knew or should have known of such decision.

The same provisions apply to decisions of joint stock company shareholders, although the term during which decisions may be challenged is six months.

9.2 Administrative body

(a) Different systems of administration

Management functions are performed either by a sole executive body (general director) or by two executive bodies – the general director and the executive committee. The company may also have a board of directors where the charter so provides; joint stock companies with over 50 voting stockholders are obliged to have a board of directors. The board of directors carries out the general management of the company, and its functions and competence should be defined in the charter. Where a board of directors is not established, its functions are generally performed by the shareholders.

Foreign citizens may occupy administrative positions in the company without limitation, but they must hold a work permit or other document that entitles them to work in Russia. The company must also obtain separate permission to employ foreigners.

(b) Term of office, resignation and removal of directors

Members of the board of directors of joint stock companies are elected each year at the ordinary shareholders' meeting. For limited liability companies, the procedure for the composition and election of the board of directors is established by the charter. For both limited liability companies and joint stock companies, the general director is elected by the shareholders. The power to appoint the general director may be granted to the board of directors where the charter so provides.

(c) Directors' liability to third parties

Members of the board of directors, the general director and members of the executive committee are liable to the company for any damage that results from illegal decisions. Members who did not vote or who voted against such decisions are not liable.

(d) Non-competition

In both limited liability companies and joint stock companies, members of the executive committee may not make up more than one-quarter of the board of directors. The general director may not serve as chairman of the board of directors.

(e) Limitations on executives and interested-party transactions

Interested-party transactions require the approval of the general shareholders' meeting or the board of directors. These are defined as transactions of the company in which its general director, members of the executive committee, members of the board of directors, shareholders holding, together with affiliated persons, more than 20% of the shares in the company are interested. Being interested in a transaction means (in terms of Russian legislation) being personally (or through a number of close relatives) a party to such transaction, or a shareholder of a party to such transaction, owing more than 20% of shares of such party, or having a position in one of the executive bodies of a party to a transaction.

(f) Special duties of secrecy and loyalty

The general director and members of the board of directors and the executive committee are obliged to act for the benefit of the company, and to perform their obligations to advance the interests of the company.

(g) Civil and criminal liability

The company is not subject to criminal liability; it has only civil liability to the extent of its assets. The general director is liable for offences and crimes committed by the company in administrative and criminal matters, such as non-payment of taxes, fictitious bankruptcy and similar illegal acts. Also criminal liability may be imposed in certain cases on the chief accountant of the company.

9.3 Others

(a) Internal controllers and auditors

Joint stock companies are obliged to have an audit committee and internal auditor. In limited liability companies, the appointment of an audit committee is optional where there are fewer than 15 shareholders. Members of the audit committee may not occupy any other position in the company.

In joint stock companies, the audit committee should review the reports on the company's financial activity at the end of each fiscal year, and at any time at the request of shareholders holding more than 10% of the voting rights. In limited liability companies with more than 15 shareholders, the annual reports and balance sheets may not be approved by the shareholders until they have first been reviewed and approved by the audit committee.

10. Fiscal year, commencement of activities

The official fiscal year starts on January 1 and ends on December 31. However, companies have the right to choose any dates for their financial year.

11. Financial statements

11.1 Company tax

Company profit is subject to tax, which is generally payable on a quarterly basis. The profit subject to taxation is calculated as income less expenses. The general tax rate is 24%; however,

certain categories of profit are taxed at specific rates. Under certain circumstances, the company may apply one of the special tax regimes instead of the tax on profit, as follows:

- Unified tax on imputed income is a levy on some forms of business activity where tax control is difficult. Such activities are subject to taxation based on imputed income, which is defined as their estimated gross income.
- The simplified taxation system may be used by organisations which satisfy certain eligibility requirements. The tax rate is 6% of their gross income or 15% of gross income minus expenses.
- Unified agricultural tax is levied on agricultural manufacturers whose average portion of income from the sale of agricultural products for the first nine months in a year constitutes at least 70% of the whole income. The tax rate is 6% of the value of income minus expenses.

11.2 Annual accounts

(a) Documents

The main documents reflecting the company's yearly financial results are as follows:

- balance sheet;
- profit and loss statement;
- value added tax declaration;
- declaration of tax on profits; and
- declaration to the pension fund and to unified social tax allocations.

Where the simplified system of taxation is availed of, only the profit and loss report and the declaration to the pension fund need be filed.

(b) Audit report

An audit report by an independent auditor is required in the following cases:

- for open joint stock companies;
- for certain types of financial organisation, such as lending institutions, insurance companies and similar organisations;
- where the profit for the year exceeds Rb50 million (approximately \$2 million) or the value of assets according to the balance sheet exceeds Rb20 million (approximately \$800,000); and
- in certain other cases which do not relate to companies with limited liability.

(c) Approval and distribution of profits

For joint stock companies, the decision on the distribution of dividends is taken at a shareholders' meeting. The dividends may be paid yearly or at three, six or nine-monthly intervals.

For limited liability companies, the decision on the distribution of profits is taken by the shareholders. The profits are distributed in proportion to the capital contributions. An alternative basis for distribution may be specified in the charter with the unanimous approval of all shareholders.

The tax on dividends is set at the following rates:

- 0% for Russian companies that hold 50% or more in the company that distributes the dividends if the contribution of the shareholder in the charter capital of such company was more than Rb500 million;
- 9% for Russian companies and individuals who are Russian tax residents;
- 15% for foreign companies; and
- 30% for non-resident individuals.

Applicable double tax treaties may establish lower rates.

(d) Deposit and publication

Limited liability companies must publish their annual financial statements and balance sheets in the case of equity securities (bonds and other) issuance. Open joint stock companies must disclose their annual financial statements and balance sheets in a print publication, issue prospectuses (where required by law) in a print publication or online, and publish certain information in advance of their annual shareholders' meeting in a print publication.

12. Company reorganisation

Joint stock companies and limited liability companies may be reorganised through merger, accession, division, split-off or transformation. The property of new companies created through reorganisation may be formed only from property owned by the companies which participated in such reorganisation. The company is considered to be reorganised as of the time of state registration of the newly created company or, in the case of accession, from the date of registration of the cessation of activity of one of the companies.

The company must publish an announcement and notify all creditors in writing no later than 30 days after the decision to reorganise. Creditors then have 30 days in which to demand acceleration of the performance of obligations and compensation of losses. The company must draft an act of transfer or a separation balance sheet reflecting the transfer of property and obligations during the reorganisation.

12.1 Merger

In case of merger, the shareholders of each participating company must approve:

- the merger agreement between the companies;
- the charter of the merged company; and
- the act of transfer.

The merger agreement should determine the procedure for voting at the common shareholders' meeting of the merging companies. The common shareholders' meeting should elect the executive bodies of the new company.

12.2 Accession

In case of accession, a company transfers all its property, rights and obligations to another company and then terminates. The participating companies must sign an accession agreement which specifies the procedure and conditions for accession, and the procedure for share conversion. The general shareholders' meeting of each company must approve the accession agreement (which should contain provisions on the procedure for voting at the common

shareholders' meeting). Shareholders of the acquired company should adopt an act of transfer. The common shareholders' meeting should adopt amendments to the charter.

12.3 Division

As a result of division, a company transfers all its rights, obligations and property to new companies and terminates. The general shareholders' meeting approves:

- the division;
- the procedure and conditions for such division;
- the new companies to be created;
- the procedure for share conversion; and
- the separation balance sheet.

The general shareholders' meeting of each newly created company should adopt its charter and elect its executive bodies.

12.4 Split-off

As a result of split-off, a company transfers some of its rights, obligations and property to new companies but does not terminate. The procedure is the same as for division.

12.5 Transformation

A joint stock company may be transformed into a limited liability company, a production cooperative or a non-commercial partnership. A limited liability company may be transformed into a joint stock company, a company with additional liability or a production cooperative.⁶

13. Eventual partner separation

A shareholder in a limited liability company may withdraw from the company at any time without the consent of the other shareholders. In such case his share reverts to the company. The company must pay the actual cost of the share to the withdrawing shareholder within six months of the end of the fiscal year during which the shareholder announced his withdrawal. The value of the share is determined on the basis of data in the annual accounting balance sheets.

Shareholders of joint stock companies may dispose of shares at their own discretion, including by selling them to third parties.

14. Dissolution and liquidation

A company may be liquidated voluntarily or by court decision. In case of voluntary liquidation, decided at a shareholders' meeting, the company terminates without transfer of its property, rights and obligations to other persons. The shareholders must immediately notify the registration body in order to include information that the company is under liquidation in the state register of legal entities.

⁶ According to the new amendments to legislation on Limited Liability Companies which are coming into legal force on July 1, 2009, it will also be possible to transform a Limited Liability Company into a Partnership.

The shareholders' meeting appoints a liquidation commission, which acquires all management rights. The liquidation commission will publish an announcement of the liquidation and identify and notify all company creditors and debtors. Creditors have two months from the announcement in which to make their claims. The liquidation commission will prepare an intermediate balance sheet to be approved by the shareholders. If the company does not have sufficient funds to satisfy all creditor claims, the liquidation commission will sell company assets. Payments to creditors are made in the following order of preference:

- payments for damage caused by the company to the health and lives of persons;
- payments of salary and other similar payments;
- payments to state budget and non-budget funds; and
- all other payments.

Payments to creditors of each rank are made only once the creditors of the preceding rank have been paid in full.

Once all company debts are paid, the liquidation commission will prepare a liquidation balance sheet to be adopted by the shareholders.

Once all creditors have been paid, the rest of the property is distributed among the shareholders. In a joint stock company, the remaining property must be distributed among the shareholders in the following order:

- payments for shares which must be redeemed;
- payments of accrued but unpaid dividends and the liquidation value of preferred shares; and
- payments to all other shareholders.

Payments to shareholders of each rank are made only once all shareholders of the preceding rank have been paid in full.

The liquidation ends and the company is terminated once the state body enters the appropriate record in the state register of legal entities.

A company may be deemed insolvent when it is unable to satisfy creditors' claims totalling at least Rb100,000 within three months of their falling due. The company, together with creditors, may take a decision on insolvency and liquidate voluntarily. The right to petition a court to declare a company insolvent may be exercised by the debtor itself, by creditors or by authorised governmental bodies.

15. Branches

Companies may have branch and representative offices in Russia. Representative offices may only represent the company and may not perform any commercial activities, while branch offices may perform such activities. Both branch and representative offices act in the name of the parent company, which is liable for their activities. The company charter must contain information on all branch and representative offices.