

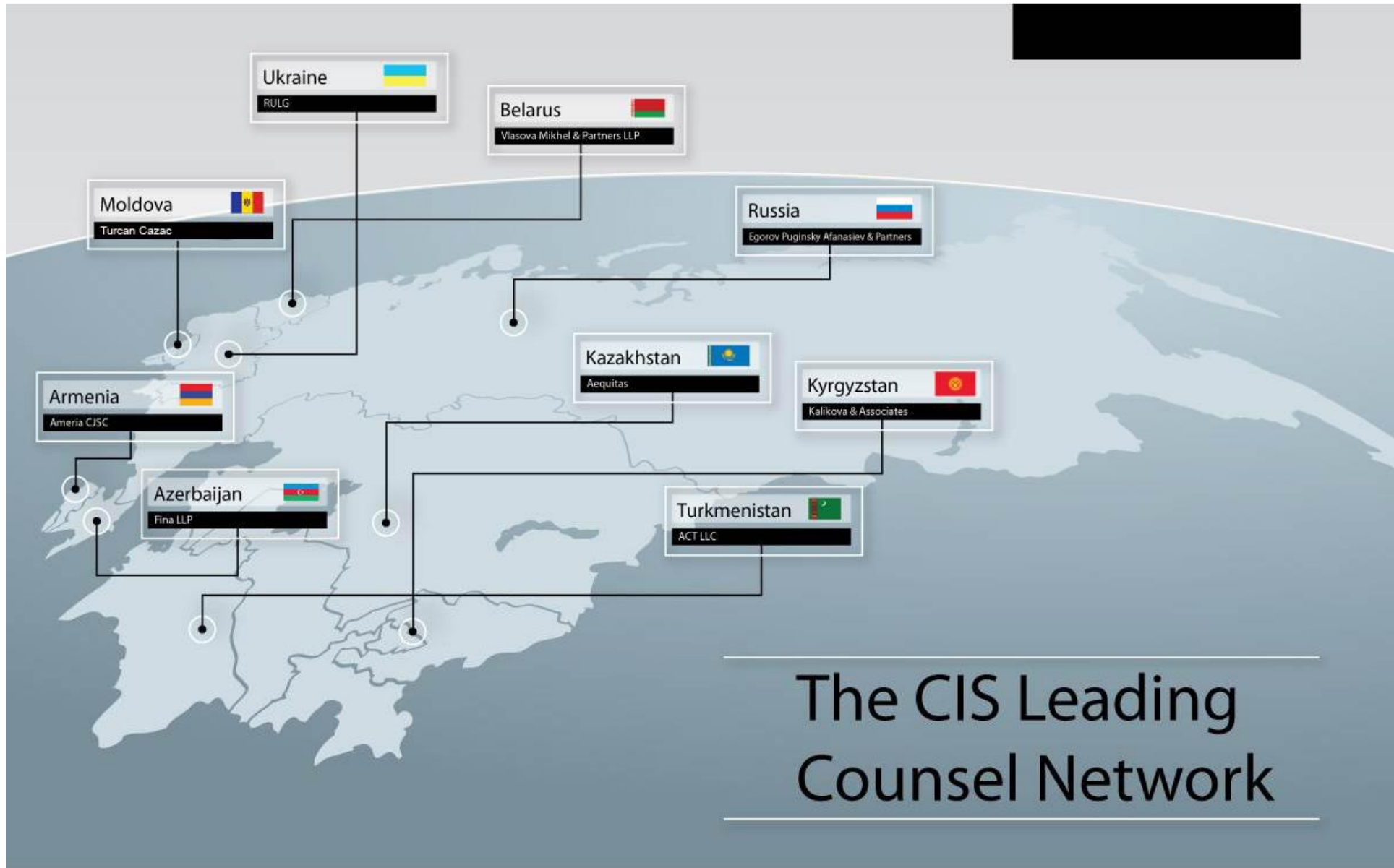
Doing Business in the CIS

Local Advice, Global Perspective

The CIS Leading Counsel Network

CIS LCN*

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Kazakhstan



Aequitas

| | |
|-------------------|---------------|
| Capital | Astana |
| Population | 16.196 m |
| GDP | \$184 466 bln |

Kyrgyzstan

Kalikova & Associates

| | |
|-------------------|-------------|
| Capital | Bishkek |
| Population | 5.482 m |
| GDP | \$ 4.570 bn |




Turkmenistan



ACT LLC

| | |
|-------------------|--------------|
| Capital | Ashgabat |
| Population | 5.110 m |
| GDP | \$ 31.966 bn |




Azerbaijan



Fina LLP

| | |
|-------------------|--------------|
| Capital | Baku |
| Population | 9.047 m |
| GDP | \$ 52.166 bn |

Armenia

Ameria CJSC

| | |
|-------------------|-----------------|
| Capital | Yerevan |
| Population | 3.5 mln |
| GDP | \$3,817,310 mln |

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Belarus



Vlasova Mikhel & Partners LLP

| | |
|-------------------|--------------|
| Capital | Minsk |
| Population | 9.648 m |
| GDP | \$ 48.975 bn |


Moldova



Turcan Cazac

| | |
|-------------------|-------------|
| Capital | Chisinau |
| Population | 3.567 m |
| GDP | \$ 5.403 bn |

Russia



Egorov, Puginsky, Afanasiev & Partners

| | |
|-------------------|-------------|
| Capital | Moscow |
| Population | 141 m |
| GDP | \$ 1.229 tr |



Ukraine



RULG

| | |
|-------------------|---------------|
| Capital | Kiev |
| Population | 45.888 m |
| GDP | \$ 127.133 bn |

BUSINESS AND LEGAL ENVIRONMENT

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KAZAKHSTAN

Kazakhstan

Foreign investments regime

- Equal legal capacity of Kazakhstani and foreign investors (with some exclusions)
- Tightening of investment regime for foreign investments
- Law on Investments stipulates legal guarantees for foreign and national investments

Investment opportunities

- One of the largest and fastest growing economies in the CIS
- Oil and gas, petrochemical sector, machine building
- Metallurgy, construction materials
- Transport and logistics services
- Agro and food industry
- USA is the third largest investor (after the Netherlands and UK)



KYRGYZSTAN

Kyrgyzstan

Energy... and not only

Favorable investment regime

- the first CIS country to join WTO (1998)
- favorable Tax Regime
- no foreign ownership restrictions (except land, aviation)
- no currency control, free repatriation of capital, no visa requirements
- over 30 Bilateral Investment Protection Treaties, including the USA.

Investment opportunities

- Hydro electric power generation and export of electric energy
- Exploration and mining of precious and rare-earth metals (substantial deposits of coal, gold, uranium, antimony). 3rd largest gold producer after Russia and Uzbekistan.
- Banking and finance
- Textile industry



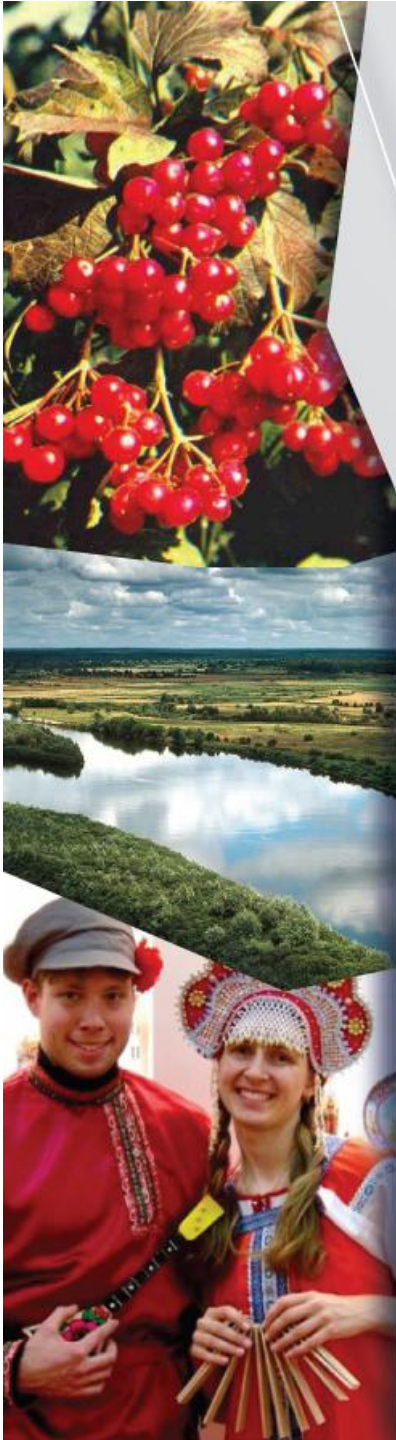
BELARUS

Belarus: Business and legal environment

- Economy of Belarus is largely dominated by the State in all major sectors
- Low level of corruption
- Membership in Eurasian Economic Community and Customs Union
- Swift establishment of business (2 days); constantly improving business environment
- Not sophisticated merger control, corporate and securities regulation

Main investment opportunities:

- Privatization in various sectors of economy; PPP/PFI projects
- Capital market (IPO, eurobonds) - major Belarusian banks and corporates.
- External borrowings by the State or guaranteed by the State



RUSSIA

Russia

- World's 12th largest economy
- Top 7 largest by purchasing power parity
- Largest mineral reserves and energy resources
- Lowest corporate tax rate amongst G8 or BRIC
- Largest consumer economy in Europe
- Finance & Energy sectors expanding rapidly
- Major supplier of commodities to China
- 62 Russians among richest men in the world
 - Moscow with 50 billionaires ranks #2 in the world



UKRAINE

Ukraine

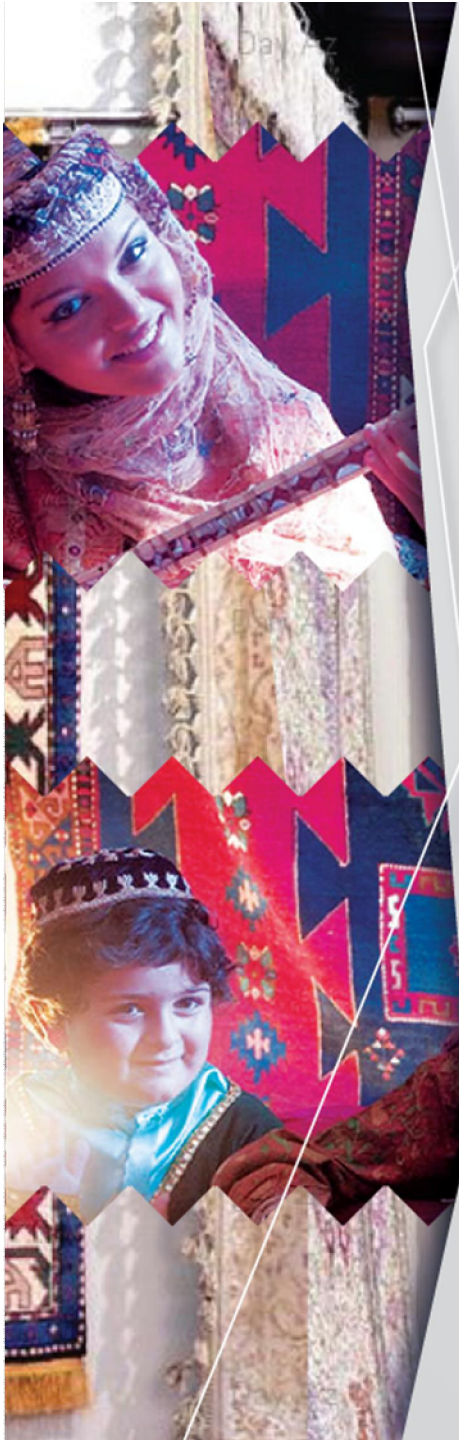
Major Investment Stories

- **Agriculture.** The EBRD is providing a US\$60 million loan to major Ukrainian agribusiness group Astarta to support its expansion beyond its traditional markets of sugar production and agricultural commodities.
- **Energy.** Investment in renewable energy in Ukraine is estimated at USD 2 billion. The Ukrainian government expects higher investment inflow to help increase solar capacity up to one gigawatt by 2015. In five years investment in Ukrainian market of renewables, including wind, biomass and biofuel energy, may reach USD 5 billion. Austrian Activ Solar GmbH is one of the major investors in renewable energy production in Ukraine. The Ukrainian solar energy sector also attracts such companies as world photovoltaic leader Sharp Corporation, energy management company Schneider Electric SA, and Norwegian solar power company Renewable Energy Corporation. Photovoltaic electricity potential of the southern regions of Ukraine exceeds that of most European countries.
- On 23 February 2012 two tenders for Production Sharing Agreements were announced for major subsoil areas, Oleska and Yuzivska, which may contain large reserves of shale gas and natural gas. Several international oil majors, including Shell, Chevron, ExxonMobil and TNK-BP are expected to bid at these tenders.
- **Infrastructure.** Ukraine's infrastructure investments for the European Football Championship Euro 2012 include \$2 billion for airports, \$4 billion for high-speed rail, and over \$1 billion for highways and stadiums.

Investment Climate in Armenia

- The investment and trade policies of Armenia are considered to be one of the most open in the CIS.
- Among developed economy sectors are:
 - Mining
 - The industry has had a growth of 112% with 434 mln USD.
 - Natural resources that Armenia is rich with are: Copper, Gold, Molybdenum, Basalt
 - Telecommunication and transportation
 - Connection to Trans-Asia-Europe fiber optic cable that enables have a full range of services for customers: Broadband, ADSL, WiMAX, FTTH (Fiber to the Home).
 - Power and utilities
 - Light and food industry
 - Trade
- The legal environment enables entrepreneurs to initiate the business type which is most suitable and profitable for them and enjoy favorable tax treatment.





AZERBAIJAN

Azerbaijan

Business and legal environment

- ◆ Azerbaijan is the leading FDI destination in the region
- ◆ Azerbaijan is ranked 66 among 183 economies on the ease of doing business (**World Bank, 2012**)
- ◆ One-stop shop company registration system
- ◆ 2011 - online registration of individual entrepreneurs
- ◆ 2012 - online registration of local legal entities
- ◆ Simplification of customs procedures on the basis of the principle of "one window", new Custom Code
- ◆ Online filing and payment system with advanced accounting software for calculating taxes due
- ◆ E-government (electronic signature)
- ◆ Internet-banking system
- ◆ Construction Code and the Competition Code are expected soon

Moldova: Legal Environment

- Outcome of parliamentary elections is unpredictable (*we like to keep it this way*)
- Parliament has more powers than President; President is elected by Parliament
- **Over 2.5 years without President** – world record, and the new President elected in March 2012 is a judge; promised to fight corruption and reform judiciary
- Moldova is engaged in active visa-free talks with the European Union
- World Press Freedom Index 2011-2012: Moldova ranked no. 53
- Moldova has a system of specialized courts, including commercial courts – for business disputes – which have challenging reputation. The Government and the Parliament proposed a measure that significantly limits the powers of the specialized courts.

FOREIGN INVESTOR IN THE CIS: DEALING WITH GOVERNMENTS



KAZAKHSTAN

Kazakhstan

Transactions with the State

- Subsoil use contracts
- Concession agreements
- External borrowing agreements

National Companies and National Holdings

- National companies and national holdings - state vehicles to implement all major investment projects (e.g. Kazmunaigas)
- National holding Fund of National Welfare “Samruk - Kazyna” (“government in the government”)

Kazakhstan content

The requirements to Kazakhstan content are established for:

- subsoil users
- state organizations
- legal entities with state participation, including national holdings, national companies, their subsidiaries and affiliates;
- concessioners.



KYRGYZSTAN

Kyrgyz Government peculiarities and challenges

National peculiarities

- unique Structure in CIS– Parliamentary Republic
- absence of “central power”
- liberal regulation of business, openness of state authorities to business.

Challenges for business

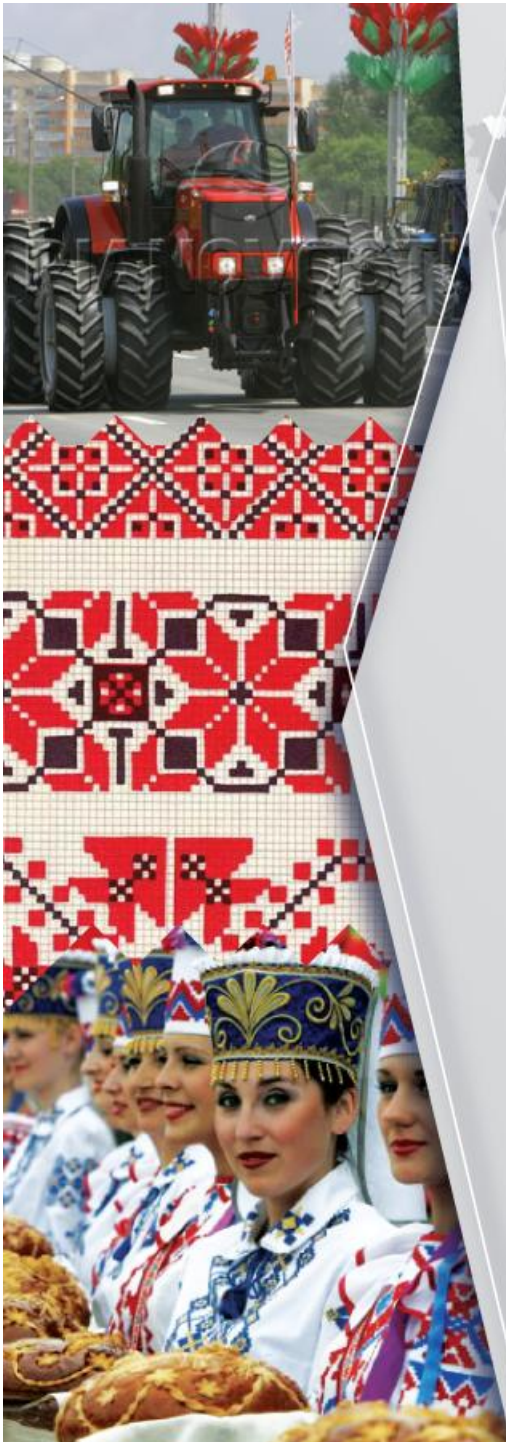
- frequent changes of state structure in comparison to other CIS countries
- good laws but poor implementation
- high level of corruption in courts, licensing/permitting system



KYRGYZSTAN

Dealing with the Kyrgyz Government

- Difficult for Government to accept non-traditional transaction structures
- Transactions with the Government require approvals/consents
- “Socially oriented” Government; require from business certain steps which are not business oriented: local employment, supply of services and goods, local marketing etc.
- Desire to participate in the management but lack of management skills



BELARUS

Belarus: Privatization

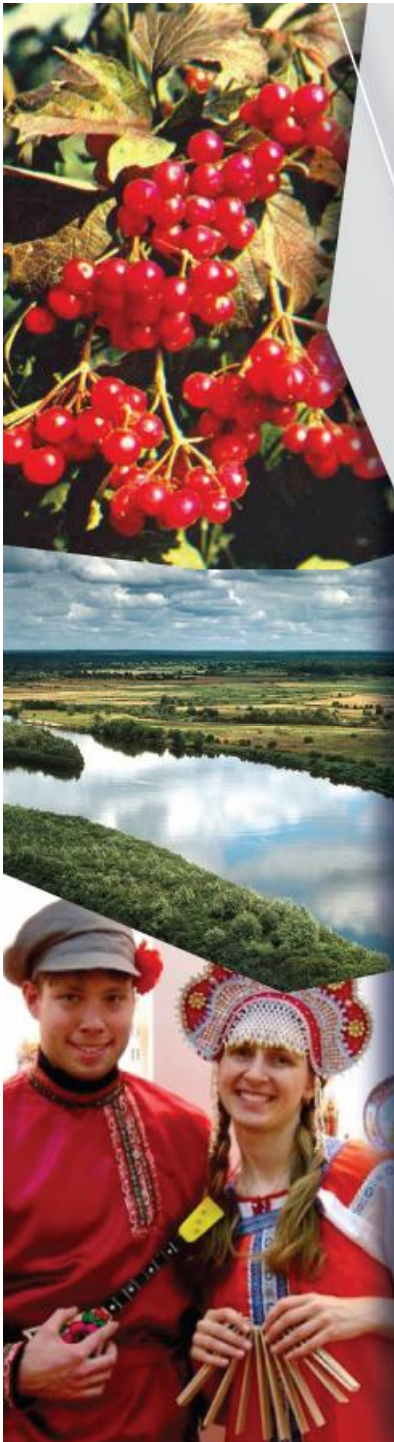
- Main model – direct sale (without public action or tender). Largest privatization deals in 2008-2009 and 2011 were based on direct sale model that will continue to apply for ‘blue chips’
- Modern trend – public auctions/tenders for sale of State-owned shares, will continue to apply in 2012
- At least US\$ 2.5 billion to be gained from privatization in 2012



BELARUS

Belarus: Investment Agreements

- An agreement between the investor and the State on implementation of individual investment projects and provision of certain investment incentives
- Subject to authorization by the Council of Ministers/President of Belarus if provides for extra benefits to investors
- Possibility to choose a non-Belarusian governing law and international arbitration (subject to BIT provisions)

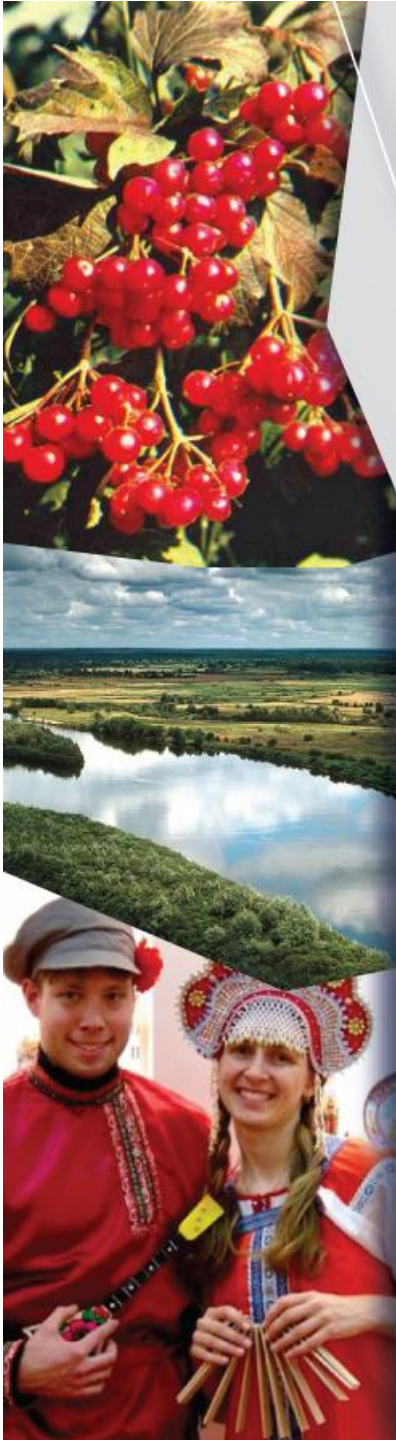


RUSSIA

Privatization of state-owned assets in Russia

- €42.4 billion expected by 2015
- Stake in 900 companies
- 2011-2013 Privatization to bring to the budget up to €7.27 billion
- 2013-2015 Privatization:
 - Russian Railways
 - Aeroflot
 - Sheremetyevo
 - Rostelecom

| | |
|---|---------------------|
|  ROSNEFT | Up to 15% |
|  RusHydro | 7.97% |
|  SBERBANK <i>By your side</i> | 9.3% |
|  VTB | 10-25% |
|  РОССЕЛЬХОЗБАНК | Up to 25% |
|  SCF <i>Совестный</i> | 50% minus one share |
|  FGC UES | 4.11% |
|  | Up to 100% |
|  РОСАТРОАНШНИТ | 50% minus one share |
|  PCP <i>ПРОИЗВОДИТЕЛЬСТВО</i> | 49% |



RUSSIA

Dealing with the Russian Government

- Know the rules, the rulers and how to play the game
- Informal but pragmatic pitch to the Russian policy makers
- Anti-monopoly, “strategic sectors” law and mandatory bid issues
- Access to Russian government independently from your local partner is key to a healthy partnership
- The State is the best partner, if you can cope with the bureaucracy
- Bring in a State Bank



UKRAINE

Ukrainian State/Governmental counterparties: Cons

- Archaic, contradictory and overregulated legal environment
- Little flexibility, multilevel approvals, unfriendly bureaucracy
- Weak judiciary
- Inconsistent behavior by the Government as a main business regulator
- Administrative reform changed alignment of forces between main state authorities and agencies



UKRAINE

Ukrainian State/Governmental counterparties: Pros

- Government: Public Procurement Law, Concessions Law, Law on Production Sharing Agreements (PSA), Law on Public Private partnerships (PPP), etc.
- Deregulation Campaign, licensing cancelled for 23 types (32 %) of economic activities
- Strong international law protection remedies: ICSID Convention, Energy Charter, BITs
- Government yields to international pressure and publicity
- Business and legal community has increasingly strong voice
- Opportunities and Privileges for EURO 2012

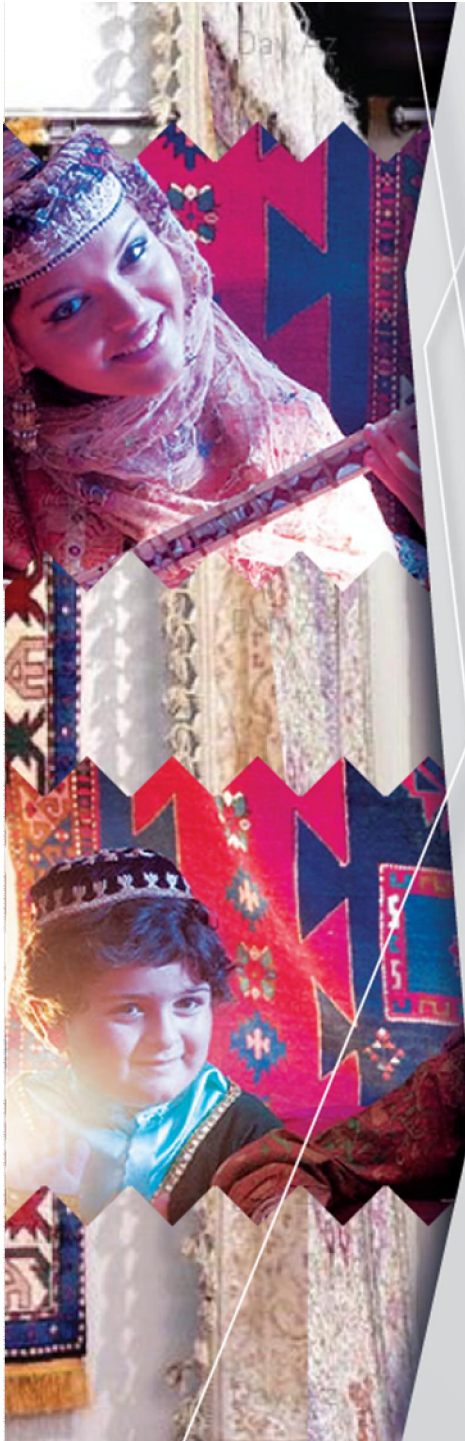


ARMENIA

Armenia

Government

- **Armenian Government approach to foreign investments aimed at support to the development of economy:**
 - Liberal approach to foreign investments
 - Complete support to investment and grandfathering clause protection
 - Legal protection of investors' rights
 - Equal conditions for both domestic and foreign investors



AZERBAIJAN

Azerbaijan

Foreign Investors – Dealing with government

Investment Opportunities

- ◆ **Abundant resources:**
 - ◆ Caspian Sea oil & gas reserves in Azerbaijani sector remain as one of the major deposits globally;
 - ◆ rich in other mineral resources (precious metals including gold and silver, ferrous and non-ferrous metals, various construction raw materials deposits etc.);
 - ◆ unique opportunities in agriculture due to specific climatic resources;
 - ◆ tourism;
- ◆ **The strategy of “welcoming policy” for foreign businesses:**
 - guarantee against deterioration of legislation;
 - guarantee against nationalization and requisition;
 - guarantee of compensation of damages;
 - guarantee of repatriation of profits.
- ◆ **Azerbaijan Export & Investment Promotion Foundation (AZPROMO) as a PPP established by the Ministry of Economic Development of Azerbaijan to implement new business initiatives;**
- ◆ **No restrictions for foreign investors to invest in any sector of economy. Foreign investors can participate in privatization process;**
- ◆ **24th in the ranking of 183 economies on the strength of investor protection index, (World Bank, 2012)**
- ◆ **Member of International Center for Settlement of Investment Disputes (ICSID)**

Moldova: Foreign Investments 2011/12

- Michigan-based **Lear Corporation** (NYSE: LEA), global supplier of automotive seating and electrical power management systems, established a new trim plant in one of Moldova's free economic zones; **second plant** under consideration
- **Coca Cola** relocated a large bottling facility from Romania to Moldova in 2011
- **Polish Sugar** – purchased a distressed Moldovan sugar operation (will compete with major local subsidiary of German sugar giant)
- The German **Draexlmaier**, leading supplier of various electrical features to the automotive industry, has established a **second plant** in Moldova in 2011
- The Austrian **Gebauer & Griller**, leading manufacturer of cables/wires for the automotive industry, will set up production in Moldova in 2012

Moldova: Dealing with Government --PPP case study--

- Despite many declarations and plans, no strategic privatizations in the past years and nothing major in the pipeline for the next 1-2 years
- Public-Private Partnerships (PPP) – a new local trend
- IFC helps Moldovan government develop modern PPP practices
- **Project 1 (signed):** Republican Clinical Hospital - Radiology and Diagnostic Imaging Services
 - PPP term – 12 years
 - Equipment – CT Scan (64 slice), MRI, digital x-ray, etc.
 - Structure of payment and Services – services are divided into:
 - Basic Radiology Services – supplied under the PPP Agreement to the Hospital and paid by the Hospital
 - Complex Radiology Services – supplied under an agreement with National Health Insurance Company (NHIC) to Hospital patients and paid by National Health Insurance Company
- **Project 2 (in early stage):** Oncologic Institute – PPP to involve financing and supply of radiotherapy equipment, facility upgrade, operation of facility
 - Moldova – regional cancer treatment hub

DOING BUSINESS IN THE CIS: TRAPS AND TIPS



KAZAKHSTAN

Kazakhstan

Traps

- Corruption
- Unstable, permanently changing legislation, often contradictory
- Policy directed towards the strengthening of state control and interference in the business activity
- Corporate raids

Tips

- Compliance with local legislation
- Consideration of disputes at international arbitrations both in Kazakhstan and abroad
- Carefully choose strategic partners (when possible)



KYRGYZSTAN

Kyrgyzstan: How to keep your business stable...

... in a comparatively unstable and new environment:

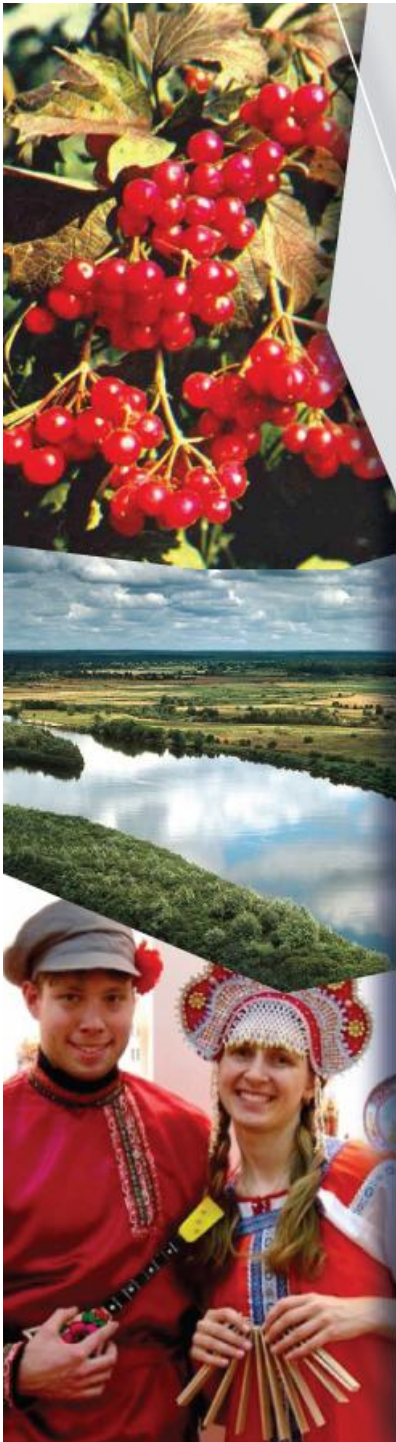
- Balanced relationships with various political figures and groups
- Uncertainties with legal environment can be resolved by choosing foreign law, BITs
- Corruption – strict anti-corruption policies, foreign arbitration
- Work with local managers
- Prior due diligence: legal history, political history and relationship with local community



BELARUS

Belarus: Tips

- Investment framework in Belarus is negotiable, there are absolutely legal possibilities for the State to provide individual regime for particular investors
- Do not hesitate to ask for extra benefits but properly record the agreements achieved with the State (use local counsel for assistance)



RUSSIA

How to safeguard your investments in Russia : Traps and Tips

- Never underestimate the oligarchs
- Russia is not Europe and Russians are not Europeans
- Background check on the principals of the target companies
- Draft contractual documentation under non-Russian law.
- Structure the deal with the seller
 - (i) the payment of consideration for the shares is staggered or delayed by a few years to ensure smooth transition
 - (ii) the senior management is retained for the transition period.
- Be prepared for thorough due diligence
- Negotiation begins after the contract is signed
- Form a strong board including your Russian advisers
- Deal with credible local counsel



UKRAINE

How to succeed in Ukraine

- Understand and skillfully navigate legal and regulatory regime: Try to be as compliant as possible, cutting corners backfires!
- Assess and mitigate risks, but accept certain risks to achieve important business results
- Educate the Government about benefits of your project, insist on transparency
- Do not hesitate to seek support of your Government, EU, international institutions and local international business associations
- Focus on monitoring your investment and on preventing abuses - in case of any concern – react immediately

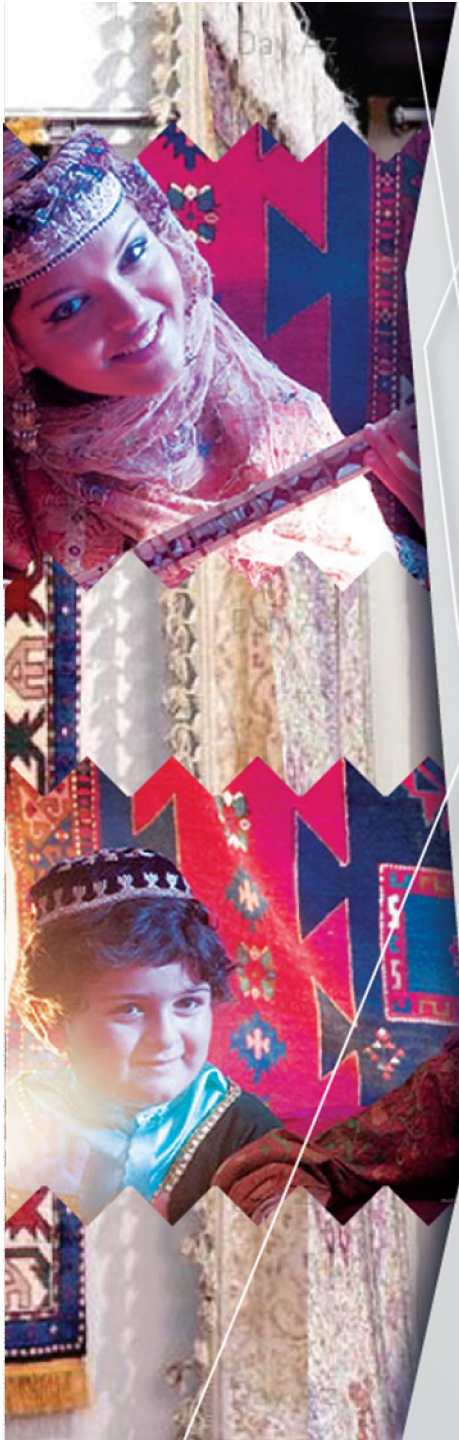
ARMENIA

Armenia

Doing Business in Armenia: Tips and Traps

- Traps:
 - Concentration of economy
 - Corruption
 - Court Bias (reformation of system is underway)
- Tips:
 - Select Proper Legal and Tax Consultant
 - Foreign Investment Protection Regime Implementation
 - Alternative Dispute Resolution
 - Consideration of alternative schemes of investments





AZERBAIJAN

Azerbaijan

Tips and traps

Traps:

- corruption and Bureaucracy
- strong state control over economy

Tips:

- availability of reliable legal support
- alternative dispute resolution
- alternative investment schemes

Moldova: Traps & Tips

- Many things that work in other CIS countries work in Moldova
- Government is a major stakeholder in an important investment project (even when GOM sells nothing or commits to nothing)
 - Inform GOM of investment plans
 - Provide status updates to GOM
 - Inform GOM when local or other authorities cause trouble
 - Prime Minister has created a team of advisors who help foreign investors to deal with abuse from the part of local authorities
- Don't invest in regulated sectors (e.g. banking, insurance) via Caymans or other resort locations
- Keep Moldovan investment disputes away from the Moldovan judiciary for the time being
- The ICSID Convention entered into force for Moldova in **June 2011**. First case was filed against Moldova in August 2011 (by French entrepreneur - operator of duty free shops; value of claim \$50 million in damages).
- This new remedy is an additional powerful shield made available to foreign investors in Moldova

The CIS LCN Anticorruption Brochure

Comparative Summary
of Anti-Corruption Laws
in the CIS Economic Region

The Practical Legal Guide
for Companies' Compliance Policies

FIRST EDITION



The brochure presents an analysis of anticorruption regulation on **Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyz Republic, Moldova, Russia, Turkmenistan, Ukraine** and will be indispensable tool for managers and lawyers of all companies with global presence.

A chapter on each country includes 6 key sections:

- Principal sources of law and regulation relating to anticorruption issues.
- Persons subject to anticorruption regulations.
- Legal restrictions imposed on government officials/public officers concerning anticorruption regulations.
- Liability for the violation of anticorruption rules.
- Relevant practices relating to anticorruption.
- Recommendations to Companies' Compliance Policies.

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