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THE LAW OF THE KYRGYZ REPUBLIC

Foreign investment Law of the Kyrgyz Republic

(Amended: May 7, 1993, # 1221-XII)

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This law is designed to facilitate the Kyrgyz Republic's effective participation in international economic affairs and to provide foreign investment incentives in order to obtain additional financial and material resources and the latest foreign technology.

I. General provisions

Article 1. Foreign investments in the Kyrgyz Republic

Foreign investments in the Kyrgyz Republic include financial and material inputs in the sphere of economic and other activities, as well as the assignment of intellectual property rights by foreign governments, juridical persons and citizens.

Article 2. Foreign investors in the Kyrgyz Republic

Foreign investors in the Kyrgyz Republic are foreign governments, international organizations, juridical persons and citizens making investments on the territory of the Kyrgyz Republic.

Article 3. Participants in Investment Activities

Participants in Investment activities in the Kyrgyz Republic are juridical persons and citizens of the Kyrgyz Republic and other CIS members, foreign juridical persons and citizens facilitating investments in the capacity of executor of contracts or other activities at the direction of a foreign investor.

Article 4. The forms of legal foreign investments in the Kyrgyz Republic

The following forms of foreign investments are legal in the Kyrgyz Republic:

- interest in joint ventures;
- foreign enterprises;
- securities holding companies;
- special purpose monetary deposits;
- scientific and technological production;
- intellectual property;
- different forms of economic and other activities, not prohibited by laws of the Kyrgyz Republic.

Article 5. Legislation of the Kyrgyz Republic Regarding Foreign investment Activities

Relations arising from foreign investment activities are regulated by this Law, other laws of the Kyrgyz Republic, as well as by provisions of international agreements which the Kyrgyz Republic has joined.

If international agreements establish rules which differ from those established by laws of the Kyrgyz Republic, the provisions of international agreements shall be applied.

Article 6. The contract regulating foreign investment activities

The contract (agreement) is the main document regulating the legal status of foreign investors and other investment activities participants.

The right to choose partners, to make contracts, to define responsibilities, and to determine other terms of economic relations which do not contradict the laws of the Kyrgyz Republic shall be within exclusive competence of foreign investors and participants in investment activities.

The terms of contracts concluded by foreign investors and participants in investment activities are valid during the whole period of the contract, even if after conclusion of the contract changes in the laws of the Kyrgyz Republic worsen the situation of the contracting parties.

Article 7. Governmental guarantees for foreign investors in the Kyrgyz Republic

The Kyrgyz Republic guarantees the stability of foreign investors' rights and provides other forms of legal protection.

The legal status and conditions of foreign investments will never be less favorable than the status and conditions of investments by juridical persons and citizens of the Kyrgyz Republic.

Foreign investments may not be expropriated or nationalized unless they pose a dire threat to public health and life or such action is compelled in the urgent interests of state security and the foreign investor either refuses to eliminate this threat or is not able to eliminate it within a period of time indicated in the written decree of the competent authorities.

The Jogorku Kenesh (Supreme Soviet) of the Kyrgyz Republic has the exclusive power to effect nationalization.

Foreign investors are subject to requisition or confiscation of property only under the same conditions affecting Kyrgyz Republic juridical persons and citizens in accordance with law of the Kyrgyz Republic.

In cases of nationalization or expropriation by the government of the Kyrgyz Republic, the investor is entitled to compensation in accordance with real value of the nationalized or requisitioned property.

Losses, including un-realized profit, incurred by a foreign investor as a result of unlawful instructions of state organizations or their officers, or the improper execution by state organizations or their officers of their legislatively-prescribed responsibilities, or the adoption of statutes restricting the rights of foreign investors with the regard to the rights of juridical persons and citizens of the Kyrgyz Republic, are to be compensated by the state organizations which are responsible for such violations. If such losses cannot be paid by state organizations because of lack of funds, the damages are to be paid from the state budget of the Kyrgyz Republic.

II. Rights and Responsibilities of Foreign Investors

Article 8. Economic Independence of Foreign Investors

Foreign investors have the right to independently determine the volume, direction and efficiency of the investments, and to conclude contracts with juridical persons and citizens, including other foreigners, necessary to realize the investments.

Foreign investors may personally, or via mediators, acquire whatever property is necessary, without any limits on the volume or type of property, from juridical persons and citizens, at prices and under conditions which do not violate the law of the Kyrgyz Republic.

Foreign investors may transfer the right to possess, use and dispose of their investments to other juridical persons and citizens as provided by the law of the Kyrgyz Republic. The relations of the parties in such a transfer are regulated by mutual contract.

Article 9. Attraction of Financial Means by Foreign Investors

Foreign investors have the right to attract financial means to the Kyrgyz Republic in the forms of credits, the issuance of securities in accordance with the law and loans. The foreign investor's property may serve as security for such obligations.

Article 10. Freedom to Use Investment Results by Foreign Investors

Foreign investors have the right to possess, use and dispose of the results of their investments, including reinvestment and commercial operations on the territory of the Kyrgyz Republic.

Foreign investors may export profits, or part of their profits, in the form of goods produced or commodities or services bought on the market.

The export of commodities and services bought on the market is regulated by the Kyrgyz Republic Export-Import Operations Law.

The export of national and foreign currency is regulated by the Kyrgyz Republic Currency Regulations Law.

Article 11. Foreign investors' obligations to meet financial, ecological, city building code and other requirements

Foreign investors should follow financial, ecological, city-building code and other requirements, established by laws of the Kyrgyz Republic.

Investment projects and working drafts for construction projects which are to be carried out on the territory of the Kyrgyz Republic using foreign investment, should be examined by respective state organs of expertise and quality control to ensure that they follow republican norms and rules.

Article 12. Prohibition of Unfair Competition

Foreign investors should not permit unfair competition and shall comply with the Kyrgyz Republic Anti-Monopoly Law.

III. The regime for foreign investments

Article 13. Foreign investment licensing in the Kyrgyz Republic

The licenses required for certain types of business activities shall be issued to foreign investors in accordance and under conditions determined for juridical persons and citizens of the Kyrgyz Republic, as provided by the law of the Kyrgyz Republic.

Article 14. State registration of foreign investments

Foreign investments in the Kyrgyz Republic, irrespective of their juridical status, shall be registered by the State Committee on Foreign Investments and Economic Assistance of the Kyrgyz Republic (Goscominvest) in the manner established by the Government of the Kyrgyz Republic.

Foreign investment registration is not of a permissive character, but is required in order to ensure the proper completion of all constitutive documents.

The "registration certificate" is the document which confirms the fact of investment, the investment's juridical status, and allows the foreign investor to exercise his rights.

If the registration body fails to register a foreign investment in the time period fixed by law, or refuses to register the investment, the foreign investor has the right to apply to court with jurisdiction over the registration body.

The court, upon determining the fact of refusal or delay, in ten days must issue a decision directing that the foreign investment be recognized as registered, and that the body responsible for registration give the registration certificate to the investor within three days.

If, 12 months after the date of state registration, at least 50% of the total volume of investment indicated in the registration documents has not been invested, the organization responsible for registration can declare the investment invalid and order its liquidation.

Article 15. Joint ventures in the Kyrgyz Republic

A joint venture is any enterprise in which a portion of the capital fund belongs to a foreign investor (investors). The amount of this interest shall be determined by contract.

The contract creating the joint venture shall be concluded by a juridical person (persons) or a citizen (citizens) and the foreign investor (investors).

The creation and activities of joint ventures shall be regulated by a special law and other laws of the Kyrgyz Republic.

Article 16. Foreign enterprises in the Kyrgyz Republic

A foreign enterprise shall be any enterprise in which the entire capital fund belongs to a foreign investor (investors).

The creation and activities of foreign enterprises are regulated by a special law and other laws of the Kyrgyz Republic.

Article 17. The acquisition of stocks and other securities in
the Kyrgyz Republic by foreign investors

Foreign investors have the right to purchase stocks and other securities in the Kyrgyz Republic as provided by the laws of the Kyrgyz Republic.

Article 18. Special purpose imonetary deposits and other forms
of foreign investor activities in the Kyrgyz Republic

Foreign investors may make special smonetary or material inputs according to a contract or cooperation with a previously established enterprise to support certain kinds of cooperation without creating a new juridical person.

Property and working capital earmarked for cooperative activities are to be accounted for on separate balance sheet, with the final total to be included on the enterprise's general balance sheet.

Other forms of economic or other activity by foreign investors are regulated by laws of the Kyrgyz Republic.

Article 19. Taxation of Foreign Investors in the Kyrgyz Republic

Taxation of foreign investors shall be performed in accordance with the Kyrgyz Republic Tax Law.

Article 20. Tax benefits for foreign investors in the Kyrgyz
Republic

If the foreign investments were made in the form of freely-convertible currency, equipment or raw materials and exceed 30% of the enterprise's capital fund or the total sum earmarked for cooperative activities, or if the foreign investor(s) owns not less than 51% of the stock, profits from foreign investor enterprises or cooperative activities shall be tax-free according to the following schedule:

- with respect to manufacturing and construction activities;
- for 5 years from the date of state registration;
- with respect to activities in the extraction or processing of mineral resources, or agriculture, transportation, or communication for 3 years from the dale of state registration;
- with respect to trade, tourism, banking, insurance activities, or other types of activities - for 2 years from the date of state registration.

After expiration of the initial tax-free period, the taxes imported on profits will be reduced, as follows:

- by 50% for profits reinvested in the Kyrgyz Republic;
- by 25%, if not less than 50% of the enterprise's products and services are exported;
- by 25% not less than 50% of production is derived from imported raw materials and components;
- by 25%, if not less then 20% of profit is spent on professinal training.

Article 21. Responsibilities of Foreign Investors in the Kyrgyz
Republic

For failure to meet contract obligations, or for untimely or incomplete payment of taxes, foreign investors shall be held accountable, as against their property or in other ways, is accordance with laws of the Kyrgyz Republic.

Article 22. Taxation on profits taken cut of the Kyrgyz Republic
by the foreign investor

If the foreign investor pays taxes on his profits, his foreign investment profit may be repatriated without payment of any further tax.

Foregn investors who receive profits free of ordinary taxation must pay 5% tax on repatriated profits.

Article 23. Customs incentives

Imported material goods, earmarked for capital investment or special purpose deposits for cooperative activities with foreign investors, during the period of formation, are free from custom tax.

Raw materials and components imported for use in production by enterprises with foreign investors or by participants in cooperative activities are free from customs tax.

Article 24. Foreign investments in Free Economic Zones

The realization of foreign investments and the granting of benefits to foreign investors in free economic zones in the Kyrgyz Republic shall be determined separately for each zone by the Cabinet of Ministers of the Kyrgyz Republic in accordance with the Kyrgyz Republic Law on Free Economic Zones.

IV. Legal protections for foreign investors
in the Kyrgyz Republic

Article 25. Settling of conflicts involving foreign investment
activities in the Kyrgyz Republic

Conflicts involving foreign investment activities in the Kyrgyz Republic shall be settled in the courts, or, upon agreement of the parties, in arbitration, in accordance with existing laws of the Kyrgyz Republic.

Article 26. Insuring foreign investments in the Kyrgyz Republic

Foreign investments in the Kyrgyz Republic may be insured, and in certain cases provided for by the law of the Kyrgyz Republic must be insured.

The President of the Kyrgyz Republic A.Akaev