SIMPLIFYING *MATTERS*

MAGNUSSON

DOING BUSINESS IN IRAN

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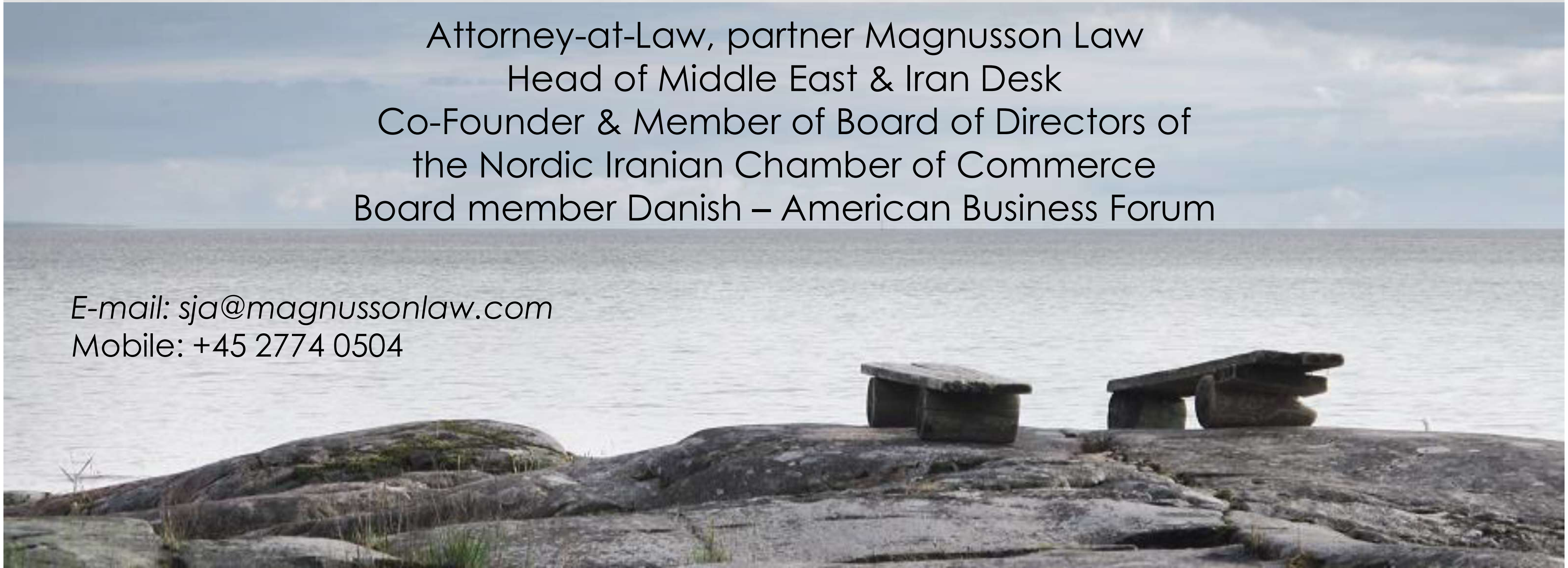

AGENDA

- IRAN – General Introduction
- Political System and Power Structure
- Legal System & Legislation
- FIPPA (Foreign Investment Promotion and Protection Act)
- Doing Business in Iran – ”Dos and Don’ts” & ”Pitfalls”
- US & EU Sanctions – Danish US Related Companies
- Future Iran – Opportunities (Economic & Political Situation Post Sanctions)
- Q & A

IRAN – GENERAL INTRODUCTION

- Population of approx. 80 million
- Land area of 1,648,195 km^2 – 18th largest in the world or the size of UK, France, Spain, Italy and Switzerland combined
- Approx. 70% of the population is under 30 years old
- Highly educated and high literacy rate – 3rd in the world for number of engineering graduates after Russia & USA
- 90% Shia Muslims – moderates
- Farsi – main language – speak well English
- Neighbouring to 7 countries
- 4^{th} largest oil producer in the world

IRAN – GENERAL INTRODUCTION

- 2nd Highest gas reserves in the world
- Trained, young and efficient manpower at a competitive cost
- Developed infrastructure in transportation, telecommunication & energy
- Largest market in Middle East – middle income population
- Geopolitically important: to the North Caspian See and to the South Persian Gulf - Strategic location - Strait of Hormuz as a main maritime pathway for crude oil transport
- Regional power
- 4th richest country in the world in respect to natural mineral reserves
- Main exports: Oil, Gas, Petrochemical, Agricultural products

POLITICAL SYSTEM AND POWER STRUCTURE

- A complex political system – combines elements of democracy and religion/theocracy
- Based on the February 1979 Islamic Revolution and constitution enacted in 1979 and revised in 1989
- The Islamic government is modeled after Ayatollah Khomeini's idea on rule of the jurisprudent (Velayat-e-Faghih) – means that the state to be guided by a learned religious jurist. Absolute power over the state. Protector of the Islamic law and society
- Unique form of government – "Islamic" and "Republican" structures run parallel to each other
- Supreme Leader (Sayyed Ali Hosseini Khamenei)
- Government – President (Rouhani) and a cabinet of 22 ministers (4 year term/limit of 2 consecutive terms)/executive power
- Parliament (Majles) & Guardian Council – Parliament introduces and passes laws – BUT!!! Can be dismissed by the Guardian Council

POLITICAL SYSTEM AND POWER STRUCTURE

- Expediency Council – Guardian Council – Assembely of Experts
- Revolutionary Guard – Actual & real (para)military and economic power house of IRAN
- Moderates (President Rouhani & Minister of Foreign Affairs Zarif) vs. Conservative hard-liners
- Supreme Leader; Highest authority/religious & political leader – All economic, military, judicial, religious and media power (control) vested in him by the constitution. Directly appoints the head of the Judiciary etc.
- Assembly of Experts; appoints & monitors & removes The Supreme Leader. Assembley of Experts elected by people's vote. Must be "Mullahs"
- The President; Next to the Supreme Leader, the President is de facto the highest official authority. Signs and supervises the implementation of laws passed by the Parliament – Heads the cabinet and appoints and dismisses ministers – Has the executive power

POLITICAL SYSTEM AND POWER STRUCTURE

- The President is the Chairman to the Supreme National Security Council – an influential committee that supervises all government activities related to defense, foreign policy and the like
- The Guardian Council; An upper house of Parliament (Majles) that can vote out the lower house's/Parliament laws and resolutions. All legislation must first be approved by the Parliament and then ratified by the Guardian Council. The Guardian Council checks all laws passed by the Parliament for compatibility with the constitution and the Islamic tenets. 12 members (6 clerical Islamic appointed by the Supreme Leader with the power to rule on the compatibility of all legislation with Islamic principles via simple majority of these 6) – Rest elected by the Parliament though approved by the head of Judiciary (appointed by the Supreme Leader)
- The President and the Parliament are elected by the people

POLITICAL SYSTEM AND POWER STRUCTURE

- Expediency Council; permanent institution established by amending the constitution in 1989. To resolve any disputes between the Parliament and the Council of Guardians and added to its duties an advisory role the Supreme Leader
- Expediency Council; one of the most important actors in the decision-making process of Iran. May even to some extend overrule the constitution, if it is expedient and deemed in the interest of the country.
- The Revolutionary Guard was created by Ayatollah Khomeini in order to prevent a military coup and topple the regime.
- Better educated, equipped and higher salaries than the military. ”protector of the regime”. Approx. 300.000
- Major economic power house. Directly or indirectly owns major Iranian entities, e.g. MAPNA Group and Mahan Air etc.

LEGAL SYSTEM & LEGISLATION

- The Iranian legal system is a civil law system which is founded on the French law and Islamic jurisprudence
- The Commercial Code of Iran has adopted the French, Swiss and Belgium commercial laws and was enacted in May 1932
- The Iranian Civil Code; comprises of 3 volumes and 1335 articles (enacted between 1928 – 1935 largely intact with only minor amendments made since to its provisions – pertaining to the rules of evidence)
- The Iranian courts refer to the Civil Code as the main source of law for determining the legal and commercial rights of natural and legal persons
- Other important laws; Civil Liability Code, Commercial Arbitration, Foreign Investment, Free Trade Zones, Insurance in Iran, Labor Law, Rights of foreign nationals, Taxation and Stock Exchange

LEGAL SYSTEM & LEGISLATION

- Court system in Iran:
  - Classified according to area of jurisdiction, civil or criminal (litigation or crime)
  - In an Iranian court the judge acts as prosecutor, jury and the arbiter (inquisitorial system)
  - The judge holds absolute power and all judges are certified under Islamic law and most are members of the ruling clergy

- Courts and Major Dispute Resolution Institutions of Iran:
  - Courts of First Instance (public courts with jurisdiction over civil and the majority of criminal cases)
  - Appellate Courts
  - The Supreme Court
  - TRAC (The Tehran Regional Arbitration Centre – established 2004)
  - The Iranian Chamber of Commerce established the Arbitration Tribunal – law adopted in 2000

LEGAL SYSTEM & LEGISLATION

- **Arbitration**
  - Iran is party to the New York Arbitration Convention 1958 with more than 150 worldwide signatories. An Arbitration clause prevents the courts from trying the conflict.
  - Commercial parties are free to agree to settle existing of future conflicts within a specified area, such as the understanding or performance under a specific contract through arbitration. To qualify under the New York Convention the arbitration agreement must be made in writing, either as part of the commercial agreement or in a separate agreement.
  - The parties may designate the venue for the arbitration, the number of arbitrators and the applicable rules for the arbitration or refer to an existing arbitration forum, such as the ICC Arbitration or a local Chamber of Commerce or similar arbitration panel. Common neutral arbitrations are held in Zürich and Stockholm. Financial and shipping arbitrations are often held in London.
    - Not allowed to appoint before the dispute arises a foreign arbitrator of the same nationality as the foreign contract party
  - The applicable law is determined either by agreement in the commercial contract or by reference to general International Private Law on the choice of law. It is also possible to refer to General Principles of Commercial Contract Law 1999 or more specifically the PECL rules or UNCITRAL Principles 2004.
  - The decision returned by the arbitration panel is immediately enforceable in all of the contracting states. Appeal to the ordinary courts of law is only possibly when the formalities behind the arbitration were not complied with.

LEGAL SYSTEM & LEGISLATION

- **Corporate Law**
  - Starting a business in Iran:

    Foreign investors can now establish their company with 100% ownership of the shares and control of their business. There are no requirements of local Iranian partner (co-ownership) since there are no legal limitations on the percentage of foreign ownership.

LEGAL SYSTEM & LEGISLATION

- **Private Joint Stock Company (Sherkat Sahami Khass)**
  - This business entity is most commonly used by foreign investors intending to set up business in Iran.
  - For successful registration, at least 2 directors and 3 shareholders must be appointed, who can be of any nationality. The minimum paid up share capital required will be 3 million Iranian Rials (approx. 40-70 EUR – exchange rate).
  - Limited liability (shares). Both individuals and corporate entities may act as shareholders. However, only individuals may be appointed as directors.
  - The formation is deemed to have taken place when the capital in cash has been fully contributed and when non-cash contributors have been assessed and delivered. Based upon the direct contributions of the partners to the partnership and not by share subscription. Will be required to submit financial statements to the Government annually, but could be exempted from getting an audit, if i) the annual revenue is lower than EUR 1 million or ii) total assets are lower than EUR 2 million

LEGAL SYSTEM & LEGISLATION

- **Limited Liability Company (Sherkat ba masouliyat Mahdoud)**
  - An Iran LLC can be set-up with 2 shareholders and 1 director of any nationality. Furthermore, the minimum paid up share capital required will be 1 million Iranian Rials. This business entity is mostly incorporated for the purpose of opening trading companies. Limited liability (shares). Both individuals and corporate entities may act as shareholders. However, only individuals may be appointed as directors. The formation is deemed to have taken place when the capital in cash has been fully contributed and when non-cash contributors have been assessed and delivered.

LEGAL SYSTEM & LEGISLATION

- ***Partnership (   )***
  - Based upon the direct contributions of the partners to the partnership and not by share subscription. The name of the company must always include the phrase "Limited Liability" otherwise under the law the company will be considered as a general partnership.
- ***Public Joint Stock Company (Sherkat Sahami Am)***
  - This Iran business set-up will be recommended only if a foreign investor wishes to raise public capital. At least 2 directors and 5 shareholders of any nationality will be required. Furthermore, minimum initial capital required will be approx. 200 EUR. Limited liability (shares). Both individuals and corporate entities may act as shareholders. However, only individuals may be appointed as directors. Every public company will issue at least 20% of its shares to the general public. Mandatory to list the company on the national stock exchange (Tehran Stock Exchange). A public company must submit audited financial statements to the Government annually.

LEGAL SYSTEM & LEGISLATION

- ***Branch & Representation Office***
  - A branch office in Iran can be established without the need for Iranian participation. The branch is simply an Iranian registered extension of the parent company setting up the branch. Thus, the shareholders and directors are the same an do not require re-appointment. However, a resident legal representative must be appointed in Iran to accept service of legal proceedings and other official communications. A local branch office of a foreign company is the subordinate of the parent company which carries out the objectives and business transaction for the parent company. The operation of the branch office will be conducted under the name and responsibility and liability of the parent company. The branch office is subject to Iranian laws in areas such as labour, social security, taxation, etc. The Iranian government protects the legal rights of a registered branch office as of the mother and domestic companies.
  - Although a branch office can only pursue business activities within the scope defined by the parent company, it will still be allowed to invoice local customers, sign local sales contracts and receive income from customers.

LEGAL SYSTEM & LEGISLATION

- ***Contract Law***
  - Principle of freedom of contract
  - Article 10 Civil Code on contracts; ”Private contracts shall be binding on those who have signed them, providing they are not contrary to the explicit provisions of law”
  - Contracts are as per law either oral or written. Typically short written contracts. Tendency of the recent years towards written ones; international written contracts.
  - Language of the contracts to be specified and signatory according to articles of association and language of the contracts to be specified.
  - Iranians tend to re-negotiate: Contract points should be clear and terms and conditions defined.

LEGAL SYSTEM & LEGISLATION

- ***Caveats***
  - Mandatory Iranian Principles
    - Freedom to choose the law of a country outside Iran only if the contract is **signed outside Iran**
    - Iran Government institutions may only submit to arbitration with approval from Parliament
      - If such approval is given the arbitration finding is also binding on the Government institution.
    - Ordre Public. Agreements against public order, morality are not enforceable.
      - Note “usery” disallowing interest on loans, as opposed to fees and default damages. Elements of unjust enrichment, unethical investments e.g. gambling, alcohol, pork products and speculation or even uncertain elements of the contract (price, delivery) should be avoided.

LEGAL SYSTEM & LEGISLATION

- **Limitation of Liability**
  - Clear worded limitations are allowed, except to avoid liability for personal injury or death.
  - There is a general principle of a duty to mitigate losses.
  - Standard clauses on cap on liability, no liability for indirect or consequencial damages, only liability for gross negligence
- **Force Majeure**
  - Iran applies the principle of Force Majeure as being causes outside a persons **control** that could not be foreseen or avoided or overcome
- **Financing and Banking**
  - Iran banks operate under the Shari'ah interest free lending rules
  - Investments in Iran banks capital is allowed, but strictly controlled

LEGAL SYSTEM & LEGISLATION

- **Applicable law:**

  Article 968 of the Civil Code of Iran;

  "Obligations arising out of contracts are subject to lex loci contractus (the laws of the place of the signing the contract) except where both of the parties to the transaction are both foreign nationals and have explicity or impliedly declared the transaction to the laws of another country"

  - Iranian courts to decide for Iranian laws, if no arbitration clause

  - In case of an arbitration clause, the law of choice.

  - London Arbitration and UK law

LEGAL SYSTEM & LEGISLATION

Tax Law

- - Iran Direct Taxation Act;
- Corporate tax at the standard rate of 25% (tax flat) and 9% VAT/Fixed corporate income tax at a flat rate of 25%
- - Agreements to Avoid Double Taxation;
- The Government of the Islamic Republic of Iran has signed mutual agreements with some foreign countries to avoid double taxation. E.g. Germany, France, Austria, Spain, Bulgaria, Poland, China, Russia, Switzerland, Turkey etc., but NOT Denmark.

Labour Law

- - Article 120 of Iranian Labour Law;
- *"Foreign citizens shall not be engaged in any sort of work in Iran unless first they have an entry visa entitling them to specified work and second have obtained a work permit in accordance with the relevant laws and regulations"*

LEGAL SYSTEM & LEGISLATION

- All employers must make an unemployment contribution to the Government worth 3% of the employee's salary.
- 8-9 hours work days (40-45 hours a week) are observed from Saturday to Wednesday. Thursday and Friday are considered as weekends
- All Iranian employees are entitled to at least one month of holidays per annum in addition to all official state holidays.
- In Iran, an employee can only be dismissed from service after a formal hearing at the Islamic Labour Council or the Labour Discretionary Board. Employee friendly decisions.
- All employers are required to contribute 23% of their employee's salary to the latter's social security account
- According to the principle of freedom of contract in Islamic law the employer and the employee are free to make any sort of contract not contrary to the law.
- Iranian labour law is primarily derived from the principle source of "Islamic Fegh'h." freedom of access to employment, cf. Art. 2 of the Civil Code and Art 2 of the Labour Code and Principle 28 of Iranian Constitution; Every person has the right to choose a job he/she wishes as long as it is not contrary to Islam laws, public policy and the rights of others.
- Definition of an employee under Iranian Labour law; "A person who works by the offer of employer and in return for a payment which includes salary, wage, profit and every other advantage, notwithstanding the title of this payment".

LEGAL SYSTEM & LEGISLATION

- There is a minimum national wage applicable to each sector of activity fixed by the Supreme Labour Council which is revised annually. In 2014 the minimum wage, determined by the Supreme Labour Council, was about USD 195 per month. In 2015 the minimum wage was increased by the Supreme Labour Council with 17% and thus to USD 228.
- Membership in the social security system for all employees is compulsory.
- The comprehensive Iranian Labour law covers all labour relations in Iran, including hiring of local and foreign staff. The Iranian Labour law provides a very broad and inclusive definition of the individuals it covers, and written, oral, temporary and indefinite employment contracts are all recognized.
- The Iranian Labour law is very employee-friendly and makes it extremely difficult to layoff staff.
- Employing personnel on consecutive six-month contracts is illegal, as is dismissing staff without proof of a serious offence.
- Labour disputes are settled by a special Labour Council, which usually rules in favour of the employee.
- The Labour law provides the minimum standards an employer must adhere to when forming an employment relationship.

LEGAL SYSTEM & LEGISLATION

- Foreign nationals are prohibited from working in Iran unless they receive work and employment permits/license (even if they are supposed to receive wages and salary outside the Iranian territory) issued by the "Department General for Employment of Foreign Nationals".
- The Iranian Employers are obligated to seek the permission of the Department General for Employment of Foreign Nationals before concluding any contract that may lead to the employment of foreign citizens in Iran.
- The FIPPA (The Foreign Investment Promotion and Protection Act), passed in 2002, has considered promising provisions for issuance of work permits for foreign investors, managers and experts in relation with investments under FIPPA. Thus, subject to exceptions under the general rules in this regard.
- The work permits of foreign nationals are issued, extended or renewed for a period of one year.
- Official unemployment rate in Iran according to the Government is 25%. However, the unofficial estimated unemployment rate is approx. 40-45%.
- Massive human capital flight; "brain drain"

LEGAL SYSTEM & LEGISLATION

- ***Intellectual Property;***
  - The Iranian Intellectual Property Law (IR-IPL) determines the protection and the use of intellectual property including Trademarks, Patents and Patent Designs. Protection of intellectual property has a long tradition in Iran. New efforts because of technological innovations in Iran during recent years have caused the legislator to pay more attention to IP protections. Foreign companies returning to the country or newcomers are well advised to have a close look on their IP protection
  - The Iranian government has adhered to a number of international conventions.
  - Iran is a member of WIPO since 2001 and has acceded to several WIPO intellectual-property treaties.
  - Iran joined the Convention for the protection of Industrial Property (Paris Convention) in 1959.
  - In December 2003 Iran became a party to the Madrid Agreement and the Madrid Protocol for the International Registration of Marks.

LEGAL SYSTEM & LEGISLATION

- In 2000 Iran joined the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration – ensures the protection of geographical names associated with products.
- Iran has NOT become a member of The Hague Agreement for the Protection of Industrial Designs.
- Copyright and related rights are protected under The Law for Protection of Authors, Composers and Artists Rights (1970) and The Law of Translation and Reproduction of Books, Periodicals and Audio Works (1973). Also protected under the Electronic Commerce Act (2003)

LEGAL SYSTEM & LEGISLATION

- Iran has not acceded to any international convention or agreement on copyright and related rights protection (e.g. Bern and Rome Convention). Thus, there are some lacuna and contrary regulations with international conventions in Iranian legal system.
- Iranian Intellectual Property Right laws of Iran carry out the following Acts:
- The Paris Convention for the Protection of Industrial Property, Stockholm (1967 & 1979)
- The Paris Convention provides the following protection of industrial property;

1) Patents
2) Utility models
3) Industrial designs
4) Trademarks
5) Service marks
6) Trade names
7) Indication of source or appellations of origin

LEGAL SYSTEM & LEGISLATION

- Madrid Convention and Protocol
- Lisbon Agreement for the Protection of Appellations of Origin and their International Registration
- Bilateral Investment Treaties
- Patent and Trademark Registration Act 1931
- Regulations for the Execution of the Patent and Trademark Registration Act 1958
- Software Act 2000 (Protection of Rights of Computer Software Act 2000)
- Electronic Commerce Act for the protection of some industrial property in E-Commerce (on the Internet) 2003
- Appellation of Origin Act (2004)
- Islamic Penal Code (1998)
- Civil Liability Act (1960)

FIPPA

- The Foreign Investment Promotion and Protection Act (FIPPA) 2002 provides certain protection and advantages to foreign direct and indirect investments in Iran such as;
- No limits on:
  1) Equity percentage
  2) Volume of investments
  3) Capital repartition
  4) Types of capital imported (both cash and/or contribution in kind/tangible and intangible)
- Other services and advantages:
  1) Issuance & assistance in relation to obtaining necessary permits and licenses from the relevant Iranian Ministries/organisations and investment sectors
  2) 3 years Multi-entry Visa
  3) 3 years residence permit
  4) Work permit

FIPPA

- Broad definition of foreign investment/capital; Cash or in kind, such as machinery and equipment, raw materials, parts, specialized services as well as intellectual property
- No restriction of whatever nature is imposed on the manner, type and volume of investment, percentage of shareholding, profit and capital repartition as well as internal relations between the parties to an investment project
- FIPPA provides full security against the risks which are generally referred to as non-commercial risks. Repatriation of the principal capital, dividend and capital gain, compensation in case of expropriation or nationalization and compensation in case of business disruption by the government are fully guaranteed
- No discrimination vis-a-vis foreign investors and all facilities, privileges, exemptions and any record to local investors will be equally extended to foreign investors
- Foreign investments admitted in accordance with the provisions of FIPPA shall enjoy the facilities and protections available under FIPPA.
- Direct investment (equity participation) in all areas open to Iranian private sector.
- Indirect investment/investment through contractual arrangements (non-equity forms):
  - Buy Back Arrangements
  - Civil Partnership
  - BOT Schemes (Build-Operate-Transfer)

FIPPA

- Foreign capital may be imported into the country by way of one or a combination of the following manners;
  1) Cash funds to be converted into Rials
  2) Cash fund not to be converted into Rials, but to be used directly for the purchases and orders related to foreign investments
  3) Non-cash items, after valuation by the competent authorities
- The profit dividend from foreign investment after deduction of taxes, dues and statutory reserves, upon the approval of the Board and confirmation by the Minister of Economic Affairs and Finance, shall be transferable abroad to the same rate as brought in.
- Admission of foreign investment shall be made in accordance with the provisions of FIPPA and with due observance of other prevailing laws and regulations of the country, for the purpose of development and promotion of producing activities in industry etc.
- Bring about economic growth, upgrade technology, enhance the quality of products, increase employment opportunities and exports
- Does not pose any threat to the national security and public interests and cause damage to the environment; does not disrupt the country’s economy and jeopardize the production by local investments
- Investigation of all issues related to foreign investment such as admission, importation, utilization and repartition

FIPPA

- **OIETAI**
  - Any investment through FIPPA will be handled through OIETAI (Organisation for Investment, Economic and Technical Assistance of Iran), which was founded in June 1975 and constitutes the foreign investment authority of Iran.
  - The head of this body is the vice minister for investments and international affairs of the Ministry of Economic Affairs & Finance
  - The functions of the organisation range from investment to financing as well as from bilateral to regional and international relations

DOS AND DON’TS (PITFALLS)

- Thorough preparation will lead to success
- Most obstacles in Iran can be overcome if companies prepare well at home and comply to certain guidelines
- Some foreign companies are better positioned than others (based on perceived product features or loyalty throughout the sanction years)
- 3 main rule to facilitate a smooth entry to the Iranian market;

1) **Get the basics right**

- A good understanding of the country’s history, culture and business landscape is an absolute minimum
- Language is essential; many documents are only available in Persian and some older Iranians do not speak well English or German. Having Persian speakers and advisors in your team will prove invaluable.
- Gaining a good understanding and the build-up trust will take time and effort and through face-2-face meetings (wining and dining) and not through emails and conference calls
- Travel to Iran and expect to be present often and ideally establish an anchor on the ground (”boots on the ground”). The country and all its intricacies demand frequent face-to-face interactions

DOS AND DON'TS (PITFALLS)

2) **Start at the top**

- Aim and go for an entry point in the highest echelons of an organization/company
- May not be easy at first, but it will speed up the overall process (and expect to mirror the level of seniority in terms of attendance)
- When access to senior management is difficult. Local agents are essential to open doors and help with navigate the system – Persian advisors
- Selecting a reliable local agent could be one of the most strategic moves that a company entering Iran makes

3) **Position for long term**

- A differentiating and long-term positioning is crucial to spark interest for sustainable partnerships
- Building local employment through offices and factories or JV is a very strong commitment
- When doing business in Iran, one key virtue is patience
- Decision-making simply takes time due to the culture and administrative roadblocks
- When meetings are closed with clear next steps, expect the timelines to be fluid

DOS AND DON'TS (PITFALLS)

- **General**
  - Be aware…Iranians tend to re-negotiate over and over again (even closed items)
  - Absolute essential establishing networks: Relationship-building
  - International experience is not always given
  - Mostly limited foreign language knowledge - young population speak well English
  - Calculate duration of negotiations
  - Preferably draft easy and short contracts (LoI or MoU in advance)
  - Do your due diligence – know who you are dealing with
  - Corruption and bribery – no. 130 out of 168 – A priority of President Rouhani
  - Snap-back clauses
  - Do not expect same level of excellence and professional approach

US & EU SANCTIONS

EU sanctions regime

- Commercial products that can be used to develop and deliver weapons of mass destruction (dual-use products)
- Weapons and equipment used for internal repression
- Products and services for oil, gas and petrochemical sectors
- Sanctions towards persons and entities tied to the nuclear program
- Approval of financial transactions with Iran

EU sanctions relief

- Financial, banking and insurance measures
  - Transfer of funds to/from Iran permitted – and no license requirements
  - De-listing of persons, entities and bodies (approx. 300 incl. Central Bank of Iran) – asset freezes no longer apply
  - Iranian banks allowed to reconnect to SWIFT
  - Banking activities (incl. Establishment of new correspondent banking relationships) permitted
- Oil, gas and petrochemical sectors
  - Export of equipment and services to oil, gas and petrochemical industries permitted.
  - Import/swap/transport of oil, gas and petrochemical products from Iran permitted

US & EU SANCTIONS

- Shipping, shipbuilding and transport sectors
  - Sale/supply/export of naval equipment allowed
  - Provision of bunkering/ship supply services allowed
  - Cargo flights from Iran gain access to EU airports
- **EU sanctions still in place**
  - Prohibitions
    - Arms embargo
    - Missile technology
    - Sanctions related to human rights and terrorism: 84 persons listed, ban on exports of equipment for internal repression
- **License requirements**
  - Nuclear equipment
  - Dual-use items (now requires license for all third countries)
  - Software used in military/nuclear industries
  - Certain graphite and metals

US & EU SANCTIONS

- **US sanctions regime**
- **Primary Sanctions**
  - Related to Iran's human rights abuses, support for terror etc.
  - Affect US persons and entities owned or controlled by US persons

Secondary Sanctions

- Related to Iran's nuclear program
- Affect non-US persons engaged in Iran-activities, primarily within financial, energy, insurance and shipping sectors

US primary sanctions relief

- Bulk of US primary sanctions will remain, except:
  - Foreign entities owned or controlled by US persons will no longer be subject to US primary sanctions
  - Sale of US produced commercial aircrafts, spare parts etc. will be allowed
- Licenses for Iranian-origin carpets and foodstuffs will be issued
- Certain individuals and entities will be removed from OFAC SDN list.

US & EU SANCTIONS

US secondary sanctions relief

- Sanctions deterring non-US persons from engaging in Iran-related activities will be lifted:
  - Finance and banking
  - Energy and petrochemicals
  - Insurance
  - Shipping, shipbuilding and ports
  - Software and metals
  - Automotive sector

REMEMBER !!!!

- Sanctions have not yet been lifted – and many parts will remain!
- Snap-back of sanctions in case of non-compliance by Iran
- Iran's ballistic missiles program, human rights accord, regional actions etc. may lead to new US sanctions from Congress or by individual US States

SNAP BACK

- Iran sanctions only suspended
  - May be reintroduced if nuclear program accord is violated
  - Transitions rules unpredictable
    - Immediate effect or adaption period
- Transactions until snap back effective date are not unlawful
- Affected parties may have to abandon assets without compensation

GENERAL CLAUSE

General Economic Sanctions exclusion clause

- If, by virtue of any law or regulation which is applicable to **NN Corporation** at the time of executing any contractual commitment or at any time thereafter, providing delivery of any goods or services to a contractual partner is or would be unlawful because it breaches an applicable embargo or sanction, **NN** shall not be committed to make such delivery and shall have no liability whatsoever nor provide any support to the contract partner to the extent that it would be in breach of such embargo or sanction.

SPECIFIC SANCTIONS CLAUSE

Snapback Clause (Economic Sanctions)

- **NN Corporation** confirms and Purchaser acknowledges that any offer, acceptance, agreement, commitment, undertaking or performance ("**NN** Obligations") by or on behalf of **NN** is made subject to any present or future economic sanctions regulations that may affect such offer, acceptance, agreement, commitment, undertaking or performance to the effect that **NN** may thereby become liable to penalty or other sanctions for breach of any such regulations. such regulations. **NN** declares that to the best of its knowledge there is no current UN, EU or OFAC sanctions that prevent **NN** from performing the present contract, but **NN** makes no warranty or representation to that effect. For the purpose of this Clause in its entirety **NN** shall include also any of its subsidiaries, directors, officers, agents, employees, affiliates or other person acting on its behalf.

SPECIFIC SANCTIONS CLAUSE

Snapback Clause (cont.)

- In the event that any present license to conduct otherwise sanctioned activities should be terminated or withdrawn NCG shall be entitled to consider any of the **NN** Obligations affected by such termination or withdrawal as null and void from the Effective Date of such termination or withdrawal (the Effective Date) without incurring any liability therefor. Such license includes, but is not limited to, the UN Security Council Resolution 2015/2231 and resulting OFAC and EU Resolutions allowing snapback of the suspension of existing IRAN Sanctions in certain circumstances.
- If and when any authorized agency initiates any step that may lead to the termination or withdrawal of a license to conduct otherwise sanctioned activities in part or in full governed by a contract between **NN** and the Purchaser, **NN** shall be entitled to demand either the full payment before the Effective Date for any items or services delivered or agreed to be delivered by **NN** to the Purchaser or the return before the Effective Date of all goods that have not been paid in full on or before the Effective Date.

SPECIFIC SANCTIONS CLAUSE

Snapback Clause (cont.)

- **NN** shall also be entitled to withdraw by or before the Effective Date any of its employees or seconded staff present in the country where deliveries or services were intended to be performed if the presence of such employees or seconded staff would in the opinion of **NN** be considered to violate economic sanctions from the Effective Date.
- Any action on the part of **NN** prepared or executed by **NN** for the performance of any of the steps mentioned in this clause shall not be considered by the Purchaser or any third party to be a violation of any **NN** Obligations under its contract with the Purchaser.

CONTRACT CLAUSES

Caveat

- General contracts with partners may include clauses whereby the declare to have committed themselves only to cooperate with other partners who in turn undertake to observe the sanctions rules that apply to the partner itself, e.g. non-US companies undertake to comply with OFAC rules.
- Such clauses are also seen in contracts wish partners who are not directly subject to OFAC rules but due to US relations wish to ensure that they are never subject to any allegations of breaching or assisting in breaching OFAC rules.
- Such clauses may need a carve out and either consent from US parent or in specific cases maybe also OFAC License.

FUTURE IRAN – OPPORTUNITIES

- Financial Systems – transfer of funds in and out of Iran (still the biggest challenge and the major existing issue)
- Danish export to Iran expects to double in 2016 – to DKK 2.1 Billion
- 66% increase of Danish export from August 2015 to August 2016
- Same level of Danish export as before the sanctions
- Growth in Iranian economy expect to be 4.5-5% since the sanctions relief in February 2016
- President Rouhani and the moderates have the upper-hand – the conservative opposition fragmented and NOT unified as the moderates
- Presidential elections in 2017
- Massive investment interest from abroad – including from Denmark – more delegations to arrive in Iran
- US Presidential Elections