

Russia

Employment

Labor Concerns

Russian labor laws should not generally impact option plans so long as participation in the plan is not considered to be a benefit provided by the Russian employer pursuant to an employment relationship.

However, as a matter of fact, the participation in the option can be connected to (and is conditional upon) the employees' relations with the Russian employer. Therefore, it is advisable to document the option plan in accordance with the requirements of Russian Labor Code.

Russian labor law is not clear on whether the employer may withhold portions of employee's salary in connection with the plan. Any withholdings and/or transfers of any portions of the employee's salary in connection with the plan must be made under the employee's express and written instructions.

A review of the exact language and structure of the option plans will be necessary in order to determine the enforceability of foreign option plans. There is ultimately a risk that the Russian courts would choose to apply Russian employment law as the law regulating the Plan.

Communications

If a plan is documented as a part of the Russian employment contract, it should be translated into Russian. Government filings must be in Russian.

Regulatory

Securities Compliance

The principal regulatory framework for the offering of foreign securities is generally set out in Federal Law No. 39-FZ "On Securities Market" dated 22 April 1996, as amended (the "**Securities Market Law**"). The Securities Market Law currently states that: (i) foreign securities that have not been admitted to public placement and/or public circulation in Russia, as well as (ii) foreign financial instruments that have not been recognized as securities, may not be offered in Russia "in any form or by any means", including by way of advertising, to an unlimited number of investors and to persons who are not "qualified investors" under Russian law.

Therefore, the offer of Stock under option plans to employees who are not qualified investors could be viewed as contrary to Securities Market Law, to the extent that the said Stock has not been admitted to public placement and/or public circulation in Russia.

However, the Federal Service on Financial Markets (the "**FSFM**") has issued Order No. 11-8/pz-n "On Approval of the Regulation On Peculiarities of the Circulation and Registration of Rights to Securities Designated for Qualified Investors and of Foreign Securities", dated 5 April 2011 (the "**Order**"). The Order raises the possibility of non-qualified investors acquiring foreign securities that have not been admitted to public placement and/or public circulation in Russia if such acquisition is made inter alia by (a) a foreign citizen, or (b) a Russian citizen under his/her employment contract or in connection with the fulfilment of duties under his/her employment contract, or in connection with his/her membership in the board of directors (supervisory board) of a legal entity."

Therefore, the actual position remains uncertain in light of the general restrictions on the offering of foreign securities in Russia established by the Securities Market Law. Until this point is clarified, consideration should be given to the implementation of an off-shore grant structure which does not amount to an offering in Russia.

Currency Control

The transfer of funds to and from a foreign jurisdiction, in relation to a transfer of securities from a foreign company to a Russian individual, may be made freely. This follows the general principle that all currency operations between Russian residents and non-residents may be made without any limitations.

As a general rule, payments to or from Russian residents (both legal entities and individuals) should be effected through bank accounts with Russian authorized banks. In the event that a Russian resident seeks to use a bank account with a non-Russian authorized bank, additional reporting requirements may apply.

This summary is intended to reflect local law and practice as at 1 May 2013. Please note, however, that recent amendments and legal interpretations of the local law may not be included in these summaries. In addition, corporate governance, administration, and option plan design facts that are specific to your company may impact how the local laws affect the company's equity based compensation plans.

With these matters in mind, companies should not rely on the information provided in this summary when implementing their stock plans.

Russia (cont.)

Data Protection

As a general rule, the processing of personal data requires the consent of the data owner (i.e. the employee).

The transfer of the personal data of an option plan participant from the employer to the Issuer will qualify as a transfer of personal data to a third party and also as a cross-boarder transfer of personal data. This will require written consent of each participating employee.

A Russian Subsidiary, being the personal data operator, must generally notify the state authorities about the processing of any personal data.

Tax

Employee Tax Treatment: Individual Income Tax

No individual income tax obligation should arise upon the grant of stock options, although the tax authorities may take a different position. In particular, there is a risk that such grant would be considered as receipt of "derivative financial instrument" free of charge or purchase of such "derivative financial instrument" without paying arm's length purchase price.

The employee is taxed upon the exercise of the option, calculated by reference to the difference between the prevailing fair market value (calculated using Russian securities regulations) and the exercise price. Tax is also imposed on the gain from the subsequent sale of the Stock on the difference between the sale price and properly documented expenses related to the sale, acquisition and storage of the Stock and the amount on which individual income tax has been already paid upon purchase of the Stock.

Tax is levied at a rate of 13% for Russian tax residents or at a rate of 30% for non-residents (subject to the provisions of any applicable tax treaties).

Tax-Favored Program

None.

Withholding and Reporting

The Russian employer is likely to be deemed as being obliged to withhold tax if the participation in the plan is considered to be a benefit provided to the employees pursuant to an employment relationship. Even if the Plan is structured such that it falls outside of the employment relationship between the local employer and the employees, the Russian employer will likely still be obliged to act as a tax agent and to withhold tax from all monetary funds payable to the employees.

If no withholding was made, the employees are required to report income in their tax returns and to pay tax themselves. In such case, however, the Russian employer can be penalized for non-withholding of tax.

Employer Tax Treatment: Social Contributions and Accident Insurance Contributions

No social contributions or mandatory accident insurance contributions should arise upon the grant or exercise of stock options, although the funds' authorities may take a different position.

Social contributions or mandatory accident insurance contributions should only apply to "material benefits" derived by the employee from the acquisition of Stock at a discount, if such purchase is regarded as "payment or other remuneration" accrued to the employees under labor agreements with the Russian employer.

If such liabilities arise, social contributions are payable to the Pension Fund, the Social Insurance Fund and the Federal Fund for Mandatory Medical Insurance at regressive rates. In 2013, these rates amount to 30% for the individual's annual earnings up to a specific cap equalling RUB 568,000 (approximately EUR 14,200), subject to annual indexing, and 10% additional rate applies to the individual's annual earnings in excess of this cap amount (RUB 568,000 / EUR 14,200).

The mandatory accident insurance contributions are payable in the amount of 0.2-8.5% depending on the employer's industry type.

Employer Tax Treatment: Cost Deduction

A local tax deduction would not be likely to be permitted, even if the Russian subsidiary reimburses the foreign parent company for the cost of plan benefits.

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