

大成 DENTONS

Manufacturing in Russia



Foreword

Dear Readers,

The Dentons Europe offices cover a legendary territory for manufacturing and industrial projects, including Spain and France to the west, Russia, Kazakhstan and Uzbekistan to the east, Germany, Poland, Hungary and other Central European countries in the middle and from Italy to Turkey to the south. This territory offers a vast population with strong purchasing power and excellent infrastructure, combined with vast workforce resources and industrial expertise.

Dentons Europe has been at the forefront of the first industrial projects going east after the fall of the Berlin wall, actively advising on greenfield and brownfield projects as well as on acquisitions and joint ventures when Central European countries—Romania, Czech Republic, Slovakia and Poland—joined the European Union. We are now actively witnessing Asian investors' interest for manufacturing in Europe.

The legal environment in the countries we cover has greatly evolved. It is a strong advantage to have been present in some of the emerging economies of Eastern Europe, Caucasus and Central Asia for the past 20 to 30 years, as the legacy legal systems in these countries can still be felt, in particular with regard to land acquisition and environmental norms. Today many jurisdictions, including in Western Europe, offer state aid and tax incentives to attract the best manufacturing projects.

We are well placed to help you choose your entry doors to the European Union and to Eurasia.

We hope the Manufacturing Guide you have selected will be of interest. It aims to give you a general overview of key checkpoints for this jurisdiction. Do not hesitate to contact me or the authors of this guide for any further information.



Pirouzan Parvine

Partner Manufacturing Sector

Leader for Dentons Europe

pirouzan.parvine@dentons.com

+33 6 42 24 07 25

Contents

7 ... Russia and the European Union

8 ... Preparing to Manufacture

- A. Corporate Vehicles
- B. Constructing a Plant
- C. Relationship with Authorities and Anti-bribery Laws
- D. Employment
- E. Taxation
- F. Intellectual Property Rights

20 ... Operating

- A. Connecting to Utilities
- B. Operational Licenses and Safety of Operations
- C. Competition Law Investigations
- D. Tax Audits
- E. Anti-corruption Compliance
- F. Product Liability
- G. Consumer Protection

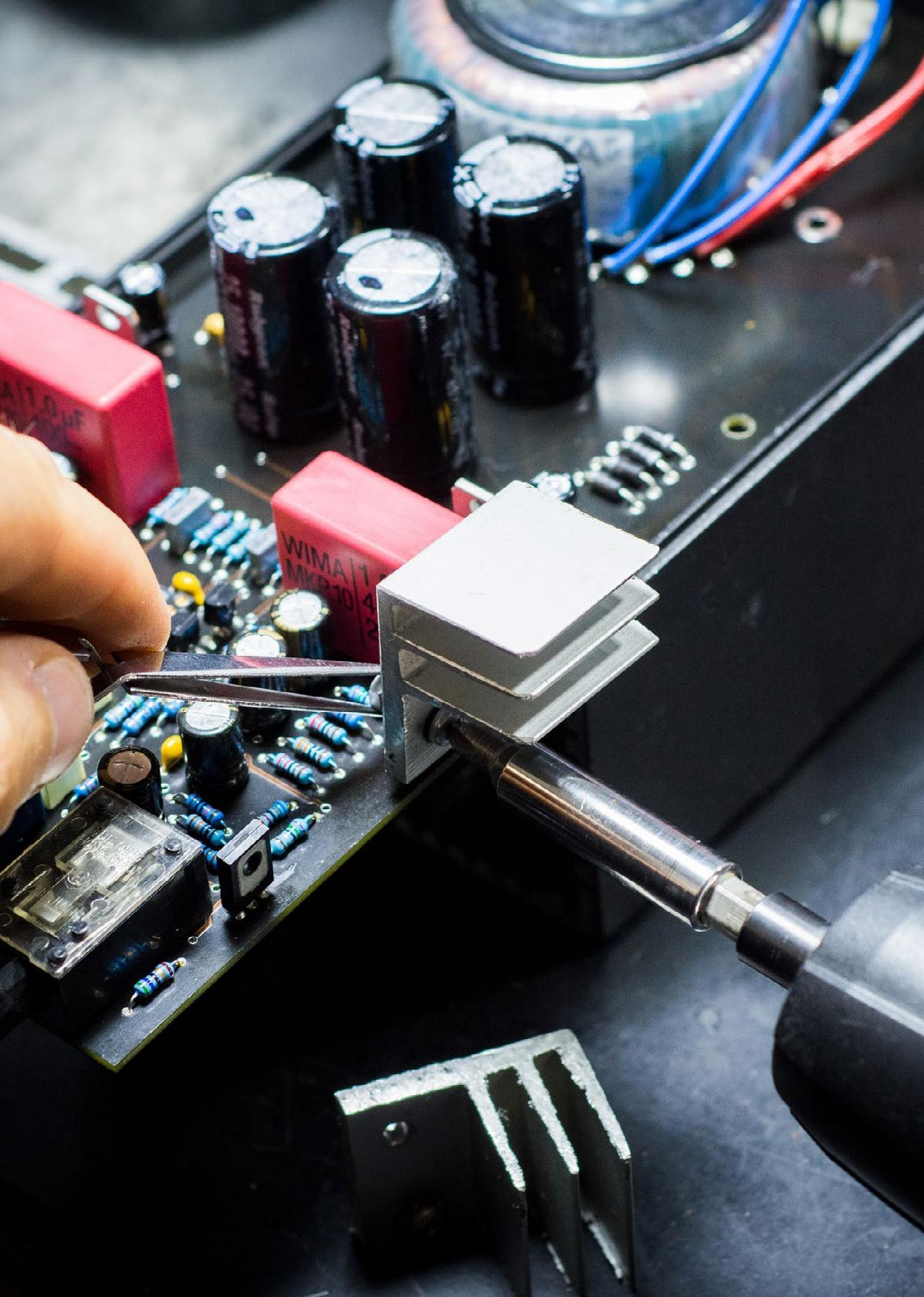
28 ... Acquiring and Selling a Plant: Key Issues

- A. Share Deal and Asset Deal
- B. Due Diligence
- C. Employment & Trade Unions
- D. Merger Control
- E. Winding Up

34 ... Contracting with Third Parties

- A. General Principles
- B. Statutory and Implied Terms
- C. Penalty Clauses and Liability

38 ... Contacts



Russia and the European Union



The EU works in close cooperation with international partners, including Russia. Ongoing EU-Russia cooperation covers economic relations. The general framework of EU-Russia political and economic relations was set forth in the Partnership and Cooperation Agreement in 1997.

Despite sanctions and counter-sanctions imposed in the aftermath of the Crimean peninsula annexation in 2014, today Russia is the fourth largest trading partner for the EU and the largest supplier of oil, gas and coal for the EU's energy needs. As for Russia, the EU is its main trading and investment partner. This economic cooperation has resulted in numerous joint commitments to maintain good economic relations despite diplomatic tensions. EU countries have concluded many treaties with Russia regarding such sensitive economic matters for manufacturing as double taxation, protection of investments, IP, etc.

Preparing to Manufacture



A. Corporate Vehicles

Choice of Corporate Form

International manufacturing businesses willing to commence operations in Russia normally start by incorporating a Russian subsidiary as a vehicle for conducting their affairs. There are two types of commercial legal entity that are most commonly used in Russia: these are the limited liability company (LLC) and the joint stock company (JSC). Although Russian law recognizes several other forms of legal entities (general and limited partnerships, manufacturing cooperatives, etc.), in practice, none of those are frequently used.

The LLC is the most common type of company due to its relatively simple formation procedure and flexible rules on corporate governance, capital raising and other corporate matters. LLCs are most often used by small and medium-size businesses. They are also frequently used by larger industrial groups, both Russian and foreign, as local wholly owned manufacturing companies.

Following major changes in Russian corporate law in September 2014, JSCs now fall into two categories: public JSCs or non-public JSCs. Public JSCs are joint stock companies that place their shares by open subscription or whose shares are listed and traded on the securities market, as well as companies whose corporate name and corporate documents merely indicate that they are public. Other JSCs, as well as LLCs, are non-public.

A non-public JSC is a privately held company whose shareholders may enjoy pre-emption rights on share transfers, if provided in the charter. By contrast, the shares in a public JSC may be transferred without restrictions, listed on a stock exchange, or offered to the public.



Shares in both public and non-public JSCs (abbreviated in Russian as NAO and PAO, respectively) qualify as securities. As a result, JSCs are subject to rather cumbersome securities regulation, including detailed procedures and rules regarding issue, offering and placement of shares, disclosure obligations, etc.

The legal regulations for JSCs are also relatively more complex and rigid, as compared to the regulation of LLCs, and leave less discretion for shareholders in matters of corporate governance and decision-making. In addition, maintaining a JSC might entail additional costs, such as additional fees for maintenance of the shareholders' register by a licensed registrar (since October 2014, JSCs are no longer allowed to independently maintain their shareholders' registers) and costs for keeping in line with securities legislation requirements.

For these reasons, the LLC is the most frequent type of company due to its relative simplicity of incorporation, flexible rules of corporate governance, raising capital and other requirements. The LLC is well suited for both subsidiaries of foreign investors and joint ventures.



Foreign Management

A foreign citizen may be the CEO (general director) or a member of a collegiate executive body in any Russian company, provided that he/she has a valid work permit or a permanent residency permit. There is a simplified work permit procedure for highly qualified specialists, who are defined as employees earning more than RUB 167,000 per month.

Directors who are foreign citizens do not need a work permit to be on the board of a Russian company.

Companies Register

All Russian companies must be registered with the Unified State Register of Legal Entities (the Companies Register, often known by its Russian acronym EGRUL) maintained by the RF Federal Tax Service. The Companies Register contains copies of the company's charter, information on its standing (e.g., whether liquidation or bankruptcy proceedings have been initiated), registered address, chief executive officer(s), representative offices, licenses, and certain other information. All such information is public. Companies must notify the Companies Register on changes to their charters or other information contained at the Companies Register using special reporting forms. Electronic filing is possible but in many cases it needs to be done through a Russian notary.

Incorporation

Incorporating a company of any type (including preliminary steps, time for preparing necessary documentation, registration and post-registration formalities) typically takes between five and eight weeks. Additional time will be required to register the issuance of shares in a JSC.

The documents that are required to incorporate a Russian company have to comply with rather strict formal requirements. If prepared in Russia, they must be signed by an authorized signatory, sealed with a corporate seal where the issuing entity is a company, and, in most cases, notarized. Documents executed outside Russia must be apostilled or legalized. Documents in foreign languages must be accompanied by a certified Russian translation.

A Russian company is required to have a registered office in Russia. It is important that the company enters into a formal agreement (most commonly a lease or sub-lease) confirming its rights to such a registered office. While the charter might just identify the name of the city (town) where the company is located, the address of the company's office must be registered in the Companies Register. Apart from the main registered office, the company can operate at other locations (satellite offices), which are treated as separate divisions for corporate and tax purposes.

B. Constructing a Plant

Formalization of Rights

Construction developers must have rights to land. The main forms of land rights are the following:

- Ownership right
- Lease right (the owner's consent to construction is required)

There is also an opportunity for reconstructing existing buildings or other structures; such assets can be bought or leased for a long term, with the right to reconstruct them.

Sale and purchase agreements and lease agreements must be concluded in writing. Although it is possible, notarization of real estate transactions is not mandatory and is rarely used.

As a general rule, foreigners may directly acquire land in Russia, with the exception of agricultural land and land or other real property located in border areas and specially designated areas.

To have legal effect, all rights to real estate (including land and buildings) and some types of transactions giving rise to such rights must be registered in the Unified State Real Estate Register (Real Estate Register). The Real Estate Register contains information regarding the property, such as total area, borders, the owner of the property, the registered rights and encumbrances on it (registered leases, mortgages, trust management agreements, etc.). Upon written request and for a fee, any person may obtain extracts from the Real Estate Register containing basic information about the property's unique characteristics, the respective rights thereto and its encumbrances, if any.

That said, short-term leases of real estate (land, buildings or other immovable assets) do not require state registration and become effective as of the date of their execution.

Ownership title to construct manufacturing plants on state-owned land parcels is generally granted by public auction (with some exceptions provided by the RF Land Code). It should be mentioned that the owner of real estate constructed on public land leased for construction purposes has an exclusive right to acquire the title to the land parcels (either lease or ownership) for the further operation of such real estate.

Any transaction involving Russian real estate (including land parcels) must be governed exclusively by Russian law.

In Russia, there is generally no requirement to obtain title insurance or insurance against the risk of damage, however such insurance could be required in accordance with credit facility arrangements.

Land in the Russian Federation may be used for its designated purpose only. The legal status of land is defined in accordance with its category, zoning and permitted use. Accordingly, when planning construction, an investor should ensure that the category, zoning and permitted use of the land parcel allow for the corresponding construction and placement of the respective facility. Otherwise, such an investor would need to procure that the necessary changes to the category, zoning and/or permitted use be made, which can be a time-consuming and complex process.



Construction

A construction permit is required to start construction. Failure to obtain a construction permit is a breach of Russian law and may result in administrative fines as well as the inability to legalize title to the constructed assets and their court-ordered demolition as so-called 'unauthorized construction'.

The construction contract should be carefully drafted and negotiated. FIDIC or other international model construction contracts are rarely used in Russia or are generally significantly adapted where they are used.

Upon completion of construction, in order to obtain a commissioning permit, the entity that owns and/or will operate the assets must apply to the appropriate state authorities and submit documents confirming that the constructed facilities are built in compliance with the permit for construction and the design documents. After a commissioning permit is issued, the right of the respective entity to buildings, structure, or other assets that are considered real estate can and must be registered with the Real Estate Register.

As a general rule, Russian law does not require that the developers insure construction risks. However, such insurance is customary for construction of high-risk facilities, or may be required in some cases by legislation or contract.

C. Relationship with Authorities and Anti-bribery Laws

Anti-bribery Regulations

The Russian government recognizes corruption as one of the most serious problems facing the country and has been taking various measures to fight it. Despite this, corruption remains an issue, particularly in such areas as customs, law enforcement, various licensing and registering authorities, public procurement and tenders.

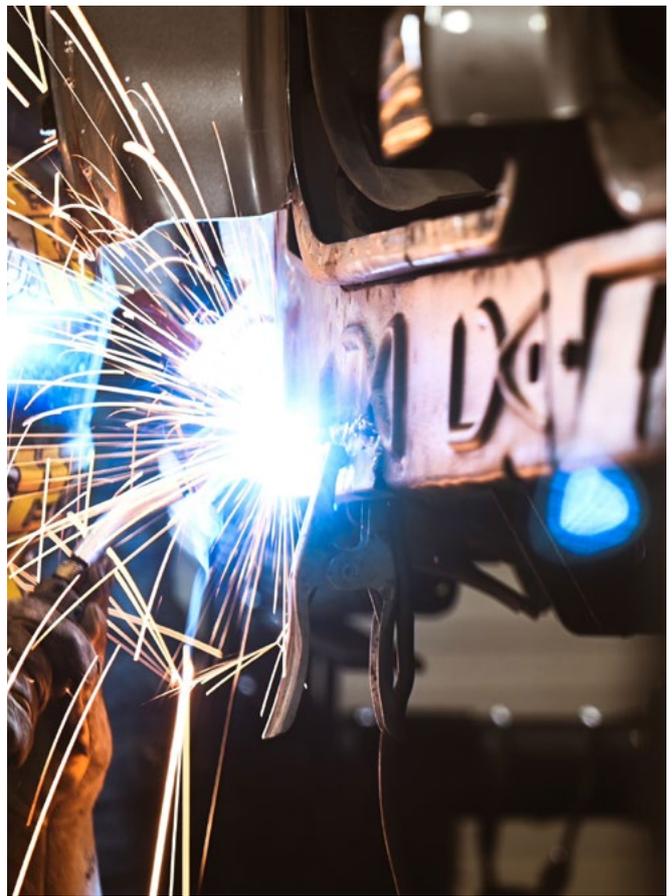
Russian anti-bribery and anti-money laundering legislation includes the following:

- Federal Law No. 273-FZ “On Combating Corruption” of December 25, 2008;
- Federal Law No. 115-FZ “On Combating Legalization (Laundering) of Proceeds from Crime and Financing of Terrorism” of August 7, 2001;
- The RF Criminal Code;
- The RF Code of Administrative Offences.

RF Criminal Code lists several corruption-related offences. They include giving a bribe, receiving a bribe, acting on behalf of a bribe-giver, abuse by an officer of his/her authority or taking a position contrary to the interests of the relevant organization, motivated by pecuniary or other personal interests, issuing or amending official documents which include incorrect information, motivated by pecuniary or other personal interest.

A bribe may be in the form of money, valuables, property or services of a monetary nature or other proprietary rights.

These criminal offences apply to state or municipal officials, foreign officials and representatives of international organisations, as well as to state-owned or private companies (with certain specific differences).



Liability

Sanctions for bribery offences vary, depending on the amount of the bribe and certain other circumstances and include fines, imprisonment and/or prohibition from holding certain positions (disqualification).

The amount of fines may reach up to 100 times the amount of the bribe.

Notably, only individuals (and not legal entities) are subject to criminal liability in Russia. However, if bribery is committed on behalf of, or in the interest of a legal entity, such an entity might be brought to administrative liability for paying illegal remuneration. Such offence is punishable by high fines (up to 100 times the amount of the bribe, but no less than one million roubles).

Rules of Conduct

Officials must avoid conflicts of interest with those business entities they are interacting with.

Russian law sets rules for interaction with authorities, including relevant application and liaison procedures, the period for processing applications, and authorities' actions in response to the applications.



D. Employment

General Rules

The RF Labour Code is the primary piece of legislation defining the rights and obligations of employees. In addition, certain employees' rights are specified in subordinate legislation, regional and industrial agreements, collective bargaining agreements between the employer and the trade unions, company policies, employment contracts, etc.

The normal working hours in Russia are 40 hours per week. Most employees work five days per week, eight hours per day, with a one-hour lunch break. Some categories of employees must work reduced hours (e.g. those working in specific harmful or hazardous conditions, minors aged up to 18 years, etc.). The minimum paid annual holiday is 28 calendar days.

An employee might be required to work overtime only if he/she has consented to it in writing (except for cases specified by law, which largely concern emergency situations). A consultation with the trade union (if any) is also generally required for overtime work. Overtime work must be paid at increased rates.

The RF Labour Code distinguishes between two types of employment contract: (i) indefinite-term contract, and (ii) fixed-term contract. Employment contracts must be concluded in writing. Employees generally work based on employment contracts concluded for an indefinite term, and it is only in certain circumstances that a fixed-term contract might be used. By way of example, a fixed-term contract might be concluded with a CEO or an employee hired to perform a specific task. Russian labour legislation is one of the most favourable

for employees in Europe. In this context, where limited-term employment is not properly justified, Russian courts would normally requalify such limited-term employment arrangements into an employment contract concluded for an indefinite term.

The employer can dismiss its employees in a limited number of instances that include winding-up of the employer, redundancy, professional incompetence of the employee, repeated failure by the employee to carry out his/her duties, single gross misconduct, theft or destruction of or damage to the company's property, if confirmed by court or other competent authorities). In cases of unlawful dismissal, the employer may be held liable to pay the employees their average salary over the period of unemployment until they are reinstated in their former position by a court. Notably, the sale of a manufacturing company is per se not considered a ground for terminating the employment contracts concluded with the company's employees.

Statutory maternity leave is generally 140 days and is compensated at capped rates from state funds. Thereafter, a parent may choose to stay at home until the child is three years of age and to receive a reduced childcare pay. The employer must keep the employee's position open during her/his leave and reinstate her/him in her/his position upon expiry of the three-year period or earlier, if the employee wishes to return to work.

Minimum Pay

A minimum monthly salary is set by Federal Law No. 82-FZ "On the Minimum Wage" of 19 June 2000 (last amended on 27 December 2019); it is equal to RUB 12,130 (higher rates may be established by Russian regions and it stands at RUB 20,495 in Moscow).



Equal Treatment

The RF Labour Code prohibits any direct or indirect discrimination at work on the grounds of gender, nationality, origin, marital status, age, religious and political beliefs, or other grounds that do not relate to the employee's professional qualities.

An individual who has been refused a job has the right to request a written explanation of the reasons for such refusal, and the company must comply with this request.

A company must not refuse to employ a woman on the grounds of her pregnancy or having children under the age of three or dismiss a woman on these grounds; such refusal or dismissal is a criminal offence.

The RF Labour Code does not contain any express provisions prohibiting sexual or other forms of harassment at work. However, some forms of harassment may constitute a criminal offence.

Foreign Employees

In order to work in Russia, foreign citizens (unless they hold a permanent or a temporary residency permit in Russia) need a work permit. Unless the employee falls within the highly qualified specialist category (see below), obtaining a work permit is not straightforward: first, the employer needs: (i) a 'quota' (a permit to hire a certain number of foreign workers), (ii) a permit to employ foreign citizens (a hiring permit), and (iii) separately, a work permit for a particular foreign employee. Obtaining a quota alone may take up to one year, although certain positions are exempt from the quota requirement (actors, musicians, high-level managers, engineers, producers, etc.).

It may take a further 90–120 calendar days to obtain a hiring permit and a work permit. Both these documents are valid for one year.

The formalities necessary for obtaining a work permit may only be started once the company or the branch/representative office of a foreign legal entity has been incorporated in Russia. As a result, a company (a branch/representative office of a foreign legal entity) cannot employ foreign citizens immediately upon its incorporation. If a foreign general director for a Russian company (or a director of the branch/representative office of a foreign legal entity) is required, its founder(s) usually first appoint(s) a Russian citizen on a provisional basis until the necessary permits are obtained.

Foreign citizens whose monthly gross salary is at least RUB 167,000 can use the highly qualified specialist procedure to obtain a work permit. This procedure offers a number of advantages: the employer does not need a quota; a work permit can be issued for up to three years (renewable using the same simplified procedure); and the employee does not need to show medical certificates, pass tests in the Russian language, history and law or provide documents showing their education. It takes about three to four weeks to obtain a work permit using the simplified procedure.

Citizens of Ukraine, Moldavia, Azerbaijan, Kyrgyzstan, Uzbekistan and Tajikistan are required to obtain only a patent to work in Russia. Obtaining such a patent takes two to three weeks. Citizens of Kazakhstan, Belarus and Armenia do not require any permits or patents to work in Russia.

Transfers of Undertakings

A sale of a business (e.g. a production unit) does not automatically result in the transfer of employees. If the buyer wishes the employees be transferred to it, such a transfer would require the employees' consent, although the new employer is not obliged to offer the same terms to the employees as they had with their previous employer.

There are no legal rules in Russia analogous to the European Union's Business Transfers Directive.

A company corporate reorganization (e.g. merger, accession, etc.) does not constitute as such grounds for termination of employment contracts.

Basic Employer Obligations

The basic obligations of the employer in the manufacturing sector are:

- Paying mandatory social insurance contributions for employees in accordance with federal laws;
- Procuring safety and insuring working conditions that meet state occupational health and safety requirements;
- Observing the requirements of labour law, internal policies, collective bargaining agreements and employment contracts;
- Russian law requires employers to investigate and report to the authorities on industrial accidents.

An employee who was injured as result of an accident or his dependents is entitled to social security payments, on the basis of compulsory social insurance against industrial accidents and occupational diseases from the budget of the Social Insurance Fund of the Russian Federation. All social payments are, however, very modest.

Trade Unions

Trade unions are less common in Russia than in many European countries. However, workers at large manufacturing plants in Russia are often unionized and such plants have local trade union committees.

A trade union is a public association; at least three persons are required for setting up a trade union cell with a company.

Russian trade unions have the following rights:

- To represent workers and protect their social and labor rights and interests;
- To protect labor and the environment;
- To promote employment;
- To conduct collective negotiations, to conclude collective bargaining agreements and to monitor the fulfilment of obligations under such collective bargaining agreements;
- To participate in resolving collective labor disputes;
- To cooperate with other representative bodies of workers, employers, their associations and authorities;
- To monitor compliance with labor law and to protect workers' interests before authorities for resolving labor disputes.

A collective bargaining agreement, which regulates social and labour relations in a company and is concluded by the employees and the employer, remains in effect throughout the company's reorganization.

That said, working collectives or trade unions do not usually play a significant role in Russia, including in transactions with a company's shares or assets.

E. Taxation

There are federal, regional and local taxes. However, all taxes are administered by the RF Federal Tax Service and its local departments and inspectorates. Companies are also obligated to pay state insurance contributions to state non-budgetary funds (in fact, payroll tax): the Pension Fund of Russia and the Federal Fund of Medical Insurance.

Regional authorities are empowered to regulate certain elements of regional and local taxes, namely to vary tax rates within a certain range and provide tax reliefs. Many regions have adopted tax incentives for investors, such as a lower rate of corporate income tax and full

exemption from property tax on all assets relating to investment projects approved by regional authorities.

In addition, there exist so-called special economic zones in a number of regions for companies whose business lies, in particular, in the fields of mass production, R&D, IT or tourism. Companies that obtained residential status in such a zone enjoy a favorable tax regime, involving exemption from property and land taxes, lower rates of corporate income tax and social security contributions.

A list of taxes generally payable by companies that are involved in manufacturing and applicable tax rates are listed in the table below:

Corporate Income Tax (CIT)	20%*
Value Added Tax (VAT)	20%*
Personal Income Tax (PIT)	13% flat rate for Russian tax residents on their worldwide income / 30% on Russian sourced income for non-residents*
Property Tax (PPT)	The tax rate may not exceed 2.2% of the book value of taxable assets as represented by immovable property (2% of the cadastral value of certain types of immovable property). The exact rates are set within this limit by regional authorities.
Land Tax	For most types of land, the tax rate may not exceed 1.5% of the cadastral value of a particular land parcel, and there are exceptions where the tax rate may not exceed 0.3% of the cadastral value of a particular land parcel.
Withholding tax on dividends payable abroad	15% (unless a lower rate is set out in the applicable double tax treaty)
Tax penalty interest	1/300 of the key rate of the Central Bank of Russia for the first 30 days of delay and 1/150 of the key rate from the 31st day after the due date
Statute of limitations on tax matters	three years
Tax depreciation of real estate	15–30 years; a one-time deduction of 10% (30%) of the acquisition value of a particular object is generally possible.

* General rates; the RF Tax Code provides for certain exceptions.

F. Intellectual Property Rights

The Russian Federation is a party to a number of international treaties regulating intellectual property, including the Berne Convention for the Protection of Literary and Artistic Works, the Madrid Agreement Concerning the International Registration of Marks, and the Patent Cooperation Treaty. Therefore, Russian intellectual property law is based on the common logic and approaches implemented in most countries of the world. However, there are several important peculiarities.

As in many other jurisdictions, in the Russian Federation some intellectual property rights are effective and receive statutory protection only if registered with the RF Federal Service for Intellectual Property (Rospatent), whereas others apply automatically from the moment of their creation. According to the general rule provided in the RF Civil Code, holders of intellectual property rights have exclusive rights to intellectual property. Such rights may be granted to another person under an exclusive or non-exclusive license agreement, where the owner of rights retains its title over intellectual property and gives the licensee only certain limited rights to use it. Also, intellectual property rights might be alienated under an agreement for alienation of exclusive rights, where the rights are “sold” in their entirety. Agreements of either type must be made in writing (otherwise they are null and void) and describe the intellectual property transferred.

Unless otherwise expressly stated in an agreement (whether a license agreement or an agreement on the entire alienation of exclusive rights), such an agreement is considered fee-based. If it is not possible to determine an applicable fee based on the terms of the agreement, then the agreement would be deemed not concluded. A license agreement must also specify the territory and period of use of the intellectual property, otherwise the territory

and period of its use will be defined based on the default rules of the RF Civil Code: the license will be deemed granted for the entire territory of the Russian Federation and for a period of five years. Finally, a license agreement must explicitly specify the ways in which the licensee may use the intellectual property. Sublicensing is possible if permitted by the licensor in writing.

Copyrights gain protection as soon as they are created and do not require any special registration or marks to be recognized by law. Furthermore, copyright originating from other countries is recognized based on the international treaties to which Russian has adhered (copyright obtained in most jurisdictions will be enforceable in Russia).

Russian law recognizes inventions, utility models and industrial designs as patented objects. Patents are subject to state registration with Rospatent, otherwise the respective intellectual property would not be protected in Russia. Patent licensing and alienation is subject to registration as well.

Trademarks are also subject to registration with Rospatent. Trademarks that are not registered in Russia receive no statutory protection. Trademark licensing and alienation is subject to registration as well. Only legal entities and individual entrepreneurs may register trademarks.

Along with trademarks, the RF Civil Code provides for protection of appellations of origin, commercial names and company names as a means of individualization.

Know-how is protected as separate intellectual property. Any information (production, technical, economic, business, etc.) can be considered know-how, provided that such information has real or potential commercial value and the proprietor takes reasonable measures to keep the information confidential (e.g., by setting up



commercial secret procedures). The right to know-how is an exclusive right that can be licensed or alienated. One practical limitation of know-how is that the exclusive right to it exists as long as the confidentiality is kept. If confidentiality is broken for whatever reason, all exclusive rights cease to exist by operation of law.

If exclusive rights to intellectual property are infringed, damages can be claimed from the violators. Materials that violate the exclusive rights to intellectual property may be withdrawn from circulation and destroyed upon a court decision.

If exclusive rights to intellectual property are infringed, proportional security measures can be applied, inter alia intellectual property may be seized on equipment and materials, and the owner may also demand the court to apply a ban on particular actions or activity on information and telecommunications networks.

Also, when an invention, utility model or industrial design is infringed, the owner may claim special compensation:

- In the amount of from RUB 10,000 to RUB 5,000,000, determined at the discretion of the court;
- In the amount of double the average license fee for such intellectual property.

In addition, there is administrative and criminal liability for violating exclusive rights to intellectual property.

Operating



A. Connecting to Utilities

Each type of utility has its own regulation according to Russian Federation laws. Consequently, the procedure for connecting and operating the utility depends on the type of utility.

Generally, the owner of the facilities operates such facilities and therefore procures connection to the utilities and bears applicable connection expenses and costs of the utilities (price of the resources). Other utility connection or consumption schemes are possible in the event that the facilities are owned by one entity, but are leased to, or operated by, another entity.

B. Operational Licenses and Safety of Operations

Requirements to Facilities

Russian Federation laws set a number of health and safety requirements for manufacturing plants, including safe working conditions.

Certain facilities operated by a manufacturing company might be considered hazardous industrial facilities (e.g. sites at a plant where boiler stations, high-pressure pipelines, cranes, or tank farms are located). Hazardous industrial facilities are subject to identification and state registration.

In addition, a company operating hazardous industrial facilities must obtain insurance of its liability to third parties arising from such an operation, as well as comply with certain other requirements. Failure to meet these requirements may trigger suspension of operations for up to 90 days without court intervention. In addition, we note that a continuing breach of these requirements may ultimately give rise to the risk of revocation of the applicable licenses.



Operational Licences

Certain activities, specifically those undertaken by a manufacturing plant, mainly related to operating certain types of equipment or handling hazardous cargo, are subject to licensing. Also, certain other ancillary activities (such as having access to, or handling information constituting, state secrets) may also be subject to licensing. Russian law prohibits conducting activities that are subject to licensing without the applicable licenses. Failure to obtain the applicable license, or operations performed by the holder of the relevant license in breach of the applicable operating rules or standards, entails the risk of suspension of operations for up to 90 days (without court intervention in instances where industrial safety issues are concerned), revocation of the applicable licenses, or even liquidation of the entity in breach.

A number of governmental agencies (in particular, RF Federal Service for Environmental, Technological, and Nuclear Supervision) exercise control over compliance by manufacturing entities with applicable industrial safety and operational rules and license requirements.



C. Competition Law Investigations

Russian competition authorities exercise control over the market behaviour of manufacturing entities, including their contractual or informal relationship with distribution chains or trade policies. Compliance with competition law is monitored by RF Stare Antimonopoly Service (FAS) based on RF Federal Law No.135-FZ "On Protection of Competition" of July 26, 2006 (Competition Law). Detailed rules for antimonopoly investigations are set forth in FAS Order No. 340 of May 25, 2012. The order is as follows:

- Coordination and approval of scheduled inspections (except for extraordinary inspections)
- Preparation for the inspection includes:
 - Issuing the order on inspection
 - Notifying the entity to be inspected
- Main activities during the inspection include:
 - Requesting and analyzing documents of the inspected entity

- Interviewing employees of the inspected entity
- Inspecting the premises, territories and facilities of the inspected entity
- Registration of the inspection results:
- Drafting the inspection report
- Submitting the inspection report to the deputy head of the antimonopoly authority
- Sending the report to the inspected entity
- If necessary, initiating proceedings for violation of antimonopoly laws
- Proceedings on the antimonopoly case and rendering a decision

A decision taken by the tax authorities can be appealed to a higher level of FAS or in a court. An antimonopoly law violation case cannot be initiated, and an open case should be closed upon the expiration of three years after the violation was committed, or after the date the violation was stopped or discovered in the case of an ongoing violation of antimonopoly law.

D. Tax Audits

The tax authorities perform the following types of tax audits of taxpayers and tax agents:

- Office tax audit; and
- Field tax audit.

The purpose of office and field tax audits are to check compliance by a taxpayer or tax agent with tax laws.

Main features of an office tax audit:

- An office tax audit is done at the tax authority's location based on documents submitted by a taxpayer and other documents concerning a taxpayer's activities that the tax authority has in its possession;
- In general, the tax authorities do not require a taxpayer to provide additional information and documents.

Main features of a field tax audit:

- A field tax audit is performed on-site in the taxpayer's premises.
- A field tax audit is a more comprehensive procedure than an office tax audit. It may include an inventory, requests for documents, seizure, interrogation, expert examination, etc.

The decision of the tax authority can be appealed to a higher tax authority or in a court.

The RF Tax Code provides:

- One month to appeal a decision that has not yet come into force to the higher tax authority;
- One year to appeal a decision that has come into force to the higher tax authority.



E. Anti-corruption Compliance

In accordance with the legislation of the Russian Federation, legal entities must adopt anti-corruption compliance measures. These measures include, but are not limited to the following:

- Adopting ethical codes;
- Cooperating with law enforcement agencies;
- Designating officers responsible for the prevention of corruption and other offenses;
- Developing and implementing compliance programs of a company;
- Preventing and resolving conflicts of interests;
- Preventing the creation and use of false documents.

These measures play an important role in many companies as they protect against reputational and financial losses associated with bribery or money laundering.

F. Product Liability

The general requirements for products, including for their safety, are set forth in the RF Federal Law No. 184-FZ “On Technical Regulation” dated December 27, 2002, as amended. Also, there are numerous technical regulations issued on the level of the Russian Federation or the Eurasian Economic Union (EEU) that set out requirements for the quality and safety of various types of products, whether manufactured in Russia or imported. Such regulations set out requirements not only for products but also for their packaging, marking and labelling.

Many products are subject to the confirmation of their conformity with applicable technical regulations in order for them to be released into circulation in the Russian Federation and/or other countries of the EEU. Depending on the particular product, such confirmation may be in the form of a certification or declaration of conformity. There are consolidated lists of products that are subject to mandatory certification and products that are subject to a declaration of conformity, which are approved by the Eurasian Economic Commission. These lists are amended from time to time.

The rules governing the liability of the manufacturer are set out in a number of laws. These are RF Civil Code, the RF Law No. 2300-I “On the Protection of Consumers’ Rights” dated February 7, 1992, as amended (the Consumer Protection Law), which applies in instances when the products are sold to consumers (a natural person purchasing goods for his/her needs), and the Technical Regulations Law.

The Technical Regulations Law imposes on the manufacturer a number of obligations, including:

- Exercising control over the evaluation of compliance of the products with the applicable technical regulations;

- Ensuring that products that are subject to confirmation of conformity are released for circulation only upon such confirmation of conformity;
- Suspending or terminating the sale or import of products in the event that the term of the conformity certificate or the conformity declaration has expired, or these documents have been suspended or revoked;
- Suspending or terminating manufacturing of products in the event that such products pose a threat to life or health or property of third parties;

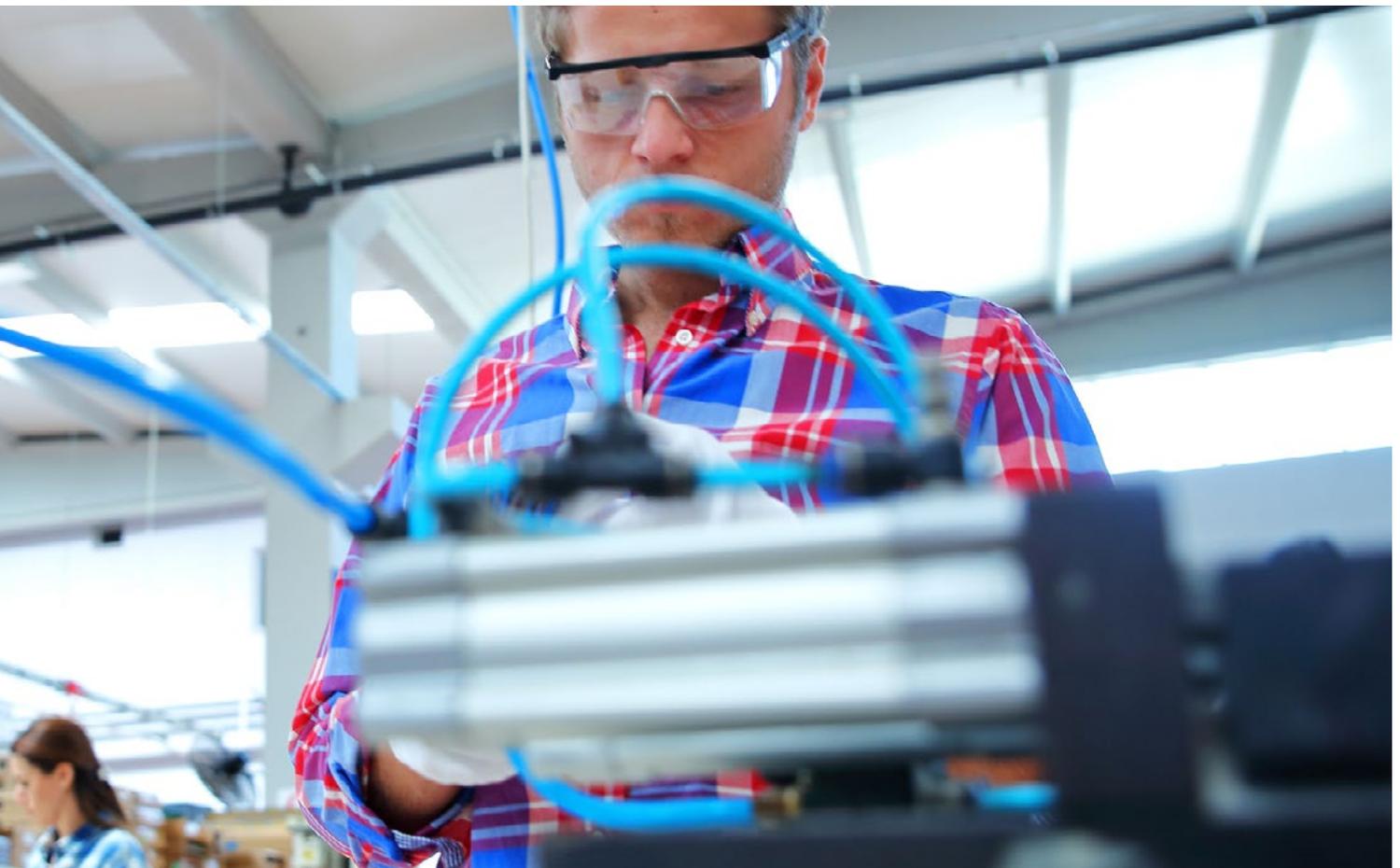


- Informing the state authorities about any non-conformity of products with applicable technical regulations, preparing risk minimization programs, coordinating such programs with the supervision authorities;
- Informing the purchasers of products about the defects and carrying out recall campaigns.

In a situation where certain products meet the internal standards of the manufacturer and/or applicable requirements in effect outside the EEU, but do not comply with applicable regulations in Russia and/or the EEU, such products would be deemed defective, and the manufacturer might be brought to liability.

The manufacturer bears strict liability in the event that its products fail to meet the requirements set out in applicable technical regulations, and such failure resulted in injury to life or health, damage to the environment or property of third parties.

Apart from the strict third party liability arising from the product's failure to comply with applicable technical regulations, the manufacturer bears contractual liability to the purchaser of the products in accordance with the general provisions of the RF Civil Code, and, generally, such liability may be limited by contract, unless the purchaser is a consumer or if the defect resulted in injury or death.



G. Consumer Protection

The RF Civil Code as well as the Consumer Protection Law are the main sources of consumer protection law, but various government decrees, as well as local regulations, may also be relevant. Generally, Russian consumer protection legislation is relatively harsh on sellers and manufacturers and Russian consumers normally enjoy a high level of protection.

The requirements of the Consumer Protection Law cannot be waived in a contract; any contractual terms providing a lower level of protection to consumers than the statute are void. The Consumer Protection Law applies to goods and services.

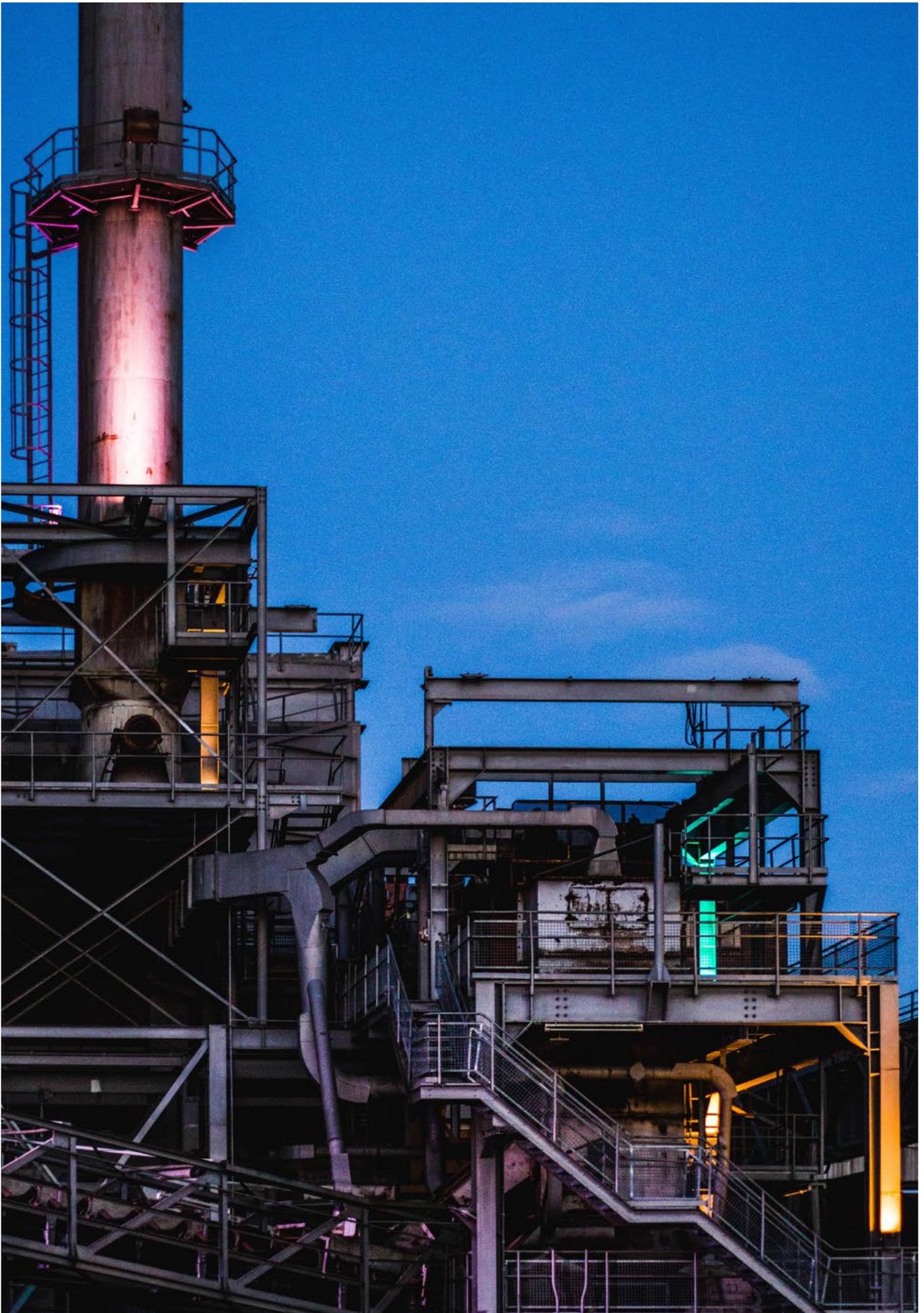
Importantly, consumers have a choice whether to make claims against the retailer, the manufacturer, and/or the importer, irrespective of with whom they have a contractual relationship.

Even with respect to perfectly faultless products, consumers are entitled to change their mind and return them to the seller within 14 days of the date of the purchase and receive, at their option, a full refund or exchange. This right does not apply to food products and to certain items listed in a special government decree (e.g., books, cars, furniture, lingerie, cosmetics and fragrances, jewellery and some others).

If a product is defective, consumers have a choice of remedies: full refund, exchange, free repair or proportionate reduction of the purchase price. The seller or the manufacturer must comply with the consumer's request within 10 days; if they fail to do so, they may face a penalty of 1% of the purchase price for each day of delay. The law does not distinguish between various products and degrees of defects, hence even a minor defect entitles the consumer to return the product and request a full refund.

Manufacturers may (and in relation to certain products must) state the "useful life" in relation to their product, during which the consumer should be able to safely use the product and make a claim for its defects. For products like food, cosmetics, medication and cleaning products, the manufacturers must also state a 'best before date'. If no useful life or best before date is set by the manufacturer, these will be implied by statute. Separately, manufacturers and sellers may set warranty periods during which they will offer free maintenance and/or repair to consumers.

The Consumer Protection Law and subordinate legislation define in detail information that must be provided to consumers at the point of sale and/or on product tags. Failure to provide the required information may result in fines and entitle the consumer to repudiate the purchase contract and/or claim damages.





Acquiring and Selling a Plant: Key Issues



A. Share Deal and Asset Deal

Title to a plant may be transferred by acquiring shares in the company running the manufacturing business or acquiring the assets forming the enterprise or a part of such assets.

Share Deal

Share deals are the most common way to acquire/sell an enterprise in Russia, including a manufacturing plant or a holding entity.

It is vital to run a due diligence review of the historical risks and remaining obligations of the target company.

Inter alia, the charter of an LLC may prohibit the transfer of shares to third parties. If it is not prohibited, transfer of shares will be subject to a statutory right of first refusal by other shareholders or the LLC itself.

The general rule is that the transfer of shares in LLCs requires notarization, while there is no such requirement for transfer of shares of a JSC, since title to the shares in a JSC is recorded in the shareholder's register maintained by a licensed registrar.

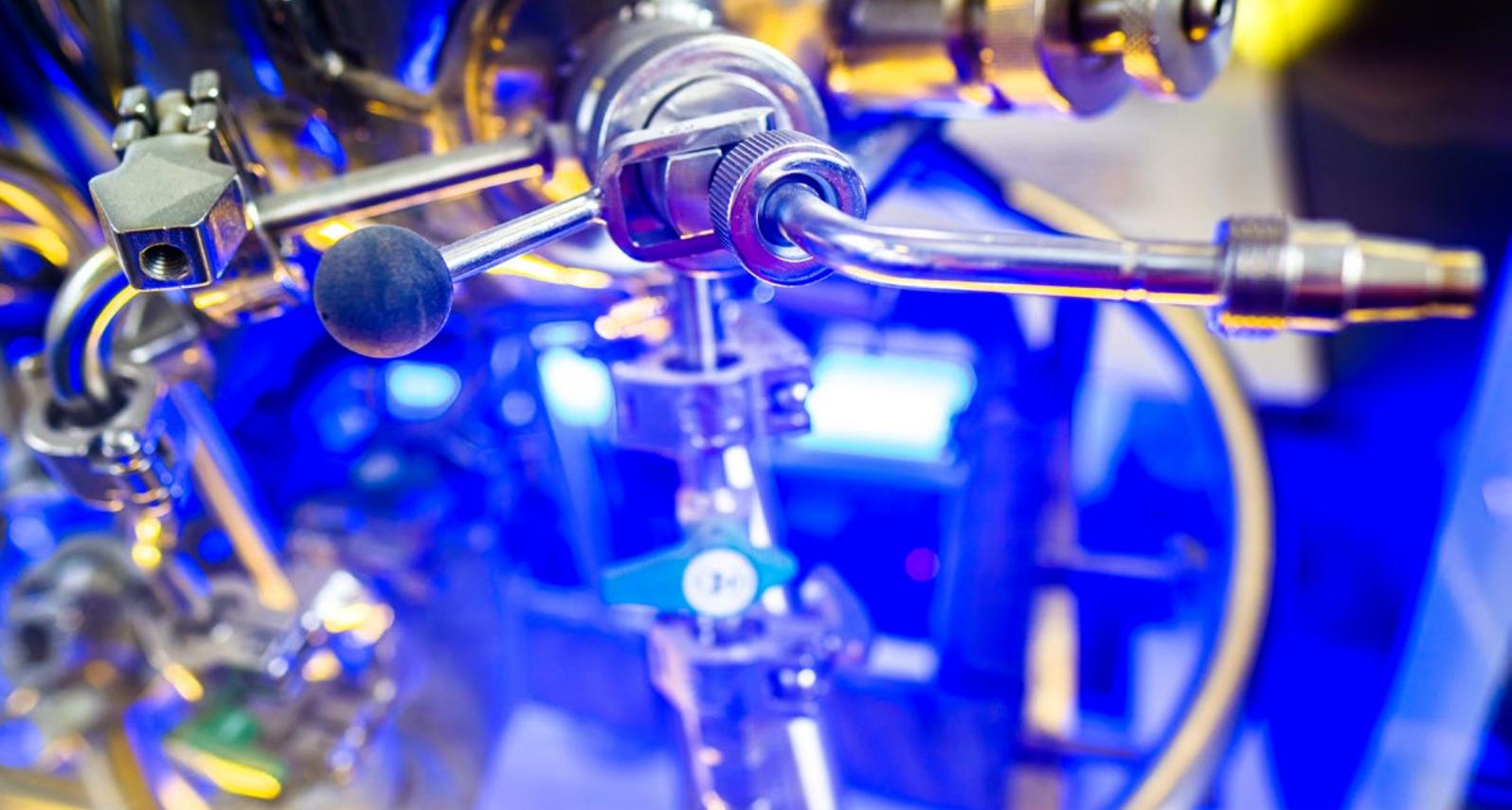
Statutes of Limitation

Under Russian law, the statute of limitations for challenging a transaction by a party thereto expires on the third anniversary of the performance of the transaction and, for challenges by third parties to the transaction, on the third anniversary of the date when such a third party became or should have become aware of an infringement of its rights as a result of the transaction.

On September 1, 2013, a new 10-year limitation period was introduced into the RF Civil Code: the statute of limitations cannot in any case be longer than 10 years after the performance of the relevant transaction.

There are also a number of different rules applicable to some special cases. For instance, if the shares of an LLC or non-public joint stock company are acquired in violation of the shareholders' pre-emptive right to acquire the shares, the shareholders (or the company itself, if its charter provides for the pre-emptive right to acquire shares) have the right within three months to claim that the shares be transferred to them with payment of the purchase price.

Finally, the RF Civil Code provides several circumstances where the statute of limitations may be suspended or renewed.



Asset Deal

Despite the fact that asset deals essentially eliminate the risk of transferring the seller's liabilities and obligations regarding these assets, there are still some disadvantages in this structure, including the need to reapply for licenses and permits, reregister IP rights and real estate, transfer employees and handle other difficulties of integrating the assets into the buyer's business structure. Please note that transfer of all assets making up a going concern may be recharacterized as a sale of an enterprise as a property complex, which is subject to specific rules and requires notarization.

The seller and buyer should check that both sides have all of the required corporate preliminary or subsequent approvals (including approvals/notifications for major transactions and interested party transactions).

In both cases, it is crucial to use representations and warranties to protect the parties in case of material breaches (e.g., improper quality of a plant's assets).

The decision as to what particular structure is suitable depends on the circumstances of the particular deal.

B. Due Diligence

Scope

Due diligence review of the target plant is highly recommended and is usually carried out before purchasing a manufacturing business, irrespective of whether such a purchase would be structured as a share or asset deal.

Normally a due diligence analysis is based on the documents and information that are provided by the target or its owners, as well as the information gathered at publically available data bases, such as EGRUL, the federal insolvency register or the courts' data bases.

A due diligence review of a business is deemed a normal standard of professional care expected from a bona fide purchaser. Failure by a party to make a due diligence review would seriously weaken its overall position in court or before arbitration.

In major M&A transactions or where complex industrial equipment is involved, legal due diligence is accompanied by financial and technical due diligence, often performed with the assistance of investment banks or audit firms / specialized technical organizations. In addition, a special environmental due diligence performed by professional environmental consultants, which would include on-site examinations and tests, is recommended, specifically if there seem to exist historical contamination risks.

A legal due diligence exercise normally includes the following areas of review:

- Corporate standing of the target, including history of title to its shares;
- Historical competition compliance;
- Regulatory compliance, including operational licenses, permits and industrial safety issues;
- Financing, including bank credit facilities, corporate borrowings and security obligations;
- Structure and title to the material assets, including the history of their acquisition;
- Tax issues, including potential tax assessment or other tax liabilities and eligibility for tax benefits;
- Bankruptcy and litigation status, including commercial disputes, potentially court-awardable obligations and disputes with regulatory authorities;
- Commercial contracts with customers and suppliers (normally based on certain materiality thresholds) and arrangements for transportation and utilities;
- Employment issues, including remuneration and severance conditions for top management and overall labour compliance;
- Environmental issues, including presence of applicable pollution permits, and audits by supervising authorities.

In the context of an asset deal, the due diligence review of a manufacturing plant mainly concentrates on the real estate. The following issues are normally subject to examination:

- Record of title in the Real Estate Register (this requirement is not applicable if the land parcel is leased for a term of less than one year);

- Historical acquisition of title to the land parcel;
- Registered and non-registered encumbrances in respect of the land parcel;
- Category, zoning and permitted use of the land parcel must be in line with the proposed manufacturing use of the land parcel;
- Third-party rights and limitations on use of the land parcel;
- Grounds for compulsory purchase of land parcels for state and municipal needs in the future.

Potential Encumbrances over a Plant

Certain encumbrances (e.g., mortgages, third-party lease rights) in respect of the land parcel and other real estate should be checked in the Real Estate Register. That said, certain other encumbrances may not have been registered or are not subject to registration (e.g., third-party lease rights if the lease agreement is executed for a term of less than one year). Therefore, in the course of due diligence, there is a need to request and analyze all documents, including town planning records, regarding such real estate. Pledges of movable property (such as machinery, equipment or stocks) may also have been registered in the register of notifications of pledges of movable property maintained by Russian notaries.

Mortgage is one of the most reliable forms of security existing under Russian law. A mortgage will always automatically extend to all buildings, structures and other objects located on a mortgaged land parcel.

In addition, a land parcel may be encumbered by an easement, which constitutes the right of a person to use for a specific limited purpose a land parcel owned by another person.

C. Employment & Trade Unions

Please refer to section II.D above.

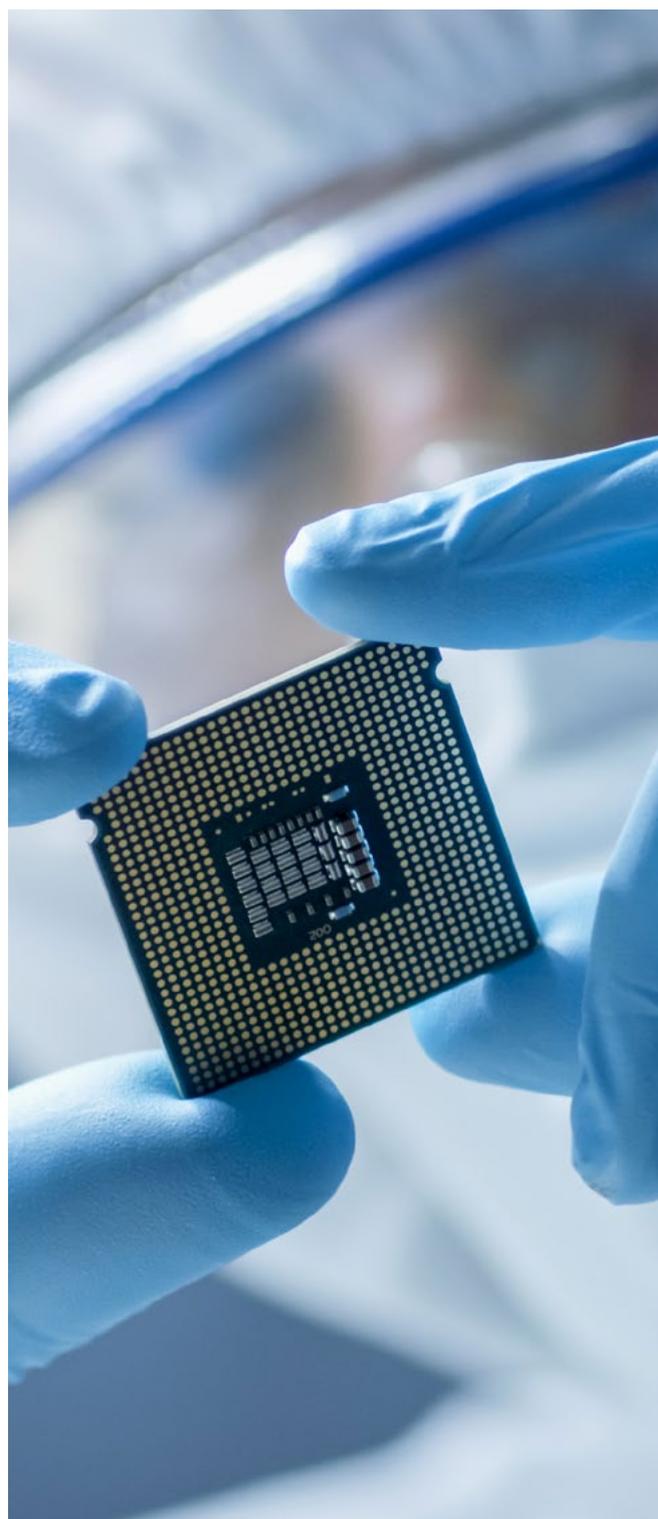
D. Merger Control

There are no special competition rules for M&A deals in the manufacturing sector, therefore the general rules of the Competition Law would apply, irrespective of whether the acquisition of a manufacturing entity would be structured as a share or asset deal.

A wide range of transactions for the acquisition of ownership rights to and control over assets and/or shares of Russian companies, and also of foreign companies that have supplied goods to Russia in the amount of more than RUB 1 billion in the preceding year, including those in the manufacturing sector, may be subject to Russian antimonopoly regulations set out in the Competition Law.

Under such regulations, depending on various parameters (the asset values of the purchaser, the target company and their groups, aggregate group revenues), a transaction may be generally subject to the prior approval (consent) of the Russian Federal Antimonopoly Service (FAS) or, in certain cases of intragroup transactions, to subsequent notification to the FAS. For example, the merger of Russian companies is subject to FAS prior approval if the aggregate book value of their assets (or aggregate book value of assets of their groups) in accordance with the accounting records as at the latest reporting date exceeds RUB 7 billion.

In addition, as far as foreign investment is concerned, Russian law requires that prior approval be obtained from a special Government Commission on Control over Foreign Investment (Commission) by a foreign investor to acquire control over a company of “strategic importance”. Such approval is required in





certain manufacturing sectors (e.g., manufacturing of military equipment, technologies and weapons, aviation equipment, mining and mineral extraction) even if the relevant activity is only a small part of the activity of the target. Furthermore, any investor might be required by a decision of the Chairman of the Commission to seek preliminary approval for the transaction (even if it is not a strategic industry). Compliance with the relevant restrictions as applicable from time to time should be checked on a case-by-case basis in accordance with Federal Law No. 57-FZ “Procedures for Foreign Investments in Business Entities of Strategic Importance for Russian National Defense and State Security” and other legal regulations.

Foreign investment in certain sectors of the Russian economy (e.g., aviation, regional gas supply and distribution) are also subject to quotas and ownership thresholds. Similarly, there exist certain restrictions on foreign investment in Russian companies that are registered as natural monopolies (e.g., oil and gas pipeline transportation, railways, water supply).

E. Winding Up

In the event of liquidation, a company must settle accounts with creditors. If there is a shortfall of funds, the risk of the CEO and the shareholders of the company being brought to subsidiary liability through bankruptcy procedures cannot be excluded.

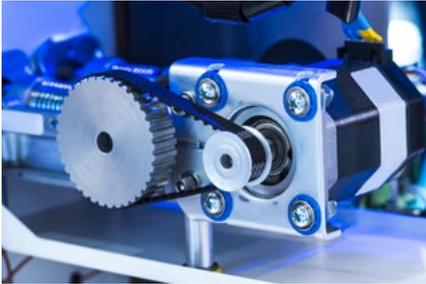
The established liquidation procedure should be strictly followed, as violation of the procedure may increase the time it takes to close the business.

A tax audit will be initiated in connection with the company’s liquidation. Correct tax reporting should reduce tax-related risks, such as tax assessment, liability or delays.

There is a procedure that employers have to follow in order to dismiss employees.

Contracting with Third Parties





A. General Principles

The RF Civil Code establishes the legal principles governing the law of contract. The key principles are as follows:

Freedom of Contract

Generally, parties have the freedom to contract as they see fit, unless particular behavior or terms are prohibited by a statute. A large number of such prohibitions and restrictions can be found in the RF Civil Code and various other statutes; they prescribe default and/or mandatory provisions that, should be taken into consideration when drafting contracts, as noted below in this section.

Authority

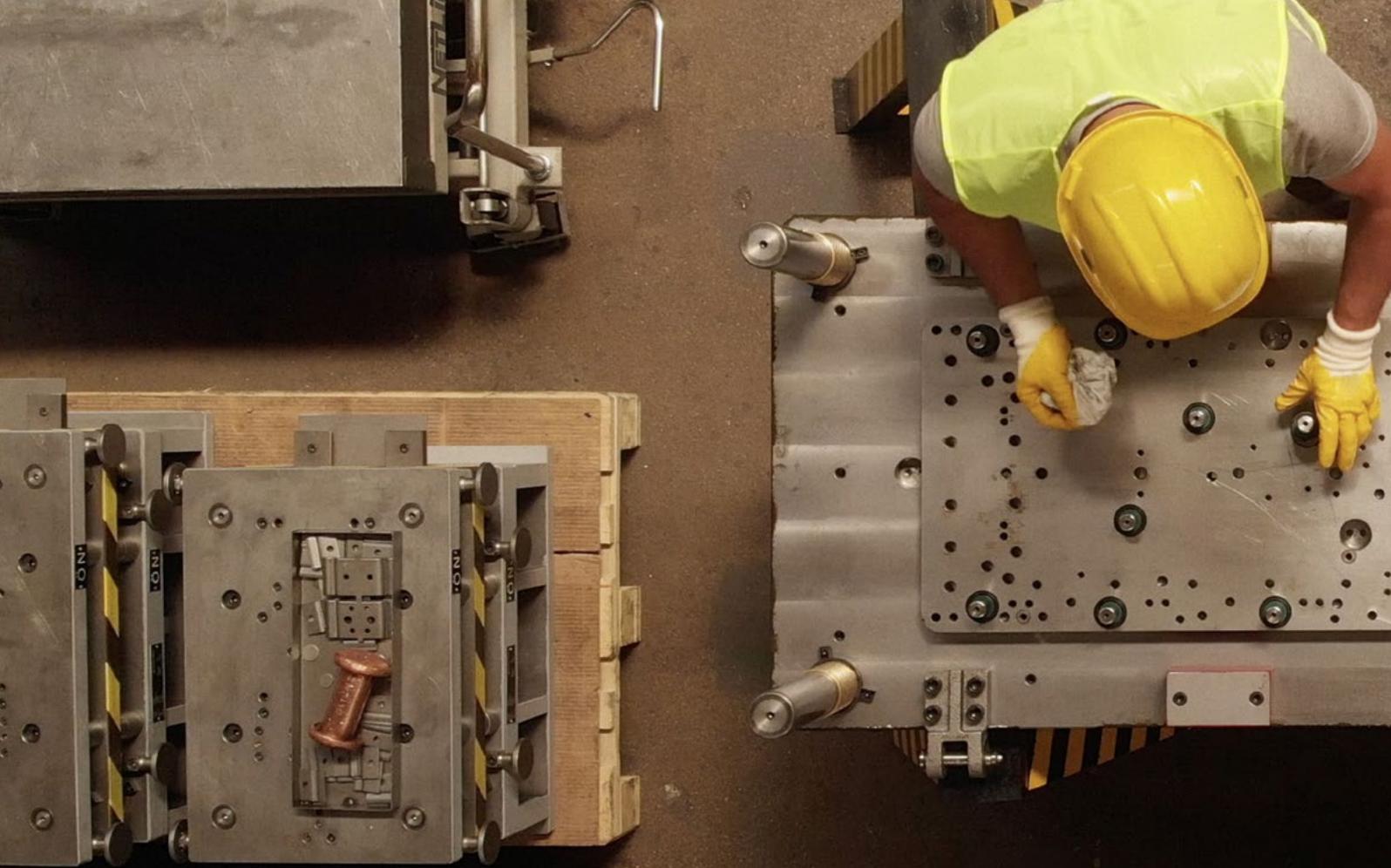
Unlike in some other countries, there is generally no doctrine of “apparent authority” in Russia. Accordingly, a contract will be voidable if it is made by a person who lacks the proper authority. The authority of a person signing a contract must therefore always be checked, particularly where they are acting on behalf of another person or entity. In Russia, a person is entitled to assume that the general director of a company whose details are set out in the Companies Register has authority to bind that company, unless there is evidence to the contrary.

Form

Most contracts are required to be in writing. Some contracts, for example transfers of participatory interests in a LLC, must be certified by a notary. Certain transactions also require registration with state authorities, including transfers of title to land, mortgages, transfers of rights to certain intellectual property rights and others.

Additional Approval

Certain contracts require approvals through special procedures (e.g., agreements with a value above a certain threshold or with interested parties are subject to approval by the board of directors) and may be challenged if such procedures are not followed



B. Statutory and Implied Terms

Terms are often implied into contracts by Russian statutes. The RF Civil Code contains general rules that apply to all contracts and contractual obligations (e.g. requirements for a valid contract, statute of limitations, types of security, etc.). In addition, the RF Civil Code contains detailed rules that apply to various types of contracts (e.g. sale of goods, lease, hire purchase, etc.).

It is the substance of the legal relationship of the parties, not the formal title of a contract, that in fact matters for the purpose of legal qualification of the contract, as well as correct identification of the rules of the RF Civil Code governing such a contract.

In some cases, these rules are mandatory and apply despite the will of the parties and the wording of the contract. In other cases, statutory provisions apply by default if the parties fail to agree on a particular issue in their contract. In addition to the RF Civil Code, there are numerous other statutes that imply terms

into particular types of contracts: all contracts with consumers are governed by consumer protection law, certain transportation contracts are subject to applicable transport codes (e.g. RF Aerial Code, Maritime Code, and others); banking operations and transactions are subject to various financial services laws and regulations.

In addition, terms may be implied into a contract by way of set customs or trade conventions. In practice, these are not used very often.

Russian courts cannot imply terms into contracts that are not specifically set out in that contract, unless they are set out in statute or trade custom as described above. However, certain rules do exist to assist judges in interpreting contract terms.

In 2014 the Supreme Commercial Court introduced new, more liberal, criteria for determining what statutory rules should be considered mandatory and generally recommended that courts should give more weight to the principle of freedom of contract.



C. Penalty Clauses and Liability

A contract may stipulate that where a party fails to perform a contractual obligation, such a party will be liable to pay a penalty to the other party. Such provisions are normally enforceable, although the court has a right to reduce the penalty if it considers it to be excessive or disproportionate to the damage caused by the breach.

Contractual liability may be limited in several ways, the most common of those are:

- Setting forth a maximum liability limit;
- Restricting types of loss recoverable for breach of contract (i.e. indirect loss, loss of profit, etc.).

Certain types of penalties and liability set out in statutes cannot be modified or contracted out of (such as liability to consumers or liability for injury or loss of life).

Time limits for bringing claims (statute of limitations) are set out in the RF Civil Code and cannot be varied by the parties to the contract. The general statute of limitation is three years from the moment when a person affected by the breach has learned or ought to have reasonably learned about the breach and about the proper defendant to its claim. Furthermore, the statute of limitations cannot exceed 10 years from such a breach. Certain types of claims are subject to different statutes of limitations.

In addition, it is an important principle of Russian law that a party cannot waive or contract out of its right to sue, therefore waivers and compromise agreements are generally unenforceable.

In case of breach, the counterparty may claim damages to compensate its loss. Specific performance may also be ordered under Russian law, although is rarely awarded in commercial disputes.

Contacts

Contacts

Sector Leader



Pirouzan Parvine
Manufacturing Sector
Leader Europe/Partner
D +33 6 42 24 07 25
pirouzan.parvine@dentons.com

Contributors



Mathieu Fabre-Magnan
Corporate M&A Partner
D: +7 495 644 0500
mathieu.fabre-magnan@dentons.com



Karina Chichkanova
Corporate Partner
D: +7 812 325 8444
karina.chichkanova@dentons.com

Dentons Europe AO

White Gardens Business Center
Lesnaya ulitsa, 7
Moscow, 125196
Russian Federation

Dentons Europe OOO

Jensen House
5th Floor, Nevsky Prospect, 32-34, lit. A
St. Petersburg, 191011
Russian Federation

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