



CORPORATE ISSUES

INDUSTRY AND LEGAL UPDATE

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Industry Update

26 September 2014

Establishing joint venture to develop Kumtor gold mine becomes more urgent

Establishing a joint venture (JV) to develop Kumtor gold mine becomes more urgent again, Executive Director of International Business Council (IBC) Aktilek Tungatarov told K-News.

«Kumtor is a very profitable enterprise. The price of gold remains is stable. Apart from that, Kyrgyzstan receives dividends, the mine employs more than 2.5 thousand Kyrgyz nationals. Establishing the JV will prove profitable for the country as it will increase income. If the JV is established, Kyrgyzstan will earn 16.5% of the Kumtor's profit with tax and other payments remaining on the same level, Aktilek Tungatarov added.

However, according to him, this issue should be solved jointly taking into consideration the interests of all parties.

«We need to focus on negotiating this issue with the shareholders of Centerra, rather than trying to address it all alone. We cannot influence an international project. If any radical actions are taken, this will undermine investment climate and we will be accused of raiding. Apart from that, this will create a threat of lengthy trials», he concluded.

The new arrangement will be transparent and fair for Kyrgyzstan, and the mutual decision will foster the growth of investment and the overall development of the country.

<http://www.knews.kg/econom/55006/>

Legal Update

9 September 2014

Ministry of Economy proposes amendments to natural and legal monopolies act

The Ministry of Economy of the Kyrgyz Republic proposes to abolish government regulation of legal monopolies, since the regulation of legal monopolies, i.e. business entities accounting for more than 35.0% of the market, pursuant to the Natural and Legal Monopolies Act, has the following negative effects:

- it encourages double-entry bookkeeping by business entities in order to prevent market share increase and to avoid government regulation, i.e. it is one of the reasons for the existence of the shadow economy in the republic;
- it causes distortion of market relations in regulated markets since the antimonopoly authority regulates only wholesale prices of monopolists while market (retail) prices of the goods produced by legal monopoly entities are based on the market conditions i.e. demand and supply.

An increased demand in the goods encourages a monopolist to make an extra profit and to establish intermediary structures via which it can offer its products, i.e. it creates conditions for vertically coordinated actions by establishing trade enterprises owned by fictitious people. This facilitates corrupt practices;

- it causes barriers to attracting investment into regulated industries.

Also, it should be noted that there is no

22 September 2014

Ministry of Finance allocates \$6 ml to Kyrgyzaltyn as budget support loan to unblock Kyrgyzstan's shares in Centerra Gold Inc.

Tazabek – The Ministry of Finance has allocated to Kyrgyzaltyn OJSC \$ 6 ml. as a budget support loan which was remitted to the Turkish company, Sistem Muhendislik Insaat Sanayi ve Ticaret A.S., as compensation in the Ak-Keme Hotel case, in order to unblock Kyrgyzstan's shares in Centerra Gold Inc.

According to Finance Minister O. Lavrova, \$6,400,000 were remitted from the state budget.

<http://www.tazabek.kg/news:378983>

15 August 2014

Government earns KGS 2 billion 875 million in dividends from investment in Alfatelecom CJSC

Alfa Telecom CJSC (MegaCom brand) remitted KGS 2,875,365,000 to the state budget based upon the findings of the audit conducted by the Counting Chamber and the court decision, the press service of the Counting Chamber reported.

According to the audit findings, the sole founder of Alfa Telecom, Alexey Eliseev, signed a fictitious purchase agreement between Southfield Management Inc. and Vesatel United Limited. The shares of the mobile operator were distributed between the two companies in the proportion of 99% and 1% respectively.

«Under the Interim Government's Decree of May 20, 2010, the 49% stake in Alfa Telecom CJSC was nationalized with the remaining 51% stake owned by Eliseev being placed under custody and subsequently returned to him by the court order. By the guilty verdict of the Osh City Court of June 16, 2013, Eliseev's property was confiscated and re-registered as the state ownership», the Counting Chamber reminded.

Based on the audit findings, the company remitted to the state budget dividends accrued on the 51% stake in 2009-2013.

<http://www.knews.kg/econom/53482/>

government regulation in the global practice for business entities dominating the market; therefore, the Ministry of Economy of the Kyrgyz Republic proposes to bring the Natural and Legal Monopolies Act into compliance with the treaties of the Customs Union and the Common Economic Area.

4 August 2014

Kyrgyzstan Parliamentarian proposes to reduce administrative pressure on business

MP Dastan Bekeshev proposed amendments to some legal acts intended to reduce administrative pressure on business, 24.kg information agency reported. The parliamentarian noted that today entrepreneurs have difficulties with the registration or liquidation of sole proprietorships and legal entities. «We reviewed the current practices and found out that they involve many complexities. Sometimes, it takes up to two years for individuals to liquidate a firm. Therefore, many businessmen prefer to operate in the shadows in order to prevent red tape delays. I drafted a bill proposing amendments that would help simplify the registration and liquidation of businesses and reduce time necessary to review documents, Dastan Bekeshev said.

«We believe that the National Statistical Committee should not perform registration of sole proprietorships as this function is not inherent in it. A person willing to register a sole proprietorship should apply to the Tax Service and be registered there. The registration with the NSC and the Social Fund will be handled by the Tax Service. We also propose to simplify the liquidation of a legal entity. Instead of publishing the announcement in an official journal, we propose to publish such announcement on the website of the Ministry of Justice. We also propose to abolish the requirement of obtaining bank statement of no account from 20 commercial banks. Instead, we propose amendments to the Tax Code establishing deadlines for conducting fiscal inspection of a legal entity under liquidation, the Parliamentarian added.

<http://www.24kg.org/parlament/183101-v-parlamente-kyrgyzstana-predlagayut-otkazatsya.html>

24 June 2014

5 August 2014

Kyrgyzstan fails to sell Dastan factory for lack of companies capable of appraising value of its shares

This was reported to K-News by the head of the property disposition division of the State Property Fund (SPF), Timur Malbashev.

According to him, the tender for Dastan shares appraisal services failed to occur for the third time. Thus, on July 25 of this year, the tender committee was supposed to unseal tender offers but due to lack of bid applications, the tender did not take place. Meanwhile, the government has already allocated KGS 4.5 million from the State Privatization Fund to pay for the appraiser's services.

Earlier, the government included Dastan factory in the list of the assets subject to privatization and ordered to put out its 98.46% shareholding in this company for investment tender.

To be selected as the appraiser of the state shareholding in Dastan, an applicant must have at least 10 years of practical experience in appraisal both in the CIS countries and globally and expertise in international appraisal standards and financial reporting. The applicant's staff must have international qualifications (CPA certificates, ASA certificates).

Dastan Transnational Corporation is one of the leading enterprises in the former Soviet Union area that produce maritime weapons and special-purposes submarine equipment.

<http://www.knews.kg/econom/53152/>

4 August 2014

National Bank Executive Board decides to terminate conservatorship of Kyrgyz Credit Bank

This was reported by the press service of the National Bank.

Kyrgyz Credit Bank has been under conservatorship since January 31, 2011 due to criminal charges brought against the shareholders and officers of this bank. Subsequently, the bank underwent changes in

Foreign Affairs Committee reviews draft agreement establishing Kyrgyz-Russian Development Fund

On June 24, 2014, Kyrgyzstan Parliament's Foreign Affairs Committee reviewed the draft agreement between the Governments of the Kyrgyz Republic and the Russian Federation establishing the Kyrgyz-Russian Development Fund with US \$ 1 billion worth of capital. The meeting of the committee was chaired by the deputy chairman Bakhtiar Kadyrov.

The information on this issue was provided by the deputy premier Valery Dill. Thus, the Development Fund will have the charter capital of USD 500 ml. with the remaining USD 500 ml. representing the borrowed capital. The Russian side will form the Fund's capital in equal portions over the two year period. The borrowed funds will be used to finance major investment projects in the mining, agricultural and other sectors of economy. The Fund's Board of Directors will comprise 2 members representing the Kyrgyz side and 3 members representing the Russian side. The Fund's Executive Committee will comprise 3 Kyrgyz representatives and 2 Russian representatives.

During discussion of this agreement, MP Joldoshova raised the issue of revising the number of Kyrgyz and Russian representatives in the Fund's Board of Directors and Executive Committee. MP Sulaimanov asked to address the issue of developing concrete mechanisms of distributing the borrowed funds of this Fund.

After its discussion, the draft agreement establishing the development fund was approved by the Committee.

Parliament press service

25 June 2014

Preemptive right to purchase government-owned shares to be exercised by other shareholders

The preemptive right to purchase government shares in enterprises can be exercised by other shareholders as well. The bill proposing respective amendments was passed by Parliament on Wednesday.

The government drafted the amendments to the state property privatization act proposing the new methods of privatization.

According to the bill, the shareholders of closed joint-stock companies and limited liability

its shareholder structure and the General Prosecutor's Office confirmed that there were no charges against the new shareholders of Kyrgyz Credit Bank.

In this respect, in accordance with the Bank Conservatorship, Liquidation and Bankruptcy Act and the Regulation governing conservatorship of commercial banks and deposit-taking microfinance companies, the National Bank terminated conservatorship against Kyrgyz Credit Bank from July 30, 2014.

Until the formation of the bank's governing bodies and the proper approval of the members of the supervisory and executive boards, the National Bank established the bank's interim management headed by Kanysh Sharshekeeva. The National Bank will follow up the situation around Kyrgyz Credit Bank and if necessary will take other remedial measures as provided by Kyrgyz law.

<http://www.knews.kg/econom/53096/>

8 July 2014

Seizure of Centerra Gold Inc. shares by Stans Energy Corp. is not at issue yet

This was reported by Kyrgyzstan Deputy Prime Minister Tayrbek Sarpashev at the meeting with journalists on Tuesday.

«The ruling of the court in favor of Stans Energy has not entered into force yet. I met with the management of the company after the ruling had been issued. We both are looking for a compromise to find way out of the situation without economic losses for both parties », the official informed.

As informed earlier, Stans Energy Corp and Kutisay Mining had filed with the arbitration panel at the Moscow Chamber of Commerce and Industry a claim against the Kyrgyz Republic seeking \$117,853,000 in damages including interest and legal fees. The arbitration panel found the claim of the companies to be legitimate and ruled to award them \$118 million.

<http://www.knews.kg/econom/52219/>

2 July 2014

Reemtsma Kyrgyzstan officially announces its closure

companies shall have the preemptive right to purchase the government shares in the charter capital. In the event of having several shareholders, the shares will be sold to the shareholder who offered the highest price.

It is proposed that the exchange of the government-owned property be used as a method of privatization, whereby the government-owned property will be transferred to individuals or legal entities in exchange for non-government owned property.

It is also proposed to require that the announcement on the forthcoming auction for privatization of government-owned property be published in mass media at least 30 calendar days prior (or 90 calendar days prior in the case of strategic assets).

The bill passed its third reading in the Parliament.

<http://www.knews.kg/econom/51678/>

24 June 2014

National Bank to be allowed to participate in legal entities

The respective amendments to the National Bank Act were initiated by the leaders of SDPK, Ata Meken and Ar Namys factions.

As informed by Chynybai Tursunbekov, head of SDPK faction, at the meeting of the Parliament's Economic and Fiscal Policy Committee, today the bank may not engage in the activities outside the scope of its competence. In particular, it may not own shares or otherwise participate in the banks or other commercial entities, except as otherwise permitted by the relevant state programmes.

«Also, the bank may not purchase, lease and acquire the rights of the owner of any real estate, except for the real estate related to the activities of the bank and its staff», the parliamentarian noted.

According to him, the state programmes often fail to regulate the participation of the National Bank in the capital of legal entities to foster the development of the country's economy.

After its discussion, the bill was approved by the parliamentarians.

<http://www.knews.kg/econom/51596/>

Kyrgyzstan Deputy Prime Minister Valery Dill visited the Reemtsma Kyrgyzstan factory of Imperial Tobacco Group (ITG) which has officially announced the closure of its cigarette factory in Kyrgyzstan, the press service of the Kyrgyz government said.

According to the company, the main reason for the closure of the factory in Bishkek was its excessive production capacity coupled with small production volumes. The decision to close the Bishkek factory was made after a thorough analysis of the company's finances and production all over the world.

<http://www.knews.kg/econom/52045/>

6 June 2014

Askar Eshimbekov is appointed as Director General of Severelectro

The Board of Directors of Severelectro OJSC appointed Askar Eshimbekov as the Director General of the distribution company, Severelectro's press secretary Gulia Muratalieva told K-News on Friday.

<http://www.knews.kg/econom/50808/>

12 May 2014

Shoro company to offer its shares

The announcement on the share offering was published on the website of Shoro CJSC. The total value of a 33.3% stake (4,795 shares) is \$8,430,000 (\$1,754 per share).

It is stated in the announcement that the shareholder owning 33.3% of the capital stock, in particular, is eligible to nominate candidates for appointment as a CEO or member of the executive committee, audit committee or board of directors, to demand to convene an extraordinary general meeting of shareholders, to demand to conduct an inspection and audit of the company's business and financial performance at any time.

The shareholding representing more than 34% of all shares expands even further the shareholder's powers. In such case, the owner may block the decisions related to charter changes, company reorganization and liquidation, major transactions, CEO elections and other decisions which need at least a two-thirds vote to be passed.

3 June 2014

MP Galina Skripkina (SDPK) at Parliament's Legality, Legal Order and Crime Prevention Committee meeting proposes to punish employees of companies with any government participation for committing crimes

This proposal was raised during the discussion of the bill proposed by MP Omurbek Tekebaev (Ata Meken). He proposed to punish the officers of commercial entities with the 30% government participation by 8 to 10 years of imprisonment for use of their authority contrary to the interests of the company or with an intent to cause harm to the company or the government.

«Why not remove the 30% requirement? It appears that punishment will be imposed in the companies with the 30% government participation, but what if the offence is committed in the companies with the 20% government participation? Are we going to let the offender go unpunished? The punishment rules must apply to all, no matter how big is the government participation. That's the way it should be», Skripkina added.

After the arguments began among the MPs about the duration of punishment, the MP proposed to revise these rules as well.

«We are now arguing for 1-2 years. We should give more consideration to the duration of punishment provisions so that we would weigh all views and have a well-written bill. Then all people will be glad», Skripkina said.

The initiator accepted the first proposal but refused to revise the duration of punishment provisions.

<http://www.knews.kg/econom/50603/>

<http://www.knews.kg/econom/49492/>



71 Erkindik Boulevard,
Bishkek, 720040
Kyrgyz Republic

Tel.: +996 (312) 666060
Fax: +996 (312) 662788
Web: www.k-a.kg
Email: lawyer@k-a.kg

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If you have any comments, please contact Ruslan Sulaimanov at rsulaimanov@k-a.kg

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